

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

Student:	Zhaozhi Liu
Advisor:	doc. Mgr. Tomáš Holub, PhD.
Title of the thesis:	The Role of Business Confidence in the Monetary Policy Transmission Mechanism: Evidence from the Euro Area

OVERALL ASSESSMENT:

Short summary

This thesis analyses empirically the role of business confidence in the euro area. It finds out that business confidence is an important part of the monetary policy transmission mechanism. A tighter / easier monetary policy leads to reduced / improved business cycle confidence, which contributes to its impact on the real economy (while the eventual effect on inflation is not identified by the analysis). The impulse response thus goes in the intuitive direction. At the same time, positive / negative shocks to business confidence lead to higher/lower inflation and GDP, thus necessitating an appropriate monetary policy response in terms of its tightening / easing. The student thus concludes that monetary policy-makers need to pay attention to business confidence, and especially so in crises times (which is based on the time-varying parameter version of the model).

Contribution

Compared to the original ambition of studying the role of business confidence „in many European countries“, the thesis in the end focuses only on the euro area as a whole. The results that it brings are quite in line with the economic intuition and findings of the previous research. They are thus not completely novel, but certainly bring a valuable contribution to the existing literature.

Methods

The thesis uses the SVAR and TVP-VAR methodology, which is a fully standard approach to analysing the monetary policy transmission mechanism. The results are presented both using the impulse response functions and the variance decomposition. The thesis includes valuable robustness checks.

Literature

The list of references is quite extensive, covering both earlier papers as well as very recent contributions to the literature. I would perhaps expect the literature review to be focused more specifically on empirical analyses for the euro area, given that the thesis in the end covers this monetary union only. But this is just a minor remark.

Manuscript form

The thesis has a logical structure. The English language could be improved further, but its level is sufficiently good for the reader to understand what the author means.

Overall evaluation and suggested questions for the discussion during the defense

This thesis brings interesting empirical findings relevant for monetary-policy makers. During the work, the author incorporated my comments and suggestions in a more than satisfactory way. I thus do not have any critical remarks on the final draft.

As a result, I am convinced that the thesis fulfills the requirements for a master thesis at IES, Faculty of Social Sciences, Charles University. I thus recommend it for the defense and suggest a **grade B**.

The results of the Urkund analysis do not indicate significant text similarity with other available sources (other than draft versions of the same thesis).

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At the defense, the student could focus on the following two questions:

- (i) What has been the role of business confidence in the transmission of recent COVID recession in the euro area? What is your assessment of the monetary policy response by the ECB?
- (ii) Why is there no statistically significant response of inflation identified in section 6.3 in response to monetary policy shocks? Is it due to econometric issues (the standard identification problem of monetary policy transmission, the price puzzle problem)? Or does it reflect some economic phenomena (e.g. flattening of the Phillips curve)?

SUMMARY OF POINTS AWARDED:

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	26
<i>Methods</i> (max. 30 points)	26
<i>Literature</i> (max. 20 points)	18
<i>Manuscript Form</i> (max. 20 points)	17
TOTAL POINTS (max. 100 points)	87
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE: Doc. Mgr. Tomáš Holub, PhD.

DATE OF EVALUATION: 1 June 2021

*Digitally signed by
Tomáš Holub*

Referee Signature

Tomáš Holub

