

Bachelor Thesis Topics for WiPaed Students

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Topic 1: Excessive risk-taking by banks

Excessive risk-taking by banks is seen as a major cause for financial crises and recessions like the recent global financial crisis (Jordà, Schularick, and Taylor 2013). Existing explanations for taking such high risk range from the institutional setting, such as government guarantees (Farhi and Tirole 2012), through firms' incentive structure, such as manager compensation schemes (Bolton, Mehran, and Shapiro 2015), to behavioural biases, such as the neglect of tail risk (Gennaioli, Shleifer, and Vishny 2012).

The goal of this thesis is to give an overview of the existing theoretical and empirical literature on the causes of excessive risk-taking of (financial) firms. The thesis should find answers to the following questions (focus on question in bold): What is risk-taking and how can it be measured? When can risk-taking be considered excessive? **What are the causes of excessive risk-taking by banks?**

Introductory Literature

- Bolton, Patrick, Hamid Mehran, and Joel Shapiro, 2015, Executive Compensation and Risk Taking, *Review of Finance* 19, 2139–2181.
- Boyd, John H., and Gianni Nicoló, 2005, The Theory of Bank Risk Taking and Competition Revisited, *The Journal of Finance* 60, 1329–1343.
- Farhi, Emmanuel, and Jean Tirole, 2012, Collective Moral Hazard, Maturity Mismatch, and Systemic Bailouts, *American Economic Review* 102, 60–93.

Topic 2: Financial literacy and financial decisions of households

Financial decisions are part of everyone's daily life. Households manage their budgets, monitor accounts, handle credit cards, purchase insurance policies, and save and invest for their retirement. At the same time, a majority of adults lacks understanding of basic financial concepts, such as compounding interest (Lusardi and Mitchell 2014). Therefore, financial literacy, defined as the "ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security" (Hastings, Madrian, and Skimmyhorn 2013) has been subject to an expanding body of research.

The goal of this thesis is to review the existing empirical literature on the role of financial literacy for the financial decision-making of households. The following questions should be addressed (focus on the questions in bold): What is financial literacy and how is it measured? **How does financial literacy affect household decisions?**

Introductory Literature

- Hastings, Justine S., Brigitte C. Madrian, and William L. Skimmyhorn, 2013, Financial literacy, financial education and economic outcomes, *Annual review of economics* 5, 347–373
- Lührmann, Melanie, Marta Serra-Garcia, and Joachim Winter, 2015, Teaching teenagers in finance: Does it work?, *Journal of Banking & Finance* 54, 160–174.
- Lusardi, Annamaria, and Olivia S. Mitchell, 2014, The economic importance of financial literacy: Theory and evidence, *Journal of economic literature* 52, 5–44.

Topic 3: Household debt and consumer bankruptcy in Europe

Over the last decades, individual household debt has increased dramatically. Concurrently, most industrial countries report a sharp rise in the number of consumer bankruptcy filings. Explanations for these developments range from demand- and supply-side arguments to changes in the institutional setting (Livshits 2015). Existing literature mainly focuses on the U.S.

The goal of this thesis is to review the existing theoretical and empirical literature on the causes for an increase in consumer debt and default with a special focus on Europe. The thesis should provide answers to the following questions: How has private household debt and consumer bankruptcy developed in Europe over recent years? What are the causes for a rise in consumer debt and bankruptcies? Are the causes given in the mostly U.S. based literature consistent with cross-country differences in debt levels and default rates in Europe?

Introductory Literature

- Creditreform eV, 2018, SchuldnerAtlas. Überschuldung von Verbrauchern, Jahr 2018.
- Gerhardt, Maria, 2009, Consumer Bankruptcy Regimes and Credit Default in the US and Europe: A comparative study. CEPS Working Document No. 318, 27 July 2009
- Livshits, Igor, 2015, Recent Developments in Consumer Credit and default literature, *Journal of Economic Surveys* 29, 594–613.