

Report on Master Thesis

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

Student:	Michael Princ
Advisor:	Martin Netuka
Title of the thesis:	The Stock Market Volatility in the Czech Republic: Rises and Falls

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

The author in the thesis focuses on a research of volatility on the Czech stock market with the aim to trace its development stages from its foundation in early 1990's till present. It is valuable that he partly covered a period of the current global financial crisis. Several econometric methods dealing with a volatility modeling are employed and applied on the data from the Czech and world developed stock markets in the empirical part of the thesis. Application of the structural break tests based on ICSS algorithm and multivariate GARCH-family models (chapters 4 and 5) should be seen as a major contribution of Michael's thesis to existing literature devoted to the Czech stock market. The conclusions are based on an extensive empirical analysis with results presented in the main text and attached appendixes. Results of empirical analysis support some of widely mentioned (but sometimes not yet empirically verified) facts – namely that the Czech stock market passed through several distinctive periods since its beginning or that the strength of interconnection of the local market with developed markets around the world grows in time.

Particular comments:

List of studied literature is adequate for a master thesis but unfortunately it almost lacks for references to papers/articles dealing specifically with the volatility modeling on the Czech stock market. In fact especially in the area of univariate GARCH-type models applications published so far are numerous. Citations of articles from the Czech market could more easily reveal a main contribution of the thesis.

A “volatility” is the central term used extensively throughout the thesis. Thus it would deserve to be discussed from a general point of view in the beginning of the thesis and also the relation between term “volatility” and its statistical measure should be more explicit. The author uses variance and standard deviation as two measures of volatility. The reader might have a feeling from the text that they can be used interchangeably. This is definitely not true, forecasting properties each of them differ.

In the Tables 15 and 16 I miss any indication of statistical significance of parameter estimates.

I don't share the author's view of a higher integration as a cost in the current financial crisis mentioned in Conclusion. It can be hardly assumed that a weaker interconnection with developed markets would have saved the Czech market from last year's decline.

Despite of my critical remarks summarized above (which might be used as a basis for the defense) I consider the thesis as successful with the significant value added to a research of the Czech stock market's behavior. The author should prepare a working paper for IES Working Paper Series based on his results as the first step for future submission of an article to an local or international journal.

I propose a grade „1“ (výborně / excellent) with point evaluation close to a lower bound.

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

CATEGORY		POINTS
Literature	(max. 20 points)	15
Methods	(max. 30 points)	25
Contribution	(max. 30 points)	25
Manuscript Form	(max. 20 points)	17
TOTAL POINTS	(max. 100 points)	82
GRADE	(1 - 2 - 3 - 4)	1

NAME OF THE REFEREE: Martin Netuka – the advisor

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