

Report on Bachelor Thesis

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Advisor:	Martin Gregor, PhD
Title of the thesis:	Strategic Role of the Credit Rating Agencies on the Financial Markets

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

This is a very interesting and a well crafted analysis of the asymmetric information on the markets with credit ratings, where issuers may conceal bad ratings by strategically not disclosing the rating outcomes (rating shopping). The thesis largely draws from Bolton et al. (2009), which is a working paper currently under review in a top economics journal, and by Google Scholar, it has already collected almost 100 citations.

The contribution of the thesis is to make a difference in the behavior of naive investors to the original model (p. 23-53). In the original version, naive investors do not understand incentives of a credit rating agency (strategic naivety), and also take ratings at a face value (informational naivety). In this thesis, the naive investors keep only informational naivety, but not strategic naivety. In other words, they understand that since bad ratings are not disclosed, the absence of rating is not indicative of the absence of rating procedure. Yet, that lack capacity to analyze messages of the agency, hence they keep taking it at a face value (bounded rationality).

The main difference to the original model is that if all investors are strategically clever (non-naive), then the threshold level of naive investors necessary for rating inflation is *lower*. Thus, to empower investors with strategic wisdom implies that rating inflation is more likely. The idea that boundedly rational investors create a higher systemic bias has, to my belief, a potential to be published, of course after inevitably lengthy and painful revisions.

I recommend the thesis for **Dean's Excellence Award**.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	18
<i>Methods</i> (max. 30 points)	29
<i>Contribution</i> (max. 30 points)	30
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	97
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Martin Gregor

DATE OF EVALUATION: June 1st, 2011

Referee Signature