

Report on Bachelor / Master Thesis

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

Student:	Roman Borufka
Advisor:	doc. Mgr. Tomáš Holub, Ph.D.
Title of the thesis:	How is the Swiss economy coping with the CHF appreciation after the SNB's exit?

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

Please provide your assessment of each of the following four categories. The minimum length of the report is 300 words.

This bachelor thesis provides investigation of the Swiss National Bank's regime of the minimum exchange rate. Its main aim is to analyze the implications of the abandonment of the regime on key macroeconomic variables which include GDP, annual consumer price inflation, producer price inflation and unemployment rate. For this purpose, the author uses vector-autoregressive framework and concludes the CHF/EUR exchange rate appreciation has temporary dampening effects on GDP, consumer prices and interest rate.

Contribution

From the perspective of both policymakers and academia, the author tries to analyze very interesting and complex topic. Having in mind importance of monetary policy in the modern market economy setting, the case of Swiss National Bank from the early 2010s has been studied quite thoroughly. Yet despite its popularity, there are still many aspects to be explored.

On the other hand, the direction where the author tries to contribute to the existing literature is a bit less original and the extent of his contribution is, unfortunately, quite limited. This is caused both by statistical insignificance of the presented results and by the nature of the analysis employed.

As far as I am concerned, however, the worst element of this thesis (by far) is that it lacks critical thinking – something which is highly regarded in academia. When reading the thesis, it feels as if Swiss National Bank did everything right and achieved everything it wanted without any losses. This is wrong, in my opinion. Central banks are just another institutions led by people whose decisions are being made with the support of simplified models that are unable to describe reality. Omission of this thinking is from my perspective the biggest impediment of this thesis which downgrades the contribution of this thesis quite substantially. Related to this issue, I have the following comment:

- The author states (pp. 13 and 14): „... the SNB concluded that the introduction of the exchange rate floor was essential. Thanks to this unconventional monetary policy decision, Swiss companies were able to plan their economic activities in advance without worrying about risks that might have arisen from the CHF appreciation.“ Can the author explain how were Swiss companies able to plan their economic activities in advance without worrying about the risks that materialized after the SNB announced discontinuation of the minimum exchange rate regime in January 2015? The author only mentions (p. 22) that certain export sectors suffered heavily from the discontinuation of the floor and that it might take them longer to recover (e.g. watch industry) and moves on. This is exactly point where long and deep discussion about the end of the regime, about its timing, about the real reasons why the SNB decided to abandon it (e.g. pressure from the cantons) or the nature of the regime itself should have taken place. Unfortunately, it did not appear here nor anywhere else in the thesis.

Methods

The author uses vector autoregression (VAR) model in empirical part of the paper. I appreciate a brief description of the method to give the reader some theoretical background as well as implications for practical use. Moreover, I highly appreciate the extensive and thorough discussion in subsections 6.3 and 6.4 on the model specification and diagnostic checking. This part shows the author familiarized

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himself with important steps that are required before getting to the results. Related to these subsections I have the following remark:

- The author states (p. 32): „One way how to correct for non-stationarity of the data is to take the first difference of each variable.“. First differencing is indeed used heavily in these sort of analyses but first-differencing of data leads to loss of long-term information which might be quite important – particularly in analyses with macroeconomic data that often share common trends. Moreover, taking first-differences should be conducted with some rationing behind and should not be done blindly for all variables just because it is non-stationary. For example, that is the case of the interest rate variable which is typically included in VAR models as a non-stationary variable. This can be done when the VAR model is stable because stability implies stationarity (see Lütkepohl, 2005 – a paper which the author cites as well).

What I do not appreciate, however, is part 6.5.1 (p. 36). Even though this is within subsection 6.5 entitled „Vector Autoregression Model Interpretation“, the author gives a false interpretation of the results as he presents impulse responses that are statistically insignificant. Unfortunately, the results are then used for confirmation of the author's hypotheses/extracted signals from descriptive part. The problem with statistically insignificant results is that the real impulse responses could be completely inverse to the ones the author presents.

Literature

The extent of the literature is for the most part one-sided and it relates all to the SNB publications which are at least set correctly in the context and the reader can follow the text logically. In the empirical part, the author uses wider set and includes important articles such as Sims (1980) or Lütkepohl (2005). The citing style, however, is quite weird and should be corrected.

Manuscript form

Except for couple of minor issues (see below), the language and style for both text and graphs are used correctly.

- Using expressions not suitable for academic texts (e.g. „it can be seen“, p. 4; „relax the monetary policy“, p. 8; etc.)
- Missing dots at the end of the sentence with references (indeed weird style, see p. 4)
- The author should write in present tense not in future tense (e.g. „Chapter 4 will describe...“, p.2)
- Sources at graphs are not described correctly (e.g. Figure 4.2, „Source: Author based on the SNB“, it should be just: „Source: SNB“, the author did not calculate in this case anything, etc.).

In the case of a successful defense, I recommend grade **satisfactory** („dobře“, 3).

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	7
<i>Methods</i> (max. 30 points)	22
<i>Literature</i> (max. 20 points)	12
<i>Manuscript Form</i> (max. 20 points)	15
TOTAL POINTS (max. 100 points)	56
GRADE (1 – 2 – 3 – 4)	3

NAME OF THE REFEREE: PhDr. Jan Hájek

DATE OF EVALUATION: 2.6.2017



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