Referee Report for “Financial frictions and regime switching: the role of collateral asset in emerging stock market”

The paper has an interesting research question on how interest shocks may have asymmetric effects on economic activity depending on regime given by stock prices and exchange rates.

The paper however shows many issues on the empirical implementation of the research question.

1 – The paper does not include a section explaining the details, time period, and sources of the dataset before presenting the empirical results. They only mention Tunisia in the last phrase of the conclusion. Otherwise, we are reading a paper about an economy that we don’t know which one is.

2 – The description of the TVAR model is very confusing. In the equation in section B, they present an equation with Yt on the right-hand side. This means that usual TVAR estimators may not work because of endogeneity issues. The authors don’t explain why they added these terms and how they deal with in testing and estimation.

3- Other issue on the description of the model is that they use c = measure of credit condition as transition variable in section B, but then in section D, they use asset prices and exchange rates. This is very confusing. I am not sure how they estimate the model with both transition variables required for the impulse response analysis they carry out.

4 – Because of the issues listed above, I found really hard to understand the empirical results. It might be that the authors found something interesting, but they need to improve their presentation skills if they want to convince the reader.

5 – The literature review section is overlong for an academic paper. I would expect that most of the interesting part of this discussion to be included in the introduction.

6 – The presentation of the paper is poor. Referencing formatting is mistaken in many cases such as in section A, there are many typos, and equations presentation could be improved.

7 – The authors argue in the introduction that one needs financial frictions to explain the impact of the financial crisis in emerging economies, and that this is clear in the academic literature. This needs additional support from the literature. I am not sure that this is the case.