

Report on Master Thesis

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

Student:	Bc. Pavlína Kadlecová
Advisor:	Doc. Roman Horváth
Title of the thesis:	The Evolution of Optimum Currency Area Index: Post-Crisis Perspective

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

The thesis estimates the optimum currency area (OCA) equation using a sample of advanced countries in the 1980s and 1990s and calculates the co-called OCA index for EU/EEA countries (including the new EU Member States) in four points in time (the last one in 2014). The main value added of the thesis is an inclusion of additional variables in the OCA equation capturing labour mobility and financial integration – variables that have been mentioned many times in the OCA theory as counterbalancing factors against impacts of asymmetric shocks, but that have not been consistently included in the empirical work.

The thesis is very well written, properly structured, and leads to clear conclusions. The author is demonstrating her good econometric skills by applying both standard (OLS) as well as advanced (GMM) estimation methods to estimate the OCA equation. The review of literature reads well, results are properly discussed and compared to alternative studies, and the application to calculate and discuss the OCA indices is well done and leads to interesting but quite intuitive results.

Including a standard deviation of credit growth among a pair of countries seems like a good proxy for capturing financial integration, but as financial integration is included because „it can cushion temporary adverse disturbances through capital inflows“, alternatives could be considered, too. The fact that two countries have very similar credit cycles does not yet mean that they are financial integrated – it could be a reflection of similar financial structures and underlying economic cycles (such as in the case of Austria and Germany). For example, an index of mutual cross-border capital flows among a pair countries (constructed using BIS International Banking Statistics) or presence of foreign banks could be used, too. What we want to measure here is the potential to use cross-border capital flows to mitigate the impact of asymmetric shock, which could happen (and probably even would!) in a situation of divergent credit cycles. Also, pros and cons of strong financial integration needs to be discussed, as financial links between countries may not only serve as buffers/insurance mechanism, but also as transmitters and amplifiers of shocks. The author could discuss the above at the defense.

Overall, it is a very nice Master thesis which I fully recommend for defence and suggest the grade 1 (excellent).

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	18
<i>Methods</i> (max. 30 points)	28
<i>Contribution</i> (max. 30 points)	26
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	90
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Doc. Adam Geršl

DATE OF EVALUATION: 6.6.2016



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