

# Report on Master Thesis

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

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<b>Title of the thesis:</b>	Bank Profitability in Mongolia

## OVERALL ASSESSMENT:

Author chose the topic of bank profitability of Mongolia. 76 pages are divided into six main parts: the introductory part followed by Chapter 1 (16 pages) dealing with the basics of profit ratios and valuation method EVA, Chapter 2 (23 pages) describes the development of Mongolian banking and compares it to that of the Czech Republic. Chapter 3 (7 pages) captures the current situation in Mongolian financial markets. In Chapter 4 (19 pages), the bank profitability and the hypothesis whether profitability is influenced by size of the banks is further discussed. In Chapter 5 (9 pages), author conducts a panel data analysis with a special focus on the hypothesis from Chapter 4. Overall conclusions are missing. Major points of concern:

Thesis could be better structured. The flow of chapters is neither sequential nor natural; a proper linking is missing as well as explanations for the relevancy of this choice of flow. The introduction is missing a primary motivation on why to compare Mongolia with the Czech Republic.

Chapter 1 lacks mentioning that the “method of comparables” is in fact a relative evaluation of a business unit using price multiples compared to some benchmark value. The whole Chapter 2 is devoted to the discussion of simple valuation approaches such as profitability ratios and EVA. What about the profitability in terms of banks’ willingness to undertake risk? The author should also reconsider the relevancy of some parts of Chapter 3 (e.g., p. 19: geographical location of Mongolia, p. 23: “Decades of Czech-Mongolian scientific expedition crew exploring particularly the Gobi desert...”) and stay more focused on the topic of the thesis. Although the author states on p. 30 that the detailed description of the Czech banking transition is beyond the scope of the thesis, it would be for the best not to write about the Czech Republic at all, since there is no connection to the Czech Republic in other parts of the thesis (except of p. 50). In a rather unsystematic way, Subchapter 4.2 is focused on testing the hypothesis of bank size playing a significant role in bank profitability. The author takes two largest Mongolian banks and three smaller ones, provides a DuPont diagram for 2005-2007, discusses the banks role on the market and compares the profitability ratios. It seems however that the analysis made on the sample of 5 observations cannot persuasively show whether the hypothesis is valid or not. First 67 pages of the thesis are therefore rather analytical.

The major contribution of the thesis is Chapter 5 (econometric analysis), which better corresponds to the requirements put on Master Thesis. However, the author shows low familiarity with the concept. Hardly any conclusions can be deduced from the panel data of 6 cross-section (in Model 1 on p. 69 author provides even smaller number for cross-sectional dimension and confuses the reader with m and j indices denoting bank specific and macroeconomic variables, respectively) times 8 time-series observations. Why is author so restricted in number of observations (what about the manual search for data if BankScope data were insufficient)? Why does the author think the nature of dataset is “exhaustive” (p. 72)? It is not clear what is the dependent variable – Model 1 and Subsection Data Description seem to be contradictory. Why did not the author use more proxies for bank profitability (author states that 2000-2007 is a post-reform, stable period – but rejects ROE to be an acceptable measure since data on equity has been forged during the transition period and does not provide any reasoning for rejecting profit margin)? Maybe performing analysis with other two dependent variables as well would be a fair robustness check. No detailed information on data is provided (standard errors, mean values, measurement units). On p. 72, author comments on MPR variable; however, no such variable/acronym is used in the regression and was never mentioned before in the thesis. Moreover, Table 11 has only one significant coefficient---that of CAP, while the author claims there are two significant variables. What about the collinearity of variables, does the model fulfill basic assumptions necessary for methods used in the thesis? Parameters K, N, and T in the test of poolability on p. 73 do not seem to be correctly implemented to compute the F-statistics. The good specification of the model is questionable. For the reasons mentioned, the main finding that bank size has an insignificant impact on bank profitability in Mongolia is a very strong claim and rather infirm.

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**Proof-reading & understandability.** The thesis is hard to read. There are many typos, unclear terms and sentences, among others: p. 1 "...banks with the largest share of the markets are more profitability than smaller banks the in terms of..."; p. 4 "1.1 Methods of Comparibles", Footnote 10: "ROAA" instead of ROAE; p. 30 "The Czech National Banh Republic (CNB)"; p. 32 "Hungry" instead of Hungary; missing verbs in sentences, e.g.: p. 62 "... banks consistently the share of securities...", missing or incorrectly used words, e.g.: twice on p. 71 "relationship between size and firms/bank".

**References.** Incomplete references (e.g. no journal or volume information provided), Harvard style mixed with footnote citations, doubled references (J.F. Sinkey's paper from 1998, Těplý 2002), not all of the references alphabetically ordered in section References. Some citations in text--such as Stewart (1993) and Stewart (1991) on p. 7, on p. 16 Schierenback (2003), on p. 23 Calvo and Kumar (1993), on p. 26 Amarjargal (2002), on p. 40 Těplý (2000), on p. 63 Hishigsuren (2008), on p. 70 Berger (1995) & Goddard (2004), on p. 71 Boyd and Runkle (1993) & Berger et al. (1987), in Footnote 1 (Kim 1995), and in Footnote 37 Martinez-Peria and Schmukler (1998)--were not found in section for References. Author could provide a source to Figure 2 on p. 15, if any. Author should avoid expressions such as "according to some sources" and web-pages as sources in academic writing (p. 31, 71).

**Minors.** Equation numbering is repeated (Eq. 1 on p. 5 as well as on p. 10); a paragraph after Figure 1 on p. 12 seems to be explaining Equation 5 which is on p. 13. On p. 51, Table 9 is used instead of Table 7; on p. 58, Figure 14 is used instead of Figure 13. On p. 13 author writes "In Equation 8...", but no such equation is provided. List of Tables on p. viii has wrong numbering; list of Acronyms would be helpful.

Suggested question for the defense is:

- "How specifically would the author augment the econometric model with respect to the comments raised?"

In the case of successful defense, I recommend "**velmi dobře**" (good, 2).

## SUMMARY OF POINTS AWARDED:

CATEGORY	POINTS
Literature (max. 20 points)	15
Methods (max. 30 points)	16
Contribution (max. 30 points)	14
Manuscript Form (max. 20 points)	16
<b>TOTAL POINTS</b> (max. 100 points)	<b>61</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>2</b>

**REFEREE'S NAME:** Zuzana Iršová

**DATE:** 30. 8. 2010

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**REFEREE'S SIGNATURE**