

Reply\_Referee 1

Thank you very much for your comments.

We agree with all your suggestions and comments that includes your referee report. We realize that we need to prepare a new version of the paper considering all the things that can contribute our paper to be better in the terms that your propose. I

In particular, considering the major comments:

- (a) To write a detailed explanation around the number of breaks obtained.
- (b) To include a test over  $\gamma = 1$ , apart from testing for cointegration
- (c) To make a deeply analyze over the potential breaks around the 1987 stock market crisis, the 1997 Asian financial crisis, or the 2008 financial turmoil and a discussion of these important incidents.
- (d) To actualize data
- (e) To include new bibliographic references considering, as you suggested, Balke and Wohar (2002).

Considering the other comments:

- (i) To present the state of the art on the relationship between the efficient market hypothesis and the present value model.
- (ii) To substitute the expression "stock market return" by "stock market returns" as suggested.
- (iii) To present more explanations to relate the cointegration in the presence of structural breaks with the concepts of *fractional cointegration* and *non linear cointegration*.
- (iv) To elaborate arguments to explain why the long-run relationship between real stock prices and dividends has probably changed due to alterations in monetary and fiscal policy, as well as because of reforms in the financial market and in the regulation of the stock market.
- (v) To observe the notation in section 2 and in section 3 to be consistent.
- (vi) To define the expression "strict exogeneity"
- (vii) To define  $\hat{h}$  in equation (11)
- (viii) To deepen in the results obtain, in particular in terms of the evidences for break(s) in the relationship between stock price and dividend.
- (ix) To correct the Stock and Watson (1999) reference.