Opponent's Report on Dissertation Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague
Opletalova 26, 110 00 Praha 1, Czech Republic
Phone: +420 222 112 330, Fax: +420 222 112 304

Author:	**Jaromír Baxa**
Advisor:	Prof. Ing. Miloslav Vošvrda, CSc.
Title of the Thesis:	Three Essays on Empirical Analysis of Economic Policy
Type of Defense:	**DEFENSE**
Date of Pre-Defense	May 21, 2012
Opponent:	**Doc. Ing. Osvald Vašíček, CSc.**

Address the following questions in your report, please:

a) Can you recognize an original contribution of the author?
b) Is the thesis based on relevant references?
c) Is the thesis defendable at your home institution?
d) Do the results of the thesis allow their publication in a respected economic journal?
e) Are there any additional major comments on what should be improved?
f) Were the comments raised at the pre-defense, addressed in the dissertation submitted to the regular defense?
g) What is your overall assessment of the thesis? (a) I recommend the thesis to be defended without major changes; (b) The thesis is not defendable.

(*Note:* The report should be at least 2 pages long.)

Content of the Report:

The dissertation thesis of Jaromír Baxa deals with empirical analysis of monetary and fiscal policy using nonlinear models. The thesis is composed of three essays: (i) How Does Monetary Policy Change? Evidence on Inflation Targeting Countries; (ii) Time-Varying Monetary-Policy Rules and Financial Stress: Does Financial Instability Matter for Monetary Policy? (iii) Fiscal developments and financial stress: A threshold VAR analysis.

The first essay investigates the evolution of monetary policy rules in five selected inflation targeting countries. The author employs a time-varying parameter model with endogenous regressors to conclude that the adoption of inflation targeting regime is not linked with abrupt change in monetary policy rule coefficients, but rather with their gradual adjustment. In addition, responsiveness of interest rate to inflation tends to decrease after the adoption of inflation targeting.

The second essay investigates whether and to what extent did central banks respond to periods of financial instability over the last three decades in five selected countries. The author augments monetary policy rule with a measure of financial stress (specifically, the Financial Stress Index developed by the International Monetary Fund) and applies again the time-varying parameter model framework. He finds out that monetary authorities do not react to financial stress in good times, but their behavior changes when facing large stress and in this case they respond mainly by lowering policy rates. Considering the sources of financial stress, most central banks seem to react to stock-market stress and bank stress.

The third essay carries out empirical analysis of fiscal policy within a threshold-VAR model. In particular, the author examines whether the effect of fiscal policy on output growth differs depending on a set of initial conditions – the existence of financial stress and the level of government indebtedness.

First of all, I would like to point out that all three essays have been published already – the first one as Czech National Bank Working Paper and also as IES FSV UK Working Paper. Moreover, as the author states in the Introduction, it is now being resubmitted after revisions to Macroeconomic Dynamics. The second essay has been published as CNB Working Paper and is currently forthcoming in the Journal of Financial Stability. Finally, the last essay has been published as European Central Bank Working Paper and as IES FSV UK Working Paper, too.

The fact that all parts of the thesis went through a detailed refereeing process should guarantee a high quality outcome. After a careful reading of the thesis I can say that it represents an original and interesting contribution to the macroeconomic research at international level.

With regard to formal requisites, in my opinion all parts of the thesis are well organized and clearly written. Frequent citations prove that the author has studied large amount of relevant literature. I am not aware of any significant factual errors in the thesis. My comments raised at the pre-defense were addressed adequately.

For the defense, I have following two questions:

1. How would you adjust the estimation method in Chapter 2 to reflect the current regime of unconventional monetary policy with near-zero policy interest rates?
2. Have you considered using some version of nonlinear particle filter (e.g. Monte Carlo, Gauss-Hermite, unscented, optimized) for the estimation of time-varying parameters?

To summarize, my view on Jaromír Baxa's dissertation thesis is very positive. I also highly appreciate the "three papers" approach to writing PhD thesis, which is regrettably still a relatively rare choice at universities in the Czech Republic. I recommend to **accept** the thesis for defense **without substantial changes**.

Date:	
Opponent's Signature:	Osvald Vašíček
Opponent's Affiliation:	Doc. Ing. Osvald Vašíček, CSc. Masaryk University Brno

Opponent's Report on Dissertation Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague
Opletalova 26, 110 00 Praha 1, Czech Republic
Phone: +420 222 112 330, Fax: +420 222 112 304

Author:	**Jaromír Baxa**
Advisor:	Prof. Ing. Miloslav Vošvrda, CSc.
Title of the Thesis:	Three Essays on Empirical Analysis of Economic Policy
Type of Defense:	**PRE-DEFENSE**
Opponent:	**Doc. Ing. Osvald Vašíček, CSc.**

Address the following questions in your report, please:

a) Can you recognize an original contribution of the author?
b) Is the thesis based on relevant references?
c) Is the thesis defendable at your home institution or another respected institution where you gave lectures?
d) Do the results of the thesis allow their publication in a respected economic journal?
e) Are there any additional major comments on what should be improved?
f) What is your overall assessment of the thesis? (a) I recommend the thesis for defense without substantial changes, (b) the thesis can be defended after revision indicated in my comments, (c) not-defendable in this form.

(Note: The report should be at least 2 pages long.)

Content of the Report:

The dissertation thesis of Jaromír Baxa deals with empirical analysis of monetary and fiscal policy using nonlinear models. The thesis is composed of three essays: (i) How Does Monetary Policy Change? Evidence on Inflation Targeting Countries; (ii) Time-Varying Monetary-Policy Rules and Financial Stress: Does Financial Instability Matter for Monetary Policy? (iii) Fiscal developments and financial stress: A threshold VAR analysis.

The first essay investigates the evolution of monetary policy rules in five selected inflation targeting countries. The author employs a time-varying parameter model with endogenous regressors to conclude that the adoption of inflation targeting regime is not linked with abrupt change in monetary policy rule coefficients, but rather with their gradual adjustment. In addition, responsiveness of interest rate to inflation tends to decrease after the adoption of inflation targeting.

The second essay studies whether and to what extent did central banks respond to periods of financial instability over the last three decades in five selected countries. The author augments monetary policy rule with a measure of financial stress (specifically, the Financial Stress Index developed by the International Monetary Fund) and applies again the time-varying parameter model framework. He finds out that monetary authorities do not react to financial stress in good times, but their behavior changes when facing large stress and in this case they respond mainly by lowering policy rates. Considering the sources of financial stress, most central banks seem to react to stock-market stress and bank stress.

The third essay carries out empirical analysis of fiscal policy within a threshold-VAR model. In particular, the author examines whether the effect of fiscal policy on output growth differs depending on a set of initial conditions – the existence of financial stress and the level of government indebtedness.

First of all, I would like to point out that all three essays have been published already -- the first one as Czech National Bank Working Paper and also as IES FSV UK Working Paper. Moreover, as the author states in the Introduction, it is now being resubmitted after revisions to Macroeconomic Dynamics. The second essay has been published as CNB Working Paper and is currently forthcoming in the Journal of Financial Stability. Finally, the last essay has been published as European Central Bank Working Paper and as IES FSV UK Working Paper, too.

The fact that all parts of the thesis went through a detailed refereeing process should guarantee a high quality outcome. After a careful reading of the thesis I can say that it represents an original and interesting contribution to the macroeconomic research at international level.

With regard to formal requisites, in my opinion all parts of the thesis are well organized and clearly written. Frequent citations prove that the author has studied large amount of relevant literature. I am not aware of any significant factual errors in the thesis, and I have only a few minor comments:

- I would appreciate if the author could include into the thesis also graphs of the data he used in Chapter 2 and 3;
- On p49, author refers to the index *j* in the Equation (3), but this index is missing in the equation;
- The subsection numbering in 3rd paragraph on p16 should be 2.4.1-2.4.7 instead of 1.4.1-1.4.7;
- I also encountered a few typographical errors: it is analysed investigate – p3, Sveriges Riskbank - p23, and and - p27.

For the defense, I have the following question:

1. Based on your results in Chapter 4, is it possible to formulate any recommendations for economic policy?

To summarize, my view on Jaromír Baxa's dissertation thesis is very positive. I also highly appreciate the "three papers" approach to writing PhD thesis, which is regrettably still a relatively rare choice at universities in the Czech Republic. I recommend to **accept** the thesis for defense **without substantial changes**.

Date:	
Opponent's Signature:	
Opponent's Affiliation:	Doc. Ing. Osvald Vašíček, CSc. Masaryk University