Report on Empirical linkage between oil price and stock market returns and volatility: Evidence from international developed markets

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The authors of this discussion paper contribute to the literature on how oil price shocks influence stock market returns and volatility. They look at eight developed countries data over January 1991- September 2013. The EGARCH-M model has been utilized to explore the direct and indirect effects of oil price shocks on returns and volatility. The findings of this study show that oil price increases apply negative impacts on stock market returns for almost all sample countries and exert positive effect on volatility.

This investigating of this relationship is interesting and relevant at several levels. There is considerable debate about the dynamic link between oil prices and stock markets, also known as the oil price-stock market nexus. No one has any doubt that oil price shock has had a significant impact effect on most countries in the world, especially on stock markets. However, it is still a challenge to assess how and how much the international stock markets respond to oil market shocks. This manuscript considered an important sample of countries where developments in financial markets have grown dramatically.

Beside the contents related contribution, the methodological contribution of this paper is sufficient enough to investigate the relationship between oil prices and stock market. EGARCH-M model is ideal for capturing the standard features of stock return volatility (volatility clustering and asymmetric volatility). The authors have recognized the evidence on asymmetry in stock price behavior and thus employ this econometric technique. The conclusion also follows the empirical analysis. I recommend this paper for publication in economics e-journal.

Only careful editing is needed before paper is going to be published.