Institut ekonomických studií

Fakulta sociálních věd, Universita Karlova Praha
Referee report on the Bachelor/Master Thesis submitted to State Exam

Student Name:	Jozef Jamriška
Thesis Supervisor Name:	Michal Hlaváček
Thesis Title:	The Predictive Power of the Yield Curve: Some Empirical Evidence

Overall Evaluation:

The thesis confronts existing literature with own estimations of the predictive ability of the long-short yield spread with respect to future real economic activity (mainly the probability of recessions) and monetary policy. The yield spread is tested both alone and in conjunction with other candidate explanatory variables. A conventionally defined decomposition of the yield spread into the expectation and the term premium components is conducted. (However, given modest empirical progress in this area made by other researchers even for "old" industrial countries, it is questionable whether short sample cases of transitional economies offered any hope of meaningful results.) The author used data on several Western and Central European economies to investigate the yield spread significance in a collection of econometric settings. The approach, although lacking sophistication usually expected from the mainstream academic literature on the yield curve econometrics, maintains its popularity among policymakers as a source of easily available rules of thumb. The thesis would benefit from an English language editing by a native speaker. I recommend the thesis for the defense and suggest grade B ("velmi dobře").

I have some reservations to the structure and exposition of the thesis.

Since the economic reasoning underlying the use of yield spread as a predictor, is relatively simple, individual contributions to the literature that served the author as the background, mainly differ in the econometric techniques, data and interpretation of results. Therefore, in my view it was unnecessary to allocate the whole chapter (No.2) to replicating innumerable algebraic transformations of the basic spot and forward interest rate and yield definitions that all those papers employ, since they add nothing or very little to the core analytic idea. At most, all of them could have been briefly explained in the Appendix.

On the other hand, the cited literature contains results for several industrial economies which also appear in the author's own estimations. Comparison of this thesis with earlier work, when it is conducted at all, is done unsystematically and is quite difficult to follow. The estimation result tables at the end of the dissertation are also provided on a standalone basis. One would, instead welcome a comparative overview (maybe in a table form) in which individual available studies for a given country are confronted in terms of the data sample parameters, econometric model, employed variables and outcomes.

Although the thesis discusses a vast body of literature, there are some disturbing technical details that prevent the reader from enjoying the full value of this research work. For instance, one of the most frequently cited papers in the technical chapters 3 and 4, i.e. Hamilton and Kim (2002), is given as "Kim and Hamilton", therefore difficult to find on the reference list. The simultaneous use of two citation methods – bracketed numbers as the LaTeX text processing makes particularly easy to operate, along with the standard "Author name, year" as is the standing convention in economics and finance literature – is optically annoying at the very least.

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Finally, among various ideas exploited in the literature mentioned in the thesis, I am missing one by the economist that is otherwise heavily represented on the reference list, namely Arturo Estrella. In a number of papers (see references in Estrella, Rodrigues and Schich, 2003), he an colleagues offers a less traditional treatment of the yield spread role. They discuss, among other things, the possibility that the yield spread better predicts either GDP growth or inflation depending on the monetary policy regime. This could have constituted a less standard angle of the author's own research if applied to his specific set of economies, but was unfortunately not exploited.

The conclusions from the author's own estimations are predictably mixed, same as in most studies conducted before him. Nevertheless, the work is a useful one given that Central and East European economies have not yet been subject to a similar unified analysis before.

SUMMARY OF POINTS AWARDED (for the explanation of categories and scale, please, see below):

CATEGORY	POINTS
Quality of Research	22
Clarity and Readability	6
Content/Quality of Ideas	29
Organization & Development	10
Manuscript Form	**3**
TOTAL POINTS	**70**
LETTER GRADE	**B**

Evaluated on:　　　**4/02/2008**