ABSTRACT

However, the correlation among fiscal policy shocks and macroeconomic variables is subject of various studies but most of the researches use different variables and set of countries or try to implement this on time series data. previous researches don't pay attention to the combined effect of the selected variables and countries of this study. And most importantly, the research tries to investigate all the chosen variables empirically. However, most of the previous researchers found theoretical linkages among GE and macroeconomic variables. The foremost objective of this research is to explore the dynamic impact of Fiscal Policy shocks on macroeconomic variables in the selected East Asian countries namely "China, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore and Thailand". The panel data for the cross country are picked up from a sample of ASEAN+3 regions in which seven countries are developing countries and only one country is developed. The data is extracted from World development indicators (WDI), the International Monetary Fund's (IMF) publications, the World economic outlook database, International financial statistics (IFS), CEIC, and Our World in Data (OWID) recent datasets. The proxy for fiscal policy shocks is GE as a dependent variable is used. And the independent variables of study are GDP, INF, IR, UNEMP, BM, OP, and ER. The effect of one-year lag cannot be ignored. The lag is taken due to get best optimal results according to Schezwan criteria of lag selection. This study uses the advanced models of the Generalized Method of Moments (GMM) which are system GMM and difference GMM. The Hausman test suggested that random effect is best for this study and that leads to System GMM. The result of system GMM reveals that ER rate and the all variables andtheir lags have significant association with the GE. Nevertheless, they are positive or negative but still significant. Various previous researches supported our results empirically as well as theoretically.