

Report on Bachelor Thesis

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

Student:	Pavel Šlechta
Advisor:	PhDr. Petr Teplý, Ph.D.
Title of the thesis:	Speculative versus Fair Price of Crude Oil

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

The thesis deals with the topic of speculation on the crude oil market. In particular, it tries to answer an interesting question of to what extent could turbulent changes in oil prices in recent years be explained by speculative behaviour of investors. The thesis provides a comprehensive overview of economic theory explaining dynamics and pricing of oil markets, both in terms of non-structural and structural (supply-demand) models. It then introduces its own empirical analysis in order to indirectly test the presence of speculative behaviour on the real world data.

In the first section of the thesis, the author provides an overview of different theoretical approaches trying to explain and model oil prices. I really liked this section; it is well written, coherent and covers references to a large number of academic papers. The author managed to summarise the key aspects of existing research in a concise way that is interesting to read and easy to follow. The last part of the section deals with the existence of speculations in oil markets and the existing effort of researchers to measure to what extent are oil prices driven by speculative behaviour.

In the second section of the thesis, the author introduces its own empirical framework to test the presence of speculative behaviour in oil markets. The author clearly define its research questions: (i) do changes in investors' perception of the market (open interest) lead to changes in spot oil prices; (ii) does increased oil price volatility impact investor's perception; assuming other fundamental factors remain unchanged.

The author provides detailed description of the data used (e.g. 1994-2011 NYMEX) and proposes a simple non-structural model to test the two key hypotheses. The author then spends time diligently describing an appropriate estimation method, referring to extensive body of econometric and statistical literature. Again, I was genuinely impressed by the amount of work that must have went into this section and the author clearly shows deep understanding of empirical methods used and ability to recognise their strength and weaknesses.

The main result of the thesis, derived using robust statistical methods, appear to be that there is a positive long-term oil prices and the open interest in the market. In addition, impulse-response analysis shows an increase in the open interest can lead to a persistent increase in the crude oil price. The authors also found statistically significant 'causal' relationship between oil price volatility and the open interest. What I am slightly missing in the thesis is a clear conclusion and interpretation of the key findings. It would have been helpful if the author tried to link the empirical findings more to the original motivation of the thesis, i.e. reasons for oil price volatility and the importance of speculative behaviour in oil markets.

Overall, I think this is an interesting and well written bachelor thesis. I also think that the author was able to add value by producing an original research and that this contribution exceeds what is expected from a good bachelor thesis at our institute. For that reason and everything stated above, I propose grade Excellent (1) for this thesis. I would also suggest the acknowledgment for an extraordinary good thesis.

Report on Bachelor Thesis

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

Student:	Pavel Šlechta
Advisor:	PhDr. Petr Teplý, Ph.D.
Title of the thesis:	Speculative versus Fair Price of Crude Oil

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	20
<i>Methods</i> (max. 30 points)	28
<i>Contribution</i> (max. 30 points)	27
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	95
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: PhDr Goran Serdarevic M.A.

DATE OF EVALUATION: 9.6.2012

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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