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Dissertations

Date: Wednesday, August 25, 2010 - 10:30

Ondřej Vychodil: “Essays on Corporate Bankruptcy”

Dissertation Committee:
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Abstract:

The dissertation consists of three chapters on corporate bankruptcy:

In the first chapter (joint with Ondřej Knot), we develop a model of a debt-contracting problem under bankruptcy regimes differing by a degree of softness. In the model, the degree of softness is associated with the extent to which the absolute priority rule can be violated. We show that when the degree of softness can be set individually for each project, then the debtor's tendency to excessive risk-taking can be eliminated and the first best solution can be attained. When it is given exogenously by a bankruptcy law, then a completely tough law results in a lower distortion from the first best than a soft law with a moderate degree of softness.

The second chapter documents that the recent Czech bankruptcy practice tended to delay the ultimate exit of a firm when it can be expected to have a harsher ex-post effect on the firm's employees. Bankruptcy duration is regressed on unemployment rate, size and other controls, applying three alternative methods—OLS regression, parametric duration (survival) analysis, and quantile regression—on the cross-section population of 903 Czech corporate bankruptcies that were completed during 2004 by the distribution of returns among creditors. The chapter shows that bankruptcy procedures last longer in an environment with higher unemployment rate. Moreover the magnitude of the unemployment rate's effect on duration increases with the firm's size. These results are observed for the first four years of a bankruptcy procedure, after which they are no longer evident.