

Report on Bachelor / Master Thesis

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

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Title of the thesis:	Exchange Rate Transmission In the case of Ethiopia

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

The thesis estimates the degree of exchange rate pass-through into Ethiopian consumer prices and the effect of changes in exchange rate on other domestic macroeconomic variables (GDP, money supply). Based on a VAR model (commonly used in this context), with its impulse responses and variance decomposition, the author concludes that the pass-through to inflation is fairly large but incomplete, however it is statistically insignificant.

The structure of the thesis is clear and straightforward, as well as its results and implications. Still, a few points could have been improved. A larger scope could have been devoted to a description of the interpolation method of annual GDP, along with econometric issues that it brings to the data. Particularly the output gap time series (p. 58) does not look very plausible. Next, the author could test for autocorrelation of residuals (which is probably present – Figure B1 – maybe because of the interpolation) and mention its possible implications, such as biased confidence bands of impulse response functions (this may be the reason why the pass-through is statistically insignificant).

Some minor comments:

- The literature review could be shorter and omit some well known facts (e.g. definitions of monetary aggregates, types of exchange rate regimes etc.).
- Structural shocks should be normalized for easier interpretation of impulse response functions.
- The abstract mentions the results of variance decomposition concerning oil prices and foreign prices, i.e. variables which are exogenous for the Ethiopian economy. However, these results are incorrect, unless block exogeneity restrictions are imposed on the foreign variables (Zha, T. Block recursion and structural vector autoregressions. *Journal of Econometrics*, 1999, 90, 291-316).

Overall, the thesis is written competently and presents an original analysis of a developing economy and therefore I suggest an excellent (výborně) grade.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	17
<i>Methods</i> (max. 30 points)	25
<i>Contribution</i> (max. 30 points)	28
<i>Manuscript Form</i> (max. 20 points)	15
TOTAL POINTS (max. 100 points)	85
GRADE (1 – 2 – 3 – 4)	

NAME OF THE REFEREE:

DATE OF EVALUATION:


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