

Advisor's Report on Dissertation Thesis

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Author:	Martina Horníková
Advisor:	Doc. Mgr. Tomáš Holub, PhD.
Title of the Thesis:	Measuring Financial Market Perception of Economic and Monetary Union Enlargement
Type of Defense:	DEFENSE
Date of Pre-Defense:	February 24, 2011

Address the following questions in your report, please:

a) Can you recognize an original contribution of the author?

The dissertation of Martina Horníková focuses on a policy-relevant topic, i.e. how to measure the perception of financial markets concerning the euro adoption date of the CEE-4 countries.

An important contribution of the dissertation consists in the fact that it jointly presents a wide range of alternative methods, ranging from the simplest ones to an original sophisticated method proposed by the author.

The biggest scientific contribution can be found in section 8, where the author proposes a novel approach based on the notion of ambiguity-averse agents and error-correction analysis.

b) Is the thesis based on relevant references?

The thesis is based on relevant references.

c) Is the thesis defensible at your home institution?

The thesis is defensible at Charles University, or other comparable universities, as indicated by the successful pre-defense debate.

d) Do the results of the thesis allow their publication in a respected economic journal?

Section 8 clearly has the greatest publication potential, as is also evidenced by the already published paper Cincibuch, M. and M. Horníková (2008): Measuring the Financial Markets' Perception of EMU Enlargement: The Role of Ambiguity Aversion, Finance a úvěr - Czech Journal of Economics and Finance, 25(5), pp. 1003-1010.

The applicability of this method, though, was temporarily disturbed by the recent financial crisis, as the authors herself admits. It will thus be interesting to see if this method becomes reliable again once the financial markets have stabilized for a sufficiently long period of time. I encourage Martina Horníková to take this as a challenge for her future research. I believe that such an analysis will have a publication potential for an international academic journal with an impact factor.

e) Are there any additional major comments on what should be improved?

My comments provided to the author during her work on the dissertation were incorporated. I have no additional major comments.

f) Were your comments and the comments of the opponents raised at the pre-defense, sufficiently addressed in the dissertation submitted to the regular defense? (Your pre-defense report is included below)

Yes. Martina Horníková consulted with me the incorporation of all the major pre-defense comments into the final version of her dissertation. I believe that these comments were incorporated in a fully satisfactory manner.

g) What is your overall assessment of the thesis?

(a) I recommend the thesis to be defended without major changes.

(Note: The report should be at least 2 pages long.)

Date:	6 May 2011
Advisor's Signature:	
Advisor's Affiliation:	Doc. Mgr. Tomáš Holub, PhD. Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague Czech National Bank

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Address the following questions in your report, please:

- a) Can you recognize an original contribution of the author?
- b) Is the thesis based on relevant references?
- c) Do the results of the thesis allow their publication in a respected economic journal?
- d) Are there any additional major comments on what should be improved?
- e) What is your overall assessment of the thesis? (a) I recommend the thesis to be defended without major changes; (b) The thesis is not defensible.

(Note: The report should be at least 2 pages long.)

Content of the Report:

The dissertation of Martina Horníková focuses on a policy-relevant topic. In particular, it deals with the issue how to measure the perception of financial markets concerning the euro adoption date of the CEE-4 countries. The financial market perceptions have a clear advantage in comparison with the commonly used opinion polls in that they are backed by real transactions. Moreover, as the author correctly states, the financial market perceptions are a good credibility check of the official announcements about the euro area entry dates. At the same time, the analysis indirectly shows how the longer-term interest rates in the CEE countries are affected by the prospects of future euro adoption even now when the countries are pursuing their own independent monetary policies.

The thesis is based on relevant references, has a clear structure and meets the standards for a dissertation at the IES FS UK.

An important contribution of the dissertation consists in the fact that it jointly presents a wide range of alternative methods, ranging from the simplest ones to an original sophisticated method proposed by the author. In particular, after providing some stylized facts, the author presents the national euro adoption strategies and market survey results, checking their reliability. Then she moves on to the static probability calculators in section 7. Finally, in section 8 the author proposes a novel approach based on the notion of ambiguity-averse agents and error-correction analysis. Given this range of methods, the section 9 was particularly interesting for me as it compares the outcomes of the different methodologies.

Speaking about the individual methods, the idea of static probability calculators presented in Section 7 is a standard one and the relevant previous literature is referred to. The method was used in the past to assess the probability of future euro adoption before the euro area was established. Martina Horníková applies this method to the CEE-4 countries, showing how the perceived probabilities have evolved over time. In this regard it is interesting to see the difference e.g. between the experience of Slovakia on the one hand and Hungary on the other hand; this contrast could be perhaps even more clearly highlighted in the accompanying text and linked to the economic policy performance. At the same time, the historical estimate for Italy provided on page 94 is not just a useful check of the methodology. It may serve as a nice reminder of how unprepared was that country according to the financial market perceptions for the euro adoption not long before it actually happened, which can be linked to the difficulties currently faced by the euro area's southern periphery.

Martina Horníková also shows that the static probability calculators perform relatively well for the countries that have a relatively large interest rate differential compared to the euro area. On the other hand, for countries with a low interest rate differential the method may fail, as changes in this small differential may reflect many other factors besides the euro adoption considerations. Somewhat paradoxically, the method thus works well for those countries that are not sufficiently converged to the euro area in this particular respect, and are thus perhaps not ready to adopt the euro soon without experiencing subsequent problems (see e.g. "Analyses of the Czech Republic's Current Economic Alignment with the Euro Area 2010"); again this idea could be highlighted more clearly in the text. As the Czech Republic has achieved a low, and at times even negative, interest rate differential, the static probability calculators may yield unreliable results for this country.

Therefore, in section 8 the author derives a new interesting methodology that is able to overcome this problem. This section clearly has the greatest publication potential, as is also evidenced by the already published paper Cincibuch, M., Horníková, M. (2008): "Measuring the Financial Markets' Perception of EMU Enlargement: The Role of Ambiguity Aversion", Finance a úvěr, September 2008, Prague (which is by the way not included in the References, and should be added there in the final version). The applicability of this method, though, was temporarily disturbed by the recent financial crisis, as the authors herself admits. It will thus be interesting to see if this method becomes reliable again once the financial markets have stabilized for a sufficiently long period of time, and I encourage Martina Horníková to take this as a challenge for her future research. I believe that such an analysis will have a publication potential for an international academic journal with an impact factor.

Martina Horníková has consulted the dissertation with me in several rounds and has incorporated all my major comments. I thus find it difficult to provide any further fundamental suggestions, and leave this task to the referees.

Overall, I **recommend the thesis to be defended** without major changes.

Date:	8 February 2011
Advisor's Signature:	
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