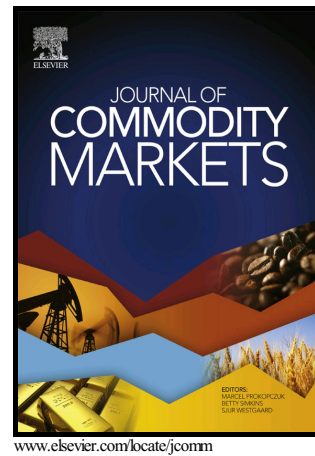


Author's Accepted Manuscript

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PII: S2405-8513(16)30115-5
DOI: <http://dx.doi.org/10.1016/j.jcomm.2017.03.001>
Reference: JCOMM28

To appear in: *Journal of Commodity Markets*

Received date: 16 September 2016
Revised date: 24 February 2017
Accepted date: 4 March 2017

Cite this article as: Konstantin Kuck and Karsten Schweikert, A Markov regime switching model of crude oil market integration, *Journal of Commodity Markets* <http://dx.doi.org/10.1016/j.jcomm.2017.03.001>

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A Markov regime-switching model of crude oil market integration

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Abstract

This paper revisits the globalization-regionalization hypothesis for the world crude oil market. We examine long-run equilibrium relationships between major crude oil prices – WTI, Brent, Bonny Light, Dubai and Tapis – and focus on the adjustment behaviour following disequilibrium states. We account for a changing adjustment behaviour over time by using a Markov-switching vector error correction model. Our overall findings suggest that the crude oil market is globalized. Dubai turned out to be the only weakly exogenous price in all regimes, indicating its important role as a benchmark price. Furthermore, an interesting finding of our study is that the degree of market integration seems to be connected to global economic uncertainty.

JEL Classification: C32; Q41

Keywords: Crude oil, market integration, cointegration, markov-switching vector error correction model

1. Introduction

The discussion on whether world crude oil markets are globalized or regionalized has received a great deal of attention in recent years. [Adelman \(1984\)](#) described the world

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