

Report on Bachelor/Master Thesis

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

Student:	Petr Málek
Advisor:	PhDr. Petr Teplý
Title of the thesis:	Effect of emotional behavior on the efficiency of securities markets

The purpose of the thesis is "to give some theoretical reasoning to why [stock market inefficiencies due to investor emotions and irrationality] should be resent and how they might work" (p.9). At the very start, however, the author discounts this promising agenda by stressing that he is "not trying to prove the existence of such inefficiencies because [...] they are not (for the most part) quantifiable and therefore they cannot be statistically tested" (p. 9). First, the thesis describes basic properties of a typical market, how it differs from other, more standard environments in which people tend to find themselves and what emotions and other psychological or non-economic factors can be expected to be observed in investor behaviour. In the key part of the thesis, various specific phenomena arising more or less frequently in the evolution of a stock exchange market index (role reversal, double top, double bottom, hammer, triangle etc.) are studied mainly in the spirit of technical (chartist) analysis and the author discusses how human emotions on the part of the market participants can arise in relation to these phenomena or can even cause the phenomena to occur. The thesis concludes that emotions can be expected to be present in the behaviour of investors and, because sometimes their influence will not cancel out, they can have an impact on the market outcomes, decreasing the market's efficiency.

In formal terms, the thesis is written in clear and correct English. As regards contents, the aim of the thesis can be said to be fulfilled but at the same time, one wonders whether the aim was sufficiently ambitious. The author should have gone beyond very general, armchair-style observations of the general type "in this case, some/many market players may feel this or that emotion". By now there is a large literature (within behavioural finance - Shiller, Hirshleifer, etc.) on stock market inefficiencies due to psychological factors. The author should have drawn heavily on this literature - he would find out that at least some of the phenomena he writes about have already been subject to more formal and conclusive scrutiny. Given its hypothetical flavour, it is no wonder that the thesis lacks any unambiguous implications for either market participants or stock exchange regulators or economists or anybody else.

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

CATEGORY	POINTS
Literature (max. 20 points)	5
Methods (max. 30 points)	10
Contribution (max. 30 points)	10
Manuscript Form (max. 20 points)	20
TOTAL POINTS (max. 100 points)	45
GRADE (1 - 2 - 3 - 4)	3

NAME OF THE REFEREE: Michal Skořepa

DATE OF EVALUATION: 12.6.2009

Referee Signature