



University of
Zurich^{UZH}

Quantifying the Value of the Implicit Government Guarantee for UBS Based on a Contingent Claims Analysis

BACHELOR'S THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF BACHELOR
OF ARTS IN ECONOMICS AND BUSINESS ADMINISTRATION

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DATE OF SUBMISSION: JULY 7, 2016

Abstract

The too important to fail issue, caused by the systemic importance of global banks, has since the financial crises become one of banking and finance's most discussed topics. Since the knowledge of the scale of the too important to fail issue is an essential prerequisite to effective regulation, academic research has been conducted to provide such knowledge. This thesis contributes to this knowledge by quantifying the value of the implicit government guarantee for UBS based on a contingent claims analysis. Using a dual approach, based on a Merton framework and on Moody's expected default frequencies, this thesis calculates guarantee values for the period from 2007 to 2015 in a one-year setting. Further, the application of a dual approach enables to compare the different parts of the model and thus to provide a qualitative examination of the model applied.