Report on **Master Thesis**

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

Student:	Filipec Petr
Advisor:	**PhDr. Zdeněk Kudrna, PhD.**
Title of the thesis:	Post-crisis Re-regulation of Financial Markets

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

This is an ambitious master thesis that not only studies determinants of financial crises empirically, but also aims to formulate regulatory implications of its findings. While it succeeds in the former, the latter remains less developed and should be discussed during the thesis defense, in order to secure the excellent evaluation - grade 1 ("výborně").

The thesis reviews reasonable selection of the literature on financial crises in somewhat descriptive manner. It makes an effort to tease out the most common explanations of financial crises, while sidelining factors specific to each crisis. On this basis, the author derives two plausible hypotheses focused on the most pertinent factors: asset bubbles, financial expansion and capital inflows. The empirical assessment is focused on the latter two factors.

The methodology of the thesis is well implemented and characteristic for this field of research (although the methodological section lacks references to related empirical papers). The drawbacks of alternative methodological choices are highlighted already in the literature review. At the same time, the relationship between the proclaimed ambition to focus on asset-driven banking crises (p. 7, 19) and reliance on the stock exchange volatility index as a crisis indicator deserves more attention. Ultimately, this choice is driven by data availability, not theory, so more thorough discussion would be in order (showing a correlation for a single country in Figure 2 does not suffice as a justification for this proxy).

The data availability proved to be the most fundamental constraint of the thesis. The author made a serious effort to gather data, including personal approaches to researchers and database providers, but to no avail. Hence, the limitation of the research to mere four countries, is primarily a consequence of no database access at his home university, than his efforts.

Nonetheless, author makes a good use of the constrained dataset and derives useful empirical findings. Namely, the relationship between credit expansion and crisis seems to be quite robust across crisis measures, time and (three of the four) countries. The section on robustness analysis (5.3.3) makes this point convincingly as does the section explaining and interpreting the results (5.4).

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The final section on regulatory implications is both a strength an weakness of the thesis. It clearly demonstrates the ability of the author to draw policy consequences from the literature review and empirical testing. It adds an additional quality (and additional literature review) to this thesis. On the other hand, it opens some non-trivial questions some of which could be discussed during the defense:

- The arguments on crisis evolution depends heavily on the assumption there is some "fundamental value of assets", around which market prices oscillate (see Figure 3, page 20). How is this assumption justified theoretically? How can such fundamental value be identified? Can it be identified without reliance on efficient market hypothesis?

- The suggestion to regulate credit growth mixes micro- and macro-economic logic. Why should we (not) assume that as interest rates rise, demand for credit decreases? What is a macro-economic equivalent of "reserves" (p. 51) that is to determine the distinction between viable and excessive credit growth?
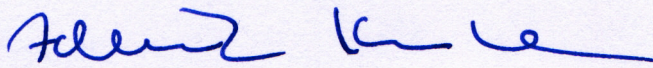
The formal quality of the thesis is high and English acceptable.

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

CATEGORY		POINTS
Literature	*(max. 20*	16
Methods	*(max. 30*	28
Contribution	*(max. 30*	20
Manuscript Form	*(max. 20*	20
TOTAL POINTS	*(max. 100*	**84**
GRADE		**1**

NAME OF THE REFEREE: Zdeněk Kudrna

DATE OF EVALUATION: **August 27, 2013**

Referee Signature