Review of Ph.D. thesis by Magdalena Borys

Summary: This thesis studies monetary and financial institutions within the region of central Europe, where such institutions are in transition toward those seen in fully developed market economies. Concerning the stock market, the thesis shows that this central region is similar to its western counterparts, in terms of the behavior of stock returns. Concerning monetary institutions, the thesis shows that monetary policy has similar stimulating effects in the central region as in the west.

General View: I enjoyed reading the three chapters in this thesis. I think that they address interesting, relevant economic questions, and use quite suitable methodology and data for investigating these questions. The answers seem credible. I suppose the results are a bit surprising since there is hardly a trace of 'emerging markets' in them: Visegrad countries behave much like the west, but perhaps this is a way of saying that these countries' transition is nearing completion. I believe that each chapter has significant merit and has good potential for publication in quality econonomics/finance journals – my only thought is that Magdalena might see if the empirical findings have in them some trace of a regional character or feature that is curious: otherwise potential referees may read the results as a bit dull, being a "rubberstamp" on conventional economic theory. Where is Visegrad in all this? Does it have a pulse (...as perhaps hinted at in a price puzzle, or non-puzzle, and the small Fama-French 3-factor R square)?

Specific Comments:

1. Chapter 1.

   (a) In applying factor models via equation 3, you need to use returns data, whereas you are using macro data (+ returns). You can project the macro data onto returns, yielding "factor-mimicking" portfolio returns.

   (b) A recent and important reference relating to factor models is:

   Lewellen, Jonathan, and Stefan Nagel (2006). "The conditional CAPM does not explain asset-pricing anomalies," Journal of Financial Economics 82, pp. 289-314.

   These authors have some critique of the Fama-Macbeth method. I wouldn't worry to much about it, for the purposes of how you carry out your work, but you might make mention it in terms of "limitations" of your methods, somewhere in the conclusion. These authors also have a recent paper with Jay Shanken, on the same theme, which is worth reading (...and which you can google with these names.)

   (c) You use country-specific market proxies, perhaps you could also do a pooled result with a pooled (international) capm.

2. Chapter 2. The bit about the real-time output gap is a nice modern innovation. The price puzzle is also interesting. Your identifications in the SVAR seem to follow the literature. I see no problems in the methodology. Good job, overall.

3. Chapter 3. I like the careful construction of Fama-French factors in the Visegrad countries and region, this is nice work. The Fama-French regressions are clear, and the comparison to other regions is well done. One issue is, as pointed out by Fama and French (1997), estimates of cost of capital are typically quite noisy. So, while I quite like your cost of capital estimates, by industry, you might mention/address the fact that these point estimates are perhaps far from the values that might be revealed by a larger sample.