

Master Thesis Evaluation

Supervisor form

Student name: *Boris Karan*

Title of the thesis: *Changes of financial system in the context of financial crisis*

Year of the defence: *2017*

Supervisor name and affiliation: *Ing. Ondřej Šíma (Department of Monetary Theory and Policy; Interim academic staff)*

Reviewer name and affiliation: *Ing. Jiří Pour (Department of Monetary Theory and Policy; Interim academic staff)*

THESIS CONTENT SUMMARY:

The diploma thesis is divided into five chapters + Conclusion. In the first chapter Mr. Karan defines the term *financial crisis*. The author acquaints a reader with different views and aspects of this term: monetarist approach (p. 5); H. Minsky's financial instability hypothesis (p. 5-7); the role of asymmetric information (p. 8, Stiglitz, Weiss) etc.

Second chapter is a cardinal part of the thesis. Boris Karan scrutinizes the history of financial crises and their impacts on (future) financial system and the way how to deal with future crises. The author points out that when anything is used for the first time (or recorded or used more broadly for the first time) and only "once in a lifetime", it becomes an example to follow in future crises. For example:

1. Currency debasements (or seigniorage, p. 14...),
 2. (J. Law and his) idea to support the economy by monetary expansion (p. 17),
 3. (The bank of New York as a) lender of last resort (p. 20), bail-out and moral hazard problem (p. 21)
 4. The first emerging market crisis and the rising importance of international capital movements (p. 22 + p. 24/25) and the problem "too-big-to-fail" (p. 24),
 5. Deposit insurance policy (p. 29),
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The last crisis Mr. Karan includes in his thesis is global financial crisis 2007-2008. The author puts emphasis on the role of indebtedness, loose regulation, short-termism, leverage (p. 34), improper collateral or financial innovations (p. 35).

Third chapter summarizes and highlights findings from the previous part and tries to generalize common patterns and denominators of crises. The author uses clear figure and thoughts inspired by H. Minsky's model of financial crises. In addition to that, Boris Karan includes current research carried out by C. Reinhart and K. Rogoff (p. 45 crisis indicators, p. 46 crisis amplifiers).

How to avoid or at least mitigate an impact of a crisis? That is the main question of forth chapter. Mr. Karan suggests while leaning on theories that have been discussed early that:

- i. "Let it be" approach (à la Laissez faire; p. 48),
- ii. De-risking the system and following-up supervision (p. 49),
- iii. Proper due diligence (p. 50),
- iv. Reduce asymmetric information ("lemons and plumbs" problem, p. 50 and "Internet of Things" p. 52):
 - a. Increase in transparency, *blockchain* (p. 53 + p. 62), high-quality collateral to reduce opaqueness (p. 53),
 - b. Preventing false news and making the risk more "visible",
 - c. Improve financial literacy.

The author stresses the importance of *blockchain* (p. 62–66) and proposes it as a way how to find the seeds of (future) crisis earlier and how to eliminate negative impacts of crisis on the whole economy.

The last chapter raises simple question: "*Is this time different?*" (p. 67, it resembles C. Reinhart and K. Rogoff's famous book *This time is different*) and one of the possible answer could be: "*We will see, but it looks very familiar*" (p. 73).

OBJECTIONS AND REMARKS:

The thesis is very readable and its structure is superb. There is a very good balance between the theory and its application. What's more, Mr. Karan demonstrates his ability to focus only on fundamental features of historical crises which affect future gridlocks. So Boris Karan really proves that *this time is not different*...

Nevertheless, there are some drawbacks. The author should have used broader range of data (more tables, graphs...), provided deeper discussion of his research and maybe added other crises (i.e. Eurozone crisis, Asian crisis 1997/1998...).

QUESTIONS FOR THE DEFENCE:

1) On p. 17 you mention monetary expansion as a support for an economy. Is it a good idea? Try to focus on a short-run and long-run consequences of monetary expansion. Has monetary expansion ever helped to completely solve any crisis? Has there been any impact on real economy caused by monetary expansion in a long-run?

2) Throughout the history of crises it seems there have been a lot of failures. From the theoretical point of view we distinguish two “basic” failures: market failure and government failure. Can you explain what these terms mean?

3) In the thesis you mention Bitcoin, the most famous cryptocurrency. Why Bitcoin or any other cryptocurrency has not been used more broad-based? Are there any differences between Bitcoin (cryptocurrency) and “common” money (banknotes and coins) from the theoretical point of view?

4) On p. 67 you mention de facto what is called 4th industrial revolution (for further information see <https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond/>). What is your opinion about it? There are some doubts about replacing human beings with robots and other futuristic predictions. However one concrete proof could be the stock price of Tesla, Inc. (you mention Tesla on p. 52 in the context of *Internet of Things*) The price has been rising since 2013 and rocketing in recent months. Is it sustainable and fundamentally acceptable? Or is there a new “bubble”? Or... *Is this time different?*

ASSESSMENT:

Criterion	Excellent	Very good	Good	Insufficient
Aim formulation and fulfilment	X			
Work with literature	X			
Methods and data used		X		
Results and their discussion	X	X		
Formal aspects	X	X		
Suggested overall grading: 2 - Very good				

Prague, 7th June 2017

Ing. Ondřej Šíma

Signature