

Report on Master Thesis

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

Student:	Aleš Zenáhlík
Advisor:	Jaromír Baxa
Title of the thesis:	Identifying the Conditions of Instability in Macromodels of Financial Cycles

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.

Contribution

The purpose of this thesis is to construct an endogenous macroeconomic model explaining the cause of financial cycles and systemic instability based on the financial instability hypothesis by Hyman Minsky (1982). The main idea of this hypothesis is an observation that financial systems are inherently unstable because periods of economic prosperity encourage borrowers and lenders to be increasingly reckless which in turn lead to formation of financial bubbles.

Regarding the quality of the thesis, my biggest objection is that Aleš Zenahlik is somewhat silent about his original contribution. The thesis itself presents quite an original contribution to the literature - I believe the model components starting from section 4.4 are entirely new, but this is something what the reader has to find out by himself.

The most important implication of the paper is that it demonstrates an importance of private debt for the overall macroeconomy and presents its macroeconomic implications. The importance of private debt stems not only from the theoretical model, but from the empirical model as well.

Methods

The model constructed by Aleš builds on adaptive expectations. In times of DSGE models with rational expectations, resorting towards adaptive expectations might be considered as a sign of relative backwardness however it's not that uncommon in this sort of literature. The main part of this thesis is inspired by works of Steven Keen and the model by Aleš is used to study the impact of lender of last resort and its alternative policies to functioning of the economy. The model is dynamic, highly nonlinear and it's building include the investment lag (similar to time-to-build phenomenon in papers by F. Kydland and E. Prescott); private debt prudence (desirability of debt) and various forms of expectations. Furthermore, a simple VAR that attempts to verify the main implications of the theoretical model is presented as well.

The theoretical model is described relatively well and demonstrates the command of economic modelling. I have some reservations about the VAR model - the modelling choices in VAR should have been described somewhat more precisely, and given the fact the VAR models are often identified via these modelling choices, a sensible sensitivity analysis should have been provided as well even if the main contribution lies in the theoretical model.

Literature

Regarding the quality of the thesis, my biggest objection is that Aleš Zenahlik is somewhat silent about his original contribution. I believe this shall be the main topic for the defense. Otherwise, main relevant literature seems to be covered.

Manuscript form

Unfortunately, the overall impression is somehow affected by the form of the manuscript: the reader is distracted from reading by occasional typos, fragments of sentences.

Overall evaluation: I have some tendency to propose grade A, mainly due to the fact that the topic of the thesis is very complex, difficult to elaborate and Aleš has been able to cope with

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these obstacles at the level I've never expected, but this proposal shall be considered as somewhat "tentative".

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	26
<i>Methods</i> (max. 30 points)	28
<i>Literature</i> (max. 20 points)	17
<i>Manuscript Form</i> (max. 20 points)	10
TOTAL POINTS (max. 100 points)	81
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE:

Jaromír Baxa

DATE OF EVALUATION:

June 13, 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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
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