Report on **Bachelor / Master Thesis**

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

Student:	Jakub Ulahel
Advisor:	PhDr. Adam Geršl Ph.D.
Title of the thesis:	Central Bank Independence – Theory and Case of Czech and Slovak National Bank.

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

In the thesis Jakub Ulahel introduces several possibilities how to measure central bank independence (GMT index, LVAW, the new index of political independence etc.) and applies the selected indicators on the Czech National Bank and the National Bank of Slovakia.

The thesis is well structured. However, there are some errors in mathematical equations

Eq.(9) page 7: instead of $\pi_t = \dfrac{\beta}{a} d - \dfrac{\beta^2}{a+\beta^2} z_t$ should be $\pi_t = \dfrac{\beta}{a} d - \dfrac{\beta}{a+\beta^2} z_t$;

Eq.(10) page 7: instead of $y_t = y_N + \varepsilon_t + \dfrac{a+\beta^2-\beta^3}{a+\beta^2} z_t$ should be $y_t = y_N + \varepsilon_t + \dfrac{a}{a+\beta^2} z_t$;

Eq.(11) page 8: instead of $\pi_t = \dfrac{\beta^2}{a+\beta^2} z_t$ should be $\pi_t = \dfrac{\beta}{a+\beta^2} z_t$;

Eq.(14) page 10: instead of $\pi_t = \dfrac{\beta}{a_{CB}} d - \dfrac{\beta^2}{a_{CB}+\beta^2} z_t$ should be $\pi_t = \dfrac{\beta}{a_{CB}} d - \dfrac{\beta}{a_{CB}+\beta^2} z_t$;

Eq.(17) page 11: instead of $\pi_t = \dfrac{\beta^2 \pi_t^e - 2\beta z_t}{a+\beta^2}$ should be $\pi_t = \dfrac{\beta^2 \pi_t^e - \beta z_t}{a+\beta^2}$;

Eq.(18) page 12: instead of $\pi_t = \dfrac{-2\beta z_t}{a+\beta^2}$ should be $\pi_t = \dfrac{-\beta z_t}{a+\beta^2}$.

There are two other formal deficiencies: (i) the missing index t at the expectations about inflation in time t at Eqs. (7), (8), (17) and (ii) same reference to two different sources cited both in the text as Geršl (2006), so it is not clear to which source the reference is given.

I also have some concerns about the methodology used. Central bank independence (CBI) was defined as independence from the national government. Selected indices of CBI quantify ability of the national government to influence the monetary policy conducted by the national central bank (CB) through different channels like appointment procedures, decisions about CB budget, extent of borrowing from the CB etc. However, all indices of CBI implicitly assume that the independent national CB is the final authority which can decide about monetary policy of the state. This assumption doesn't hold in the case of the National Bank of Slovakia (NBS) and it is restricted in the case of the Czech National Bank (CNB). Since Slovakia is a part of the euro area, the monetary policy of NBS should coincide with the monetary policy of the Eurosystem. The CNB is a part of the European System of Central Banks. This implies that CNB should act in accordance with the legal acts of the European Central Bank. Main finding of the thesis was "that the Czech National Bank enjoys larger degree of statutory independence than the National Bank of Slovakia". In other words this means that the government of Slovakia has higher

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influence on the Eurosystem monetary policy, than the Czech government on the monetary policy conducted by CNB. I would like to ask Jakub Ulahel to defend his conclusion. In the case of successful defense I recommend "velmi dobře" (good, 2).

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

CATEGORY		POINTS
Literature	*(max. 20 points)*	15
Methods	*(max. 30 points)*	20
Contribution	*(max. 30 points)*	15
Manuscript Form	*(max. 20 points)*	15
TOTAL POINTS	*(max. 100 points)*	**65**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE: Oksana Melikhova

DATE OF EVALUATION: **4.6.2012**

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Referee Signature