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Dear Professor Zigic:

Date

2/4/2007

Please find enclosed the report you requested on the dissertation entitled "Essays in Corporate Finance" by Karin Jõeveer.

Subject

*Dissertation Report  
Karin Jõeveer*

The dissertation explores firm performance and financing in European economies.

Date of your email

January 30<sup>th</sup>, 2007

The first essay investigates the impact of bank default on the performance and financing of the borrowing firms employing a unique dataset comprising the loan portfolio of a defaulted Estonian Bank. The essay finds that the bank – firm relationship does have a nontrivial value and that the loss of liquidity may be the channel through which the borrowers are negatively affected.

Reference

*N/a*

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The second essay analyses the firms' optimal capital structure using a dataset of almost 600,000 firm – year observations from 15 Western European countries. The essay finds that institutional and macroeconomic country factors determine leverage more for small / unlisted firms than for large / listed firms.

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The third essay finds the same result for Eastern European countries.

Www

*center.uvt.nl/staff/ongena/*

Overall I like the three essays, and I think the Dissertation is a fine piece (I give my evaluation summary at the end). I would suggest though to roll essay two and three into one paper when aiming for publication.

Enclosures

*N/a*

My specific (mostly minor) comments.

Essay One.

- The number of bank relationships may play a key role. Seems overlooked.
- If liquidity is the issue, the state of the bank before bankruptcy may also matter. Is there additional variation to exploit there?
- How can we be sure that liquidity is the only issue? Can you link changes in liquidity to firm default / financial distress?
- Maybe benchmark your results vis-à-vis the estimates in papers by Boyd et al and Detragiache et al.
- Maybe also check H. Miyajima and Y. Yafeh (2005).
- Why didn't you use the statistics in Table 2 when assessing the bad loan portfolio story?
- Maybe also explore a duration model with time-varying covariates, and a weibull parametrization (as the duration dependence is possibly negative).
- Your interpretation of event study results seems possible incorrect (key is not whether effects "last a few days or weeks").

Essay Two.

- As you position the paper as contributing on the data front, maybe tabulating the specifics of other papers in this dimension would add value and clarify your contribution. Also bringing together in a table the findings in these and other papers could be helpful.
- The connection with capital structure theory seems lacking at times.
- Could you actually test the differences in country versus industry effects?

Essay Three.

- This essay seems (too) similar in setup and results as essay two. When aiming for publication, maybe combine.
- The currency denomination of the debt, as in George Allayannis et al., (2003), seems an overlooked element.

Evaluation summary.

1. The dissertation is acceptable: after minor revisions.
2. The scholarly character: very good.
3. Contribution to the field: fair to very good.
4. Originality: fair.
5. Quality of writing: very good.

Please also check my detailed comments on the marked-up copy and the additional references I included in hard copy.

Bibliography.

**Allayannis, George; Brown, Gregory W. and Klapper, Leora F.** "Capital Structure and Financial Risk: Evidence from Foreign Debt Use in East Asia." *Journal of Finance*, 2003, 58(6), pp. 2667-709.

**Miyajima, H. and Yafeh, Y.** "Japan's Banking Crisis: Who Has the Most to Lose?," Tokyo: Center for Economic Institutions, 2005.

Thank you for the opportunity to referee this Dissertation.

Yours sincerely,



Steven Ongena  
Professor in Empirical Banking