How Oil Shocks Influence Oil Related Stocks in the Asia Pacific Region

By David Broadstock

## Abstract

"We contribute to and extend a plethora of previous related literature analyzing the impact of changing oil prices upon stock markets. Specifically we demonstrate the existence of two channels of effect, a direct one, and an indirect one. While both channels have been identified in the literature, they are hitherto treated as separate entities. Our main contribution is thus in demonstrating their cumulative effect. In doing so we demonstrate that there is always some effect of oil. The importance of this comes in consolidating the plethora of previous work. All identified studies were partial in nature, leading to mixed conclusions, especially regarding the indirect effect. The consequences of this were incomplete, potentially even wrong conclusions in a range of previous related studies. In some defense of the previous findings in the related literature, we highlight that when a direct effect does not exist, the cumulative effect represents non-diversifiable risk to the firm, and is captured as a purely indirect effect. Our empirical demonstration uses daily data from stock markets in five Asian countries, namely, China, Japan, India, Korea and Taiwan within a standard market model, with controls for structural breaks and volatility clustering both of which are common features in high-frequency data. Although not demonstrated here, we believe these results to be generalized much further."

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