Report on Bachelor / Master Thesis

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

Student:	Bc. Eva Smotlachová
Advisor:	PhDr. Jozef Baruník, PhD.
Title of the thesis:	**Pricing of bonds and credit default swaps:** **Evidence from a panel of European companies**

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

The thesis tries to find determinants for bonds and credit default swaps pricing. Overall the thesis is well-written with rare typos and several formal unclearities. The work is easy to follow and comfortable for reading. However, I have several remarks regarding predominantly the approach the author had used to inspect the field of corporate bonds and CDS:

- In the first part of the thesis, there is stated that the work „studies the behavior of financial derivative instruments..." – this suggests that the main focus in on CDS and bonds are supplementary? (as long as bonds are not derivatives, but rather underlying assets for them) therefore, I would appreciate more thorough analysis of linkages of bonds and CDS to motivate the topic.
- The thesis methodologically replicates approach by Fontana & Scheider. The main contribution lies in inclusion of recent data to dataset and comparing the results across various groups. However, the author in the thesis claims her results not to be representative generally.
- The formation of the subgroups according to country or industry is clear and explained well. However, in case of financial position, I missed the proper guidance of the process in the methodology chapter – financial positions (unlike location or industry) will definitely change in time, therefore the approach to the division is crucial. Moreover the approach of averaging the ratios within industry can be misleading (for example in case of *Consumers* group with 4 samples). However, I think that the author was aware of such type of issues and disclaimed therefore the generality of the results.
- Further, I was not very comfortable with reasoning of inclusion of bond_spread as independent variable in CDS_spread model and vice versa (as long as bond is underlying asset of CDS). I would appreciate more detailed reasoning there.

Suggested question for the defense:
- How would you approach the causality direction between CDS and bonds? Would it be beneficial to include different explanatory variables for CDS and bond spreads regressions? What about credit risk of the CDS issuer?

Summarized, the thesis presents deep analysis both qualitatively and quantitatively, and the thesis significantly exceeds the requirements for master thesis at IES. I appreciate especially the quality and thoroughness of data analysis and results explanation.

In case that the author discusses the remarks and questions mentioned above, I fully recommend the thesis of Eva Smotlachová to be defended with grade excellent – 1.

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

CATEGORY		POINTS
Literature	(max. 20 points)	20
Methods	(max. 30 points)	25
Contribution	(max. 30 points)	25
Manuscript Form	(max. 20 points)	18
TOTAL POINTS	(max. 100 points)	**88**
GRADE	**(1 – 2 – 3 – 4)**	**1**

NAME OF THE REFEREE: Barbora Malinská

DATE OF EVALUATION: June 12, 2016

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