Report on Bachelor / Master Thesis

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

Student:	**Ganna Efros**
Advisor:	**Evžen Kočenda**
Title of the thesis:	**Effect of Election Preferences on Stock Market Price**

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.

The thesis amalyzes the link between the change in election preferences during the presidential campaigns and stock market volatility.

Contribution
The thesis takes a behavioral perspective to analyze the effect of the political bias on stock market volatility. It brings a nice and new contribution on the effect of change in support of radical candidates during a presidential campaign. Empirical part of the thesis explores the effect of political sentiment on the recent campaigns in the United States and France.

The key result of the thesis is that inclusion of the election preferences to the model does not increase the prediction power and that to include the political bias to the market index volatility modleing is then irrelevant. A number of potential factors is offerd to explain the lack of predictive power.

The thesis covers an interesting topic from a differnt angle. The existing studies analyze the changes in political sentiment during the time between elections. The key difference between the contribution of the thesis and other literature is in analyzing the political sentiment during the election race which is cerainly a valuable novelty.

Methods
The link between election preferences during the presidential campaigns and stock market volatility is analyzed with the standard GARCH-type model augmented with preference information data. Two vectors of preferences are used to capture positive and negative changes in preferences. Different techniques of th lexicon-based sentiment analyses approach are used. Polarity of the text is determined from the candidate's speeches and predefined dictionaries are applied to study the sentiment of the text. A radical index is constructed to determine the radical candidate. The tehnique is described in detail and is correctly used. Robustness checks are performed to ensure validity of results. Overall, the methodology approach is fine, well motivated and executed.

Literature
The literature section summarizes the current state of research related to the topic of the thesis from three perspectives: (i) Efficient Market Hypothesis and Behavioral Finance, (ii) Investment Sentiments and Political Uncertainty, and (iii) Text Sentiment Analys. This is a very good approach - the literature is reviewed in a detail and covers all relevant papers and angles.

Manuscript form
The manuscript conforms to formal requirements for the master thesis. It reads well and contains only some minor typos. Introduction is clear and motivates well the researched topic. Data are fully described. Hypotheses are clearly stated. Tables and figures are presented in an organized and legible manner. References are ample and correctly presented. There is not much to raise objections with respect to the manuscript form

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Summary and suggested questions for the discussion during the defense
The thesis represents a solid piece of work on the subject that has so far only a limited treatment in the literature. Despite of insignificance of the key variable, it provides clear and articulated results.

In case of the successful defense, I recommend the grade A.

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

CATEGORY		**POINTS**
Contribution	*(max. 30 points)*	27
Methods	*(max. 30 points)*	28
Literature	*(max. 20 points)*	20
Manuscript Form	*(max. 20 points)*	20
TOTAL POINTS	*(max. 100 points)*	**95**
GRADE	**(A – B – C – D – E – F)**	**A**

NAME OF THE REFEREE: Evžen Kočenda

DATE OF EVALUATION: January 14, 2019

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**