

Report on Master Thesis

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

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Title of the thesis:	Financial Risk and Models of its Measurement: Altman's Z-score Revisited

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

This Master's Thesis analyzes the use of various risk measurement techniques by credit institutions. An extensive review of the individual techniques is provided in the first part of the paper. It is complemented by the test of the effectiveness of the Altman Z Score in predicting bankruptcies on a sample of 25 UK construction companies.

On the positive side, I find the aim of the paper clearly set out already in the very beginning. The paper is well organized around the major aim (but of the repetitive treatment of the Z Score in two parts of the thesis (p. 33, p. 59)). The individual techniques are well discussed and classified into individual categories.

On the other hand, the paper is mostly descriptive (till p. 51). In addition, the overview of the individual techniques is fairly standard, similar to the one that can fairly easily found in risk management textbooks or guidelines available for the implementation of risk management techniques. Therefore, the overview part of the Thesis constitutes only a limited original contribution by the author.

The second experimental part, that assesses the effectiveness of the Altman Z Score in predicting bankruptcies is based on a fairly limited sample of 25 UK construction companies, which limits the generality of the results. The author does not clearly motivate his contribution, i.e. how his study differs from the existing ones, e.g. Grice and Ingram (2001) and Gerantonis and Vergos (2009). The author provides a fairly detailed overview of the construction sector, but he does not clearly motivate, why this sector is the most suitable one for the analysis of the Z Score. More importantly, he does not clearly explain the specific sample selection procedure, i.e. the choice of specific companies (were the 25 companies selected in random from the ones meeting the criteria or was it all the companies meeting the criteria from 384).

The percentages given in the tables around page 65 are hard to interpret (is the time span changing? ... if so, then the test does not make much sense). I am also not sure if the tests were performed on the level of individual companies or as percentage of the entire sample (which would make little sense). In general the author should have been much more specific in describing the methodology and also describing the results presented in the tables. This is a major shortcoming of the paper. The logic of the last part does not seem to be entirely obvious (from page 69). Hypotheses are stated on page 70(!).

Overall, I find the Thesis rather average with limited original contribution and shortcomings in discussing methodology. However, the whole work holds together fairly well and it is quite well written and structured. Therefore I recommend grade "2" (**velmi dobre**).

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	16
<i>Methods</i> (max. 30 points)	20
<i>Contribution</i> (max. 30 points)	20
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	74
GRADE (1 – 2 – 3 – 4)	2

NAME OF THE REFEREE: Jiri Novak

DATE OF EVALUATION: January 24, 2011

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