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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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