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## **The German Automobile Industry's Reaction to the Announcement of German Reunification: An Event Study**

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## **THE GERMAN AUTOMOBILE INDUSTRY'S REACTION TO THE ANNOUNCEMENT OF GERMAN REUNIFICATION: AN EVENT STUDY**

Rhea E. Rosenlof, Dept. of Business Admin., IWU, Mona Gardner\*

This study explores the economic consequences of German Reunification through the analysis of the German automobile industry. Through the application of a "special event" methodology, this project examines the stock returns of three German automobile manufacturers - BMW, Daimler Benz, and Volkswagen - to discover if any abnormal returns were earned by shareholders which can be attributed to the announcement of Reunification. This study hypothesizes that there is a direct relationship between the amount of investment made in East Germany by each firm prior to the announcement of Reunification and the stock price reaction of each firm to the announcement.

The project details the political and economic environment in West and East Germany during the early months of 1990, examines the historical and financial background of each target company, and outlines the methodology employed. The results of the study and subsequent analysis explore what these abnormal returns could mean for the future of each firm and for the industry as a whole in a united German nation.