

Report on Master Thesis

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

Student:	Bc. Jaroslav Mida
Advisor:	Doc. Roman Horváth, Ph.D.
Title of the thesis:	Exchange Rate Forecasting: An Application with Model Averaging Techniques

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

This thesis examines forecasting of the exchange rate using the BMA approach. Author assumes several variables which could be combined into linear models and forecast the exchange rate. BMA, BMW and modified BMW are further employed to produce the weighted forecast from given models. The performance of given methods is compared with the random walk and HAR model.

General comments:

The thesis is quite innovative, concise and interesting. Author is able to work very well with the literature which is also up-to-date. Author fully understood the concept of BMA and was able to apply it correctly.

However, I do not think that the thesis is well-structured. After the literature review the data and variables are summarized and after that the methodology is described. I would recommend to do it vice versa. Moreover, the BMA approach could be also explained in more detail and especially the forecasting part. The predictive performance of given method was evaluated by several statistics and ratios which were summarized in tables. The graph comparison would be also advisable.

Specific comments:

Author claims the relationship between exchange rate and the independent variables to be linear. However, this relationship stems from the uncovered interest rate parity condition which stems from the FOC for foreign bonds of households maximizing their utility. This relationship is not linear.

Further, for this linear model author uses variables without taking care if they are stationary or not and mix them together. For instance, he employs log of nominal GDP (not stationary with a high probability) and interest rate (stationary with a drift with a high probability).

The priors of the variance also contain the product of X matrix. However, the Bayesian formula assumes that the priors do not contain any information of the data used for calculating the posterior.

Last but not least, it would be interesting to see how different priors influence the results. Author could apply e.g. priors suggested by Fernández et al. (2001) – UIP, RIC, IL... The other interesting extension would be the comparison between BMA and standard econometric procedures like ARIMA or VAR.

I recommend this thesis and I suggest grade A (excellent).

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	19
<i>Methods</i> (max. 30 points)	27
<i>Contribution</i> (max. 30 points)	26
<i>Manuscript Form</i> (max. 20 points)	17
TOTAL POINTS (max. 100 points)	89
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE:

DATE OF EVALUATION:

13. 6. 2015


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	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě