

Report on Bachelor / Master Thesis

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

Student:	Tomáš Fiala
Advisor:	PhDr. Boril Šopov, MSc., LL.M.
Title of the thesis:	Stability of the Banking Sector: Dependence Beyond Correlation

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

Tomáš in his thesis deals with a challenging topic of correlations and dependence amongst banks within one market and between banks and their subsidiaries. The thesis applies advanced methods of multivariate extreme value theory, which not only exceeds bachelor level thesis, but also would exceed master theses level at our institute. Such results were not, to the reviewer's best knowledge, publish anywhere else. These methods are applied on historical pair-returns of banks in Visegrad region. Such an analysis is my knowledge original and has not been publish yet, thus is bachelor thesis has a strong publishing potential.

Tomáš analyzes systemic risk between pairs of banks operating in the same market and compares the results to dependency between a bank and its foreign mother – usually also bank.

Following introduction, Chapter 2 opens with a literature survey and states motivation of the following research. Given quite a narrow aim of this thesis, the survey reviews additionally wider scope of literature, which gives a reader good introduction.

Chapter 3 describes an economic motivation for the topic and explains what types of linkages are further studied. I would draw attention to this chapter as it show author's deep understanding of the topic. This chapter exceeds other chapters, despite already very well written.

Chapter 4 lays ground for statistical analysis and presents math-heavy foundations for bi-variate extreme value theory. Tomáš uses relevant sources and correctly cites. Most importantly, Tomáš presented on page 16 his very own proof of Proposition 4.1, which really shows excellent understanding of the topic.

Chapter 5 presents an empirical estimator of the parameters that correspond to the research of interest – the linkage measure estimator. This estimator “suggests” what is the probability of a bank failing given that one (the other) bank has already failed; ie. conditional probability of a banking failure. This chapter also presents a simulation showing the estimator behavior under some scenarios; ie. with different distribution assumption.

Chapter 6 presents the data. Chapter 7 carries out the empirical analysis. Tomáš finds that the linkage amongst banks within one market seems to be stronger that the linkage between a bank and its mother. Such a conclusion has strong policy implications; for example when designing super-national banking regulation etc. Tomáš discusses these conclusions and points out the policy implications.

In conclusion, this thesis is well written, of high typographical quality and easy to read. The level of both contribution and difficulty exceeds a good master thesis, needless to remind this is a bachelor thesis, and a shortened version is already being prepared to submit for IES working paper series. **Having considered all above mentioned, I award grade 1 and suggest this thesis for the Dean's award.**

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

CATEGORY	POINTS
Literature (max. 20 points)	18
Methods (max. 30 points)	29
Contribution (max. 30 points)	30
Manuscript Form (max. 20 points)	19
TOTAL POINTS (max. 100 points)	96
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: PhDr. Boril Šopov, MSc., LL.M.

DATE OF EVALUATION: 10th June 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