Report on Master Thesis

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

Student:	Tomáš Matyska
Advisor:	**Prof. Ing. Oldřich Dědek, CSc.**
Title of the thesis:	**Contagion effect in the current debt crisis: Effect of a membership in the Eurozone**

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

In the thesis Granger causality analysis is used to investigate whether some European financial markets influence the others and whether it depends on membership of the countries in the Eurozone. The Granger causality test is a statistical hypothesis test for determining whether one time series is useful in forecasting another. The Granger causality is then used to investigate the relation between the bond yields and stock price indices of the Czech Republic and Slovakia with those of the Germany, Italy and Spain. The aim of this analysis was to find out whether the membership in the Eurozone has some significant effect on the financial market linkages. The results of the analysis show that none of the triplet Germany, Italy and Spain granger cause the financial data of Slovakia while there is a strong evidence that they granger cause the Czech republic data. Moreover, stronger relationship was found in the case of the stock price indices.

The following hypotheses have been investigated:
1. Hypothesis #1: A membership in the eurozone affects cross-country co-movements of sovereign bond
yields.
2. Hypothesis #2: If the effect of a membership in the Euro area is significant, then it is more negative in case of sovereign bond yields of members than non-members.
3. Hypothesis #3: A contagion effect is stronger in Central Europe than in Baltic and Scandinavian states.

The results show that the membership in the case of Slovakia and the Czech Republic does not play an important role. This conclusion is supported by the results obtained by using Granger causality analysis on two datasets consisting from time series of the government bond yields and stock price indices. The analysis shows that while the Czech market is affected by Germany, Italy or Spain, in the case of Slovakia there are not such linkages. Possible explanation is that the Slovak financial markets are not effcient1 and therefore, the incorporation of some information might not be fully reflected in the prices.

Some imperfections in the text:

a) English spelling, e.g. not "whetrher" but "whether" on page 1, not "Czech republic" but "Czech Republic" on page 2, not "The most important characteristics were the fact…" but "The most important characteristic was the fact…" on page 3, not "contagin" but "contagion" on page 4, not "sith" but „with" on page 4, etc.
b) Some basic concepts (including Granger causality) should be defined and explained in the text and not assumed to be generally known.

Report on Master Thesis

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

Student:	Tomáš Matyska
Advisor:	**Prof. Ing. Oldřich Dědek, CSc.**
Title of the thesis:	**Contagion effect in the current debt crisis: Effect of a membership in the Eurozone**

c) History of European integration: Treaty of Rome 1958 (why, as in all other cases, the year of the Treaty is not mentioned)?
d) "… are depicted in the Figure ??" (page 50),.not a sufficient information.
e) Tables and Figures – not sufficient source information ,why (in the cases where it is relevant) not to provide full web address?

The thesis illustrates competency of the author to analyze non-trivial economic problems. The text is well structured and uses relevant literature and appropriate econometric methodology.

Considering small imperfection mentioned above I recommend grade 2.

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

CATEGORY		**POINTS**
Literature	*(max. 20 points)*	20
Methods	*(max. 30 points)*	30
Contribution	*(max. 30 points)*	15
Manuscript Form	*(max. 20 points)*	10
TOTAL POINTS	*(max. 100 points)*	**75**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE:
Prof. RNDr. Ing. František Turnovec, CSc.

DATE OF EVALUATION:
21.1.2014

Referee Signature