

Report on Master Thesis

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

Student:	Bc. Michal Kolář
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Title of the thesis:	Relationship between stock returns and net income: Evidence from U.S. market

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

Please provide your assessment of each of the following four categories. The minimum length of the report is 300 words.

Contribution

The contribution of this thesis is weak. I give more details in the following sections of the report but the biggest problem is the specification of the analyzed models. Stock prices are not really expected to react to the earnings but to the “earnings surprises”. Expected earnings themselves should be already included in the expectations and thus the prices. There is wide literature on the topic. This is tightly connected to a weak work with the literature, which is described in more detail in the relevant section – the thesis could have focused on a relevant approach towards the research question if the literature review had been done properly.

Methods

The utilized methodology is quite simple and more of a bachelor’s level. The methodology description (Section 4.3) is not clear. Eq. 1 is apparently wrong as there is no cross-sectional intercept for specific stocks. This goes further in Eq. 2 where the GDP variable has not index at all. The approach towards panel specification of the dataset is questionable as well as there is no test for the panel effect at all (simply adding dummy variables for each i and test its joint significance), i.e. the Hausman test is not enough.

Also, the author should make clear whether he is interested in stationarity or unit roots (as only the ADF test is used) in Section 5.1.

I believe that the models specifications are problematic and this is due to the fact that the stock prices should already include the expected earnings of the underlying stocks. It is the unexpected earnings or changes in earnings future expectations that move the markets. It is possible to obtain historical time series of expected earnings and hence it is possible to measure the shocks. There is evidence that the effect of these shocks is in fact asymmetric. The research could have been much more interesting this way.

Literature

The literature coverage is rather weak. In the Introduction, there is a relatively random set of references which are supposed to serve as motivation for the research but this small set covers some very old papers suggesting that the literature search has not been sufficiently deep. In the similar manner, the Literature review section does not cover the existing literature to a sufficient level. There are only few references in this section and the whole section does not feel as a real review of the literature.

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Manuscript form

Some sections comprise too many subsections. This is especially true for the Literature review section, which has seven subsections (no other, one would believe more important, sections have this many). It feels like the intention was to artificially expand the size of the text length.

Figures would certainly use a bit more work (some a lot more work, e.g. Fig. 7 which does not show anything, really) and could have centered in the text. Also, they all include decimal comas but there should be decimal dot/point. Several figures state OECD as a source but I believe that this is the source of data and not of the figure.

Tables are not of a best sort. They are apparently only mildly transformed outputs of some econometric/statistical software. The author did not even bother rewriting e-1, etc. or having the same number of decimal points for the reported numbers, there is no consistency (compare Table 10 and 11).

Especially section 2 feels a lot out of place in text. How does it connect to the rest of the text? Apart from the weak work with references, there is no visible connection to the topic of the thesis in the sense of "If EMH is correct than the earnings should/should not influence the stock price" or something similar. The whole section could easily not be there at all or be simply summarized in couple paragraphs in the Introduction.

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	12
<i>Methods</i> (max. 30 points)	16
<i>Literature</i> (max. 20 points)	7
<i>Manuscript Form</i> (max. 20 points)	7
TOTAL POINTS (max. 100 points)	42
GRADE (1 – 2 – 3 – 4)	3

NAME OF THE REFEREE: doc. PhDr. Ladislav Křištofek, Ph.D.

DATE OF EVALUATION: 12.6.2017

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