

Report on Master Thesis

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

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

OVERALL ASSESSMENT:

Short summary

The topic of this master's thesis is really very interesting and relevant not just for the current economic situation, with high uncertainty (Covid-19 crisis), which is challenging many economists in the world. Deeper understanding of the role of business confidence in the transmission mechanism of monetary policy is a very topical issue from the perspective of the central banks, which understandably „look more“ to the development of the real economy now than in „normal“ times. The author is mainly focused on the so-called confidence channel, which is analysed from several angles. The issue of monetary transmission is crucial for the effective conduct of monetary policy (generally in both forms, i.e. conventional and also unconventional). This topic has many dimensions and levels for study.

The thesis is divided into seven parts. After a well-written introduction, the author concentrates on the literature review, which is both deeply and broadly elaborated. The next section concentrates on the theoretical analysis of the monetary policy transmission mechanism. The fourth chapter is engaged in analysis of the confidence and investment theory model. The following two empirical parts are oriented on the construction and estimation of two VAR-type models, i.e. SVAR and TVP-VAR.

Contribution

The author presents original ideas on the topic, demonstrating critical thinking and the ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a visible value added in the thesis, with following three main contributions: (I) a focus on the slightly-overlooked relationship between business confidence and the conduct of monetary policy, (ii) the application of advanced VAR models to the subject of this thesis and (iii) the adoption of the counterfactual historical decomposition method, which provides a basis for policy makers to formulate robust forward guidance monetary policy.

Methods

The tools used are relevant to the research question, and adequate to the author's level of study. The thesis topic, from the evidence of the euro area on the role of business confidence in the monetary policy transmission mechanism, is comprehensively analyzed.

Literature

The literature review is above a standard level, i.e. includes both original sources of literature and current applied studies oriented on analysed countries. The author quotes relevant literature in a proper way.

Manuscript form

The manuscript form is above a standard level. The text itself is quite understandable and easy to follow. The research hypotheses are clearly set. The referee for example likes the conduction pathways, which make the thesis clearly arranged.

Overall evaluation and suggested questions for the discussion during the defense

Overall, this master thesis is well-balanced; it consists of both theoretical and empirical parts, with interesting results, an interesting and very rich literature survey, and appropriate techniques for empirical analysis. Questions and comments, which may be answered during the defence:

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Questions:

1. *From your perspective, how significantly was data on business confidence distorted due to Covid-19 (including possible "panic" effects)?*
2. *Could you comment, from the perspective of your thesis, whether the effects of increasing (decreasing) business confidence are similarly (mirrored), or not?*
3. *How „problematic“ from the perspective of your thesis do you see the fact that data on business confidence differ among individual EA countries?*

Comments:

I would recommend, for example in the case of the author's future publication efforts, to:

- cover not only one measure of the shadow rate (Wu-Xia), but also others, i.e.: Krippner (2012), Lombardi and Zhu (2014) or the methodology developed by Benecká, Komárek and Novotný (2015)
 - Krippner, L. (2012): Modifying Gaussian Term Structure Models When Interest Rates Are Near the Zero Lower Bound. Reserve Bank of New Zealand Discussion Paper Series, March 2012.
 - Lombardi, M. J., Zhu, F. (2014): A Shadow Policy Rate to Calibrate US Monetary Policy at the Zero Lower Bound. BIS Working Paper No. 452.
 - Benecká, S., Komárek, Novotný, F. (2015): Shadow policy rates – alternative quantification of unconventional monetary policy. Global Economic Outlook. Czech National Bank, October 2015 and/or Inflation reports /Monetary policy reports of the Czech National Bank.
- include not only the results of one stationarity test of variables (p. 36 and others), but also alternative tests with the same (ADF, PP,...) or opposite (KPSS) null hypothesis.
- to discuss more deeply the limits of SVARs models, see for example:
 - Rudebusch, G.D. (1998). Do Measures of Policy in a VAR Make Sense? International Economic Review 39 (4): 907–931 and many others....

In my view, the thesis fulfils the requirements for a master thesis at IES, Faculty of Social Sciences, Charles University, **I recommend it for defence and suggest a grade A.**

The results of an Urkund analysis do not indicate significant text similarity with other available sources.

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SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	27
<i>Methods</i> (max. 30 points)	28
<i>Literature</i> (max. 20 points)	20
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	95
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Prof. Luboš Komárek

DATE OF EVALUATION: 6.6.2021

Digitálně podepsáno (6.6.2021)
Luboš Komárek

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic, demonstrating critical thinking and the ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added in the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of study. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates the author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and contains a complete bibliography.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F