



**University of
Zurich^{UZH}**

Prof. Dr. Steven Ongena
Chair of Banking & Finance
University of Zurich

Bachelor Thesis

Economic Policy Uncertainty and the CDS Market

*An empirical Analysis following the EPU-Index created
by Baker, Bloom and Davis*

Submitted on: 02nd March 2020

Author: Sina Prem

Degree Program: Master Banking & Finance

Abstract

This thesis wants to empirically analyze how Economic Policy Uncertainty (EPU) is related to the credit default swap market. Therefore, the EPU Index created by Baker, Bloom, and Davis is used. The spreads of five-year senior credit default swaps are utilized for this purpose and additionally, explanatory variables like volatility or leverage, yields or ratings from the major rating agencies (Moody's, Standard & Poor's, and Fitch Rating) are used as control variables. The sample includes 30 listed international banks in the period of 2005–2019, partitioned according to various time periods, such as the financial crisis or the European debt crisis as well as a long post-crisis period. Various hypotheses are used to show that, with higher economic uncertainty (e.g. political events or shocks), the spreads of CDS ("cost of protection") and, among other things, the Baker Index will increase. The link between the variables is also examined. In addition, the index provided by Bloom should be critically examined. Finally, exogenous variables are controlled and differences between Europe and the USA are indicated.