

# Report on Bachelor / Master Thesis

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

<b>Student:</b>	Mustofa Seid JEHAR
<b>Advisor:</b>	Jaromír Baxa
<b>Title of the thesis:</b>	ASSESSMENT OF ETHIOPIAN MONETARY POLICY: THE PROSPECT OF INFLATION TARGETING USING MONETARY VAR

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

Mustofa Seid Jehar writes a diploma thesis concentrating on assessment of the Ethiopian monetary policy with special focus on the prospect of inflation targeting. After an introduction to the problematic the author of this paper serves description of Ethiopian macroeconomy and monetary policy experience. The following chapter focuses on literature review. The literature is divided into several subchapters according to the content. In the fourth chapter, the methodology and data are described and finally chapter five presents author's own contribution- the empirical analysis of the problem. As this paper deals with granger causality, optimum lag-length (by SIC and AIC), VAR stability etc., it seems that the empirical part is done correctly. Moreover, author of this thesis also discusses estimated impulse response functions and variance decompositions. The results were obtained by using two different methods, namely simple VAR and SVAR. However, the results (at least with respect to impulse response functions seem to be more or less the same). In the very last chapter, concluding remarks and recommendations with respect to the prospect of the implementation of inflation targeting are served to the reader.

The strongest part of this thesis, besides the fact that the choice of monetary regime in developing (especially African) countries is a very interesting topic, I see in two points. The first is the literature review, which is well structured according to the content and provides the reader also with some up-to-date papers. The second and in my point of view more important point is the empirical analysis of the problem in which the author proved his ability to solve research problems by using adequate methods. I also like the conclusive part of the thesis.

On the other hand, this paper also has certain problems that deserve to be worked on in the future. Besides many formal shortcomings (typos, grammatical errors, some missing words, two chapters no. 5, table of contents etc.) I recommend to correct some facts (e.g. the Czech Republic is not targeting HICP but rather monetary-policy relevant inflation).

Questions, the committee could ask at the defence: If I understood the part describing the Ethiopian macroeconomy correctly, it seems the economy is something like centrally planned. If it is really so, does the author think that it is reasonable to introduce inflation targeting regime? It was surprising for me that the results obtained from simple VAR and SVAR were the same at the first glance, is it really so? As the Ethiopian economy is in the catching up process, the real convergence can be ensured either by inflation or exchange rate channel. Which one is preferable for the economy according to the author's point of view?

Despite the above mentioned critical remarks I recommend this thesis to be defended at IES and in case of successful defence, I suggest this work should earn **grade 2 (B)**.

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

<b>CATEGORY</b>	<b>POINTS</b>
<i>Literature</i> (max. 20 points)	18
<i>Methods</i> (max. 30 points)	21
<i>Contribution</i> (max. 30 points)	24
<i>Manuscript Form</i> (max. 20 points)	8
<b>TOTAL POINTS</b> (max. 100 points)	<b>71</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>2 (B)</b>

**NAME OF THE REFEREE:** Jan Šolc

**DATE OF EVALUATION:** 6.9.2012

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**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	<b>1</b>	= excellent	= výborně
61 – 80	<b>2</b>	= good	= velmi dobře
41 – 60	<b>3</b>	= satisfactory	= dobře
0 – 40	<b>4</b>	= fail	= nedoporučuji k obhajobě