

Report on Bachelor / Master Thesis

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

Student:	Matej Kosturák
Advisor:	Jiří Novák
Title of the thesis:	The prediction of corporate bankruptcy and credit risk

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

Matej builds on a very established field of bankruptcy (or perhaps default) prediction by analyzing financial ratios and macroeconomic information. The first studies in the field date already to 1960s with the Altman (1968) Z-Score being an established measure for predicting default. In addition, commercial banks employ a wide array of proprietary credit scoring models. Matej first reviews the most important studies and then replicates the approach using a hand-collected Czech data.

Given the extent of research that has been done on the topic both academically and (even more so) in private businesses, it is hard to find a new angle and contribute to the literature. I am afraid I do not think Matej successfully addressed this challenge, i.e. I find the contribution of the thesis very limited (at best). First, the replication per se gives little guidance about the relevance of the individual factors for default prediction. There is little reason to believe that the results are generalizable into the future or beyond the very specific geographic context.

Second, the default prediction models are typically purely empirical, hence it is virtually impossible to make a reasonable theoretical contribution.

Third, Matej in the final version of the thesis fails to specify any hypotheses (these are stated only in the proposal) and so the whole analysis lacks proper focus.

Fourth, the methodology section includes a neutral discussion of the models used in the literature (which is not particularly useful) without discussing the implementation issues relevant for Matej's study.

Fifth, given the limitations above one could perhaps somewhat contribute by a novel look and synthesis of the existing literature. Unfortunately, I do not find the literature review very refined. It essentially contains a chronological account of the relevant studies with fairly lengthy textbook-like review of the individual papers. Only several main papers are reviewed and hardly any tensions/unanswered questions that would vet the reader's interest can be identified in the literature review.

Sixth, (less importantly) the whole thesis makes an impression of being written rather negligently. Bullet points are often used, in the correlation matrix only colors are given not numbers (!) (p. 39, 40), the formulas are sometimes imported as pictures and their formatting is distorted, several formatting styles are used for the tables, sometimes printscreens from statistical software are provided instead of tables (p. 49), the references are not used in a standard manner (e.g. publication year is omitted), etc. In addition, some sections do not seem to make sense, e.g. on p. 19 reference to three models is made but these models are not formally stated: „Three logit models were estimated with stated predictors. Model 1 predicts bankruptcy within one year, Model 2 within two years (company did not default in subsequent year), Model 3 predicts within one or two years.“

Seventh, the last section contains only the summary of the work rather than a conclusion ... perhaps because specific conclusions are hard to draw.

I recommend the examination committee to ask Matej to provide his view on the contribution of his thesis say over and above the Z-Score that has been around for about half-a-century. In a similar vein, the committee may ask Matej to elaborate on his conclusions. I would also like to understand better what is meant by the manual data collection as most of the data seem to be collected from the Magnus database, the Czech National Bank and the Czech Office of Statistics (ČSÚ). I have also wondered why the conclusion is written (or translated to) in Slovak rather than English.

Overall, I consider the thesis rather poor. While it meets the minimum passing criteria, its ambition is low. It performs a fairly standard analysis of something that has been done many times before, the analysis is awkward and the text is written in a fairly negligent manner. Hence I recommend the grade “**3 – dobře**”.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	12
<i>Methods</i> (max. 30 points)	14
<i>Contribution</i> (max. 30 points)	12
<i>Manuscript Form</i> (max. 20 points)	10
TOTAL POINTS (max. 100 points)	48
GRADE (1 – 2 – 3 – 4)	3

NAME OF THE REFEREE: *Jiří Novák*

DATE OF EVALUATION: *August 23, 2013*

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