

# Government shutdown of 2013 hit liquidity hard

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Credit: University of Michigan

Much has been discovered about the impact of the U.S. government shutdown of 2013 on the economy, stock market and federal workers.

The 16-day shutdown gave University of Michigan researchers an opportunity to study a control period in October 2013 and pinpoint its impact on firms' liquidity. Liquidity refers to how easily or quickly a firm's shares can be purchased or sold in the [stock market](#) without

having a significant effect on the price of the shares.

"We found that during the [government shutdown](#) of October 2013, [liquidity](#) significantly deteriorated," said Ryan Ball, assistant professor of accounting at the Ross School of Business.

Liquidity is essential for the functioning of trade in the financial markets. Its vital role in the economy and firms was displayed during the 2008 financial crisis when runs on Bear Stearns and Lehman Brothers led to their downfalls.

Ball and colleagues Venky Nagar, U-M accounting professor, and Jordan Schoenfield of the University of Utah, analyzed data for more than 4,000 publicly traded U.S. firms for each month from July 2013 to January 2014.

"Overall, our results suggest that government uncertainty appears to have a statistically significant and economically meaningful role in the U.S. [financial markets](#)," Ball said.

The White House described the 2013 shutdown as the "most significant on record," estimating that it cut year-over-year [gross domestic product](#) growth by 0.2-0.6 percent. In the 16-day shutdown, the government closed most of its agencies and cancelled the release of nearly all of its regularly scheduled economic disclosures.

"The thing to remember is we're looking at the government shutdown, which is a rare event, but the threat of a shutdown pops up almost like clockwork every year," Ball said. "We're going to an extreme setting where the government really did shut down."

**More information:** Ryan T. Ball et al. Market Liquidity and the U.S. Government Shutdown of 2013, *SSRN Electronic Journal* (2016). [DOI:](#)

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