

Report on Rigorous Thesis

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

Student:	Mgr. Pavel Karas
Advisor:	Doc. Roman Horváth, PhD.
Title of the thesis:	The Czech National Bank Communication: GARCH analysis of 3M PRIBOR rate and Czech 10Y government bonds

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

Author studies in his thesis the effects of the Czech National Bank's communication on the interest rate volatility. He asks if there is any impact of inflation report, minutes and public statements by members of the CNB bank board on the key Czech interest rates and tries to quantify this possible relationship. To answer this question author utilizes time series volatility models as GARCH, EGARCH and TARCH and runs them on three month PRIBOR and Czech 10 year government bond. The main finding of the thesis points out that the CNB communication tends to decrease the volatility of 3M PRIBOR rate. In case of 10 year government bond the CNB may decrease volatility through the timing of its comments, closer to the monetary policy meeting the larger the effect, and by issuing the inflation report. Publishing minutes has dubious effect and this effect is model dependent. Comments by members of board of governors increase the volatility of 10 years government bonds.

In the first part of the thesis Pavel shows that he got familiar with literature on central bank communication in great detail. He discusses carefully the arguments supporting central bank information openness. In addition he explains how the transmission of information works. In the second part of the thesis Pavel demonstrates that he has mastered time series econometric techniques. He explains the theory of the following volatility models ARCH, GARCH, EGARCH and TARCH. Consequently he applies them to find answers to the stated questions.

Pavel partly reflects the referee's suggestions which were part of the master thesis version of this paper. The diversion from the referees suggestions are carefully supported by convincing arguments.

Suggested question for the defense is:

- 1) Explain why central bankers' comments have qualitatively different impact on the long versus short yields.

To wrap it up, I consider this thesis well written and fully satisfying the standards of rigorous thesis at Charles University.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	20
<i>Methods</i> (max. 30 points)	28
<i>Contribution</i> (max. 30 points)	25
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	93
(doporučuji, nedoporučuji)	

NAME OF THE REFEREE: Aleš Maršál

DATE OF EVALUATION:

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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

Strong Average Weak
20 10 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.*

Strong Average Weak
30 15 0

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.*

Strong Average Weak
30 15 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.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS			
81 – 100	= excellent		
61 – 80	= good		
41 – 60	= satisfactory		
0 – 40	= fail		= nedoporučuji k obhajobě