

Report on Bachelor / Master Thesis

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

Student:	Martin Kotek
Advisor:	PhDr. Ladislav Krištoufek
Title of the thesis:	Relationship between liquidity and volatility of selected exchange range pairs

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

The thesis is a rather short, but thorough work on the relationship between liquidity and volatility of several liquid financial instruments.

Chapter 1

- Introduces the topic at hand. I believe the introduction is too short - although the author provides literature overview of the problem at hand, I miss a clear line of thought. First define volatility and liquidity, then provide a basic overview of their relationship mentioned in literature. Then tackle how volatility/liquidity can be measured, then state your hypotheses and finish with thesis overview.

Chapter 2

- Methodology description given in Chapter 2 is well organized, volatility/liquidity measures are well referenced. The description of econometric issues is well organized as well, I have no comments here.

Chapter 3

- In the first part of data description, I miss a clear specification of what kind of data was collected from the cited sources. Tick data mentioned by the author throughout the work are becoming more widely available, however, best-bid-offer are still hard to come by or very pricey. In case the author had BBO data at hand (for the construction of proportional BA), I would explicitly state it.

Chapter 4

- In 4.2, is an investigation of cointegration between lrv and $lrbv$ an indication that they can be used as substitutes? Daily highs and daily lows are cointegrated as well but are definitely not interchangeable. A Mincer-Zarnowitz regression would have sufficed here.

Overall, I appreciate the thoroughness of the thesis (70+ models), working with tick data is not a trivial task. Despite the work is a bit shorter than usual Bachelor's theses, the volume of preparatory/econometric work carried out balances this out.

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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)	29
<i>Contribution</i> (max. 30 points)	28
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	95
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Daniel Benčík

DATE OF EVALUATION: 27.05.2014



Referee Signature