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Recent issues in the analysis of energy prices

Special Issue Editorial

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This special issue of the *European Journal of Comparative Economics* gathers three research papers from highly-qualified researchers from the field of energy economics, which have been presented at the 4th International Research Meeting in Business and Management (5 July 2014, Nice, France). The papers provide careful empirical analysis making use of recent econometric techniques drawn from financial econometrics for most of them. In these papers, the issue of how energy prices are determined is the central question and the authors find alternative explanatory variables such as renewable energy prices (and volumes), exchange rates or stock indices. The findings have important implications for various economic agents, to the extent that both the macroeconomic and financial environments have become more uncertain and that governments of most countries around the world have invited specialists to think about sustainable development and financing.

In their study "*Wind power feed-in impact on electricity prices in Germany 2009-2013*", François Benhmad and Jacques Percebois develop a motivating empirical analysis of the impact of renewable energy sources on the spot price level and volatility for Germany, thus extending the analysis of electricity price dynamics initiated in Knittel and Roberts (2005). Their results point to a significant and negative effect of wind-generated electricity on spot electricity price while volatility is increased at the same time. This is an important finding as renewable energies have often been criticized on the ground of their potential price-increasing effect while only very limited research has been produced to support this assumption. An additional result of their study is that the European electricity grids interconnection plays its expected role in lowering price change while keeping volatility at a reasonable level. Overall, the authors conclude to a

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significant impact of interconnection on the expected effects of wind-generated electricity.

The next two papers deal with the relationship of oil prices with financial variables. The article *"The Oil Price and Exchange Rate Relationship Revisited: A time-varying VAR parameter approach"* by Vincent Brémond, Emmanuel hache and Tovonony Razafindrabe, investigate the link between the effective exchange rate of the dollar and the oil price over the 1976-2013 period in line with recent studies by Amano and van Norden (1988a,b; Aloui et al., 2013). In a *state-of-the-art* Bayesian time-varying parameter vector auto-regressive framework, the authors demonstrate the strong role of the dollar in shaping the oil price dynamics, an effect that is not widely accepted among energy experts who often consider oil as a pure exogenous variable. As a corollary to their genuine findings, the authors also provide evidence that the recent financialization of commodity markets coincides with a change in the relationship between oil and non-oil commodity prices as noted in Fattouh et al. (2013).

The third paper by Ilyes Abid, Khaled Guesmi, Gazi Salah Uddin and Zied Fiti, *"On the Time-Varying Relationship between Oil Prices and G7 Equity Indices: a Multivariate Approach"* analyzes the link between oil price and stock markets in the case of G7 countries, thereby extending the line of research initiated a couple of decades ago by Huang et al. (1996). The period of investigation is 1998-2013, thereby including the so-called oil *boom-and-bust*. The econometric approach relevantly retains two main features of the data in hand such as the asymmetric impact of volatility on correlation and the high persistence of volatility through time. In this context, the authors show the key role of the origin of the oil price shock to explain the reaction of stock markets. Also, their results confirm the time-varying nature of the oil-stock market relationships, which require a dynamic management of stock portfolios if investors would want to efficiently hedge against the oil risk.

Overall, the findings from the collection of papers in this special issue make a nice contribution to the growing body of research in the field of energy finance. Specifically, the papers provide new evidence of the central role of energy prices for our economies despite the secular decrease in energy intensity found in numerous studies.

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