Empirical Economics Letters, 24 (11): pp. 63-69, (November 2025) *ISSN 1681 8997*
https://doi.org/10.5281/zenodo.17667049

Crude Oil Price Volatility and Market Index Returns

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Abstract: The paper investigates long-run relationship between crude oil price volatility and market index returns and examines asymmetric response of market index returns to crude oil price volatility. The Enders and Siklos (2001) nonlinear approach are applied to verify the existence of cointegration and asymmetry. The results reveal that long run cointegration exists between crude oil price volatility and market index returns. The response of the market index returns to crude oil price volatility is asymmetric and market index returns adjust faster upward to its long-un equilibrium when crude oil price increases. But when crude oil price decreases, market index returns appear rigid downward for Nigeria.

Keywords: Crude Oil Price, Oil Price Volatility, Market Index Returns, M-TAR Method, Error Correction Modeling

JEL Classification Number: C32, G14, G15, Q41

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