

## Assessment of the Master Thesis – Opponent



Study program: International Economic Relations

Field of Study: International Business – Central European Business Realities

Academic Year: 2017/2018

Master Thesis Topic: The International Political Economy of the EU Sovereign Debt Crisis

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Opponent's Name: Ing. Ondřej Šíma

	Criterion	Mark (1-4)
1	Overall objective achievement	1
2	Logical structure	1-2
3	Using of literature, citations	1
4	Adequacy of methods used	1-2
5	Depth of analysis	1-2
6	Self-reliance of author	-
7	Formal requirements: text, graphs, tables	1-2
8	Language and stylistics	1

### Comments and Questions:

#### Comments

The main objective of the thesis is to monitor the interaction between political and economic development in the context of European (monetary) integration and, in particular, developments after 2001 and the debt crisis in Europe.

The master thesis consists of three chapters. First chapter is dedicated to a theoretical framework: a) financial toolbox (leveraging, deleveraging, debt socialization...) and b) political toolbox (international relations and integration theories). The second chapter deals with the inappropriate institutional structure and unpreparedness of the monetary union to external (and internal) shocks. The third chapter employs information and recommendations from previous chapters and applies them to the E(M)U members.

On the one hand, the overall concept of the text is superb. An excellent idea is to combine the impact of various theoretical concepts of international relations and integration theories with economic developments in the EMU and, above all, with the solution of the European debt crisis. The author has demonstrated a great deal of insight into the issue as well as a wide range of knowledge. I would like to highlight a solid macroeconomic analysis on pages 47, 48 etc. On the other hand, the author could have used a larger number of graphs and tables that would further confirm the individual approaches presented in the theoretical part.

Despite some mentioned drawbacks the diploma thesis gives excellent impression and makes readers find more information about this topic.

## Questions

- 1) Throughout your thesis (p. 46, 50, 51...), you often refer to the Maastricht criteria (especially that relating to government finance). Is this criterion sufficient? Does it give a comprehensive view of the long-term sustainability of government finance? Try to "oppose" using the intertemporal budget constraints of the government sector. See the formula below:

$$\sum_{t=s}^{\infty} \frac{\text{government revenues}}{(1 + \text{interest rate})^{s+t}} = \sum_{t=s}^{\infty} \frac{\text{government expenditures}}{(1 + \text{interest rate})^{s+t}} + \text{government debt}_t$$

- 2) The equation below shows the government debt dynamics. Discuss individual debt determinants and how governments can influence these determinants with their current policy. What does *snowball effect* mean?

$$\frac{D_1}{GDP_1} = \frac{D_0}{GDP_0} \times \underbrace{\frac{1 + IR_{1,nom}}{1 + q_{1,nom}}}_{ii)} + \underbrace{\frac{PD_1}{GDP_1}}_{iii)} - \underbrace{\frac{\Delta M_1}{GDP_1}}_{iv)} + \underbrace{\frac{SFA_1}{GDP_1}}_{v)}$$

i) ←

$D$  = government debt,  $GDP$  = gross domestic product,  $IR_{nom}$  = nominal interest rate,  $q_{nom}$  = nominal GDP growth,  $PD$  = primary deficit,  $\Delta M$  = (the change of) debt monetization,  $SFA$  = stock-flow adjustment. Lower index 0 and 1 = previous (0) and current (1) period.

- 3) What does the *twin deficits theory* mean? Can you show some examples of countries from your diploma thesis that have been hit by the twin deficits?
- 4) Do you think that the *Ricardian equivalence* has been confirmed in the countries you analyzed (especially Portugal and Greece)?
- 5) What were the "political positions" of the German central bank and the French central banks (or their governments) in the discussions on the establishment and future monetary policy of the ECB (i.e. before the European monetary union was established)?

**Conclusion:** Master Thesis is recommended for the defense

**Suggested Grade:** Excellent/very good

Prague, 21<sup>th</sup> May, 2018

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Opponent