Report on Bachelor / Master Thesis

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

Student:	**Vojtěch Seman**
Advisor:	**Marek Rusnák**
Title of the thesis:	**Spread Determinants and Model Uncertainty: A Bayesian Model Averaging Analysis**

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

The thesis analyzes the determinants of sovereign bond spreads. In the light of the recent global crisis, this is certainly a very important topic. Given the well known fact that the bond spreads are good predictors of the crises, the determinants of the spread are naturally of interest to policymakers (e.g. macroprudential policies adopted by central banks, notably MARS network of ECB). Unfortunately, the existing research fails to come to the consensus about the robust spread determinants. The potential contribution of this thesis is therefore very large.

In executing this thesis, Vojtech does a good effort in reviewing the potential determinants suggested by the previous literature and systematically analyzes them within a Bayesian Model Averaging framework. The assembly of the panel data set must have cost a lot of effort too.

As for the methodology, the thesis thoughtfully explains the elements of BMA method, which has been popular in growth literature and now is being applied also to other topics. Another upside of the thesis is that while keeping the high level of formal exposition, Vojtech also provides a great amount of the intuition in explaining the BMA method.

The estimations are well executed, and the results are carefully explained. To ensure the findings are not sensitive to the prior assumptions, Vojtech performs robustness analyses and shows that results hold within a wide range of alternative model and parameter priors.

While there is a space to improve language and the style of the writing, the overal manuscript form is at very high level (graphs, tables, equations, references are well presented). There is only minimal number of typos (the only one I spotted is Note 2 at page 49, which contains obviously redundant word *high*).

To sum up, the thesis is well executed and its contribution is potentially very high, I therefore recommend the grade 1.

Possible directions for future research (if he continues with this topic at PhD):

- Vojtech lags explanatory variables by one year, however, there might be influence from higher lags as well (some factors might affect the probability of crises with long lags, e.g. extremely low levels of interest rates might lead to build ups of housing/equity bubbles), the question how to choose lags in this context is still not addressed in the literature

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

CATEGORY		**POINTS**
Literature	*(max. 20 points)*	15
Methods	*(max. 30 points)*	30
Contribution	*(max. 30 points)*	30
Manuscript Form	*(max. 20 points)*	18
TOTAL POINTS	*(max. 100 points)*	**93**
GRADE	**(1 – 2 – 3 – 4)**	**1**

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NAME OF THE REFEREE: Marek Rusnák

DATE OF EVALUATION:

Referee Signature

<u>EXPLANATION OF CATEGORIES AND SCALE:</u>

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*

<u>Overall grading:</u>

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