ABSTRACT

The study assessed the impact of oil price volatility on oil exporting and importing counties of Asia using the VAR model. Evaluation data from 1980 to 2020 from online reliable resources such as World Bank database is utilized in this study. It includes 16 different countries of Asia based on largest share of oil importing and exporting. Oil importing and exporting countries data which is not normally distributed as some variables are positively skewed and some are negatively skewed, this is indicated by scatter and box plot as well. Unit root test of oil exporting countries shows stationary at level accept LNCPI while in oil importing countries also indicates stationary at level accept LNINV. The lag length criterion indicates optimum lag 2 for oil exporting countries, as well as oil importing countries, which is best for the VAR model. Cointegration test confirm long run relationship in both types of countries. In all oil exporting countries; investment, CPI, and exchange rate shows positive and significant impact on oil volatility. Whereas CPI and exchange rate shows negative direction or impact in oil importing country. In respect to individual countries data, some countries variables shows positive and significant impact and some shows negative as Azerbaijan oil exporting country indicates oil trade balance, investment and CPI has positive impact on oil volatility. The Granger pairwise causality test indicates that some pairs have unidirectional causality, bidirectional causality as well as no causality. Moreover, the variance decomposition statistics indicates that oil price volatility is the largest source of variations in different macroeconomic variables. Hence, it is concluded the independent macroeconomic variables of different data set either collective oil importing countries, and oil exporting countries, or individual countries of Asian countries, indicates monotonousous significant and positive direction impact over oil volatility within short term, middle term and long term of 40 year.

Key Words: Oil Price Instability, Variance Decomposition, Granger Causality Test, Vector Error Correction Model, Macroeconomic variables, Impulse Response, Vector auto regression model (VAR).