

***Macroeconomic Uncertainty and Corporate
Liquidity: The Indian Case***

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Abstract

Interest in the uncertainties prevailing at the macroeconomic level has always been well known in economic literature. This paper analyses the effect of firm level and macroeconomic uncertainty on the decisions of Indian firms with regard to their optimal cash holdings. Using a dynamic panel data model, the study finds strong support for the hypothesis that Indian firms increase their cash holdings with an increase in either form of uncertainty. Also, results for the sub-samples show that middle-aged and middle-sized firms are most affected by variations in macroeconomic uncertainty.

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