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# A Study on Macro Economic Effects of Global Policy and Financial Risk

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**ABSTRACT:** In particular, as the COVID-19 pandemic, US-China trade tensions, and Brexit have demonstrated, policy uncertainty in important nations has caused a substantial increase in global policy risk in the last ten years. This study uses empirical data from eight major countries' macroeconomies and financial markets between January 1997 and June 2020 to examine the implications of global policy risk and global financial risk. Utilising a Vector Autoregressive (VAR) framework, we were able to acquire intriguing empirical findings. First, the macroeconomy is affected by global hazards in a recessionary way, which lowers long-term interest rates, decreases employment, depresses prices, and decreases global commerce Global dangers also cause financial markets to enter a recession, which lowers stock prices, increases the value of safe-haven currencies, and depreciates other currencies. Third, the response of the financial markets and macroeconomies to worldwide financial risk is more substantial than worldwide policy risk. Fourth, different nations are affected differently by global concerns in terms of recession.

## I. INTRODUCTION

Economists and decision-makers have always been interested in the effects of uncertainty on the economy. Since the early studies on the influence of internal uncertainty on the economy, concerns about the potential economic consequences of numerous global risks have surged in the wake of globalisation in recent decades. In addition to the risk associated with global financial markets, another prevalent risk factor on a global scale is uncertainty over future economic policy decisions. This can result in short-term reductions in consumption and investment, which can ultimately lead to a decline in economic growth and financial instability.

Macroeconomy to look at the different ways that each country responds to the two global dangers. Over the past 10 years, the global economy has recovered from the global financial crisis, but there are now signs of a significant worldwide recession. The covid-19 epidemic, which started to spread in early 2020 and led to the breakdown of national and international value networks, is the main cause of it.. Because of this, trade tensions between the US and China as well as the economic response to the COVID-19 pandemic, which included aggressive fiscal and monetary policies and quantitative easing, are raising worldwide economic uncertainty.

The global EPU (GEPU) index and the economic policy uncertainty (EPU) index, which are generated from the EPU index, provide a new metric to examine how policy risks impact the macroeconomy. Our understanding of the different macroeconomic responses to domestic and global policy concerns is aided by these indicators. Finally, due to differences in economic structures and policy responses, differences in the macroeconomic reactions of various nations to global financial risk and global policy risk need to be investigated. For example, a country that depends significantly on foreign trade is probably more open to attacks from other countries.

## II. REVIEW OF LITERATURE

**Bloom 2009, Jurado, Ludvigson, and Ng 2015:**
Popular measures of investor risk appetite are the UBS G10, the Morgan Stanley Global Risk Demand Westpac Risk Aversion Index, the Citi Macro Risk Index, and the Risk Tolerance index from JP Morgan. These are in addition to the VIX index. Carry Risk Index. Moreover, there exist alternative methods to quantify uncertainty, including financial market volatility and forecast mistakes related to macroeconomic data.

**Baker, Bloom, and Davis 2016:**
In addition to market-based measures of risk appetite, greater focus has been placed on the risk or uncertainty associated with the four economic policies. The primary metric for assessing uncertainty in the measure of economic

policies is the Economic Policy Uncertainty (EPU) index, It determines the quantity of publications or articles in widely read media that detail the uncertainty surrounding economic policies on a national level. When there's more ambiguity about economic policy, the EPU index tends to rise. Davis (2016) built a monthly index of the Global Economic Policy Uncertainty (GEPU) index, which is a GDP-weighted average of national EPU indexes to measure global policy uncertainty, building on the work of Baker, Bloom, and Davis (2016).

**Ogawa, Shimizu, and Luo 2019:**
employed the Federal Fund futures as a proxy of uncertainty on the monetary policy in the United States to find its significant adverse effect on the portfolio capital flows into the emerging market countries during the period of the recent interest rate hike in the United States.

**Cacciatore and Ravenna 2020:**
The impacts of uncertainty shocks on labour markets were examined by who demonstrated that these effects depended on the state, suggesting that increased uncertainty can significantly prolong a recession. Additionally, According to Castelnuovo's (2019) research, developing nations experience more variable business cycles than developed nations, which makes them more vulnerable to the real consequences of uncertainty shocks.

## III. RESEARCH METHODOLOGY

**RESEARCH GAP**
There is a wealth of research on the macroeconomic impacts of global policy and financial risk, but there isn't a single cohesive strategy that accounts for all the variables involved. More research is required to link international policy decisions—such as trade agreements and central bank actions with the macroeconomic and financial risk they affect. The long-term impacts are frequently neglected in favour of the short-term effects in current studies. Furthermore, there is a need for cross-regional comparisons because it is unclear how these effects vary between established and developing countries. Last but not least, there is a dearth of study on the impact of technology, particularly fintech and digital currencies, on the stability of the global financial system. Closing these gaps may result in more efficient global risk management and policymaking.

**OBJECTIVES OF THE STUDY:**
1. To analyse the effect of economic stability and policy impacts of macro-economic stability of PEPSICO at both national and international levels.
2. To identifying financial risks and mitigating systematic risks of the company.
3. Forecasting economic trends and promoting sustainable growth of the company.

**DATA COLLECTION METHODS:**
Primary data are those that have been personally collected or have been obtained via direct Observation. It refers to information that is original in character and gathered for a specific purpose from the Area of inquiry. Primary data for the study were mostly gathered utilizing the survey technique and the tool questionnaire.

On the other hand, secondary data refers to information that has already been gathered and subjected to statistical analysis by another party. Here is where the secondary data came from. Different dictionaries, registries, publications, and journals. Publications, etc. websites for the Company

**Population:** 100
**Sample Size:** 50
**Sample unit:** MEDCHAL

**QUESTIONNAIRE:**
A well-structured questionnaire with straightforward questions is employed for data gathering.
Closed-ended, Likert-scale, and multiple-choice items are all included in the survey.

**TOOLS USED:**
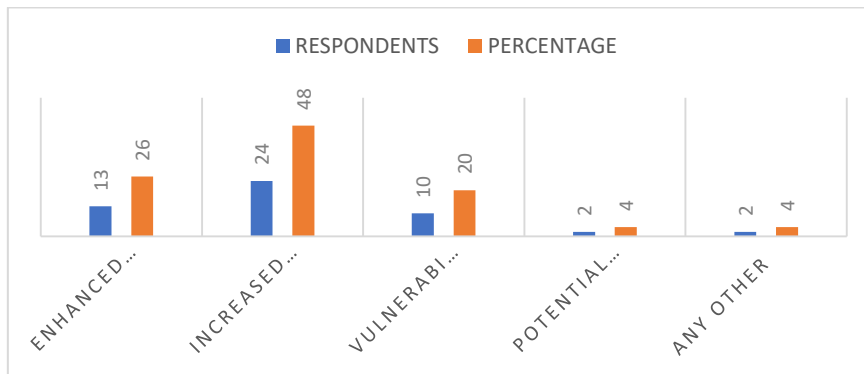Chi square,
Bar graphs,
Percentages.

**HYPOTHESIS:**

H0 (Null Hypothesis): Global policy changes and variations in financial risk have no significant impact on key macroeconomic indicators (such as GDP growth, unemployment, inflation, etc.).

H1 (Alternative Hypothesis): Global policy changes and variations in financial risk have a significant impact on key macroeconomic indicators (such as GDP growth, unemployment, inflation, etc.).

## IV. DATA ANALYSIS

| How does cross-border capital flows affect financial stability and economic growth in both developed and developing countries? | Enhanced access to investment opportunities. | Increased liquidity in financial markets | Vulnerability to sudden capital outflows | Potential for financial contagion during crises | Any other | Total |
|---|---|---|---|---|---|---|
| **Respondents** | 13 | 24 | 10 | 2 | 2 | 50 |
| **Percentage** | 26 | 48 | 20 | 4 | 4 | 100 |



**INTERPRETATION:** Cross-border capital flows offer enhanced investment opportunities (26%) and increased liquidity (48%), but also pose risks such as vulnerability to sudden outflows (20%) and potential for contagion during crises (4%).

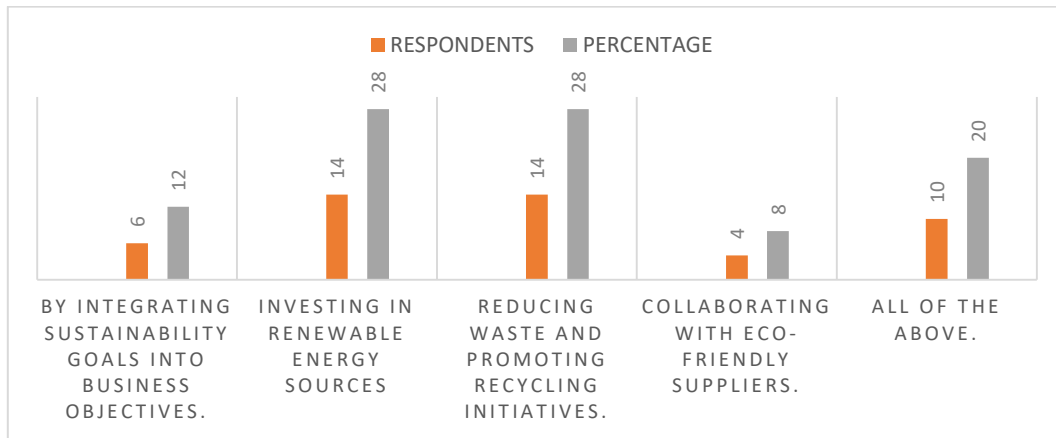| Proper identification of financial risks is crucial for the long-term success of a company. | Agree | Disagree | May be | Total |
|---|---|---|---|---|
| **Respondents** | 26 | 16 | 8 | 50 |
| **Percentage** | 52 | 32 | 16 | 100 |
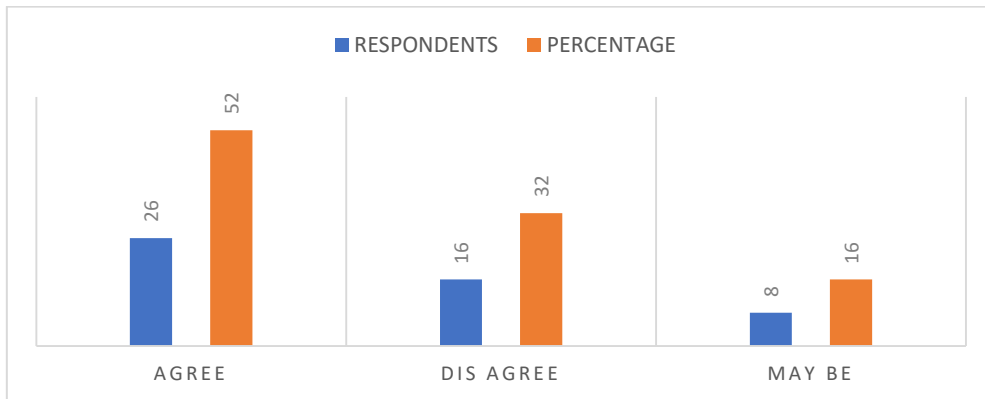
**INTERPRETATION:** Majority (52%) agree that proper identification of financial risks is crucial for a company's long-term success. Some (32%) disagree, while others (16%) are uncertain.

| Counterparty risks pose a significant threat to a company's financial stability. | Agree | Disagree | May be | TOTAL |
|---|---|---|---|---|
| Respondents | 24 | 16 | 10 | 50 |
| Percentage | 48 | 32 | 20 | 100 |
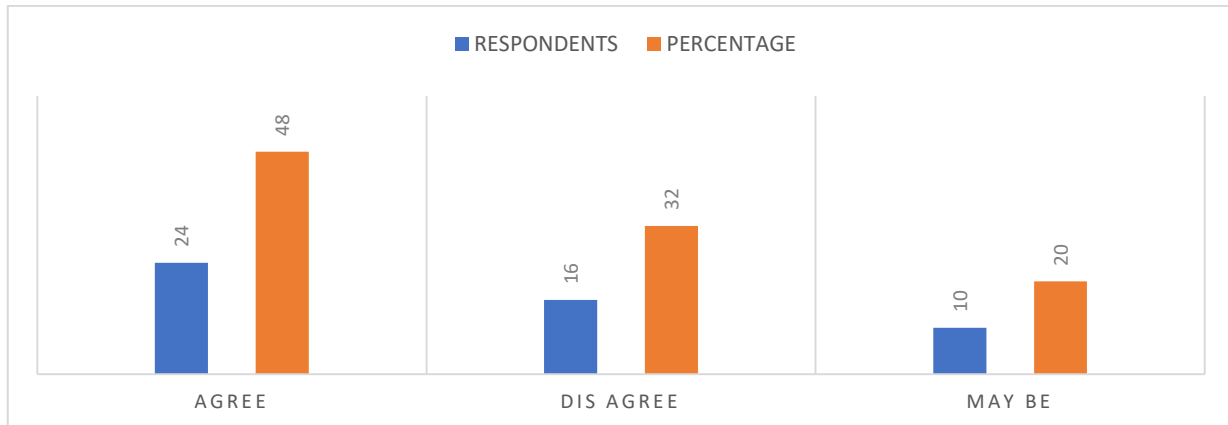


**INTERPRETATION:** About half (48%) agree that counterparty risks pose a significant threat to a company's financial stability, while a third (32%) disagree. Some (20%) are uncertain.

| How do you incorporate environmental sustainability into your growth strategy? | By integrating sustainability goals into business objectives. | Investing in renewable energy sources | Reducing waste and promoting recycling initiatives. | Collaborating with eco-friendly suppliers. | All of the above. | Total |
|---|---|---|---|---|---|---|
| Respondents | 6 | 14 | 14 | 6 | 10 | 50 |
| Percentage | 12 | 28 | 28 | 12 | 20 | 100 |

**INTERPRETATION:** Respondents highlight integrating sustainability goals (12%), investing in renewables (28%), reducing waste and promoting recycling (28%), and collaborating with eco-friendly suppliers (12%) as crucial for incorporating environmental sustainability into growth strategies, with 20% endorsing all strategies.

| Reducing waste and promoting recycling initiatives. | By implementing waste reduction measures. | Through recycling programs. | Both 1 and 2. | None of the above. | Total |
|---|---|---|---|---|---|
| Respondents | 12 | 14 | 20 | 4 | 50 |
| Percentage | 24 | 28 | 40 | 8 | 100 |
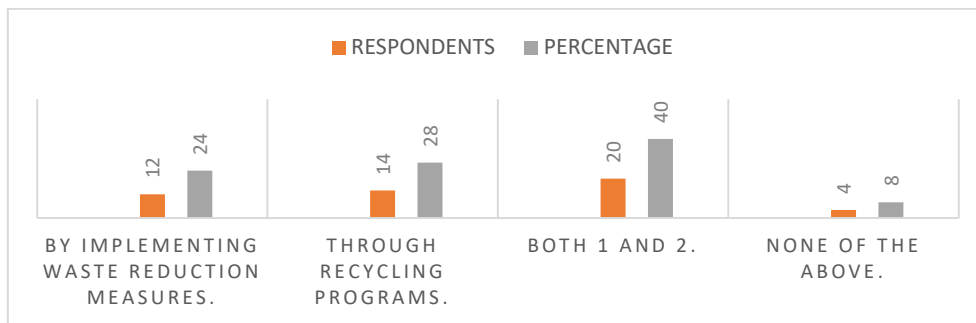


**INTERPRETATION:** Respondents emphasize reducing waste through measures (24%), implementing recycling programs (28%), with a majority (40%) endorsing both approaches.

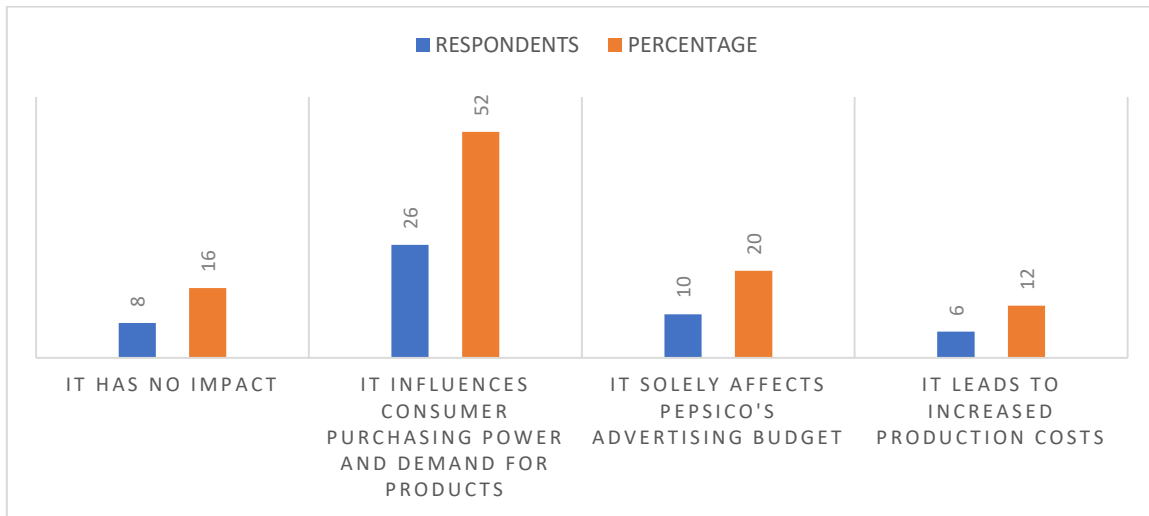| What role does technology play in forecasting economic trends? | None | Limited | Significant | Negligible | Total |
|---|---|---|---|---|---|
| Respondents | 2 | 26 | 18 | 4 | 50 |
| Percentage | 4 | 52 | 36 | 8 | 100 |
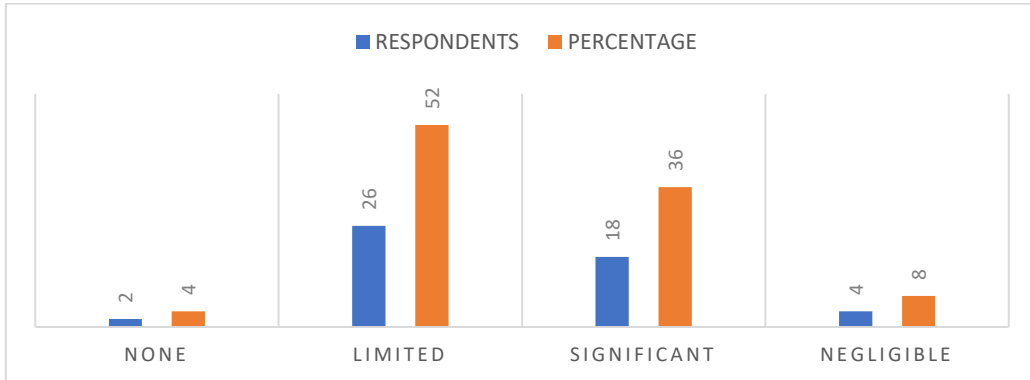
**INTERPRETATION:** Respondents see technology's role in forecasting economic trends as follows: none (4%), limited (52%), significant (36%), and negligible (8%).

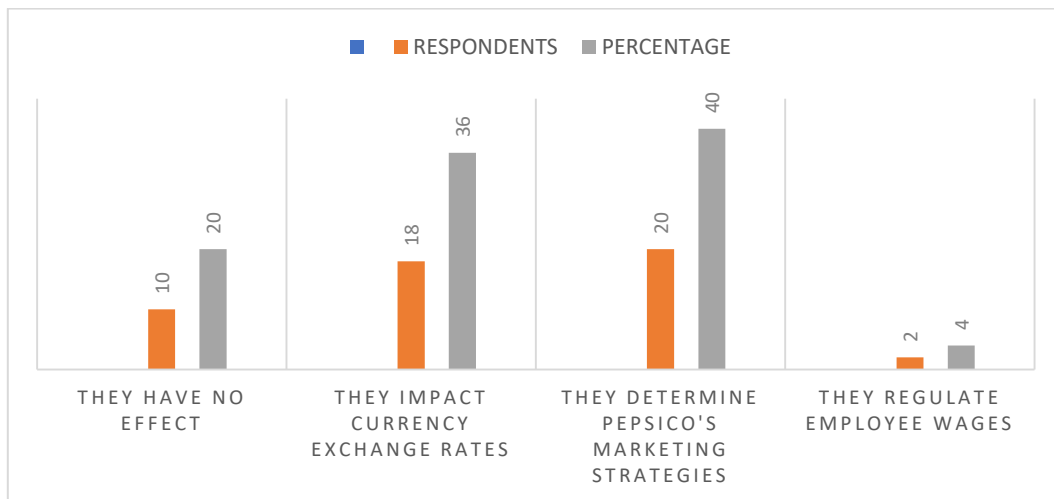| What challenges might a company face in forecasting economic trends? | Predictable trends | Uncertain geopolitical factors | Clear crystal ball | Fixed economic patterns | Total |
|---|---|---|---|---|---|
| **Respondents** | 16 | 18 | 12 | 4 | 50 |
| **Percentage** | 32 | 36 | 24 | 8 | 100 |
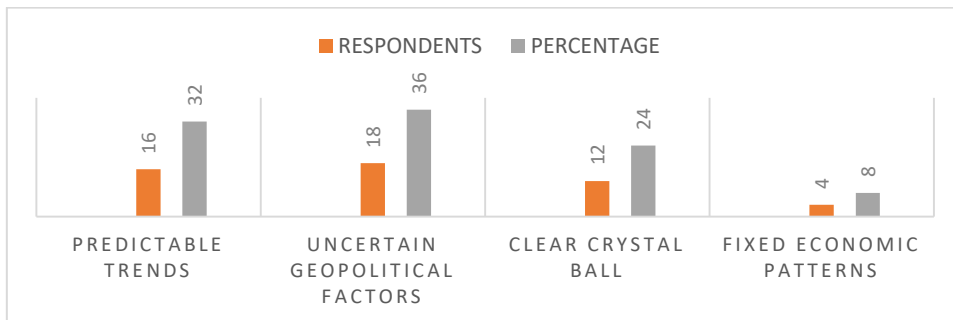


**INTERPRETATION:** Respondents highlight the following challenges in forecasting economic trends: predictable trends (32%), uncertain geopolitical factors (36%), lack of a clear "crystal ball" (24%), and fixed economic patterns (8%).

| How does economic stability at the national level affect PepsiCo's operations? | It has no impact | It influences consumer purchasing power and demand for products | It solely affects PepsiCo's advertising budget | It leads to increased production costs | Total |
|---|---|---|---|---|---|
| **Respondents** | 8 | 26 | 10 | 6 | 50 |
| **Percentage** | 16 | 52 | 20 | 12 | 100 |

**INTERPRETATION:** Respondents indicate that economic stability at the national level affects PepsiCo's operations as follows: no impact (16%), influences consumer purchasing power and demand (52%), affects advertising budget (20%), and leads to increased production costs (12%).

| What role do international economic policies play in PepsiCo's global operations? | They have no effect | They impact currency exchange rates | They determine PepsiCo's marketing strategies | They regulate employee wages | Total |
|---|---|---|---|---|---|
| **Respondents** | 10 | 18 | 20 | 2 | 50 |
| **Percentage** | 20 | 36 | 40 | 4 | 100 |



**INTERPRETATION:** Respondents indicate that international economic policies affect PepsiCo's global operations as follows: no effect (20%), impact currency exchange rates (36%), determine marketing strategies (40%), and regulate employee wages (4%).

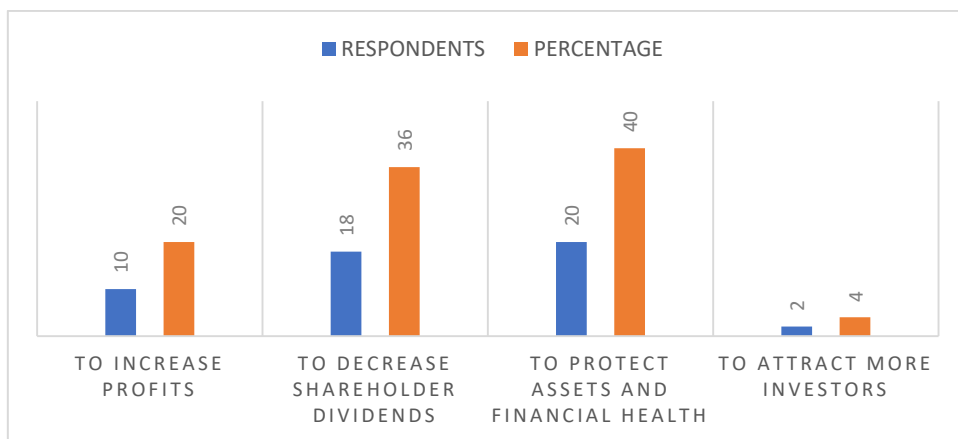| Why is it important for a company to actively identify and mitigate | To increase shareholder profits | To avoid bankruptcy | To comply with government regulations | To maintain stability and ensure long-term success | Total |
|---|---|---|---|---|---|

| financial risks? | | | | | |
|---|---|---|---|---|---|
| **Respondents** | 5 | 28 | 10 | 7 | 50 |
| **Percentage** | 10 | 56 | 20 | 14 | 100 |
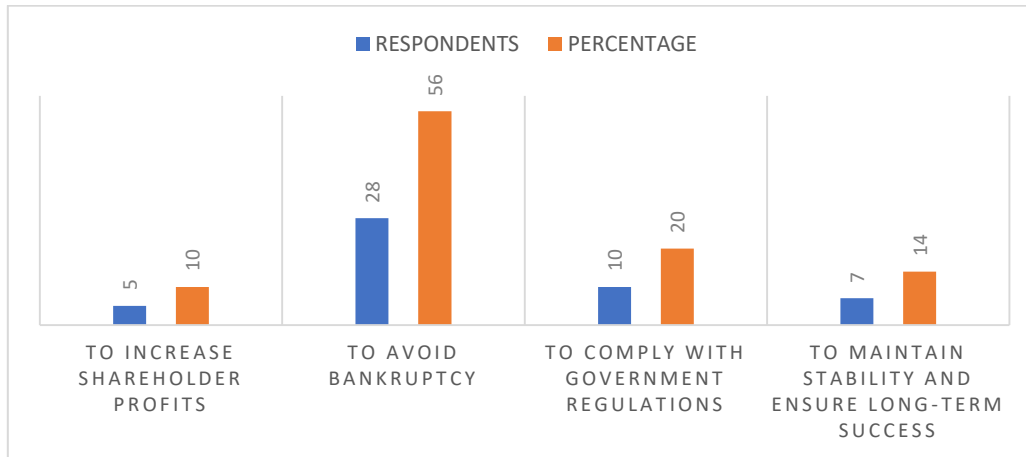


**INTERPRETATION:** Respondents indicate the importance of actively identifying and mitigating financial risks for the following reasons: to avoid bankruptcy (56%), to comply with government regulations (20%), to maintain stability and ensure long-term success (14%), and to increase shareholder profits (10%).

| What is the primary goal of identifying financial risks within a company? | To increase profits | To decrease shareholder dividends | To protect assets and financial health | To attract more investors | TOTAL |
|---|---|---|---|---|---|
| RESPONDENTS | 10 | 18 | 20 | 2 | 50 |
| PERCENTAGE | 20 | 36 | 40 | 4 | 100 |



**INTERPRETATION:** Respondents indicate the primary goal of identifying financial risks within a company as follows: to protect assets and financial health (40%), to decrease shareholder dividends (36%), to increase profits (20%), and to attract more investors (4%).

| Which of the following is an example of a financial risk for a | Changes in consumer preferences | Government regulations impacting the entire industry | Employee turnover | Economic instability in a key market | Total |
|---|---|---|---|---|---|

| company like PepsiCo? | | | | | |
|---|---|---|---|---|---|
| **Respondents** | 12 | 18 | 14 | 6 | 50 |
| **Percentage** | 24 | 36 | 28 | 12 | 100 |
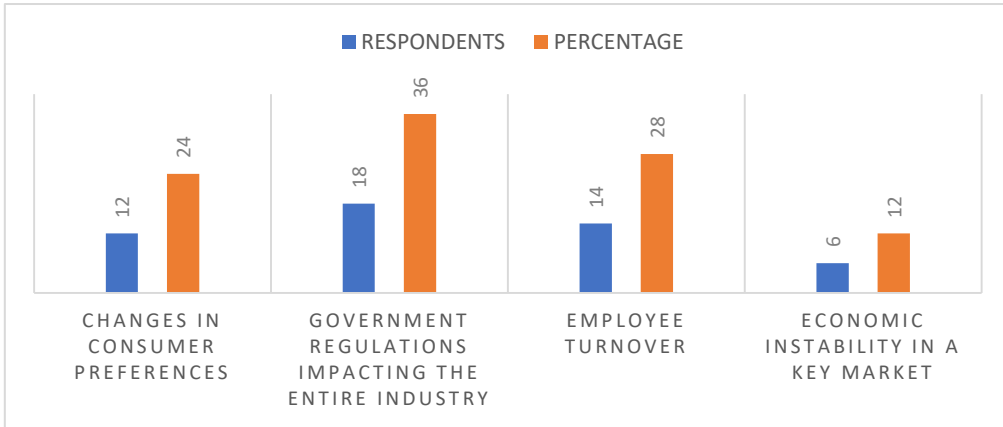


**INTERPRETATION:** Respondents identify the following examples of financial risks for a company like PepsiCo: changes in consumer preferences (24%), government regulations impacting the entire industry (36%), employee turnover (28%), and economic instability in a key market (12%).

## V. STATISTICAL TOOLS FOR ANALYSIS

**HYPOTHESIS:**

H0 (Null Hypothesis): Global policy changes and variations in financial risk have no significant impact on key macroeconomic indicators (such as GDP growth, unemployment, inflation, etc.).

H1 (Alternative Hypothesis): Global policy changes and variations in financial risk have a significant impact on key macroeconomic indicators (such as GDP growth, unemployment, inflation, etc.).

| | **High impact** | **Low impact** | **Margin row totals** |
|---|---|---|---|
| **Male** | 20 (18.6) | 10 (11.4) [0.17] | 30 |
| **Female** | 11 (12.4) | 9(7.6) [0.26] | 20 |
| **Marginal column totals** | 31 | 19 | 50 |

The chi square static is 0.6933. the p-value is .405056. not significant at $p<.05$.

| **Results** | | | |
|---|---|---|---|
| | **High impact** | **Low impact** | **Row totals** |
| **20-25** | 22. (22.40) [0.01] | 18 (17.60) [0.01] | 40 |
| **26-30** | 1 (1.12) [0.01] | 1 (0.88) [0.02] | 2 |
| **31-35** | 4 (3.36) [0.12] | 2 (2.64) [0.16] | 6 |
| **36-40** | 1 (1.12) [0.01] | 1 (0.88) [0.02] | 2 |
| | 28 | 22 | 50 |

The chi square statistic is 0.3517. the p-value is .950023. the result is not significant at $p< .05$.

## VI. FINDINGS

- The data shows that out of 50 respondents, 60% were male and 40% were female.

- The majority (80%) of respondents are aged 20-25, with smaller percentages in the older age brackets: 26-30 (4%), 31-35 (12%), and 36-40 (4%).
- Among 50 respondents, 52% had undergraduate qualifications, 28% had postgraduate qualifications, 12% had professional qualifications, and 8% had other qualifications.

- The data indicates that 68% of respondents believe macroeconomic stability influences PepsiCo's pricing strategies, while 20% do not, and 12% are uncertain.
- According to the data, 32% of respondents believe that a stable inflation rate encourages more spending and promotes consistent spending habits. Another 20% think it reduces the urgency to spend, while 16% believe it fosters long-term planning.
- 36% believe it leads to a decline in GDP growth across multiple regions.28% think it results in increased global unemployment rates.20% perceive strain on international trade and commerce.16% mention financial market instability affecting investment confidence.4% see a heightened risk of recession in interconnected economies.
- Cross-border capital flows offer enhanced investment opportunities (26%) and increased liquidity (48%), but also pose risks such as vulnerability to sudden outflows (20%) and potential for contagion during crises (4%).
- Respondents indicate the primary goal of identifying financial risks within a company as follows: to protect assets and financial health (40%), to decrease shareholder dividends (36%), to increase profits (20%), and to attract more investors (4%).
- Respondents identify the following examples of financial risks for a company like PepsiCo: changes in consumer preferences (24%), government regulations impacting the entire industry (36%), employee turnover (28%), and economic instability in a key market (12%).

## VII. SUGGESTIONS

In this project, we aim to delve into the intricate interplay between global policy decisions, financial risk, and their macroeconomic ramifications. By scrutinizing recent global policy initiatives such as trade agreements, fiscal stimulus packages, and monetary policies, we seek to unravel their impact on key economic indicators such as GDP growth, inflation rates, and employment levels across different regions.

Additionally, we will investigate the effectiveness of financial regulations in mitigating systemic risk and maintaining financial stability amidst increasing interconnectedness in global markets. Furthermore, we will explore how geopolitical events and shifts in geopolitical dynamics contribute to financial market volatility and economic uncertainty. Through empirical analysis and theoretical frameworks, our project aims to shed light on the complex relationship between global policy, financial risk, and macroeconomic outcomes, offering insights crucial for policymakers, investors, and businesses navigating an ever-evolving global economic landscape.

## VIII. CONCLUSSION

In conclusion, the macroeconomic effects of global policy and financial risk are deeply intertwined, with each influencing the other in a complex dance of economic dynamics.
Global policies, whether they pertain to trade, fiscal measures, or monetary interventions, can have significant ramifications on the stability and growth of economies worldwide.
Likewise, financial risks, such as market volatility, geopolitical tensions, and systemic vulnerabilities, can disrupt the efficacy of policies and amplify economic challenges.
Therefore, understanding the interplay between global policy decisions and financial risks is essential for policymakers, investors, and businesses alike to navigate the increasingly interconnected and unpredictable landscape of the global economy.

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