Report on Bachelor / Master Thesis

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

Student:	**Bc. Vesna Jarina**
Advisor:	**Prof. Roman Horváth, Ph.D.**
Title of the thesis:	**Geopolitical risk and financial markets: trends, co-movements and effects**

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

Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.

Short summary

The thesis uses several econometric techniques to examine the effect of geopolitical risk on financial market integration/comovements. Regarding the econometric techniques, the thesis employs quantile regressions, wavelets, and different GARCH models, including the GDCCX-GARCH (multivariate dynamic conditional correlation model with exogenous variables). Regarding the geopolitical risk, the measure recently developed by Caldara and Iacoviello is used (the article published in the American Economic Review in 2022); the measure also makes a distinction between geopolitical acts and threats. Regarding the financial markets, a wide array of different financial assets from different countries is employed. The thesis finds that heightened geopolitical risk typically reduces financial integration (regardless the way the author measures financial integration: co-movements, coexceedances, etc.).

Contribution

Overall, I am impressed by the thesis. The thesis contains more estimations for more financial markets and more robustness checks than is typical (and what is sufficient) for a good thesis. This shows the ambitions of the author and her interest in the topic. Importantly, the thesis contains the estimation of GDCCX-GARCH model. This model is not readily available for estimation in the econometric software (such as R) and the author had to write her own code. The empirical results are novel and extend previous evidence. Typically, the existing literature focused on modelling the effect of geopolitical risk on financial markets. Here, the thesis focuses on the effect on financial market comovement and coexceedances.

Methods

As noted above, the author uses several econometric techniques such as wavelets, quantile regressions (to estimate the co-exceedances measure), and, importantly, GDCCX-GARCH model. The width of the econometric tecniques is beyond the scope typical for M.A. thesis.

Literature

The author shows an excellent knowledge of literature and all major references are covered.

Manuscript form

The thesis is easy to follow. The tables and figures are well described. The thesis is structured in line with my expectations.

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Overall evaluation and suggested questions for the discussion during the defense

Overall, this is a great thesis. It addesses an important policy issue, i.e., the quantification of the effect of geopolitical risk on financial market integration, using a battery of econometric methods. The thesis is well written and easy to follow. The author developed its own code to estimate the GDCCX-GARCH model. In my view, the thesis fulfills the requirements for a M.A. thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade A.

The results of the Turnitin analysis do not indicate significant text similarity with other available sources.

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

CATEGORY		**POINTS**
Contribution	*(max. 30 points)*	29
Methods	*(max. 30 points)*	30
Literature	*(max. 20 points)*	20
Manuscript Form	*(max. 20 points)*	20
TOTAL POINTS	*(max. 100 points)*	**99**
GRADE	**(A – B – C – D – E – F)**	**A**

NAME OF THE REFEREE: Roman Horváth

DATE OF EVALUATION: August 17, 2023

Digitally signed
Roman Horváth

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Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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.*

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.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

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.*

Overall grading:

TOTAL	**GRADE**
91 – 100	**A**
81 - 90	**B**
71 - 80	**C**
61 – 70	**D**
51 – 60	**E**
0 – 50	**F**