

Report on Master Thesis

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

Student:	Bc. Jan Žáček
Advisor:	doc. Mgr. Tomáš Holub, PhD.
Title of the thesis:	Should monetary policy pay attention to financial stability? A DSGE approach

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

This thesis uses a small open economy DSGE model following the New Keynesian tradition with added financial frictions to study the question, if a central bank should set interest rates taking into account the developments of financial variables, besides the standard factors of the Taylor rule. This is a very topical subject after the recent global financial crisis, and given the subsequent debates on the appropriate nexus between monetary policy and financial stability.

The advanced nature of this thesis goes well beyond the standard master level, and deserves follow-up research during the PhD programme. The author was able to derive and code the model largely independently, which shows a high research potential for the future. The thesis has a logical structure, extensive list of references, and is written in good English.

The results of the thesis show that reacting to the financial variables might indeed be beneficial for the inflation and output stabilization. In particular, a positive weight should be ascribed to asset prices and a negative one to credit volume. This is an interesting contribution to the literature. A question at the defence might focus on why the weight on credit is negative, contrary to what one might intuitively expect. The author might be asked to clarify, to what extent this conclusion depends on the very strong „loanable fund“ mechanism in his model, and what other modelling approach he might take in the future to verify robustness of his conclusion.

During the work, the author incorporated all my major comments and suggestion. Therefore, I have no further specific remarks. **I recommend the thesis to be accepted and graded “excellent” (1, výborně).** Depending on the report by the opponent and the author’s performance at the defence, the committee might also consider **awarding the Dean of the Faculty distinction for an excellent Master thesis.**

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	20
<i>Methods</i> (max. 30 points)	28
<i>Contribution</i> (max. 30 points)	28
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	94
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Tomáš Holub

DATE OF EVALUATION: 14 June 2016



Referee Signature