

Report on Bachelor / Master Thesis

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

Student:	Bano Ali
Advisor:	Mgr Pavel Ryska, MPhil
Title of the thesis:	The Role of the Interest Rate in Causing the Great Depression

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

This Bachelor thesis looks at the role of the interest rate in the prelude and the unfolding of the Great Depression. Overall, I find the thesis well balanced and of adequate length. It devotes most space to the explanation of the stance of three distinct schools of thought (Keynesian, Austrian, Monetarist), but given that the thesis is meant to be a theoretical and comparative one, this is fine. The language is good, though there are occasional mistakes.

I evaluate positively both part II, which is a concise outline of the macroeconomic trends of the period, and part III with the review of schools. I see as a strength that the author used original literature (Keynes, Friedman & Schwartz, Hayek, Böhm-Bawerk) and did not rely only on reproduced resources, and that theory is accompanied by data which show, for each school, the relevant variables of interest. I would only suggest merging part II.4 with II.3, because the Hayekian triangle is a concept of the Austrian school and therefore should be included in it.

In chapter IV (the comparison of schools), I find the „Discussion“ part to be a valuable text. The author shows the ability to critically analyze and compare the schools, which should be expected from a theoretical thesis. I would highlight the observation that the monetarist theory in fact lacked a business-cycle element, which would explain what the interest rate is in the first place and how it affects firms' decisions, and instead followed the Keynesians in focusing only on major aggregates. Another point worth mentioning is that the theories are sometimes hardly comparable when it comes to the empirics, because they focus on different time periods (Keynesians on 1929-1939, Austrians on the 1920s).

As regards „Hypothesis Testing“ in chapter IV, I have certain reservations. First, if it is meant to be „testing“, it should include more than just comparing rates of growth. Although (in case of hypothesis 1), the comparison in the graph looks convincing, testing would include statistical testing, which is lacking. However, the thesis was not meant to be empirical, so this is not a major flaw. Second, I am not sure about the M2/GDP ratio magnitude in Figure 16, which should be in my opinion much higher than 0.02 (but this is just a suggestion for checking the data is right, not a criticism).

Overall, I consider the thesis very well written, enriching, using adequate literature, and given that it is laid out as a theoretical one, I do not see the shortcomings in IV.2 as crucial. It meets well the requirements for a Bachelor thesis and I suggest grade 1.

Suggested questions:

- You observe in part IV.1 that it is hard to decide between the Keynesians and the Austrians because they each focus on a different time period. Is it then possible, in your opinion, to fairly judge which of these schools of thought better explains the Great Depression?
- You showed a long, multi-year period of falling interest rates between the 1920s and 1940s in the United States (p.8, for example). Today, the Fed has kept rates at 0% since 2008. Do you see potential risks connected with this policy, given the experience that you analyzed in your thesis?

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

CATEGORY	POINTS
Literature (max. 20 points)	19
Methods (max. 30 points)	25
Contribution (max. 30 points)	28
Manuscript Form (max. 20 points)	15
TOTAL POINTS (max. 100 points)	87
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Mgr Pavel Ryska, MPhil

DATE OF EVALUATION: June 10, 2015


Referee Signature