Report on Bachelor / Master Thesis

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

Student:	Bc. Táňa Bedrychová
Advisor:	Prof. Roman Horváth, PhD
Title of the thesis:	Brexit and Stock Market Comovements of UK and Europe

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

The main idea of the paper is to assess the consequences of Brexit on the linkages of European stock markets. Theoretically, the linkages are supposed to become weaker given that Brexit represents a form of political as well as economic disintegration characterized by hightened uncertainty. A two effects can be examined. First, whether the British and continental Europe stock markets become less integrated following the announcement that the referendum on Brexit will be carried out. Second, whether the markets become less integrated following the actual results of referendum on Brexit. The thesis examines these two effects using standard econometric framework and finds that both the announcement of referendum as well as the referendum results has contributed to the lower integration of British and continental Europe stock markets.

Methods

There are several ways how to assess the degree of financial markets integration. Tana Bedrichova chooses to employ multivariate GACRH models which are able to assess the correlation of stock markets over time and are suitable (and standard) choice to examine the consequences of some policy intervention (such as those related to Brexit). The methods are executed appropriately.

Literature

The literature is covered well and important references are discussed. However, I would sometimes prefer more rigorous discussion. For example, the author argues on page 15 that the application of synthetic control method is not advisable because it is „too straightfoward". A comparison of the results to previous literature is missing.

Manuscript form

I find the manuscript logically structured. The thesis includes proper references. However, there are some drawbacks such as the ambiguity of some statements. Consider the title of sub-section 2.2.1: Shift to industry diversification. This can have several meanings, some of them completely unrelated to the topic of the thesis. The thesis also uses the words integration, correlation, cointegration, homogenization interchangeably, while these terms have possibly the same meaning in the thesis.

There are typos in the thesis but this is likely to be inevitable, the number of typos is anyway not high.

One could have a number of minor comments but I do not find them critical (let me mention just one: Consider Table 1. The table lists a number of companies listed in different European stock markets according to the industry clasiffication. It would be more informative to present the table with the market share of different industries in national stock markets rather than the number of companied listed).

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The main results are presented in Tables 4 and 5. It is unclear whether the presented test of equality of means refers to the joint comparison of means for the pre-Brexit, mid-Brexit and post-Brexit periods or to the means of pre-Brexit vs. Post-Brexit.

Summary and suggested questions for the discussion during the defense

The thesis represents a solid (and comprehensive) empirical work examining an important policy phenomenon. The econometric methods are standard and executed appropriately. More rigorous discussions would be vital in order to achieve better than proposed grade. A comparison of the results to previous literature is missing.

My question for the defense: The commentators are typically concerned about long-term consequences of Brexit. However, some available evidence (for example, by Murillo Campello in his recent paper „Exporting Uncertainty: The Impact of Brexit on Corporate America") suggests that the consequences of Brexit for real economy are rather short-lived. Will the consequences of Brexit be of long-term character? If so, what are the main channels how Brexit can have long-term effects?

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

CATEGORY		POINTS
Contribution	*(max. 30 points)*	25
Methods	*(max. 30 points)*	27
Literature	*(max. 20 points)*	18
Manuscript Form	*(max. 20 points)*	8
TOTAL POINTS	*(max. 100 points)*	**78**
GRADE	**(A – B – C – D – E – F)**	**C**

NAME OF THE REFEREE: Prof. Roman Horváth, PhD

DATE OF EVALUATION: 30th May 2018

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                    Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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*

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*

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*

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	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F