

# Master Thesis

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

Student:	Táňa Bedrichová
Advisor:	Prof. Roman Horváth, Ph.D.
Title of the thesis:	Brexit and Stock Market Co-movements of UK and Europe

## OVERALL ASSESSMENT:

### Contribution

The topic of this master's thesis is very interesting and extremely relevant for the current economic situation in both the United Kingdom and EU countries. The issue of Brexit is very relevant, not only from the perspective of stock market.

The thesis is divided into six parts. After a well written introduction the author concentrates on the description of integration of European countries, mainly core and "core-ness" countries. The next section is concentrated directly on Brexit, i.e. on immediate impact, effects of Brexit on both the UK and EU and also on non-European markets, i.e. the US and Asia. The fourth chapter is engaged in measurement of the convergence of the European financial markets. The following part describes the methodology of univariate and multivariate GARCH and its properties. It also includes discussion of CCC- and DCC GARCH models. The sixth part presents empirical results. The final section concludes.

This master thesis is well-balanced; it consists of both theoretical and empirical parts, with interesting results, an interesting and very rich literature survey, and appropriate techniques for empirical analysis.

### Questions for the author:

1. What could be positive (from the economic point of view) from Brexit for the UK?
2. What are the pro and cons of using CCC-GARCH, DCC-GARCH and BEKK-GARCH, in other words, which of these models is the most relevant and why (this is too briefly addressed in chapter 4)?

### Additional comments:

- It would be nice also to compare the development of EPU and VIX.
- It is pity that author does not distinguish various currently discussed scenarios, i.e.:
  - "CETA" scenario: At present, the most likely trading scenario – considered as the baseline scenario – envisages an arrangement similar to a Canadian-style Comprehensive Economic and Trade Agreement.
  - "EU-like trading arrangement" scenario: envisages the current negotiations to lead to an EU-like trading arrangement including access to the European Single Market, after a transition period of the same nature.
  - WTO-MFN (Most-Favoured-Nation) tariffs on goods scenario: considers that the current negotiations will lead to WTO-MFN tariffs on goods, after a transition period on EU-like terms, without any deal on trade in services, a "cliff edge" for financial services and no agreement on financial flows or migration.
  - The final scenario is built on the same assumptions as the previous but with no transition period, with "cliff edge" effects immediately after the end of Brexit negotiations in March 2019.
- It lacks an evaluation of arguments (chapter 2) about the development of financial integration related to the time before and after the financial crisis.

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- It is pity that author does not discuss sectoral and national integration on the stock market, see for example Babecký, Komárek and Komárková (2013).<sup>1</sup>

## Methods

The author applied GARCH type of models to analyse how the market co-integration has changed since the UK citizens voted to leave the EU (p. 1). The referee finds these methods appropriate for the aim of the master thesis.

## Literature

The literature review is strong, i.e. well balanced and, as the referee stated above, includes both original sources of literature and current applied studies oriented to the Brexit phenomenon.

## Manuscript form

The manuscript form is strong and well constructed. I would recommend the submission of a shorter version of this thesis to some journal oriented to applied research.

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

<b>CATEGORY</b>	<b>POINTS</b>
<i>Contribution</i> (max. 30 points)	28
<i>Methods</i> (max. 30 points)	28
<i>Literature</i> (max. 20 points)	20
<i>Manuscript Form</i> (max. 20 points)	18
<b>TOTAL POINTS</b> (max. 100 points)	<b>96</b>
<b>GRADE</b> (A – B – C – D – E – F)	<b>A</b>

**NAME OF THE REFEREE: Prof. Luboš Komárek**

**DATE OF EVALUATION: 9.6.2018**

**Referee Signature**

<sup>1</sup> BABECKÝ, J. - KOMÁREK, L. - KOMÁRKOVÁ, Z. (2013): Convergence of returns on Chinese and Russian stock markets with world markets: national and sectoral perspectives. National Institute Economic Review. No. 223, February, R16-R34.

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## 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