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To whom it may concern,

we greatly appreciate the interest that the editor and referees have taken in our paper. Thank you very much for your valuable feedback regarding improvements to our paper "Better the Devil You Know Than the Devil You Don't — Financial Crises between Ambiguity Aversion and Selective Perception", which we would hereby like to resubmit for your consideration.

To facilitate this, please let us take the opportunity to give you a concise overview over the changes made to our initial submission. The feedback provided by our reviewers has largely been implemented. Thereafter, we will address a few aspects briefly by way of comment regarding points raised.

Changes made include:

1) Implemented data source information below tables.
2) Made clearer the research question which was to be found in the introduction of our paper.
3) Explained further the reason for using our GARCH(1,1) model for our analyses. Further to our reasoning as to the suitability of this model for our specific purposes, GARCH modelling has over the past years established itself as a highly corroborated and utilized method, with 23,000+ citations of both Engle's (ARCH) and Bollerslev's (GARCH) papers.
4) Included our Kwiatkowski–Phillips–Schmidt–Shin (KPSS) test for trend-stationarity in the methodology section.
5) Included further explanations on the Granger tests conducted and time series the tests were used on.

A few further points were raised, which we would like to address below:

6) It has been asked what ambiguity aversion and selective perception are and what approaches exist to measure these. While we believe to provide an explanation as to what these effects are in our introduction, the measurement of course can be approached from different angles. Our specific approach is explained in the methodology section of our paper with reference to the Economic Policy Uncertainty Indicators that we apply in our analyses.
7) The interesting question was raised, whether we have accounted for stock market interactions. While indeed it is an interesting question whether volatility spill-over can occur between Indices, this question is outside the scope of our paper. What we are primarily concerned with policy uncertainty as a root cause and catalyst for volatility. Whether or not volatility thereby created subsequently leads to secondary ripple effects would be a different research question.
8) Finally, interest has been expressed in possible ways to measure uncertainty in financial terms. While it is conceivable to provide an overview over all possible approaches to measure uncertainty, such review would constitute a research paper in its own right. A short summary of approaches would not go beyond generalities and, in our opinion, would fail to add deeper insight to our paper.

It is our hope that with this resubmission we have been able to address and implement all changes suggested to your satisfaction.

We are looking forward to taking the next steps in the submission process and would like to, again, thank you very much for taking the time to provide us with your appreciated feedback. We believe that the paper has clearly benefitted from your helpful comments and the incorporated changes.

With kind regards,

Peter Scholz, Ph.D.