Report on Master Thesis

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

Student:	**Bc. Matej Pjontek**
Advisor:	**doc. Roman Horváth Ph.D.**
Title of the thesis:	**Co-exceedances in stocks and bonds between Southern European Countries and CEE Countries - Analysis of contagion**

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

Contribution

The main aim of the thesis is to analyze contagion between Southern European and Central Eastern European stock, and sovereign bond markets. The main result is that the contagion exists in stock markets, and is stronger during financial and sovereign debt crisis with direction from Southern to Central Eastern European Countries. Contagion in sovereign bond markets is not evidenced. The main contribution is hence rather empirical confirmation of contagion in these markets using existing methodologies.

Methods

To measure contagion, author uses methodology developed in 2003 by Bae and coll., and further improved by Baur and Schulze in 2005 that measures contagion as the joint occurrence of extreme stock market returns (co-exceedance) by quantile regression. Methods are adequate for the master level student, and judging from the results, and my experience from similar studies, exercise seems to be appropriately done. Nevertheless, methodologies are quite inappropriately defined (see „manuscript form" section) shedding doubts about rigorousness of the work.

Methods are often used rather technically without explanation. For example, author starts the Results section with almost 5 pages of tables with descriptive statistics and correlations with almost no explanations. How is it beneficial to report unconditional contemporaneous correlations if we want to measure co-exceedances in a causal way after all? Can we say something about hypotheses stated at this stage? Then in few lines author compares positive and negative co-exceedances, and looks at conditional variances, and then discusses the estimates from quantile regressions. As the analysis is bivariate, whole procedure is more or less blindly repeated for various pairs. Author just reports the results without further explanations.

While I understand why author provides all these results, a general interest reader in economics will not see it from the text. For a general interest reader (a reader of this kind of text), the results may seem as report from a (possibly) correct exercise, but it is important to motivate the results economically. What do we learn from the analysis? Can it be useful for a policy maker? How author explains the finding that he documents contagion in stock markets, but not bond markets? Can we expect higher contagion during crisis? Answers to these kind of questions would be more useful than plain statements about the contagion.

Literature

The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way, literature review is more than comprehensive.

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Manuscript form

The thesis is well structured, although I would welcome more precise statements at some points, as well as better academic English (sentences like „We should not obtain lot of zeros," or „Interpretation is not difficult" should be avoided in this kind of text).
More important, author is quite imprecise in defining models. For example author introduces markets X and Y with returns E_x and E_y, but then uses E_xt and E_yt (time index is often dropped, so we do not know if we work in expectations, or with conditional variables). Co-exceedance C(E_xt,E_yt) is definmed in Eq.(1), but only few paragraphs later, C_ij notation is used instead without defining properly what ith and jth element would be (I only guess it is E_xt and E_yt? As well as X is now used as matrix of exogenous variables, but was used as market X few paragraphs earlier). Looking at quantile regressions, „q" is used as percentile as well as quantile in one sentence (above Eq. (3)), but few paragraphs later (Eq. (5)), tau is used instead, and one can only guess it is related to q from previous equations. These all seem rather small impreciseness, but overall lead one to question the overall quality of the work.

In conclusion, I believe the present thesis is solid piece of work. Despite rather weak work with definition of models, and description of results, one can see a potential in the results. Undoubtedly, amount of work, knowledge of methodologies, and analytical skills author had to show in order to arrive to the defense all guarantee grade "2". In case author would be able to defend my points, most important, in case author will be able to convince committee about usefulness and importance of the results, instead of plain statements about the existence of contagion, I would suggest grade "1" despite the technical shortcomings.

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

CATEGORY		**POINTS**
Contribution	*(max. 30 points)*	20
Methods	*(max. 30 points)*	25
Literature	*(max. 20 points)*	20
Manuscript Form	*(max. 20 points)*	10
TOTAL POINTS	*(max. 100 points)*	**75**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE: Jozef Barunik

DATE OF EVALUATION: June 6, 2017

Barunik

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Date: 2017.06.06 18:36:33 +02'00'

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