

Report on Bachelor / Master Thesis

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

Student:	Bc. Romana Vildová
Advisor:	Doc. Roman Horváth, Ph.D
Title of the thesis:	How Bank Competition Influences Financial Stability

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

The thesis focuses on one of major topics in empirical banking, i.e. whether the banking sector structure is related to stability of its sector, more specifically, on the effect of competition on stability. There are two conflicting hypotheses backed by the theory.

The first approach puts forward that competition is healthy, helps banks price the risk and provides disciplining mechanism and therefore, competition among banks is conducive to their stability. On the other hand, the second approach claims that too much competition is harmful to stability. The argument goes that banks operate in a highly asymmetric environment prone to bank runs and are less profitable under strong competition and therefore, negative shocks may have more detrimental effects in more competitive environment since the banks do not have sufficient cushion to withstand these shocks. These two hypotheses are labeled as competition-stability and competition-fragility hypotheses.

The empirical studies provide the conflicting evidence, too, therefore, more evidence is vital. The novelty of this thesis is that it uses relatively new World Bank data on financial development, which provide some new measures of bank competition at the cross-country level. Overall, this database provides new measures of competition and stability and therefore, one can analyze their relationship in a fuller manner than previously (for the body of cross-country studies). The thesis uses the Arellano-Bond estimator to address the endogeneity in competition-stability nexus.

The thesis is well-written and logically structured. The literature is well cited. The regression analysis is advanced and substantial robustness checks are conducted. I especially appreciate the rigor in the thesis. The arguments are easy to follow.

Overall, it is a fine thesis with explicit value added and well-executed applied econometric work. Therefore, I recommend the grade „výborně“ (A).

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	18
<i>Methods</i> (max. 30 points)	28
<i>Contribution</i> (max. 30 points)	26
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	91
GRADE (1 – 2 – 3 – 4)	1

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NAME OF THE REFEREE: Doc. Roman Horváth, Ph.D.

DATE OF EVALUATION: January 13, 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