

# Report on Master Thesis

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

|                             |                                                                                                              |
|-----------------------------|--------------------------------------------------------------------------------------------------------------|
| <b>Student:</b>             | <b>Martin Zachar</b>                                                                                         |
| <b>Advisor:</b>             | <b>Doc. Ing. Ondřej Schneider, M.Phil., Ph.D.</b>                                                            |
| <b>Title of the thesis:</b> | <b>Cross Border Effects of Sovereign Rating Changes on Bond Yields before and During the Eurozone Crisis</b> |

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

The thesis focuses on the contagion dynamics of sovereign credit rating changes to bond yields in the period before and during the sovereign debt crisis in Europe. Its objective is to find out whether rating changes have unexpected effects (lead to abnormal returns) across borders, whether they differ for positive versus negative rating changes, and whether they are persistent over time. The conclusions of the thesis are in line with the literature, but mainly for the pre-crisis period. In the crisis period, negative rating changes were associated with a decrease in spreads, a somewhat counterintuitive results. The author explains its findings by pointing out to the specific situation of PIIGS countries. Their exclusion from the analysis namely leads to correct results.

The thesis fulfils all necessary conditions for a good master thesis. The author analyzed a topical issue of cross-border contagion and demonstrated a good knowledge of empirical methods as well as good work with data. The models tested are well specified and in line with existing literature, the results are clearly presented.

However, for the topic, I was missing a bit more economics-based analysis of the spread changes and the underlying factors. The part on channels through which contagion can occur is included (the author mentions for example cross-border holdings of sovereign bonds by banks), but is too short. Also, as Tables 2 and 3 shows, the relationship between rating and yield is not always linear/monotonic, thus other factors should be discussed in the thesis (such as the size of the country, its own monetary policy – such as in the UK, Sweden or in some CEE countries, and also the size and liquidity of the bond market). Also in part 5 (Discussion of results), the discussion of results is more statistical (exclusion/inclusion of countries, lack of data, small sample size, clustering of events) rather than economic, although the author tries to relate the counterintuitive results to expectations and negative climate related to realized (Greece) or possible (other PIIGS countries) defaults. The thesis would benefit from adding the factors related to the announcement of extraordinary ECB policies or of changes in the EU institutional framework (banking union, fiscal compact etc.).

I fully recommend this thesis for a defence and **suggest Grade 2 (good)**. During the defense, the author could shortly elaborate on the above mentioned issues related to what else than rating changes can influence spread changes and the cross-border contagion dynamics.

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

| <b>CATEGORY</b>                       | <b>POINTS</b> |
|---------------------------------------|---------------|
| Literature (max. 20 points)           | 19            |
| Methods (max. 30 points)              | 20            |
| Contribution (max. 30 points)         | 20            |
| Manuscript Form (max. 20 points)      | 15            |
| <b>TOTAL POINTS</b> (max. 100 points) | <b>74</b>     |
| <b>GRADE</b> (1 – 2 – 3 – 4)          | <b>2</b>      |

**NAME OF THE REFEREE:** Doc. PhDr. Adam Geršl, Ph.D.

**DATE OF EVALUATION:** 17.9.2014



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**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     | <b>1</b> | = excellent    | = výborně                 |
| 61 – 80      | <b>2</b> | = good         | = velmi dobře             |
| 41 – 60      | <b>3</b> | = satisfactory | = dobře                   |
| 0 – 40       | <b>4</b> | = fail         | = nedoporučuji k obhajobě |