

Report on Master Thesis

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

Student:	Bc. Martina Kučerová
Advisor:	doc. PhDr. Adam Geršl, Ph.D.
Title of the thesis:	Financial and business cycles in Central, Eastern and Southeastern Europe emerging markets

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

The thesis analyzes the development of financial and business cycles in CESEE region. The author collects data on 23 emerging countries in the region over the 1995Q1-2015Q4 period. For the analysis of business cycles the author focuses on the output measure while she focuses on a larger set of variables, i.e. bank credit, total credit, house price index, bank credit to GDP ratio, total credit to GDP ratio or house prices relative to GDP, to investigate financial cycles in the region. The author first identifies financial and business cycles by means of the turning points analysis and Hodrick-Prescott filters. Next, the work focuses on business and financial cycles comovements through correlation and concordance measures. Finally, the author applies OLS regression models to assess the impact of several different factors on duration and amplitude of financial cycles. The work is generally well structured but some remarks arise:

1. The author initially sorted countries within the CESEE region into geographical subregional groups, i.e. CEE, Baltic countries, Eastern Europe and Caucasus, and Western Balkans, and claims that „CEE and Baltic subregions are members of European union and more developed economies in comparison to the remaining two subregions“. However, there is Slovenia, a quite developed and high-income economy, classified among Western Balkan countries which due to its development stage stands out as an outlier in the subregion. This could have been mentioned.
2. In subsection 3.2 the author performs a turning points analysis using Bry-Boschan algorithm and also presents her own algorithm where a minimal cycle length is almost twice that of Bry-Boschan, the same holds for a phase length. The author claims this is the most suitable calibration for the region but does not provide any further justification, i.e. economic reasoning, for why this might be the case. Any literature references would also be helpful to convince the reader.
3. Tables 4.3 and 4.4 capturing the correlations of financial cycles between CEE countries: It appears the correlations in the tables are the same. The author states „Table 4.4. with HP-filtered cycles shows similar results“ while the reported results are fully identical. This is either a mistake or should be commented on.
4. As for the regression analysis in chapter 5 an OLS regression analysis is applied with robust standard errors. However, as this analysis is performed on the full sample of CESEE countries it might be beneficial to use clustered standard errors on either the country level or subregion level. Error clustering could change the significance of explanatory variables and as such the conclusions drawn regarding economic activity indicators that affect duration and amplitude of financial cycle upturns and downturns.

All in all, the thesis is logically structured, deals with an interesting topic and presents a battery of results and approaches. Despite this, the text is especially in the second half of the thesis written in a somewhat faulty English which makes it hard to follow and consequently is not effective in successfully delivering the results and at argumentation. Moreover, the reference formatting appears slightly unusual with some of the references exceeding the edges of the main text. Also, several figures and tables throughout the thesis would benefit from notes placed below them to enhance clarity of the analysis. Overall, I recommend this thesis for defense with the suggested grade “good”.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	17
<i>Methods</i> (max. 30 points)	25
<i>Contribution</i> (max. 30 points)	25
<i>Manuscript Form</i> (max. 20 points)	12
TOTAL POINTS (max. 100 points)	79
GRADE (1 – 2 – 3 – 4)	2

NAME OF THE REFEREE: *Mgr. Diana Žigraiová*

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Referee Signature