

The Effect of Economic Policy Uncertainty on Sustainable Business

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Abstract

Policy shifts are inevitable and can strike out of the blue. Uncertainty is the driving force behind numerous modifications to individual and organizational decisions. It is possible to refer to political, social, economic, or both rules in order to catch recent events or anticipate dynamic advancement. The stock market can be shaken by dynamism, which occasionally produces uncertainty. Stock market correlations and volatility will occur when the government announces several policy changes and creates a great deal of uncertainty. Baker developed the Economic Policy Uncertainty (EPU) index by using a variety of variables as a proxy for the uncertainty of economic policy changes. They discovered that both microeconomic and macroeconomic parameters are significantly influenced by the EPU.

Keywords: Policy uncertainty • Environmental innovation • Environmental sustainability • Climate change • Sustainable development

Introduction

Several earlier types of research have looked into how stock market returns are affected by uncertainty in economic policy. With the beginning of the global financial crisis in 2008 and the decline of the Chinese stock market in 2015, interest in this impact has returned. Ten years ago, Pastor and Veronesi (2012) created a general equilibrium model that predicts a decline in stock prices when a change in government policy is announced. As policy uncertainty rises, stock prices are more likely to fall [1]. The fundamental model is then developed by the authors to demonstrate that political unrest comes with a higher risk premium when economic conditions are poorer.

The GARCH-MIDAS model in their most recent empirical studies and the scholarly literature on the effect of EPU on financial market interaction. They discovered that China's stock market may be unstable as a result of the country's unstable economic policies. Kundu and Paul found that EPU had a negative effect on stock market returns after further investigating the effect of economic policy uncertainty on stock market returns and risk for G7 nations. In parallel periods, it was demonstrated that increases in EPU decreased returns and increased market volatility [2,3].

Literature Review

The research method involves a number of steps. Before testing the variables, the data for stock prices and the uncertainty of economic policy are checked for outliers or missing data. The data will then be examined using the Mean Group (MG) and Pooled Mean Group (PMG) estimates of the Panel Autoregressive Distributed Lag (ARDL) models. The panel ARDL model was then used to investigate the short- and long-term connections between EPU and the returns of the prices of gold, oil, bitcoin, and sustainable stock markets. Additionally, the connection between Bitcoin as a cryptocurrency asset and sustained short-term gains in the stock market was examined. The results show that, with the

exception of Brazil, where the effect was minimal, the price of Bitcoin had a positive and significant effect on returns on the stock market in all countries. According to this finding, rising Bitcoin prices may improve stable stock market returns in these eleven nations in the near future. This result supported Ahmed's (2021) conclusion that Bitcoin volatility tends to have favorable and significant effects on stock market performance, particularly under typical conditions [4].

India's economic policy uncertainty has significantly decreased over the past ten years. During the policy impasse years of 2011–12, uncertainty in economic policy reached its highest point. Economic policy uncertainty has secularly decreased since then. The ongoing decline in economic policy uncertainty in India after 2015 is remarkable because it contrasts significantly with the rise in economic policy uncertainty in important nations at this time, particularly the United States. It is normal to experience periods of increased uncertainty, such as the taper tantrum in 2013; They indicate increased policy uncertainty in the economy. Economic policy uncertainty is also strongly correlated with the macroeconomic environment, the state of the economy, and other investment-influencing economic factors. Rising economic policy uncertainty has two effects: systematic risk increases and the economy's cost of capital increases. Given that investment is irreversible, increased uncertainty in economic policy is a factor that discourages investment. The fact that investment growth in India slows for roughly five quarters when economic policy uncertainty rises lends credence to this hypothesis.

In contrast to general economic uncertainty, which is out of the control of policymakers, economic policy uncertainty can be reduced to encourage investment. The following changes to the policy are recommended. To begin, policymakers must reduce ambiguity and arbitrariness in its implementation, provide clear direction on the policy's direction, and make their actions predictable. "What gets measured gets done" is the second rule. As a result, the economic policy uncertainty index must be tracked to the highest degree quarterly. Finally, the government must use international quality certifications to implement quality assurance of the policy-making processes [5,6].

Discussion

In order to attract investors interested in sustainable investing, a company included in the sustainable stock market index must be able to reduce risks, demonstrate high sustainability performance, and generate substantial returns for investors. As policymakers consider how policy uncertainty affects sustainable investment, our study's findings may be useful. Consequently, when formulating an economic policy, decision-makers should carefully monitor any repercussions. If policymakers are able to lessen the amount of uncertainty, volatility risks will be reduced and investment returns will be more reliable. Consequently, more investors will be enticed to increase the flow of funds toward sustainable investment activities.

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Conclusion

This study analyzes the long- and short-term effects of economic policy uncertainty and commodity prices for commodities like gold, oil, and Bitcoin as an alternative investment in the sustainable stock markets of 12 nations using monthly data for the years 2015 to 2020. First, we apply the panel unit root tests developed by Levin-Lin-Chiu and Im-Pesaran-Shin (IPS) to this investigation. We then use the cointegration tests in our study to examine the integration of all the variables, utilizing both the Kao test and the Pedroni test.

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Conflict of Interest

The authors declare that there is no conflict of interest associated with this manuscript.

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