

Report on Bachelor / Master Thesis

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

Student:	Bc. Olena Melnychuk
Advisor:	Doc. PhDr. Tomáš Havránek, Ph.D.
Title of the thesis:	Gold in Central Bank Reserves and Price Stability

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

The consensus among central bankers is (I would say) that the share of assets invested in gold is irrelevant for the conduct and results on monetary policy. Nevertheless, there are vast differences in the holdings of gold across central banks; the differences are given by path dependency, but also public opinion – frequently, the public wants the central bank to hold a lot of gold, as gold is perceived (by laymen, at least) to be more stable than, for example, foreign currency. When the central bank sells gold, the public frequently laments such a decision. Now, monetary policy nowadays works primarily via influencing the expectations of the public. If the people trust the central bank more if it holds more gold, central banks that hold a lot of gold might be more successful in delivering price stability. A relatively large pool of studies have examined the effects on price stability of central bank independence or central bank financial strength (while controlling for other aspects of economies and central banks). The idea of this thesis is to investigate the nexus between price stability and central bank gold holdings. As far as I know, no study has been conducted on this issue (which I found quite surprising).

Methods

The methodology suitable for this research question is well established, all that is needed is to collect and add one variable: gold holdings. I believe that the empirical analysis in this thesis is implemented competently. Needless to say, it is not easy to put together all the information on central banks that is necessary for such an exercise.

Literature

Olena know that I disagree with some of her interpretation of the literature. For example, in the introduction she writes: “The vast majority of economists believe that central banks should keep their reserves in gold because gold is believed to hold its value against inflation.” I would be careful with such strong statements.

Manuscript form

I like when students use LaTeX and write in good English, which Olena’s case as well. Still, there are typos, even in the titles of tables. For example, “The dependence of inflation on gold reserves by fixed effects controlling unemployment and money supply” – that’s not entirely clear.

Report on Bachelor / Master Thesis

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

Student:	Bc. Olena Melnychuk
Advisor:	Doc. PhDr. Tomáš Havránek, Ph.D.
Title of the thesis:	Gold in Central Bank Reserves and Price Stability

Summary and suggested questions for the discussion during the defense

After going through the final version of the thesis, I have the impression that there is relatively little evidence on the effect of gold on inflation. One can pick specifications where the effect is clearly negative, just as one might focus on the many regressions when no significant effect is found. Even if there is no effect, we are likely to find statistical significance at 10% level in one out of ten regressions we run, so some statistically significant results are not surprising. So what's the key takeaway? Which specification does Olena prefer?

Regarding the grade, my suggestion is B, but I actually hope Olena will present her case forcefully and defend an A (I have to mention that she worked really hard on the thesis and was fast to implement my comments and suggestions). Suggested question for the defense: please explain in detail the mechanism of the causal effect from gold holdings to inflation.

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

CATEGORY	POINTS
Contribution (max. 30 points)	28
Methods (max. 30 points)	22
Literature (max. 20 points)	16
Manuscript Form (max. 20 points)	15
TOTAL POINTS (max. 100 points)	81
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE: Doc. PhDr. Tomáš Havránek, Ph.D.

DATE OF EVALUATION: 10.1.2019



Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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

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

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

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	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F