

Volatility linkages between financial markets and energy firms' stock prices. The case of Cyprus exclusive economic zone.

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Abstract

This study examines the linkages between financial markets and energy firms' stock price returns after the decision of Cypriot government to exploit its oil and natural gas deposits within its exclusive economic zone. This decision has several geopolitical aspects which affect a large number of interest parties. We employ dynamic conditional correlation (DCC) model to measure the effect on financial markets as well as energy firms' stock returns. Results provide evidence that both financial markets and energy firms stock prices react positively. Moreover, we highlight the importance of similar political decisions and the reactions of Cyprus' neighbouring countries.

Keywords: Energy, Financial Markets, dynamic conditional correlation

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