

Report on Master Thesis

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

Student:	Batnyam Damdinsuren
Advisor:	Roman Horváth, PhD
Title of the thesis:	Role of Financial market in Macro/modeling: Case of Mongolia

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak)*

The submitted diploma thesis is focused on “interrelationship between financial sector and macro economy of Mongolia, most importantly, to assess how financial variables perform in macro model of small open economy in terms of theoretical consistency and predictive perspective.” While this approach has been demonstrated in a few studies performed for developed markets, the advisor Mr. Horvath developed the technique with Mr.Havranek and Mr.Mateju to make it adequate for the Czech republic. The submitted diploma thesis represents further step forward – applying the set of instruments for Mongolia, case of small open country with emerging financial markets.

The thesis is well-structured and has two features complementing each other – theoretical economic and econometric. Second chapter provides very well written review of literature dedicated to different relevant issues and the notes indicate deep understanding of the topic.

In the next chapters two different models for assessing performance of financial variables in macro modeling were described and applied. “The one is SVAR model which is employed for short-term forecasting in most Central banks, and another one is small scale macro model which is used to be employed for mid-range forecast”.

Due to the Mongolian emerging market features the reviewer can confirm that the selection of financial variables was adequately adopted to reflect Mongolian bank-based financial system with gradually growing role of stock market and other markets. Hence financial variables were represented by the “broad set of financial variables mostly from banking sector, such as total loan of banking sector, broad money, non-performing loan ratio and loan loss provision share of liquidity assets of banks, together with stock market variables, market capitalization and stock market index”. Their role was investigated by performing different analysis such as impulse response for seeing how financial variables fit into system and forecasting performance for how accurate model performs after introducing financial variables. All detailed results of models performance are attached enabling to double-check the track record and interpretation.

The impulse responses analysis performed has not provided any surprising results and are in compliance with macro-expectations. As summarized by the author, monetary policy has significant effect on inflation, real demand and nominal exchange rate in short and long run, for instance, inflation reaches its lowest level after 10 months in SVAR model and 8 quarters after SSMM. At the same time all those macro variables also have significant and consistent responses to financial variable shocks. For example, all positive shocks of financial variables have significant effect to increase industrial production and then it follows by increase of inflation in SVAR models. But in case of SSMM, responses of selected macro variables are quite similar in every case except exchange rate response in stock market index shock.

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The reviewer must admit surprisingly strong forecasting performance forecasting in both SVAR and SSMM models that indicates that financial variables have substantial role on macro modeling and inclusion of financial variable. Financial model with broad money performs the best among the SVAR type models. The fact that this model could decrease forecasting errors by 40 percent in inflation forecast, and 20 percent for industrial output speaks for itself. The financial SSMM decreased forecasting errors measurably. The annual inflation forecast is improved a lot and decreased by almost 40 percent.

No surprise that core models in SVAR and SSMM, were struggling with forecasting macro variables from recent crisis period and when the author put financial variables into system, there helped not only in overall period, but also and most importantly they carried more information about crisis and helped to forecast macro variables in crisis period.

The reviewer would like to raise another question for defence. As we know, the Mongolian economy has been subject of number institutional interventions in addition. Ceteris paribus has been assumed I would expect. Would it create the serious problem?

Summing up, the thesis demonstrated excellent analytical ability of the author, as well as the skillful application and interpretation of quantitative models.

The thesis complies with its defense requirements and the evaluation yields the grade “good” as a point of departure (right at the threshold 80 points). Based upon the defense answers the grading might be improved to achieve excellent grade.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	19
<i>Methods</i> (max. 30 points)	25
<i>Contribution</i> (max. 30 points)	17
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	80
GRADE (1 – 2 – 3 – 4)	2

NAME OF THE REFEREE: *Michal Mejstrik*

DATE OF EVALUATION: *June 20,2012*

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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

Strong Average Weak
20 10 0

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

Strong Average Weak
30 15 0

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

Strong Average Weak
30 15 0

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 disposes with a complete bibliography.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě