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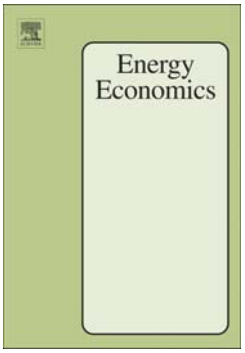

Oil Prices and Stock Markets: Does the Effect of Uncertainty Change over Time?

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ACCEPTED MANUSCRIPT

Oil Prices and Stock Markets: Does the Effect of Uncertainty Change over Time?[1]

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Running Title: Oil Prices and Stock Markets: Does Uncertainty Matter?

Abstract

This paper investigates empirical marginal effects of uncertainty measured by conditional variance of the stock and crude oil prices on their returns using stock index prices for U.S., Japan, Korea, and Hong Kong over the period 1996-2015. A time-varying parameter model with a dynamic conditional correlation (DCC) bivariate GARCH-in-Mean specification is considered to investigate time-varying marginal effects of uncertainty on the stock and crude oil returns. The empirical findings show that there exist significant negative time-varying effects of uncertainty on the returns over some sub-periods.

JEL classification: C22, Q40, G12

Keyword: Crude oil returns; Stock returns; Oil uncertainty; Bivariate GARCH-in-Mean model; Time-varying parameter

[1] We would like to thank the Editor and two anonymous referees for many pertinent comments and suggestions. However, we retain the responsibility for any remaining errors.

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