

Dynamic Impact of Fiscal and Monetary Policy Instruments on Merger and Acquisition Activities: Evidence from the USA Using an ARDL Model

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Abstract :

This study examines how fiscal and monetary policy tools influence merger and acquisition (M&A) activity in the United States. It employs an Autoregressive Distributed Lag (ARDL) model to assess both short-term and long-term effects using quarterly data from 1985 to 2023. The model considers taxes and public debt as proxies for fiscal policy, and interest rates and the money supply as proxies for monetary policy. Control variables include gross domestic product (GDP), inflation, and the regulatory uncertainty index.

The results indicate strong long-term relationships: the money supply positively affects M&A activity, while public debt and interest rates have negative correlations. In the short term, regulatory uncertainty and GDP volatility significantly impact M&A trends.

Keywords: Mergers and Acquisitions, Fiscal policy, Monetary policy, ARDL model.

JEL classification codes: E6; G34; C22

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Introduction :

Mergers and acquisitions play a crucial role at both macro and microeconomic levels. At the macro level, these transactions promote economic growth, improve resource allocation, and lead to market consolidation, often resulting in greater efficiency and competitiveness. At the micro level, they allow companies to enter new markets, diversify risks, and benefit from synergies, thereby creating value for shareholders and stakeholders.

However, the merger and acquisition process is complex and challenging. The decision to pursue M&A activities depends on many factors, including the company's strategic objectives, market conditions, and economic and financial considerations. The process involves tough negotiations, regulatory hurdles, and significant obstacles that can lead to either successful integration or costly failure.

In this context, fiscal and monetary policy tools become crucial in shaping the environment where mergers and acquisitions (M&A) take place. Fiscal policies, such as taxation, government spending, and public debt management, directly affect corporate profitability, investment choices, and overall economic conditions, thus impacting the attractiveness and feasibility of M&A deals. Similarly, monetary policies, including interest rates and the money supply, play a vital role in determining the cost of capital and the liquidity available to finance these transactions.

Research problem and hypothesis

This study examines how fiscal and monetary policy tools impact mergers and acquisitions (M&A) activity in the United States. Despite these transactions' significant role in shaping the economy, little research exists on how specific policy tools, such as fiscal policies (e.g., taxes and government spending) and monetary policies (e.g., interest rates and money supply), influence corporate decisions. Although prior studies have explored M&A from various perspectives, including corporate strategy, market conditions, and company-specific factors, the effect of macroeconomic policy tools on the pace, structure, and outcomes of M&A deals remains mostly unexplored.

The main research question guiding this study is:

Do fiscal and monetary policy tools influence the value of mergers and acquisitions in the United States both in the short term and long term?

The following sub-questions are part of this main question:

- Do fiscal policy tools affect the value of mergers and acquisitions activities in the United States in the long term?
- Do fiscal policy tools affect the value of mergers and acquisitions activities in the United States in the short term?
- Do monetary policy tools affect the value of mergers and acquisitions activities in the United States in the long term?
- Do monetary policy tools affect the value of mergers and acquisitions activities in the United States in the short term?

To address these questions, the following hypotheses are proposed:

- Fiscal policy tools affect the value of mergers and acquisitions activities in the United States in the long term;
- Fiscal policy tools affect the value of mergers and acquisitions activities in the United States in short term;
- Monetary policy tools affect the value of mergers and acquisitions activities in the United States in long term;
- Monetary policy instruments affect the value of mergers and acquisitions activities in the United States in short term.

Research importance

The importance of this research lies in its ability to improve both academic knowledge and practical understanding of how fiscal and monetary policy tools impact mergers and acquisitions (M&A) activity. Although the academic literature has explored many factors that influence M&A, the role of macroeconomic policies, particularly fiscal and monetary instruments, has not been thoroughly examined.

From a practical perspective, understanding how fiscal and monetary policies affect M&A activity is crucial for policymakers, business leaders, and financial analysts. Policymakers can use the study's Findings to create more effective fiscal and monetary policies that promote or regulate M&A activity. For corporate decision-makers, gaining a clearer understanding of how policy changes affect M&A can help them make more strategic choices. Additionally, financial analysts can apply the research findings to provide better insights into

market conditions, helping investors in making informed decisions about M&A opportunities.

Research objectives

The main objective of this study is to analyze how fiscal and monetary policy tools impact merger and acquisition activity in the United States, using the Autoregressive Distributed Lag (ARDL) model. By combining fiscal and monetary variables within a single econometric model, this research aims to identify the short-term and long-term effects of macroeconomic policy tools on corporate restructuring activities.

Specifically, the study aims to achieve the following objectives:

- analyze the long-term relationship between fiscal policy tools, such as corporate tax revenues and public debt, and the value of mergers and acquisitions transactions in the United States;
- Evaluate the short-term effects of fiscal policy changes on M&A activity, including how short-term shifts in taxation or government borrowing influence corporate acquisition behavior;
- Analyze the long-term effects of monetary policy tools, such as the federal funds rate and the money supply, on the value of M&A transactions;
- Identify the short-term impacts of monetary policy changes on M&A activity, focusing on liquidity and financing channels;
- Provide evidence to guide policies that support macroeconomic stability while improving the efficiency of M&A transactions.

Research motivation

The motivation for this study arises from the increasing link between macroeconomic policies and corporate financial decisions in developed countries. Following repeated economic shocks, such as the 2008 global financial crisis, the COVID-19 pandemic, and recent inflationary pressures, US fiscal and monetary authorities have implemented various policy measures that have influenced financial markets and corporate behavior. However, despite their importance, the direct impact of these measures on mergers and acquisitions activity has not been thoroughly studied from an empirical perspective.

By addressing this research gap, the study aims to enhance understanding of how macroeconomic policy frameworks affect strategic behavior at the firm

level, providing valuable insights for policymakers, investors, and corporate decision-makers.

The rest of the article is organized as follows: The second section reviews the literature on factors affecting mergers and acquisitions, with a focus on fiscal and monetary policy tools. The third section describes the study variables and explains the methodology. The fourth section presents and discusses the results, and the final section offers the conclusion.

This study adds to the existing knowledge about how fiscal and monetary policies interact and their effects on corporate restructuring by offering both theoretical and empirical improvements.

Methodology and Tools

The study uses an autoregressive distributed lag (ARDL) approach, which allows for monitoring the direct and continuous effects of policy changes on mergers and acquisitions. This methodological choice offers more robust and adaptable insights than traditional co-integration methods, especially in mixed integration scenarios of macroeconomic variables.

Research contribution

This study adds to the existing knowledge about how fiscal and monetary policies interact and their effects on corporate restructuring by offering both theoretical and empirical improvements.

First, this research broadens the scope of empirical studies on mergers and acquisitions by analyzing fiscal and monetary policy tools together within a unified econometric model. While earlier studies have looked at these policies separately, this research emphasizes their combined short- and long-term effects on M&A activity, showing how policy coordination or conflict impacts corporate merger behavior in the United States.

Second, by incorporating variables such as corporate tax revenue, public debt, federal interest rates, money supply, inflation, GDP, and regulatory uncertainty, the research builds a comprehensive model that captures the complexity of the macroeconomic environment in which companies make acquisition decisions. This multidimensional framework improves the explanatory power of the factors influencing mergers and acquisitions, extending beyond microeconomic or company-specific considerations.

Third, the study contributes to policy-focused analysis by providing empirical evidence on how fiscal expansion, monetary policy tightening, or debt accumulation affect the pace and structure of mergers and acquisitions activity. These findings offer valuable insights for policymakers seeking to balance macroeconomic stability with market dynamics, and for corporate executives looking to anticipate the effects of policy changes on strategic investment decisions.

I. Literature Review:

Research on the impact of fiscal and monetary policies on mergers and acquisitions (M&A) activity is a crucial area of study because of its strong influence on corporate investment decisions and economic restructuring. Over the past few decades, these studies have shifted from analyzing macroeconomic variables in isolation to examining how fiscal and monetary policies and institutional factors interact across different economies (Pradhan et al., 2024). Evidence shows that macroeconomic factors like GDP growth, taxes, interest rates, and inflation significantly influence the volume and outcomes of M&A transactions (Erel et al., 2021; Lakra, 2024).

Several studies have confirmed that fiscal policy tools, such as public debt, taxes, subsidies, and green fiscal incentives, influence M&A activities, either directly through incentives or constraints, or indirectly via uncertainty or firm behavior. They found that expansionary fiscal policies, like subsidies or tax incentives, generally promote M&A, especially in green or strategic sectors. (Yang et al., 2023; Yi et al., 2024) both argue that targeted fiscal incentives, such as green policies, have positive effects on M&A. Meanwhile, (Opoku-Mensah et al., 2021) identified four main factors affecting mergers and acquisitions: government intervention through regulation or support, loan guarantees, tax relief, and government training support. In contrast, (Azizjon, 2023) concluded that government borrowing negatively influences acquisition activity through crowding-out effects. Similarly, (Dissanayake et al., 2024) found that high national debt reduces M&A activity due to the uncertainty created by fiscal policy. The differences in previous studies' results mainly stem from the fiscal policy tools examined, such as debt levels or tax incentives. Tax incentives, especially green tax incentives, tend to encourage merger and acquisition activity, while high levels of public debt may hinder such activity because of the uncertainty they generate.

Additionally, monetary policy, especially interest rate changes, central bank actions, and liquidity conditions, has been studied to understand its impact on the size, structure, and success of M&A activities. For example, (Adra et al., 2025) found that Fed information shocks influence M&A initiation, completion, and acquirer gains, making Fed's information shocks a stronger driver of M&A outcomes over time. Additionally, (Obonyo, 2022) concluded that restrictive monetary policy reduces acquisition premiums and cumulative abnormal returns in cross-border M&As. Similarly, (Emiru & Weisblatt, 2024) showed that contractionary monetary policy decreases M&A activity despite favorable financial conditions. However, (Wang, 2022) emphasizes how cash holdings interact with monetary cycles, concluding that firms with high liquidity are less constrained by tight monetary policy. From these findings, we see a broad consensus that restrictive monetary policy hampers mergers and acquisitions. However, other factors, such as large monetary reserves or Federal Reserve continuity, can lessen or modify these effects.

Besides the factors mentioned above, uncertainty in fiscal and/or monetary policies influences firm M&A behavior, financing, target selection, and performance. High EPU (economic policy uncertainty) generally disrupts M&A activities by increasing risk, lowering returns, and delaying or derailing deals. (Shams et al., 2022) argue that high EPU decreases acquirer returns and raises premiums in Australia. (Batista et al., 2023) also conclude that the likelihood of Brazilian M&A declines under high EPU. Similarly, (Shi, 2020) found that US EPU reduces outbound M&As. In the same vein, (Dissanayake et al., 2024) stated that rising national debt increases fiscal uncertainty, which diminishes M&A volume. Likewise, (de Bodt et al., 2022) argue that regulatory uncertainty deters future M&As. To respond to EPU, (Shams et al., 2022; Shi, 2020) stated that firms adjust deal structures by using more stock-based financing and shifting away from cross-border acquisitions.

Contrary to what was previously mentioned, (Dissanayake et al., 2024; Han et al., 2020) suggest that EPU can actually boost M&A activity in certain firm types, such as slow-growth or low-constraint firms. This shows variability in how firms react to economic uncertainty, possibly depending on their strategy, governance, or sector.

Institutional quality, governance systems, regulatory frameworks, and government ownership also influence M&A outcomes. Strong institutional environments, such as effective laws, governance, and accountability, support

higher M&A volumes and success rates. In this context, (Boateng et al., 2022) find that state-owned firms outperform private firms in strategic sector M&As, challenging assumptions about public inefficiency. Furthermore, (Zámborský et al., 2021) conclude that home country regulatory quality impacts Asia-Pacific cross-border M&A motives. Similarly, (Doytch & Ashraf, 2023) discover that institutional quality affects greenfield versus cross-border M&As differently. Additionally, (Cieślik & Tarsalewska, 2025) find that differences in regulatory quality are important for explaining M&A activity. Moreover, (Bhattarai et al., 2021) state that greater efficiency in government institutions, regulatory qualities, voice accountability, and control of corruption positively contribute to M&A activity. Also, according to (Ahsan et al., 2024) institutional quality plays a more significant role in emerging markets than in developed ones.

Previous studies have emphasized the importance of strong institutions in enabling mergers and acquisitions. However, there is increasing awareness of corporate arbitrage (companies that avoid weak domestic regulations) and efficiency motives in cross-border acquisitions (Lakra, 2024).

Other macroeconomic metrics can influence the timing, motives, or patterns of M&A activities. (Erel et al., 2021) found that liquidity and macroeconomic conditions determine M&A likelihood. In the same context, (Kumar et al., 2023) concluded that macroeconomic indicators (inflation, exchange rates) affect deal abandonment in BRICS and G7. They show divergent macro-sensitivities between BRICS and G7, suggesting that institutional maturity influences the macro impact on M&A. Additionally, (Lakra, 2024) finds that GDP growth, interest rates, and inflation shape both M&A and stock performance.

Conversely, some studies have shown that M&A activity is pro-cyclical, increasing during times of strong GDP growth and low interest rates. In this context, (Emiru & Weisblatt, 2024) stated that acquisitions in non-wave periods are motivated by different reasons than those in wave periods, but they found no significant difference in M&A performance between wave and non-wave periods in Greece, possibly due to the country's limited M&A maturity.

Therefore, there is a general consensus that macroeconomic conditions influence M&A volume, but their effects on deal success, strategy, and motives are more dependent on the context, especially when comparing developed and emerging economies.

II. Data and Methodology:

1. Data description:

The sample consists of quarterly data from 1985 to 2023 (156 observations). This data relates to the following variables:

- Value of mergers and acquisitions in the United States (dependent variable);
- Government revenue from corporate taxes;
- Total public debt;
- Federal effective funds rate (the overnight interbank lending rate);
- Money supply (currency in circulation, checking accounts, savings accounts, money market accounts, retail money market mutual funds, and small-denomination time deposits);
- Gross domestic product;
- Consumer Price Index: the average change over time in the prices paid by urban consumers for a fixed basket of goods and services;
- The Economic Policy Uncertainty Index (EPU) related to regulation: it measures the level of uncertainty in U.S. economic policy concerning regulation.

The data was obtained from the Federal Reserve Bank of St. Louis website (<https://fred.stlouisfed.org>). The data was converted to a logarithmic form to produce more efficient and consistent results. The logarithmic transformation not only smooths the data but also addresses the issue of heteroscedasticity.

2. Methodology:

To examine the relationship between M&A deal value and the independent variables, this study used the ARDL bounds testing methodology developed by (Pesaran et al., 2001). This methodology is more flexible than traditional cointegration techniques and can be applied to any series with mixed integration orders. However, it is important to ensure that none of the independent variables are $I(2)$ and that the dependent variable is $I(1)$.

Basically, the Autoregressive Distributed Lag methodology involves two steps to analyze the long-term relationship between variables. First, it checks if a long-term correlation exists using the F-statistic. If the F-statistic indicates cointegration (reject H_0), then it examines the long-term and short-term coefficients.

(Pesaran et al., 2001) reported two types of critical values: lower and upper bounds. The lower bound assumes all variables are $I(0)$, while the upper bound assumes all variables are $I(1)$. If the calculated F-statistic exceeds the upper bound, there is cointegration among the variables. If the F-statistic is below the lower bound, we cannot reject the null hypothesis of no cointegration, and we cannot proceed with the ARDL model. If the F-statistic falls between the lower and upper bounds, the result is inconclusive.

An ECM (Error Correction Model) representation of ARDL is a useful method to establish a long-term relationship between variables. A negative and statistically significant error correction term confirms this long-term relationship. The following ARDL-ECM model will be estimated.

$$\begin{aligned} \Delta LN_DEAL_t = & \beta_0 + \sum_{j=0}^{n1} \delta_{1j} \Delta LN_TAX_t + \sum_{j=0}^{n2} \delta_{2j} \Delta LN_DEBT_t + \\ & \sum_{j=0}^{n3} \delta_{3j} \Delta LN_M2_t + \sum_{j=0}^{n4} \delta_{4j} \Delta LN_RATE_t + \sum_{j=0}^{n5} \delta_{5j} \Delta LN_GDP_t + \sum_{j=0}^{n6} \delta_{6j} \Delta LN_CPI_t + \\ & \sum_{j=0}^{n7} \delta_{7j} \Delta LN_REG_t + \lambda_1 LN_TAX_{t-1} + \lambda_2 LN_DEBT_{t-1} + \lambda_3 LN_M2_{t-1} + \\ & \lambda_4 LN_RATE_{t-1} + \lambda_5 LN_GDP_{t-1} + \lambda_6 LN_CPI_{t-1} + \lambda_7 LN_REG_{t-1} + \epsilon_t \\ & \dots\dots\dots(1) \end{aligned}$$

Where :

- $DEAL_t$: Value of merger and acquisition in quarter t;
- TAX_t : Government revenue from corporate taxes in quarter t;
- $DEBT_t$: Total Public Debt in quarter t;
- $RATE_t$: Federal Funds Effective Rate in quarter t;
- $M2_t$: Money supply in quarter t;
- GDP_t : Gross domestic product in quarter t;
- CPI_t : Consumer price index in quarter t;
- REG_t : Regulation uncertainty index in quarter t;
- ϵ_t : error term in quarter t;
- Δ is the first difference operator;
- LN: nepereen logarithm.

δ_{1j} to δ_{7j} are short-term coefficients, the second part of the equation from λ_1 to λ_7 represents the long-term relationship between dependent and independent variables in the model.

The bounds test is used to examine whether a long-term relationship exists between variables. According to this test, the null hypothesis, which states that there is no cointegration, is tested against the alternative hypothesis, which states that there is a cointegration relationship.

$$H_0: \lambda_1 = \lambda_2 = \lambda_3 = \lambda_4 = \lambda_5 = \lambda_6 = \lambda_7 = 0$$

H_1 : At least one coefficient does not equal 0

If there is a long-term relationship between the variables and, after identifying the long-term coefficients, the short-term coefficients are estimated using the following equation:

$$\begin{aligned} \Delta LN_DEAL_t = & \beta_0 + \sum_{j=0}^{n_1} \delta_{1j} \Delta LN_TAX_t + \sum_{j=0}^{n_2} \delta_{2j} \Delta LN_DEBT_t + \\ & \sum_{j=0}^{n_3} \delta_{3j} \Delta LN_M2_t + \sum_{j=0}^{n_4} \delta_{4j} \Delta LN_RATE_t + \sum_{j=0}^{n_5} \delta_{5j} \Delta LN_GDP_t + \sum_{j=0}^{n_6} \delta_{6j} \Delta LN_CPI_t + \\ & \sum_{j=0}^{n_7} \delta_{7j} \Delta LN_REG_t + \lambda ECT_{t-1} + \epsilon_t \end{aligned}$$

.....(2)

The error correction coefficient (ECT_{t-1}) λ is the adjustment speed coefficient that shows how quickly the series returns to long-term equilibrium. The expected sign for this coefficient is negative, and it is also expected to be statistically significant.

Optimal lag values for j in equations (1) and (2) are selected based on Akaike Information Criterion (AIC). The lowest AIC value indicates the optimal lag value.

Diagnostic tests, such as serial correlation, normality, functional form, and heteroscedasticity tests, are conducted to verify the model's validity. Stability tests, including Ramsey test, cumulative sum (CUSUM) test, and cumulative sum of squares (CUSUMQ) test, are also carried out to assess the stability of the coefficients.

III. Results and discussion:

1. Descriptive statistics:

Table 1 shows the descriptive statistics of the variables.

Table 1: descriptive statistics of the variables

	Mean	Median	Maximum	Minimum	Std. Dev.
LN DEAL	7,9591	7,9926	8,8401	7,1686	0,3445
LN TAX	5,2082	5,2547	6,1134	4,0313	0,5158
LN debt	15,9128	15,7999	17,3171	14,3524	0,8028
LN RATE	0,2186	0,7839	2,1102	-2,8134	1,5979
LN M2	8,9009	8,8594	9,9848	8,0642	0,5889
LN GDP	9,4619	9,5496	10,2388	8,6781	0,4285
LN REG	4,6176	4,5800	5,6796	3,6313	0,4152
LN CPI	5,2888	5,3140	5,7237	4,8523	0,2265

Source: Eviews 13 output

Descriptive statistics reveal significant variation among the variables. The average log deal value ($LN_DEAL \approx 7.96$) suggests a moderately dispersed distribution ($ST.DEV \approx 0.34$), implying that although M&A volumes fluctuate, they tend to remain near the average. Corporate tax revenues (LN_TAX) show a wider spread ($ST.DEV \approx 0.52$), indicating larger shifts in fiscal income. Public debt (LN_DEBT) has the highest average (≈ 15.91) with significant variability, consistent with long-term debt growth trends in the US. The effective federal funds rate (LN_RATE) exhibits substantial volatility ($ST.DEV \approx 1.60$), emphasizing its cyclical and policy-driven nature, which can significantly affect financing conditions for mergers and acquisitions. In contrast, monetary aggregates (LN_M2) and gross domestic product (LN_GDP) are more stable, with only minor fluctuations. The regulatory uncertainty index (LN_REG) shows moderate volatility (standard deviation ≈ 0.42). Finally, consumer prices (LN_CPI) remain relatively stable (standard deviation ≈ 0.23) compared to other macroeconomic indicators. Regarding the median, its values are close to the means of all variables (except for LN_RATE), indicating that the distribution of these variables is symmetric.

Table 2: stationarity tests

	ADF		PP		KPSS		NG-perron	
	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
LN_DEAL	-2.45	-12.07***	-2.98*	-17.80***	1.02***	0.05	-1.01	-0.81
LN_TAX	-1.55	-10.64***	-1.76	-10.86***	1.24***	0.05	0.74	-6.03***
LN_DEBT	-2.34	-10.19***	-2.36	-11.17***	0.11***	0.14	-1.98	-2.41***
LN_RATE	-2.01	-9.11***	-2.14	-9.39***	0.96***	0.10	-1.54	-5.89***
LN_M2	-1.83	-6.99***	-1.66	-7.20***	0.28***	0.04	-1.49	-5.20***
LN_GDP	-2.07	-12.82***	-2.13	-12.85***	0.23	1.50***	-1.07	-6.17***
LN_REG	-2.28	-12.91**	-2.22	-22.50***	0.36**	0.08	-1.64	-6.08***
LN_CPI	-2.06	-7.86***	-2.10	-7.79***	0.27***	0.22	-1.16	-5.60***

Source: Eviews 13 output

2. Stationarity tests

Table 2 shows four stationarity tests: Augmented Dickey–Fuller (ADF) test, Phillips-Perron (PP) test, Kwiatkowski-Phillips-Schmidt-Shin (KPSS) test, and NG-perron test.

Unit root test results indicate that all variables are non-stationary at levels but become stationary after the first difference. This suggests that these series are integrated of order one, $I(1)$. These results support using the ARDL methodology, as the series do not show $I(2)$ behavior, and imply that the financial and monetary indicators influencing mergers and acquisitions activity in the United States may reflect long-term equilibrium dynamics and short-term adjustments.

3. Lag value selection

The optimal lag is identified by minimizing the Akaike Information Criterion (AIC). The lowest AIC value was attained when the lag was 6.

4. F Bound test

The Bounds testing approach was used to identify whether a long-term relationship exists between the series. The bounds testing procedure depends on joint F-statistics. The test results are shown below:

Table 3: F Bound test

F_statistic		
8.7309***		
Significance level	I(0)	I(1)
1%	2.960	4.260
5%	3.500	2.320
10%	3.130	2.570

Source: Eviews 13 output

The F-statistic is 8.7309, which exceeds the upper bounds at the 1% significance level. Therefore, we conclude that a long-run relationship exists among the variables at $\alpha = 0.01$.

5. Regression results

Table 4 shows the estimated ARDL model coefficients for both long-term and short-term effects.

Table 4: regression results

Variable	Coefficient	P. value
LONG RUN Coefficients		
LN_DEAL(-1)***	-0,4207	0,0000
LN_TAX_ADJ*	0,3011	0,0888
LN_DEBT***	-1,4644	0,0000
LN_RATE***	-0,1186	0,0005
LN_M2_ADJ***	1,6438	0,0001
LN_GDP(-1)***	4,7593	0,0044
LN_CPI***	-9,0062	0,0023
LN_REG(-1)	-0,3883	0,1097
SHORT RUN Coefficients		
D(LN_DEAL(-1))***	-0,3594	0,0001
D(LN_DEAL(-2))***	-0,3173	0,0002
D(LN_DEAL(-3))**	-0,1351	0,0380
D(LN_GDP)***	17,9749	0,0000
D(LN_GDP(-1))***	8,7805	0,0011
D(LN_GDP(-2))**	5,5076	0,0173
D(LN_REG)	-0,0900	0,2657
D(LN_REG(-1))***	0,4345	0,0000
D(LN_REG(-2))***	0,4119	0,0002
D(LN_REG(-3))***	0,5240	0,0000
D(LN_REG(-4))***	0,4899	0,0000
D(LN_REG(-5))**	0,2179	0,0113
C	-4,1028	0,0000
ERROR CORRECTION TERM		
ECT _{t-1} ***	-0.4207	0.0000

Source: Eviews 13 output

The empirical results of this study provide valuable insights into the dynamic relationship between fiscal and monetary policy instruments and mergers and acquisitions (M&A) activity in the United States. Over the long term, money supply (LN_M2) positively affects M&A activity, while public debt (LN_DEBT) and the federal funds rate (LN_RATE) have negative effects. Corporate taxes (LN_TAXE) are not significant at $\alpha = 0,05$. Regarding control variables, gross domestic product (LN_GDP) shows a positive correlation with M&A deal values, whereas inflation (LN_CPI) has a negative impact. The regulatory uncertainty index (LN_REG) shows no significant effect in the long term. In the short term, the effects of GDP and regulatory uncertainty become more evident, indicating that cyclical changes and political shifts can trigger immediate responses in M&A activity, even if their long-term effects differ.

A detailed analysis of the results uncovers several important patterns. The negative elasticity of M&A transactions with respect to public debt indicates

that as government borrowing increases, uncertainty about fiscal stability and future tax burdens also grows, which discourages firms from making large investments. Additionally, the negative correlation between the federal funds rate and M&A activity confirms that tighter monetary policy raises capital costs, discourages borrowing for M&A. On the other hand, the highly positive response of the money supply reflects liquidity-driven motives, as increased credit reduces financing constraints, thus encouraging M&A activity.

The strong positive effect of GDP supports the idea that M&A waves are procyclical, meaning that solid economic growth provides the resources and incentives for firms to pursue corporate restructuring. The large negative coefficient of inflation indicates that price volatility undermines confidence in valuation metrics, raises the risk premium, and reduces companies' willingness to pursue acquisitions.

The mixed results regarding regulatory uncertainty, which are insignificant in the long run but significant in the short term, show that firms respond strongly to immediate regulatory changes, often adjusting the timing, structure, or approach of M&A when policy conditions become volatile.

The error-correction term is significant, indicating that deviations from equilibrium are rapidly adjusted, with nearly 42% of disequilibrium corrected each quarter.

These findings generally confirm earlier research while also offering new insights. The evidence that higher public debt decreases the volume of mergers and acquisitions aligns with the work of (Dissanayake et al., 2024), who found that fiscal expansion through debt creates uncertainty that hampers acquisition activity. Similarly, the identified deterrent effect of contractionary monetary policy agrees with the findings of (Obonyo, 2022) who showed that higher interest rates reduce gains for acquirers and overall deal activity. The study also supports the liquidity channel highlighted by (Wang, 2022), indicating that an increased money supply encourages acquisitions by easing financing constraints. Concerning inflation, the results extend (Lakra, 2024) work, by providing robust econometric evidence of inflation's destabilizing effect on corporate transactions. The short-term sensitivity to regulatory uncertainty echoes the findings of (Shams et al., 2022; Shi, 2020) who argued that increased uncertainty prompts firms to adjust their deal structures and financing strategies, often opting for equity-based acquisitions or delaying cross-border expansion.

However, the non-significance of the Taxe revenue coefficient contrasts with (Yang et al., 2023; Yi et al., 2024) who argue that fiscal incentives positively affects M&A. Finally, the positive short term coefficient of regulatory uncertainty agrees with (Dissanayake et al., 2024; Han et al., 2020), who suggested that EPU can actually boost M&A activity in certain firm types.

IV. Model validation tests

As previously mentioned, diagnostic tests, including serial correlation, normality, functional form, heteroscedasticity, and stability tests, must be conducted to ensure the model's validity.

1. Error diagnostic tests

Error diagnostic tests are displayed in Table 5.

Table 5: residual diagnostic tests

Test nature	Test name	Test statistics	P. value
Normality	Jarque-Bera	1.4925	0.4741
Serial correlation	Breush-Godfrey	3.2019	0.5246
Heteroscedasticity	Breush-Pagan-Godfrey	10.3169	0.9621

Source: Eviews 13 output

Since the test statistics in all the above tests are not significant (P value > 0.05), we conclude that the residuals are normally distributed, independent, and homoscedastic. Therefore, the model does not have residual problems.

2. Specification tests:

2.1 Ramsey test:

Ramsey (reset) test checks for functional misspecification and is valid only when residuals are homoscedastic. The results of the test (with three fitted terms) are presented in Table 6.

Table 6: Ramsey test

Test statistics	P. value
3.6881	0.1582

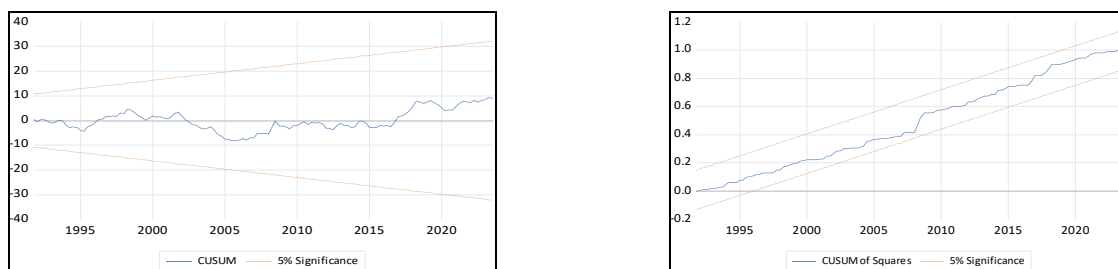
Source: Eviews 13 output

Since the p-value is greater than 0.05, we fail to reject the null hypothesis, so there is no misspecification problem.

2.2 Coefficients stability tests:

To assess coefficient stability, two tests are used: the CUSUM and CUSUM SQ tests. The results are shown in figure 1.

Figure 1: CUSUM (left) and CUSUM SQ (right) tests



Source: Eviews 13 output

Figure 1 shows that the CUSUM and CUSUM SQ test statistic values stay within the confidence interval throughout the entire study period. Therefore, we reject the hypothesis of a structural change.

V. Conclusion

This study aimed to examine how fiscal and monetary policy tools influence merger and acquisition (M&A) activity in the United States, using an ARDL model to analyze both short-term and long-term effects. The main research question centered on how fiscal tools, such as corporate taxes and public debt, along with monetary tools like interest rates and the money supply, affect the volume and value of M&A transactions in both the short run and the long run.

The findings reveal a significant influence of fiscal and monetary policies on M&A activity, showing both immediate and lagged impacts that provide useful insights for policymakers, businesses, and investors.

Empirical findings confirm a long-term cointegration relationship between policy tools and M&A values. Specifically, government taxes and the money supply are shown to positively affect M&A activity, while public debt and interest rates are negatively associated with it. In the short term, regulatory

uncertainty and GDP volatility directly M&A, emphasizing firms' sensitivity to changes in economic and regulatory policies.

Based on the previous results, the first hypothesis is confirmed: fiscal policy tools (public debt) influence merger and acquisition activity in the long run. The second hypothesis is also confirmed: monetary policy tools (money supply and interest rates) impact merger and acquisition activity over the long term. However, the third and fourth hypotheses are rejected: fiscal and monetary policies do not affect merger and acquisition activity in the short term; instead, economic (GDP) and regulatory (regulatory uncertainty index) variables have an influence.

This research adds to the literature by providing new evidence on how macroeconomic policy tools influence corporate restructuring strategies. Its theoretical contribution lies in combining fiscal and monetary policy variables into a single econometric model, which enhances our understanding of their combined effects on mergers and acquisitions (M&A) activity. Practically, the findings suggest that policymakers should carefully assess the broader economic impacts of fiscal and monetary decisions, especially during periods of economic uncertainty or volatility. For corporate decision-makers, predicting the effects of these policies can lead to better strategic choices and improve forecasting models for M&A activity.

However, this study has some limitations. The data are limited to the US context, and although the ARDL model offers flexibility in handling mixed integration orders, it assumes a linear relationship between variables. Therefore, the study recommends that future research expand this analysis to other advanced or emerging economies and explore the nonlinear effects of policy changes. Additionally, incorporating qualitative factors, such as firm characteristics or sector-specific analysis, would improve the overall comprehensiveness of the findings.

In conclusion, the study emphasizes the importance of fiscal and monetary policy tools in influencing mergers and acquisitions (M&A) activities, offering valuable insights for decision-making in both the public and private sectors. Policymakers should leverage these insights to create policies that promote economic stability and encourage institutional investment, while businesses and investors can use this knowledge to adapt to the evolving M&A landscape.

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