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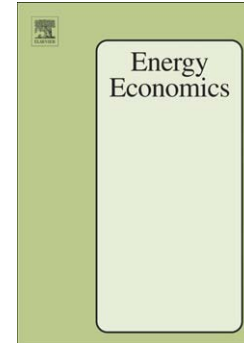
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The relationship between global oil price shocks and China's output: A time-varying analysis*

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Abstract

We employ a class of time-varying Bayesian vector autoregressive (VAR) models on new standard dataset of China's GDP constructed by Chang et al. (2015) to examine the relationship between China's economic growth and global oil market fluctuations between 1992Q1 and 2015Q3. We find that: (1) the time varying parameter VAR with stochastic volatility provides a better fit as compared to its constant counterparts; (2) the impacts of intertemporal global oil price shocks on China's output are often small and temporary in nature; (3) oil supply and specific oil demand shocks generally produce negative movements in China's GDP growth whilst oil demand shocks tend to have positive effects; (4) domestic output shocks have no significant impact on price or quantity movements within the global oil market. The results are generally robust to three commonly employed indicators of global economic activity: Kilian's global real economic activity index, the metal price index and the global industrial production index, and two alternative oil price metrics: the US refiners' acquisition cost for imported crude oil and the West Texas Intermediate price of crude oil.

JEL-codes: C32, E31, E32

Keywords: Oil prices, China, TVP-VAR-SV, sign restrictions, combining zero and sign restrictions.

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