COVID-19 Pandemic, Adopted Policies, and Side Effects of Social Distancing on Global Economy and International Finance – A Causal Loop Diagrams Approach

Amir Moradi[1]

Extended Abstract

This paper investigates the COVID-19 outbreak and explains that the policies adopted by governments around the world can be categorized into five groups: testing as many as possible, offering insurance coverage, increasing hospital capacities, implementing social distancing restrictions, and promoting personal protective equipment. The final intention of all policies is to reduce the exposed cases and accidental transmission until when the population is vaccinated (or the society reaches the herd immunity), but they create some side effects which both overwhelm health-care services in short term and portray a tragic outcome for the economy in long term.

As the casualty rate of the pandemic rises over the world, many governments increase the severity of social distancing measures and decide to shut down their countries and businesses to flatten the infection curves. However, as time passes, the economic side effects of this policy loom and darken the economic outlook for every single country and the World. This paper applies the causal loop diagrams to explain the interlinkages amongst the important variables and state that the side effects of social distancing are highlighted in three categories: short-term, midterm, and long-term by explaining the reinforcing loops that require time to get stimulated.

The short-term loops result in demand and supply shocks in any economy and if this policy stays effective for a longer period, the midterm loops get activated, leading to corporate and government debt crises. When the pandemic duration extends, the long-term side effects appear with a deflationary recession and a banking crisis. The quickness of moving from one category to another in an economy depends on the financial strength of firms and their government. Finally, this paper anticipates some changes in future business caused by the pandemic, which can bring insights for managers.

Keywords: COVID-19 pandemic; causal loop diagrams; side effects; global economy; international finance.

[1] International School of Business at HAN University of Applied Sciences, Ruitenberglaan 31, 6826 CC Arnhem, the Netherlands; email address: amir.moradi@han.nl; ORCID code: 0000-0003-1169-7192

References

Al-Awadhi, A.M., Alsaifi, K., Al-Awadhi, A. and Alhammadi, S. (2020): Death and contagious infectious diseases: Impact of the COVID-19 virus on stock market returns. Journal of Behavioral and Experimental Finance, Vol. 27, Article 100326. https://doi.org/10.1016/j.jbef.2020.100326

Hunter, M. (2007): The changing political economy of sex in South Africa: The significance of unemployment and inequalities to the scale of the AIDS pandemic. Social Science and Medicine, Vol. 64, Issue 3, pp. 689-700. https://doi.org/10.1016/j.socscimed.2006.09.015

Janus, J. (2021): The COVID-19 shock and long-term interest rates in emerging market economies. Finance Research Letters. Article in press. https://doi.org/10.1016/j.frl.2021.101976

Lagoarde-Segot, T. and Leoni, P.L. (2013): Pandemics of the poor and banking stability. Journal of Banking and Finance, Vol. 37, Issue 11, pp. 4574-4583. https://doi.org/10.1016/j.jbankfin.2013.04.004

Lewis, M. (2001): The Economics of Epidemics. Georgetown Journal of International Affairs, Vol. 2, No. 2, pp. 25-31. https://www.jstor.org/stable/43134024

Moradi, A. and Paulet, E. (2015): A casual loop analysis of the austerity policy adopted to address the euro crisis. International Journal of Applied Decision Sciences, Vol.8, No.1, pp. 1-20. https://doi.org/10.1504/IJADS.2015.066552

Yach, D., Stuckler, D. and Brownell, K. (2006): Epidemiologic and economic consequences of the global epidemics of obesity and diabetes. Nature Medicine, Vol. 12, pp. 62-66. https://doi.org/10.1038/nm0106-62

Zhang, D., Hu, M. and Ji, Q. (2020): Financial markets under the global pandemic of COVID-19. Finance Research Letters, Vol. 36, Article 101528. https://doi.org/10.1016/j.frl.2020.101528