

What Do Financial Markets Think of War in Iraq?

Andrew Leigh, Justin Wolfers & Eric Zitzewitz

SHARE      

WORKING PAPER 9587

DOI 10.3386/w9587

ISSUE DATE March 2003

We analyze financial market data in order to produce an ex-ante assessment of the economic consequences of war with Iraq. The novel feature of our analysis derives from the existence of a market for Saddam Securities,¹ a new future traded on an online betting exchange that pays only if Saddam Hussein is ousted. A variety of tests suggest that this future's price provides a plausible estimate of the probability of war. The spot oil price has moved closely with the Saddam Security, suggesting that war raises oil prices by around \$10 per barrel. Futures prices imply that markets expect these large immediate disruptions to dissipate quickly, with prices returning to pre-war levels within about a year and a half. Evidence on the long-run effects is fragile, and while prices are probably expected to fall a little as a result of war, any oil dividend² will be minimal. We find large effects in equity markets: and war lowers the value of U.S. equities by around 15 percent. This effect is concentrated in the consumer discretionary sector, airlines and IT; the prospect of war bolsters the gold and energy sectors. Analyzing option prices, we find that the large estimated average effects of war reflect the market pricing in a range of different scenarios - a 70 percent probability that it will lead to market declines of 0 to 15 percent, a 20 percent chance of 15 to 30 percent declines, and a 10 percent risk of a fall in excess of 30 percent. Across countries, the most extreme effects are on the stock markets of Turkey, Israel, and several European nations. Countries that are highly enmeshed in the world economy, or net oil importers, are most likely to experience adverse effects from war.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Download Citation



Related

TOPICS

Macroeconomics
Fiscal Policy
Financial Economics
Financial Markets

PROGRAMS

Economic Fluctuations and Growth
Asset Pricing

More from NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Retirement and Disability](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



16th Annual Martin Feldstein Lecture:

Lessons for Economists from the Pandemic

Cecilia E. Rouse, The Brookings Institution
and Princeton University
July 22, 2024

2024, 16th Annual Feldstein Lecture, Cecilia E. Rouse, "Lessons for Economists from the Pandemic"

FELDSTEIN LECTURE

PRESENTER: [CECILIA E. ROUSE](#)

Cecilia Rouse, president of the Brookings Institution and a professor at Princeton University, who chaired the Council...



Methods Lectures, Summer Institute 2024:

Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning

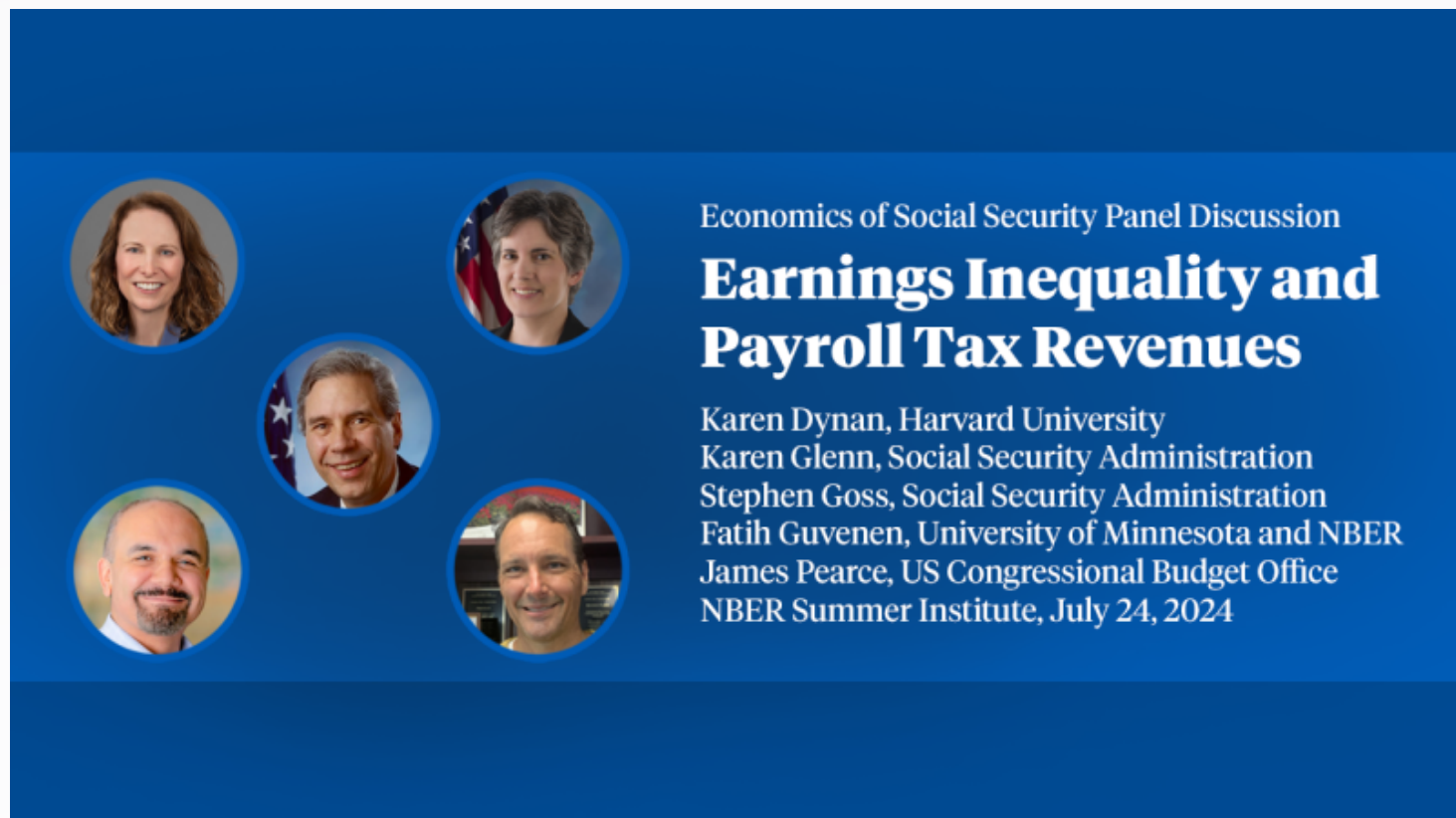
Susan Athey, Stanford University and NBER
July 25, 2024

2024 Methods Lecture, Susan Athey, "Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning"

METHODS LECTURES

PRESENTER: [SUSAN ATHEY](#)

Background Materials:backgroundAthey, Susan, Undral Byambadalai, Vitor Hadad, Sanath Kumar Krishnamurthy, Weiwen Leung...



Economics of Social Security Panel Discussion
Earnings Inequality and Payroll Tax Revenues
Karen Dynan, Harvard University
Karen Glenn, Social Security Administration
Stephen Goss, Social Security Administration
Fatih Guvenen, University of Minnesota and NBER
James Pearce, US Congressional Budget Office
NBER Summer Institute, July 24, 2024

2024, Economics of Social Security Panel, "Earnings Inequality and Payroll Tax Revenues"

PANEL DISCUSSION

PRESENTERS: [KAREN DYNAN](#), KAREN GLENN, STEPHEN GOSS, [FATIH GUVENEN](#) & [JAMES PEARCE](#)

National Bureau of Economic Research

Contact Us

1050 Massachusetts Avenue

Cambridge, MA 02138

617-868-3900

info@nber.org

webaccessibility@nber.org

[HOMEPAGE](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW



© 2025 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.