

Report on Bachelor / Master Thesis

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

Student:	Mustofa Seid Jehar
Advisor:	Jaromír Baxa
Title of the thesis:	Assessment of Ethiopian Monetary Policy: The Prospect of Inflation Targeting Using Monetary VAR

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

Mustofa Seid Jehar evaluates the prospects of inflation targeting in Ethiopia. He starts with a literature review on evolution of monetary policy in Ethiopia and on inflation targeting. From the literature, he derives the condition under which inflation targeting is possible: stable relationship among monetary variables, monetary policy instrument and inflation. This relationship is evaluated using a monetary VAR, under the assumption that if the relationship were stable, the impulse responses shall be significant with magnitudes in accordance with economic intuition. Structure of the thesis as a whole is logical.

From my point of view, this is a valid approach, although one can object that inflation targeting itself can lead to stabilisation of this relationship per se, as instead of focusing on monetary aggregates the central bank switches to focus on inflation and tries to affect it mostly by setting the policy rates. Hence, I would like to see a little bit more on alternatives to the approach chosen by Mustofa or deeper reasoning in the literature review or methodology section. Namely because of the fact that the resulting impulse responses are very flat and often insignificant with the exception of the response of inflation to change in monetary aggregates.

Second, I'd like to see more on robustness of the results. I don't have much to say on the results itself other than what is presented in the thesis, but Mustofa uses just one set of variables and transformations. Perhaps estimating the same model on undifferenced data in logs, perhaps with some variables in gaps, could lead to different results. Perhaps this model is the best what was achieved, but in this case, stability of the model shall be pointed out explicitly and some intuition for this particular specification should be provided.

Beside these two main points I have number of remarks to manuscript form and to the fact that the text itself contains significant number of mistakes that undermine trust of the reader to the content of the thesis as a whole:

- Literature review – it is strange to put quotations after the end of the paragraph like in section 3.1; also the text in the literature review is not coherent, it switches from one point to another and the text does not flow.
- P.18: I don't agree that inflation should be zero according to Friedman rule and the NK theory: these theories show that either inflation itself or growth of monetary aggregates shall be stable but nonzero.
- Table of contents – chapters 2 and 4 are missing.
- Not all countries target HICP as stated on p.21. This is even mentioned in the main text on South Africa. The U.K. targeted RPIX, Sweden CPIX, also New Zealand excluded several commodities from the index (as of two years ago); sometimes the central banks target something that corresponds to HICP, but they exclude various commodities from the official inflation numbers and consistence of measurement over the world is questionable.
- Occasional problems with spelling, especially with using of capital letters.

Overall, the thesis is on interesting topic, has some qualities but caveats as well. My final grade is B with reservations and depending on the final defense.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	15
<i>Methods</i> (max. 30 points)	18
<i>Contribution</i> (max. 30 points)	18
<i>Manuscript Form</i> (max. 20 points)	10
TOTAL POINTS (max. 100 points)	61
GRADE (1 – 2 – 3 – 4)	B/C

NAME OF THE REFEREE: Jaromír Baxa

DATE OF EVALUATION: 29.8.2011

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