

Impacts of Economic Uncertainty and Interdependency of Investments and Financial Decisions

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ABSTRACT

This research investigates the impact of uncertainty on financing and investing decisions using a simultaneous equation approach. Data are collected from unbalanced quarterly panel sources of publicly listed companies in Australia, Indonesia, Malaysia, Singapore, South Korea, and Taiwan from 1996 to 2020, using GMM to handle the endogenous problem. The results show that economic uncertainty has a different effect on the investment and financial policies of constrained and unconstrained firms. The effects of the economic uncertainty of the financially constrained firms are more negative than unconstrained ones, without significant difference. Economic uncertainty motivates financially constrained firms to increase cash holdings stronger than unconstrained firms.

Keywords: Economic uncertainty, interdependency of financial decisions, financially constrained firms. East Asian.