Supplementary Materials

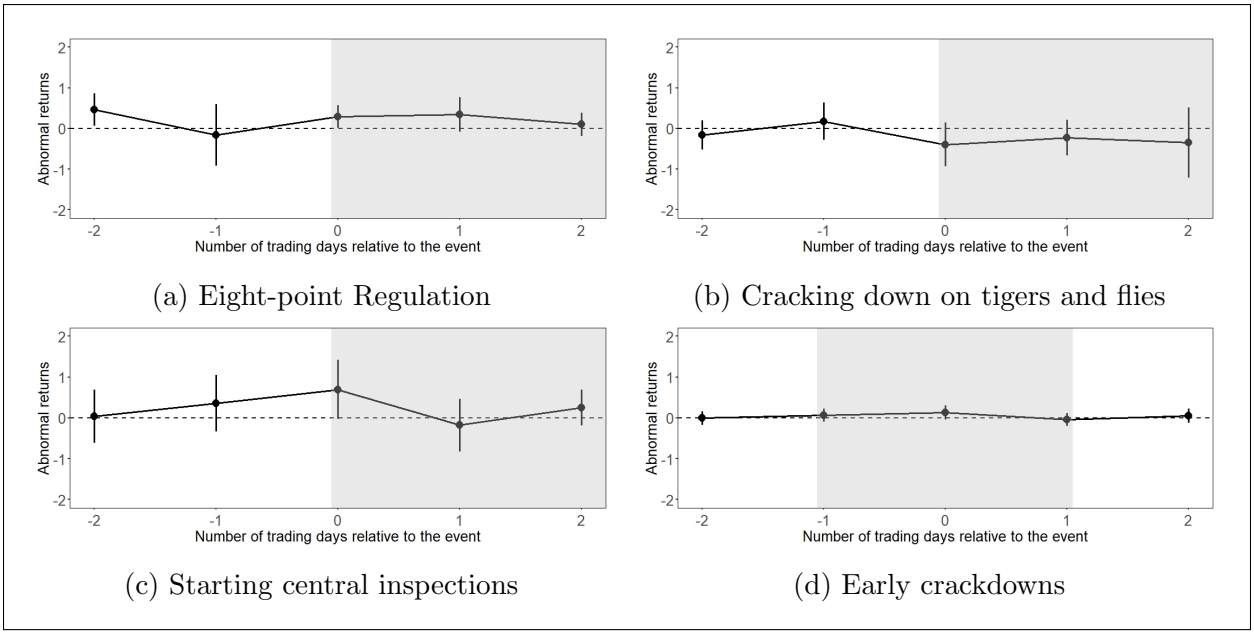
Contents

1 Supplementary Results from Event Study

1.1 Daily abnormal returns

We plot the daily abnormal returns in the [-2,2] window from the following model,

$$R_{it} = \alpha_i + \beta_i R_{mt} + \sum_{k=-2}^{2} \gamma_1^k D_{speech1}^k + \sum_{k=-2}^{2} \gamma_2^k D_{speech2}^k + \sum_{k=-2}^{2} \gamma_3^k D_{speech3}^k + \sum_{k=-2}^{2} \delta^k D_{crackdowns}^k + \epsilon_{it}$$



(a) Eight-point Regulation

(b) Cracking down on tigers and flies

(c) Starting central inspections

(d) Early crackdowns

Figure S. 1: Daily Abnormal Returns from Event Study
Daily abnormal returns are plotted with 95% confidence intervals around the point estimates. The shaded areas are the three-day event window. The standard errors are clustered on both firm and date with multiway clustering.

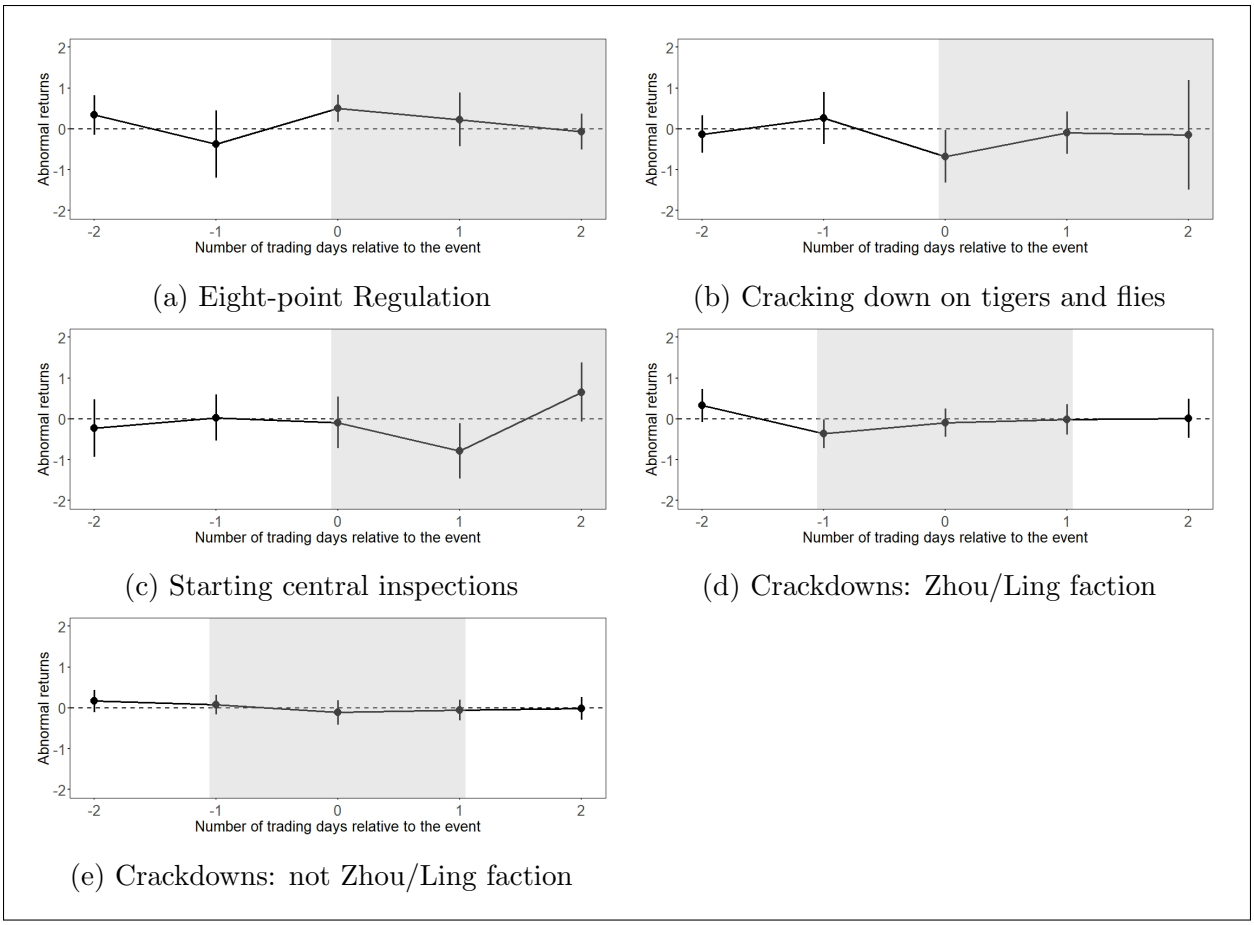
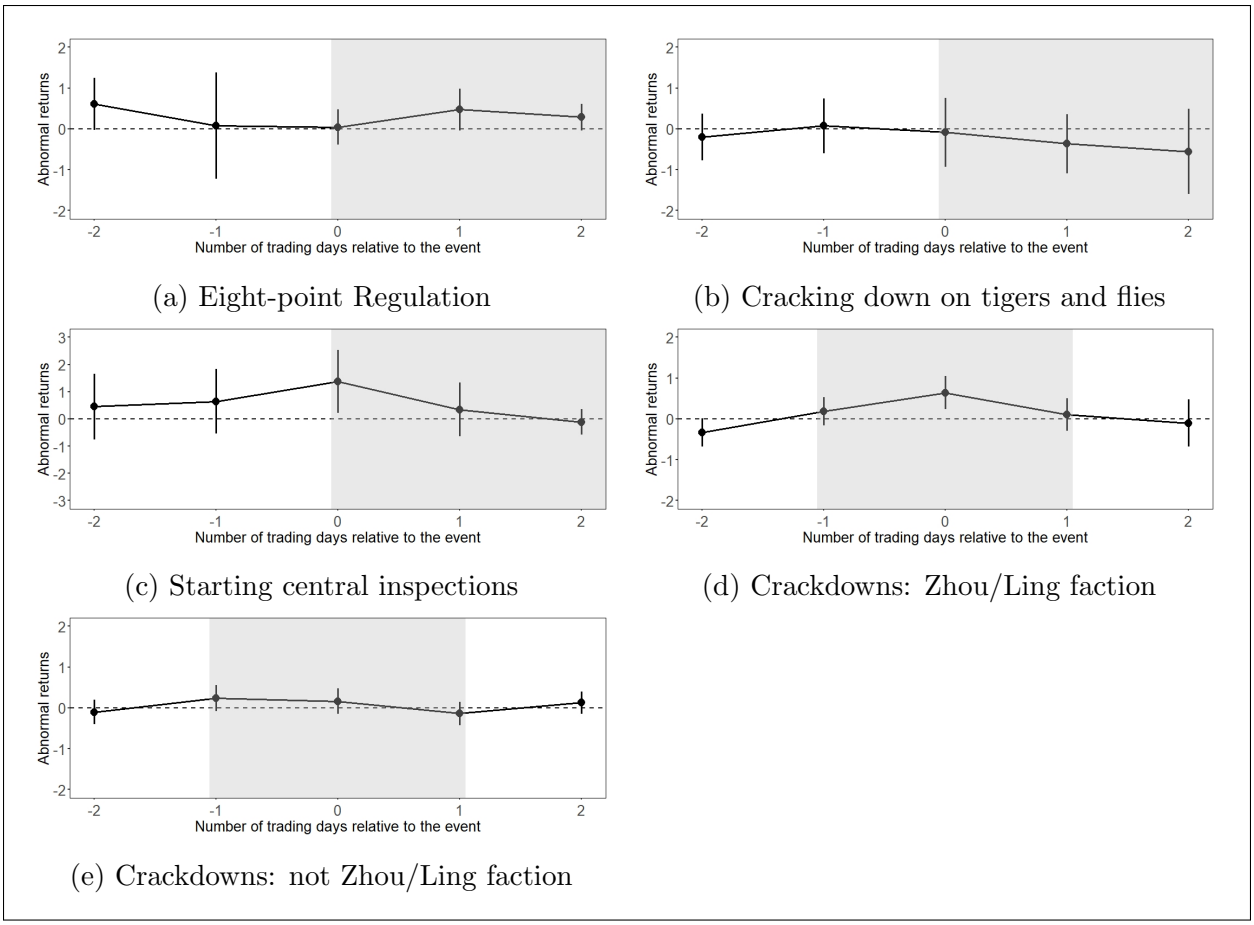


Figure S. 2: Daily Abnormal Returns from Event Study: Firms With Connected Officials Related With Zhou/Ling

Daily abnormal returns are plotted with 95% confidence intervals around the point estimates. The shaded areas are the three-day event window. The standard errors are clustered on both firm and date with multiway clustering.



(a) Eight-point Regulation

(b) Cracking down on tigers and flies

(c) Starting central inspections

(d) Crackdowns: Zhou/Ling faction

(e) Crackdowns: not Zhou/Ling faction

Figure S. 3: Daily Abnormal Returns from Event Study: Firms With Connected Officials Not Related With Zhou/Ling

Daily abnormal returns are plotted with 95% confidence intervals around the point estimates. The shaded areas are the three-day event window. The standard errors are clustered on both firm and date with multiway clustering.

1.2 Sign test results

Two potential methodological problems with the event study is that the number of events is often small and the distribution of abnormal returns is often non-normal. Both of them present challenges to the conventional statistical inference in regression models. As a complementary test, we employ a non-parametric sign test with exact distributions for the three anti-corruption speeches. First, for each of the event firm i, we estimate a market model only in the estimation window between the calendar dates of January 1, 2011 to November 1, 2012, and calculate the k-day cumulative abnormal returns starting from the day the speech was made. We then calculate all the consecutive k-day cumulative abnormal returns in the estimation window and compare the k-day cumulative abnormal returns in the event window with the pth percentile of the k-day cumulative abnormal returns in the estimation window. For the event firm i, if the k-day cumulative abnormal returns are large in the event window, they should fall in the extreme percentiles of the k-day cumulative returns in the estimation window. If multiple event firms fall in the extreme percentiles, the probability that this happens by chance would be low. Assuming the events are independent, we can calculate the one-tailed p-value that the k-day cumulative abnormal returns of M or more firms (out of N firms) fall below the pth percentile of the k-day cumulative abnormal returns in the estimation window as:

$$\sum_{c=M}^{N} \binom{N}{c} p^c (1-p)^{M-c}$$

Table S.1: Sign Test With Exact Distributions for Event Firms

(a): "Eight-point Regulation"

	All firms			Firms: Zhou/Ling			Firms: not Zhou/Ling		
	[0,0]	[0,1]	[0,2]	[0,0]	[0,1]	[0,2]	[0,0]	[0,1]	[0,3]
Number of firms	46	46	46	24	24	24	22	22	22
Number below 50th percentile	15	18	23	5	9	13	10	9	10
one tailed p value	0.994	0.948	0.559	0.999	0.924	0.419	0.738	0.857	0.738
Number below 25th percentile	4	8	5	1	5	3	3	3	2
one tailed p value	0.999	0.918	0.995	0.999	0.753	0.960	0.939	0.939	0.985
Number below 10th percentile	1	0	0	0	0	0	1	0	0
one tailed p value	0.992	1.000	1.000	1.000	1.000	1.000	0.902	1.000	1.000

(b): "Cracking down on tigers and flies"

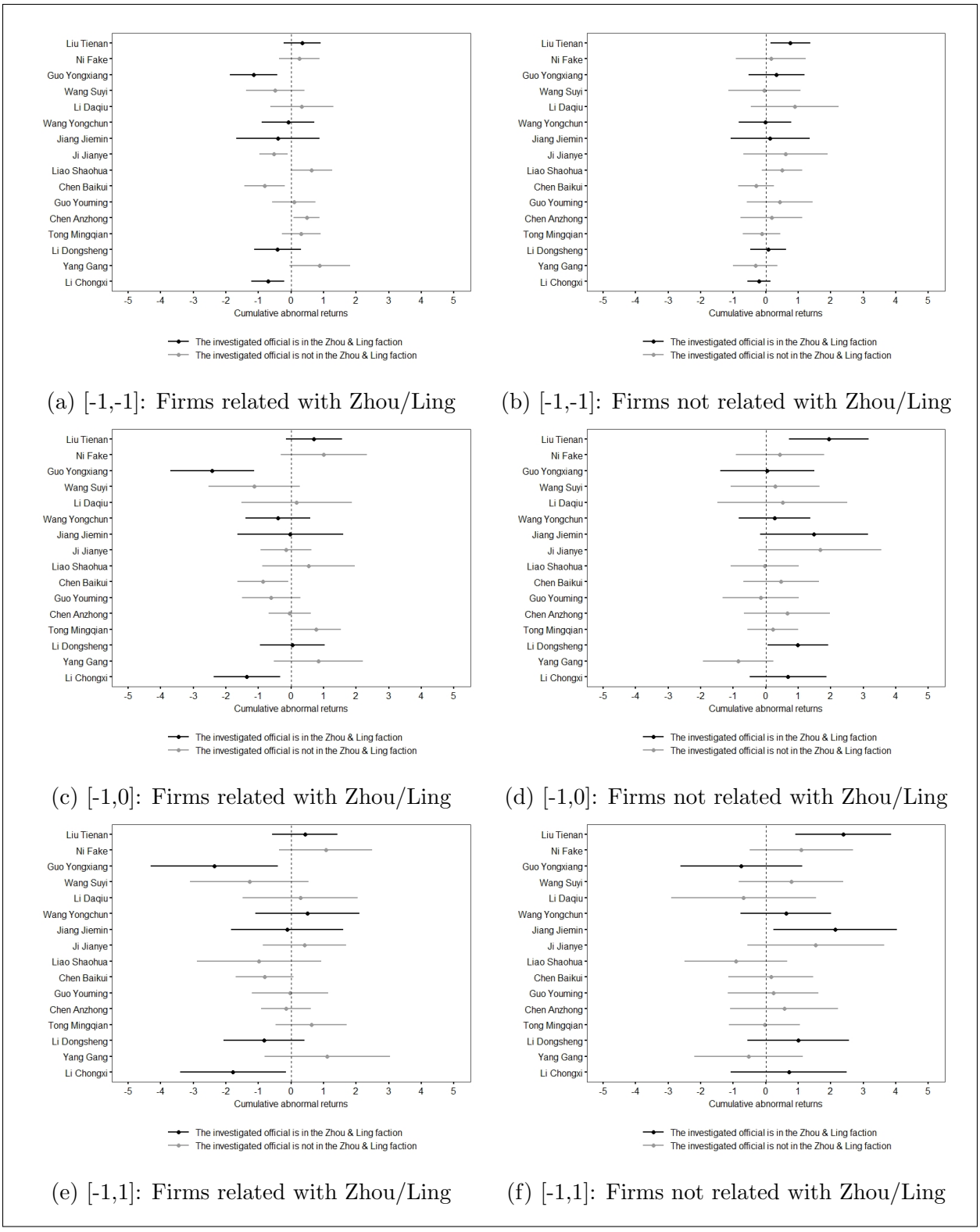
	All firms			Firms: Zhou/Ling			Firms: not Zhou/Ling		
	[0,0]	[0,1]	[0,2]	[0,0]	[0,1]	[0,2]	[0,0]	[0,1]	[0,3]
Number of firms	46	46	46	24	24	24	22	22	22
Number below 50th percentile	31	34	35	19	18	19	12	16	16
one tailed p value	0.013	0.001	0.000	0.003	0.011	0.003	0.416	0.026	0.026
Number below 25th percentile	21	17	25	14	9	13	7	8	12
one tailed p value	0.002	0.048	0.000	0.001	0.121	0.002	0.301	0.162	0.003
Number below 10th percentile	4	5	10	2	2	4	2	3	6
one tailed p value	0.688	0.493	0.014	0.708	0.708	0.214	0.661	0.380	0.018

(c): Starting Central inspections

	All firms			Firms: Zhou/Ling			Firms: not Zhou/Ling		
	[0,0]	[0,1]	[0,2]	[0,0]	[0,1]	[0,2]	[0,0]	[0,1]	[0,3]
Number of firms	41	41	40	19	19	19	22	22	22
Number below 50th percentile	23	26	20	14	14	12	9	12	9
one tailed p value	0.266	0.059	0.563	0.032	0.032	0.180	0.857	0.416	0.857
Number below 25th percentile	7	10	10	5	7	6	2	3	4
one tailed p value	0.917	0.595	0.560	0.535	0.175	0.332	0.985	0.939	0.838
Number below 10th percentile	2	4	1	1	3	1	1	1	0
one tailed p value	0.926	0.597	0.985	0.865	0.295	0.865	0.902	0.902	1.000

1.3 Results from individual cases of crackdowns

In the main analysis, the effects of crackdowns are aggregated by averaging from individual cases of crackdowns. In Figure S.4, we report the disaggregated results from each case of crackdowns. The names of the officials are ordered by the time they were investigated. Panel (a), (c) and (e) on the left are the results for firms with connected officials related with Zhou/Ling. Panel (b), (d) and (f) on the right are the results for firms with connected officials not related with Zhou/Ling. We report the results in [-1,-1], [-1,0] and [-1,1] event windows.



(a) [-1,-1]: Firms related with Zhou/Ling

(b) [-1,-1]: Firms not related with Zhou/Ling

(c) [-1,0]: Firms related with Zhou/Ling

(d) [-1,0]: Firms not related with Zhou/Ling

(e) [-1,1]: Firms related with Zhou/Ling

(f) [-1,1]: Firms not related with Zhou/Ling

Figure S. 4: Results From Individual Crackdowns With Different Event Windows Cumulative abnormal returns are plotted with the 95% confidence intervals around the point estimates. The standard errors are clustered on both firm and date with multiway clustering.

2 Supplementary Results from Synthetic Controls

2.1 Matched abnormal returns in the estimation window

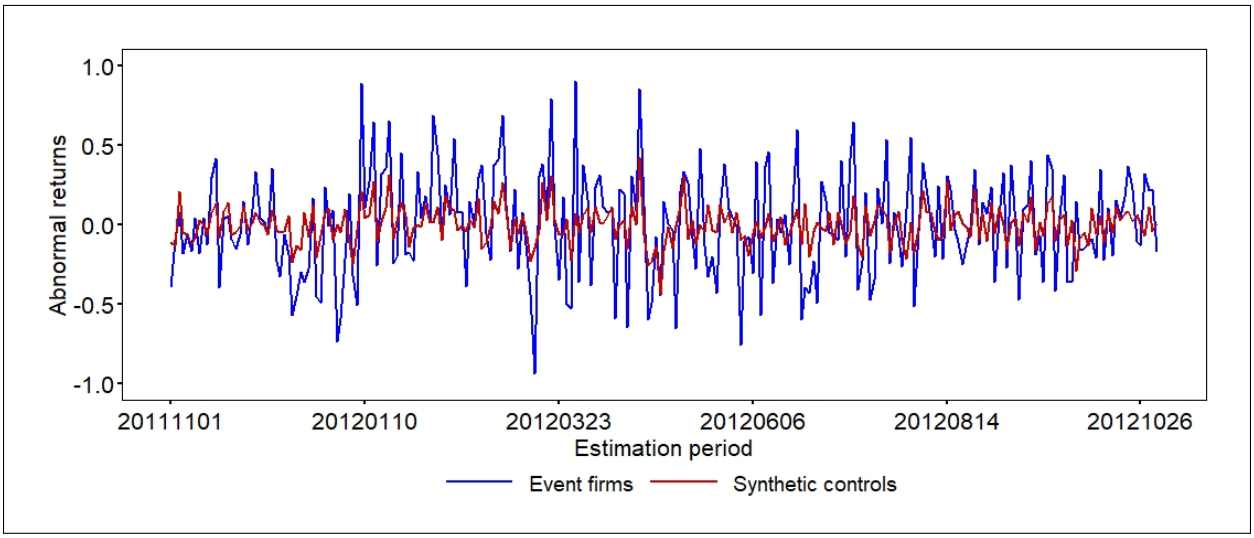
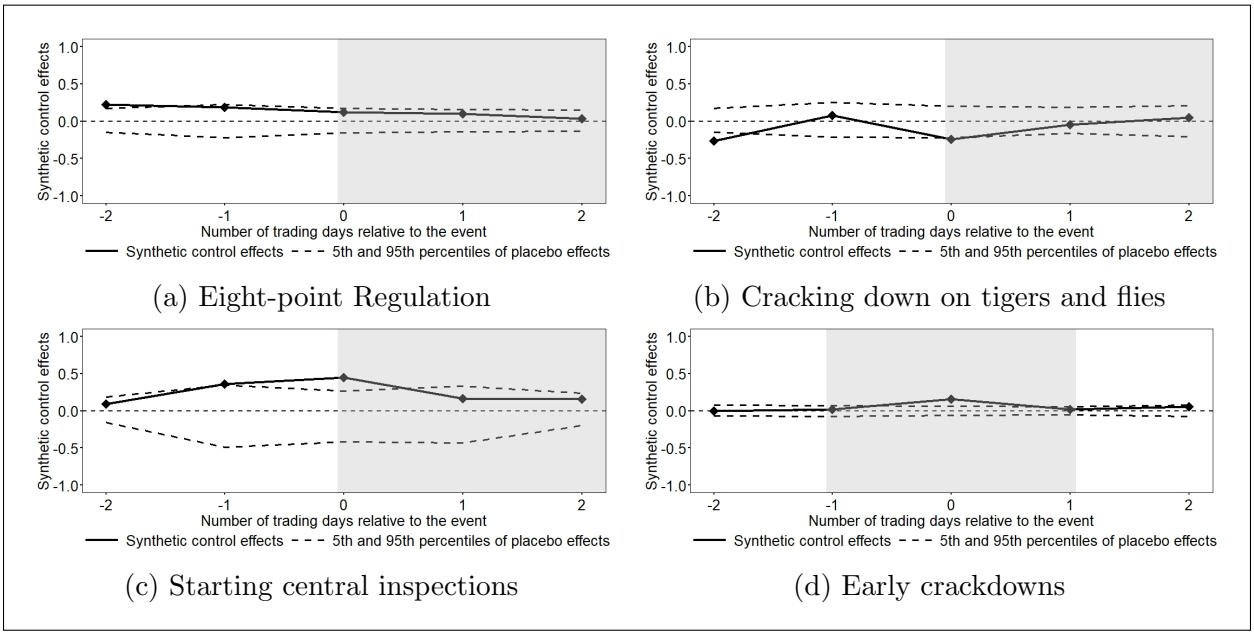


Figure S. 5: Abnormal Returns and Synthetic Controls in the Estimation Window

2.2 Daily synthetic control effects with placebo intervals



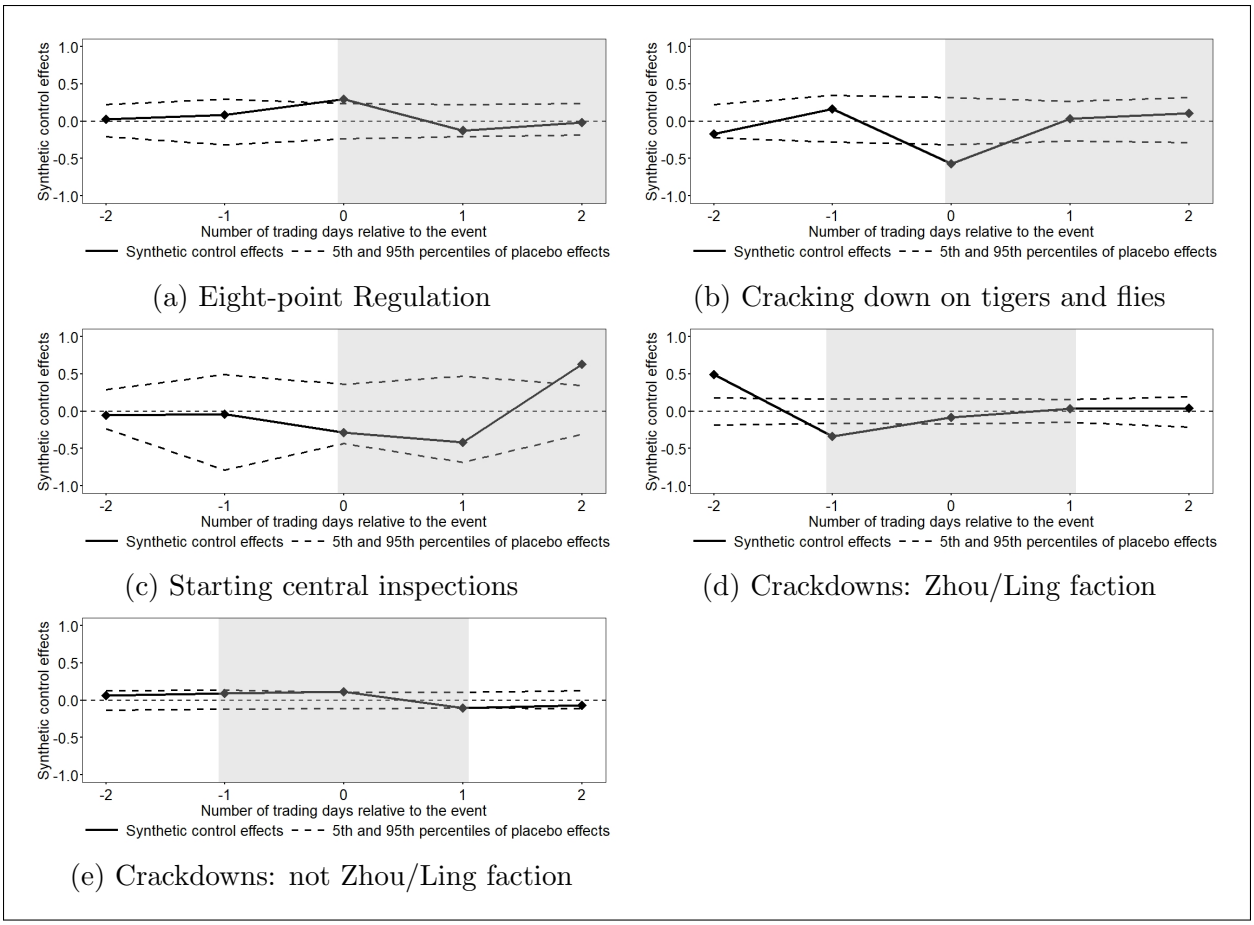
(a) Eight-point Regulation

(b) Cracking down on tigers and flies

(c) Starting central inspections

(d) Early crackdowns

Figure S. 6: Synthetic Control Effects With Placebo Intervals
Solid lines are the synthetic control effects, dashed lines are the placebo effects at the 5th and 95th percentiles. The shaded areas are the three-day event window. For each event firm, we estimate its synthetic control separately and aggregate the results using formula (4). The abnormal returns are standardized.



(a) Eight-point Regulation

(b) Cracking down on tigers and flies

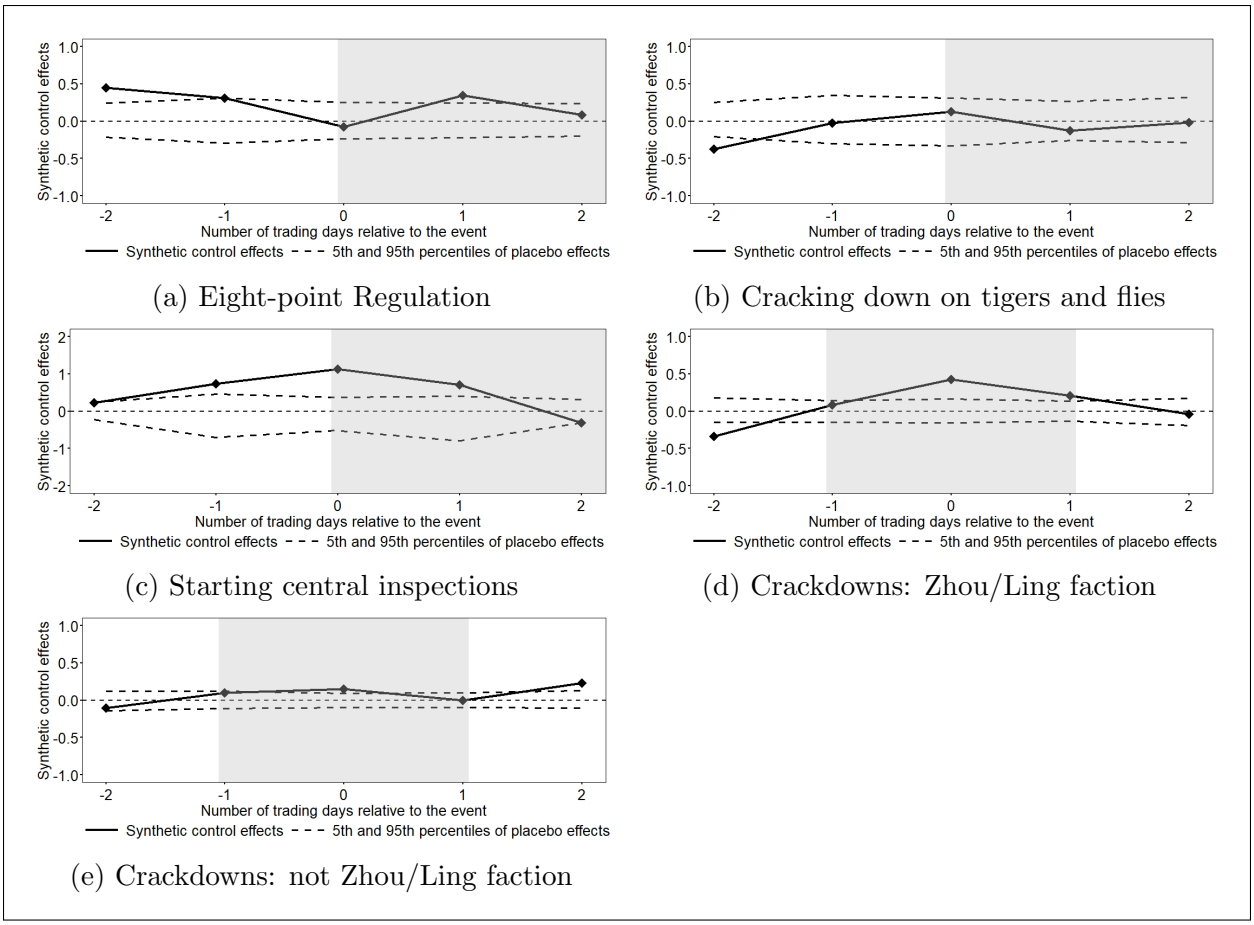
(c) Starting central inspections

(d) Crackdowns: Zhou/Ling faction

(e) Crackdowns: not Zhou/Ling faction

Figure S. 7: Synthetic Control Effects With Placebo Intervals: Firms With Connected Officials Related With Zhou/Ling

Solid lines are the synthetic control effects, dashed lines are the placebo effects at the 5th and 95th percentiles. The shaded areas are the three-day event window. For each event firm, we estimate its synthetic control separately and aggregate the results using formula (4). The abnormal returns are standardized.



(a) Eight-point Regulation

(b) Cracking down on tigers and flies

(c) Starting central inspections

(d) Crackdowns: Zhou/Ling faction

(e) Crackdowns: not Zhou/Ling faction

Figure S. 8: Synthetic Control Effects With Placebo Intervals: Firms With Connected Officials Not Related With Zhou/Ling

Solid lines are the synthetic control effects, dashed lines are the placebo effects at the 5th and 95th percentiles. The shaded areas are the three-day event window. For each event firm, we estimate its synthetic control separately and aggregate the results using formula (4). The abnormal returns are standardized.