

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Ganna Efros
Advisor:	Evžen Kočenda
Title of the thesis:	Effect of Election Preferences on Stock Market Price

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

In her thesis, the author is looking for an answer to a simple question whether changes in election preferences before the US and the French presidential elections had an impact on the stock market volatility. Building on the literature dealing with the impact of political uncertainty on investment sentiments, the author uses a GARCH model with exogenous variables capturing the impact of changes in election preferences of the more radical candidate on volatility. She finds no effect.

The main problem I have with the analysis is the motivation behind the presumed effect, or rather the lack of meaningful motivation. The author defines the more radical candidate as socially radical and, in the US case, uses a standard method of identifying such a candidate. But what I don't understand, and what the author doesn't explain in the thesis, is why, e.g., the stance of the candidate towards muslim immigrants, should have an impact on the stock markets. What I would expect to matter would be the candidate's economic ideological stance, i.e. whether he/she is more a free-market oriented candidate or a regulate-everything-more candidate. If the author went in such a direction, I could imagine that there may be some impact on the stock markets. The author mentions this herself in the last-but-one paragraph on p. 58 – that not everyone has to see Donald Trump as a radical candidate.

And second, I don't understand why there should be any reaction to a new poll (in the French case) if one candidate (Macron) has systematically preferences above 60% and Le Pen below 40%. I could imagine that there may be some reaction if the preferences come close to each other, or there is a change on the position of the favorite. But why should the stock markets react to any change in the preferences is left unexplained. Therefore, even though I think the analysis has been done more or less correctly, I think the contribution is very limited. Also because the author doesn't convincingly explain why there should be the effect she looks for.

Methods

The author doesn't explain which values of S&P 500 she uses. The close value? Wouldn't it be possible to get the exact time of polls publication in order to utilize higher frequency data, given the fact they are available for S&P 500? The chosen methods are adequate to the author's level of study and would allow to investigate the research question if more fitting data were used.

Literature

The literature review is rather general and, unfortunately, doesn't include literature explaining why "social radicalism" should have an impact on the stock markets. The only possible motivation is the reference to Adjei & Adjei (2017) mentioning the indirect impact of political influence through investor sentiment. But the idea is not followed further. I was also not sure, whether the author follows some references in the methodological section 4, as she doesn't mention any other references than the authors of the methodological concepts.

Manuscript form

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I didn't understand why there is so much space dedicated to a rather general theoretical description of the ARMA and GARCH models. Why does the author even model the mean estimating the ARMA model, if she is interested only in modelling the variance? Also, all figures should include legends or notes in order to be self-explanatory. The reader has to go through the text and look for some explanation there (e.g. to find out which line in a preferences graph belongs to which candidate).

Summary and suggested questions for the discussion during the defense

In my opinion, the thesis fulfills the requirements for a master thesis. But the analysis is rather simple and is not sufficiently motivated and explained. Therefore, I recommend the thesis for defense and suggest grade "C".

Suggested questions:

1. How would the author argue in favor of her assumption that the mere change in preferences should influence the stock markets?
2. Why should "social radicalism" be an important factor for the investors?
3. Can the author suggest a way to construct some index of "economic radicalism" which may be more relevant for the stock market players?

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	10
<i>Methods</i> (max. 30 points)	27
<i>Literature</i> (max. 20 points)	18
<i>Manuscript Form</i> (max. 20 points)	16
TOTAL POINTS (max. 100 points)	71
GRADE (A – B – C – D – E – F)	C

NAME OF THE REFEREE: Jiří Schwarz

DATE OF EVALUATION: 11.1.2019



Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F