

Referee Report on Ainura Uzagalieva's PhD. Dissertation

“Essays on Monetary Integration, Inflation, and Trade Competitiveness in Transition”

The Ph.D. thesis, entitled “Essays on Monetary Integration, Inflation, and Trade Competitiveness in Transition”, consists of three essays:

- A. Fiscal Consequences of Monetary Integration within the Common Economic Area:
The Case of Belarus, Kazakhstan and Russia,
- B. Labour Market Flexibility, International Competitiveness and Patterns of Trade,
- C. Finding Optimal Measures of Core Inflation in the Kyrgyz Republic.

The three essays focus on macroeconomic issues in Commonwealth Independent States [CIS]. Essays A and C analyse recent monetary and inflation issues in CIS while Essay B explores a link between labour market regulations and international trade.

In light of a recent trend in the CIS towards monetary integration among Belarus, Kazakhstan and Russia, **Essay A** attempts to analyse the importance of seigniorage revenues in these countries during 1997 to 2003, and possible ways to distribute seigniorage in a Common Monetary Area, and the expected welfare effect of monetary integration. The study utilises Neumann's discrete period accounting framework based on the gross concept of seigniorage to analyse the generation and distribution of seigniorage in the three countries, and three possible ways to distribute seigniorage in the Common Monetary Area. The study is well done and leads to interesting results that are consistent with earlier findings that consider the enlargement of the EMU.

Essay B shifts attention to the question of how labour market regulations affect a country's competitive position in international trade and international trade patterns. The contribution of Essay B is twofold. *First*, the analysis shows within a Ricardian setting that differences in labour market flexibility between countries affect their competitive positions in international markets and can serve as independent cause of international trade. The author convincingly argues that countries with more flexible labour markets have comparative advantages in goods with more variable demand, while countries with more rigid labour markets have

comparative advantages in goods with more stable demand. *Second*, an empirical analysis utilizing information from 37 countries in the time period 1995-2002 supports the theoretical results.

The success and efficiency of monetary policy in terms of inflation stability depends on whether the inflation measure reflects long-term price movements or includes short-term shocks as well. **Essay C** presents information on the system of inflation measurement in the Kyrgyz Republic and argues that the inflation measure based on the consumer price index does not correspond to the ideal inflation measure. High volatility of the consumer price index, which stems from its strong sensitivity to various non-monetary factors and structural shocks, significantly complicates the goal of the central bank to control inflation. The study compares four alternative methods of measuring core inflation: the exclusion method, the trimmed means method, the standard deviation trimmed mean method and the percentiles method. The sample covers disaggregated common price index data for 1995-2005. The study sheds some light on the way of filtering out noise and short-term shifts in price changes in order to arrive at a smoothed inflation measure.

Overall considered, there is no doubt that the thesis represents the high standards set for good work in economics and makes an original and innovative contribution to the existing stock of knowledge. Topic and style are suitable for a Ph.D. degree. Thus, I would like to recommend that the Ph.D. degree should be awarded.

Professor Dr. Manfred M. Fischer
Dean of Social Sciences
Vienna University of Economics and Business Administration

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