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PII: S0014-2921(18)30005-9
DOI: 10.1016/j.euroecorev.2018.01.002
Reference: EER 3105

To appear in: European Economic Review

Received date: 8 June 2016
Accepted date: 8 January 2018


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The Effects of Policy Uncertainty on Investment: Evidence from the Unexpected Acceptance of a Far-Reaching Referendum in Switzerland*

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This version: January 2018

Abstract

Does increased economic policy uncertainty dampen investment of firms? We provide direct evidence on this question by examining the effects of an unexpectedly accepted and far-reaching referendum in Switzerland in February 2014. The outcome put several economically relevant agreements between Switzerland and its main trading partner, the European Union, at stake. Using firm-level panel data covering the 2009–2015 period and data from two special surveys levied shortly after the vote, we examine how the induced policy uncertainty affected investment of Swiss firms. Our Difference-in-Differences-in-Differences estimations and complementary survey results give strong evidence that the uncertainty caused by the vote dampened, as theoretically expected, investment of exposed firms with irreversible investment by as much as one quarter in the two years following the vote. Exposed firms that can reverse investment appear rather to increase investment in the year after the vote. Our survey evidence suggests that these firms engage in investment to streamline their production.

Keywords: investment, uncertainty, irreversibility, business surveys

JEL codes: D81, D84, E22

*We would like to thank three anonymous reviewers, the editor (Robert Sauer) and participants of the SSES Annual Congress in Lugano (June 2016), the Young Swiss Economics Meeting (February 2017), the First Bolzano Applied Microeconomics Workshop (March 2017), the EPCS meetings in Budapest (April 2017), the IIPF Annual Congress in Tokyo (August 2017), the EEA-ESEM Annual Congress in Lisbon (August 2017), the VfS Annual Conference (September 2017), as well as the participants in the research seminar at Deakin University (January 2017) for their comments and useful suggestions on previous versions of this paper. Financial support by the Swiss National Science Foundation (SNF) is gratefully acknowledged. The usual disclaimer applies.
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