Due to the rapidly changing environment and lack of consensus, policymakers often make amendments in macroeconomic policies. The frequent change in policies, which is referred to as policy uncertainty, may negatively contribute to economic activity. A number of studies (Carriero et al., 2018; Lensink et al., 1999) argue that policy uncertainty constrains economic growth through various channels. They argue that in an uncertain environment, firms curtail the investment that increases unemployment and decreases household consumption. Banks also reduce the supply of financial services to both firms and households to avoid the additional liquidity risk due to uncertain economic conditions (Berger, Guedhami, Kim, & Li, 2017).

Banks’ liquidity is one of the key components of the financial intermediary that boosts economic growth through bank loans especially to those bank-dependent entrepreneurs who do not have access to the capital market (Smith, 1776; Levine and Zervos, 1998). Using data from Asia Pacific region, we investigate whether higher bank liquidity mitigates the impact of uncertainty by providing: credit to informationally opaque borrowers; access to deposits and payment services; loan commitments to businesses; interest rate swaps and other derivatives.

The findings of this study have potential policy implications. Policymakers may consider the bank’s liquidity to lessen the negative impact of uncertainty on economic transactions specifically in bank-based economies. More specifically, they would be able to identify that which channel i.e., assets, liability, off-balance sheet, would be more effective to deal with the negative impact of uncertainty.

STUDENT SKILLS:
- Familiarity with Microsoft Excel and statistical analysis skills.
- Familiarity with quantitative research methods and analysis.
- Familiarity with a statistical package, such Stata.
- Good interpersonal and communication skills.

PROJECT TASKS:
- Downloading data from Bank Focus database.
- Arranging, cleaning and standardising data for regressions.
- Analysing the data using various quantitative techniques (e.g. 2SLS and GMM).
- Conducting a literature review on economic policy uncertainty and economic growth.
- Preparing a poster summarising the research to be displayed at the Summer Research Scholarship event.

EXPECTED OUTCOMES:
- Student’s Research Poster (as per clause 6 of the Scholarship regulations)
- The research project will assist successful student to develop research capability especially in the empirical research related to Economics and Finance.
- The results will be summarised in the form of a written journal article to be submitted for publication in a peer-reviewed journal. The potential journal to be targeted is Pacific- Basin Finance Journal.
- The findings of this study have potential policy implications. Policymakers may consider the bank’s liquidity to lessen the negative impact of uncertainty on economic transactions specifically in bank-based economies.
- A poster will be presented at a conference or seminar.