

This thesis aims to supplement extensive literature on uncertainty impact in the real world and much scarcer literature on its spillover properties. Recently, numerous events induced high economic policy uncertainty such as the Great Financial Crisis, the COVID-19 pandemic, the Brexit referendum, tariff disputes, etc. have highlighted how relevant are the spillover properties.

To investigate them across a global panel of countries, we propose a GVAR model that incorporates the Economic Policy Uncertainty Index as a measure of uncertainty. We model effect of an uncertainty shock to the US economy on quarterly and monthly data.

Our model reveals two key findings. First, uncertainty spillover occurs immediately without lags and causes spikes in local uncertainty. Secondly, it negatively impacts output, interest rates, inflation and equity prices, but share of impact taken by each variable varies country by country. This is supportive of "real options" hypothesis and indicates, that majority of impact occurs via investment.

Overall, this paper sheds new light on the intricate relationship between uncertainty and economic conditions, emphasizing the need for policymakers to carefully consider the impact of policy uncertainty on both domestic and international economic conditions