

Fitness of Kuznets Curve in Understanding the Link between Financial Development and Environmental Quality in Australia

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The imperative examination of the relationship between financial development and environmental quality is crucial for fostering environmental sustainability within the economy. This study aims to validate the existence of an inverted U-shaped relationship between financial development and environmental quality in Australia, thereby refining the conventional theory of the Environmental Kuznets Curve (EKC) hypothesis. Employing the Autoregressive Distributed Lag (ARDL) bound testing approach, we conducted empirical investigations spanning the period from 1980 to 2021. Our findings corroborate the presence of a Financial Environmental Kuznets Curve (FEKC) in the long run, while the short-run results do not lend support to its establishment. Additionally, the EKC phenomenon is also discernible in the long run. Furthermore, our results indicate that energy consumption exerts a detrimental effect on environmental quality both in the long run and short run. Foreign direct investments, on the other hand, bolster the pollution halo effect in the long run but do not manifest this effect in the short run. The roles of urbanization and trade openness are observed to positively influence environmental quality in the short run. However, the impact of the carbon tax on determining environmental quality in Australia is deemed insignificant. In conclusion, this study provides crucial insights and policy recommendations to aid in the Australian government's commitment to addressing climate change.

Keywords: Environmental Kuznets Curve (EKC); Financial Environmental Kuznets Curve (FEKC); Financial Development; Environmental Quality; Climate Change