Thesis Advisor

Review Report

Thesis Author: Michael Almásy

Thesis Title: Accounting in Economics

Thesis Advisor: Dan Šťastný, Department of Economics, Faculty of Economics, UEP

The author set himself a goal to write a broad treatise on ways in which accounting practices influence economic outcomes and although the title suggests a really sweeping extent, he actually cares about a much humbler ultimate point: whether the failure to use mark-to-market accounting can be held responsible for the recent financial turmoil. While this implicit focus of the thesis is decidedly welcome, a hefty part of the thesis (over 1/3 of it) consists of discussion one would be ready to find in a 1000-page volume bearing the real title (explicit goal) of Michael's thesis. I think a somewhat leaner approach would be a huge improvement but one has to bear in mind that students' expectations regarding the committees' expectations regarding the length of theses may be a game with suboptimal outcome.

Too wordy or not, the author informs the reader about his plan in a comprehensive, though a bit esoteric, way and provides a reasonable motivation for taking up such a task. Regarding his approach (method), he employs mostly descriptions in the first third, substituted mostly with logical deductions in the two latter thirds, through which he attempts to provide answers to different sub-problems he raises throughout the work. One could, with some justification, object to the conspicuous lack of any quantitative analysis that would make his points more illustrative and perhaps persuasive, but one can understand the inherent difficulties in obtaining anything like reasonable data. Moreover, one can view his non-quantitative work as a contribution to those who want to turn some of author's thought into hypotheses and test them with real-world data. This is, after all, what I consider to be the main source of value added of the thesis. The depth of the analysis seems to me a bit uneven, ranging from trivial to quite superficial to interesting. The author makes use of (i.e. makes references to) a good many relevant titles, while other titles on the list could be safely left out without any detriment to the quality of the text (e.g. textbooks).

Turning to the structure of the thesis, the author produced a fairly well-structured work starting from the general purpose of accounting with subsequent zooming in into more and more particular aspects: valuation methods and their various effects on people's decision. These latter effects are traditionally (but appreciably) broken down into two classes (micro and macro effects). Ultimately, the last chapter (4) discusses the reasons why individuals are motivated to use capital, expenses on which will only translate into firm's costs through depreciation. While it is true that depreciation is the central piece in the author's argument, I think this is a relatively redundant part as it will not be much doubted that the share of capital equipment simply tends to rise generally in time. This 8-page excursion will not probably gain more fans to author's theory.

The references are formally correct (a fact not so frequently observed the author should be commended for), while the abstract is strictly speaking found wanting: it does not discuss the findings of the article. Now the style of the work itself merits a longer comment. While it impresses a reader with academic looks and arrangements, the writing itself is extremely muddled, for my taste (and level of comprehension) at any rate. At certain parts it requires multiple re-readings to the point that one develops an acute nausea should one read the sentence one more time within the next 24 hours. While this may be my own deficit to some extent, I do believe that the author's greatest room for improvement lies in making himself understood in a more concise and clearer way.

All in all, the author hit a very important and superb topic that one can interpret in very attractive terms: can changes in the way agents assign value to fixed assets produce back changes in their economic behavior that are relatively small individually but simultaneously multiply each other to produce a big difference – and a problem – for the economy as a whole? The author succeeds in mapping out the territory of the whole problem, and unfortunately stays on the surface most of the time. For that reason, while the thesis is surely defensible, I am hesitating to suggest a grade better than *good* (3). On the other hand, I can imagine the author can perform way more convincingly in person during the defense itself, and could improve the thesis evaluation substantially, particularly if my (mis)judgement proves to be exceptionally dim (due to my aforementioned comprehension inability). So, ultimately, my suggestion for grading is the lower spectrum of *very good* (2).

Suggested topics for discussion:

If a failure to use fair value (MTM) artificially increases business profits (and taxes), creates over-optimism and leads to artificial booms followed by inevitable busts, how do you square this with an argument of some economists that it is precisely the MTM practice that leads to over-optimism through artificially increasing the assets side of the balance sheets of companies (see e.g. Wesbury/Stein: Why Mark-to-Market Accounting Rules Must Die, Forbes, Feb 23, 2009 - http://www.forbes.com/2009/02/23/mark-to-market-opinions-columnists_recovery_stimulus.html)?

Either way, is there a possibility for the agents to LEARN from these mistakes? Do these mistakes not hit them in the very first place (over-optimism leads to bad decisions leading ultimately to higher likelihood of losses)?

Suggested thesis grade: Very Good (75 pts)

In Prague, June 13, 2011

Dan Stastny