

# Report on Bachelor / Master Thesis

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

<b>Student:</b>	<b>Mr. Ferit UCAR</b>
<b>Advisor:</b>	<b>Dr. Pavel Vacek, PhD</b>
<b>Title of the thesis:</b>	<b>Central Bank Interventions and Their Influences on Exchange rates: The Case of Turkey</b>

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

The diploma thesis of Mr Ucar is in its length a bit more than habitual (58 pages, while 50-55 are considered minimal). It is divided into three parts: 1] Theoretical background (pp. 3-20); 2] Description of the analysed real economy, i.e. Turkey (pp. 21-31); 3] The model description and the empirical testing of hypotheses (pp. 32-55), which form the core of the thesis. These seem to be a well balanced structure.

Chapter 2 on the theories of central bank interventions is very standard – it is an introduction to the topic, as is presented in textbooks. Here I missed a wider context of the analysed interventions: their relationship to the external balance, i.e. to the balance of payments, or even to the internal balance, since every central bank should care about both the price stability and external equilibrium, and interventions cannot but react to these (plus, perhaps, react to the status of economic growth and its impact on the exchange rate). This is also omitted in chapter 3 that became a mere description of the literature.

Chapter 4 on the Turkish economy unfortunately reflects that narrow approach undertaken by the author where interventions are not considered as a repercussion (i.e. an effect) of the evolution in economic fundamentals (GDP growth, gains in relative productivity, trade balance, current account stance, FDI balance, relative real interest rates, inflation, unemployment, money supply, etc.) but some sort of passive operational accommodating behaviour of the central bank.<sup>1</sup> Did the CBRT have no long-term strategy in building such enormous reserves (equal to much wealthier countries, such as Britain or even the United States), as shown in figure 4.2? Were the intervention hanging in the economic vacuum?

Figure 4.1 offers more questions to be asked, once the stability and volatility of the exchange rate of the TRY is tested: except for instant and short term volatilities there are medium and long-term fluctuations. Which of these were on the list of priorities of the CBRT and in which ranking? Another potential question to be dealt with in the thesis was: „what was the estimated impact of such a hoarding via interventions on the nominal spot exchange rate“? Speaking in general, I would expect that the author asked the question „WHY?“ much more often in this study.

Chapter 5 provides a rich list of various studies on the given topic. This is a strong part of the thesis. Chapter 6 describes the models applied on the outlined hypotheses. The analysed period of January 4, 2005 through December 31, 2012 is well chosen since it can test a lot of variation in the exchange rate. I just wondered why the author selected the ER of TRY to USD without giving a extensive justification for that. Is dollar the dominant currency for Turkish trade and financial transactions? Were the intervention dealing exclusively with USD and disregarding the EUR? And did the interventions completely by-pass the forward market?

In contrast to economic scope, I appreciate the technical aspects of the thesis, e.g. how extensive and rigorous were the tests of statistical pertinence of estimations. Nevertheless, the description of models (e.g. the equation 6.2) should be described in more reader-friendly way: the criteria for selecting the particular explanatory variables,<sup>2</sup> their role, properties and the

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<sup>1</sup> Maybe the bank acted like that in reality, which could be somehow intuitively presupposed by the author. But that still would not be a reason why an alternative hypothesis was not tested.

<sup>2</sup> The thesis should refer here more to the theories of volatility (e.g. to the role of overshooting and speculation).

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interpretation of coefficients, even though at the end on page 47 the reader can find the solution to some of the clues.

Chapter 7 with results is well written and should be considered as a proof that the author has high skills in econometrics. I am only sorry that the data did not provide sufficient space for positive discoveries since the vast majority of tested variables were insignificant.

### **Suggested question for the defense:**

Explain why your tests were in the majority of cases insignificant and their explanatory power was marginal. Is it the problem of insufficient theories, inappropriate choice of variables or do the interventions lack any policy-oriented purpose? Can we then talk about "efficiencies of interventions"?

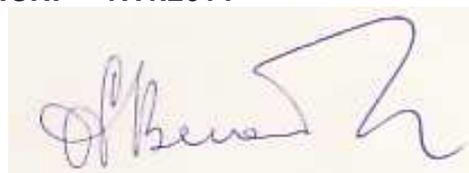
In the case of successful defense, I recommend "**velmi dobře**" (good, 2, actually 1.8 to be exact).

### **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)	22
<i>Contribution</i> (max. 30 points)	17
<i>Manuscript Form</i> (max. 20 points)	16
<b>TOTAL POINTS</b> (max. 100 points)	<b>73</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>2</b>

**NAME OF THE REFEREE:** *Vladimír Benáček*

**DATE OF EVALUATION:** 17.1.2014



**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 analysed.*

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