

Report on Bachelor / Master Thesis

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

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Advisor:	Jiří Novák
Title of the thesis:	Google searches and financial markets: IPOs and uncertainty

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

Tomas analyzes the relationship between investor attention and market activity (trading volume, volatility and stock returns). He also investigates how this relationship is conditioned by market sentiment and whether the attention and sentiment may contribute to the explanation of the IPO puzzle. Tomas uses an up-to-date measure of investor attention based on the relative frequency of Google searches.

I consider the thesis interesting and carefully written. The author demonstrates good insight into the relevant literature and ability to formulate questions, and to design ways of testing them empirically.

My most important objection relates to the underlying economics of the documented relationship. The author documents an association between the Google searches and the market activity characteristics, but he remains silent about the mechanism that drives the relationship. Without such a discussion some of the conclusions may be considered trivial. For example, one of the conclusions can be re-formulated as: „investor interest in a stock proxied by its trading volume are positively associated with investor interest in the stock proxied by Google searches“, which is hardly surprising. Hence, the interpretation and the implications of the study are problematic.

I see the findings on the effect of (i) the market sentiment, and (ii) the IPO pricing most interesting. In case the author continues working on the topic I recommend him to focus on these issues. The results on market sentiment could be connected to the models of rational inattention. The IPO results are interesting but not quite novel (e.g. Da et al.), so the author must find a way how to motivate his original contribution (if any). It may be even better to find a less obvious measure that is likely affected by investor inattention, e.g. the post-earnings announcement drift (e.g. Dellavigna, Pollet, JF'09; Hirshleifer, Lim, Teoh, JF'09) and show that the novel measurement of investor inattention through Google searches is able to refine the predictions of the underreaction to earnings announcement and a subsequent drift.

Besides, the thesis contains from a number of minor issues. For example, an explanation is included in some hypotheses (which renders hypotheses non-testable). The interpretation of the „crisis“ effect is rather bold and it may be a simple time trend effect.

Despite these shortcomings, I consider the thesis well written. Hence I recommend the grade “1 – výborně”.

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

CATEGORY		POINTS
<i>Literature</i>	<i>(max. 20 points)</i>	18
<i>Methods</i>	<i>(max. 30 points)</i>	26
<i>Contribution</i>	<i>(max. 30 points)</i>	14
<i>Manuscript Form</i>	<i>(max. 20 points)</i>	20
TOTAL POINTS	<i>(max. 100 points)</i>	88
GRADE	(1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Jiří Novák

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Referee Signature