# Report on Bachelor / Master Thesis

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

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| **Student:** | **Bc. Jan Sedlář** |
| **Advisor:** | **Petra Andrlíková MSc.** |
| **Title of the thesis:** | **Does the Role of the Rating Prior to the Announcement Explain Different Influence of Credit Rating Downgrades and Upgrades on Stock Prices?** |

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

This master thesis addresses an important topic of the different influence of credit rating downgrades and upgrades on stock prices. Financial markets tend to have a significantly higher reaction to announcements of credit rating downgrades relatively to upgrades. It is however not yet clear why this is the case. The main objective of this thesis is to analyse the role of credit rating prior to announcements of credit rating changes on stock prices. This topic is not new to the current literature but has not been widely researched yet mainly due to data availability issues.

The author of this thesis has gathered a valuable data set, notably larger than the leading researchers in this field and tested existing hypothesis on new data. This enabled the author to eliminate the problems of small data samples encountered by other researchers. The results are in line with Holthausen and Lefwich (1986) or Ederington and Goh (1999) and conclude that credit rating downgrades are conduced to 13 times larger cummulative stock returns than rating upgrades. This abnormality is however detected around the announcement events only.

This thesis provides a very detailed analysis of the observed phenomem of different influence of rating changes on stock markets. The main value added for current literature pertains in the unique data set on which the main hypothesis were tested. The author used different adjustment to find other factors influencing the different impact on stock returns, most of which turned out to be insignificant or irrelevant. The thesis thus confirms the prime conclusion that credit rating downgrades have affects on financial markets while upgrades do not.

The thesis is based on top journal articles and is focused on a relevant problem to current academic literature. I therefore propose this thesis to be graded as 1.

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

| CATEGORY | | POINTS |
|---|---|---|
| *Literature* | *(max. 20 points)* | 19 |
| *Methods* | *(max. 30 points)* | 27 |
| *Contribution* | *(max. 30 points)* | 27 |
| *Manuscript Form* | *(max. 20 points)* | 16 |
| **TOTAL POINTS** | *(max. 100 points)* | **89** |
| **GRADE** | **(1 – 2 – 3 – 4)** | **1** |

*NAME OF THE REFEREE:* **Petra Andrlíková MSc.**

*DATE OF EVALUATION:* **14.6.2015**

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*Referee Signature*

*EXPLANATION OF CATEGORIES AND SCALE:*

*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* |

*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 |