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The Extreme-value Dependence between the Crude Oil Price and Chinese Stock Markets: An Economic Cycles Perspective

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Abstract:

This paper examines asymptotic dependence between the Chinese stock market and the world crude oil market based on Extreme Value Theory (EVT) and finds a positive tail dependence. We explain this positive dependence in terms of economic cycles due to co-movement between the Chinese stock market, the world oil market and global economic cycles. EVT captures well the Chinese special oil price adjustment mechanism. We also examine the contagion effect and find that the dependence level tends to increase dramatically during the crisis period, but the simultaneous booms between these two markets decrease considerably after the crisis.

Keywords: Crude oil price, stock market, extreme value theory, economic cycle

JEL classification: C58, G12, G15

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