

Report on Master Thesis

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

Student:	Bc. Tadeáš Krejčí
Advisor:	doc. PhDr. Ladislav Křišťoufek, Ph.D.
Title of the thesis:	Examining the Link between Financial Market Efficiency and Monetary Transmission Mechanism

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

The thesis focuses on the link of monetary transmission mechanism and efficiency of financial markets. The idea to examine the relationship between monetary transmission and market efficiency is attractive and may have the potential to bring a contribution to the existing literature. The aim is to study mainly the case of the Czech Republic and Austria with the threshold vector-autoregressive framework. The results in the thesis, according to the author, supports the hypothesis that a more efficiently operating capital market contributes to a better monetary policy pass-through. In my opinion, we cannot find results supporting this claim in the thesis. The principal problem lies in the adoption of an inappropriate measure of market efficiency and imprecise interpretation of results.

Contribution

Adoption of the efficiency Index to the analysis is highly questionable. An economic interpretation of the index is complicated as the measures that constitute the index are very sensitive to jumps and short memory processes, to name a few apparent problems. Moreover, the index construction does not give any confidence interval. Thus we do not know what the number represents. Finally, the ranking of countries according to the efficiency index is very suspicious. For example, the FTSE is much more inefficient than indices of Uganda, Serbia, Philipines and Indonesia.

Methods

The methods used are standard, corresponding to a master level. However, the results' explanation is sometimes questionable. For example, the inclusion of the efficiency Index to the model is interpreted as an amplification of the impulse response of the inflation (Figure 5.3, bottom panel), but clearly, there are no differences.

Literature

The author cites relevant literature, but in certain parts, he deviates from the standard economic and financial research resulting in the adoption of a problematic measure that is not in line with economic reality.

Manuscript form

The reader can be lost in some parts of the manuscript. It is difficult to find and connect particular results. For example, the results of Subsection 4.3., Eq. 4.3. cannot be found? What are the estimates of $\beta(1)$? Even when one can expect no dependence, the results should be shown and discussed. There are some typos (page 22).

Summary and suggested questions for the discussion during the defense

To conclude, the thesis suffers from not ideally chosen measures. Moreover, the economic motivation for an examination of the link of long memory properties of the financial markets' daily closing prices and monetary transmission mechanism is not solidly built. The thesis seems to be incomplete in certain parts, as some parts of the results are not complete. I recommend the thesis for the defense with the final grade D.

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Questions:

How can you explain crossings of the confidence intervals in Figure 5.3 (upper panel, Interbank Offer Rate)? Why do you use 75% CI?

What is the economic interpretation of the Efficiency index? How can you distinguish significant and non-significant (or exploitable) dependence in the market indices?

How do you economically (not econophysically) interpret the Efficiency index ranking (Table A1)?

Why the impulse responses to restrictive monetary policy shocks of Austria (Figure 5.3.) and Czechia (Figure B.2.) are different?

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	11
<i>Methods</i> (max. 30 points)	20
<i>Literature</i> (max. 20 points)	15
<i>Manuscript Form</i> (max. 20 points)	15
TOTAL POINTS (max. 100 points)	61
GRADE (A – B – C – D – E – F)	D

NAME OF THE REFEREE: Lukáš Vácha

DATE OF EVALUATION: 5.9.2019



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