

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 diploma thesis offers an interesting research topic dealing with the relationship between the gold as a part of central bank foreign exchange reserves and price stability. For many central bankers such formulation of the research question could be surprising, as it is not one of their conventional wisdom that gold can play a role in promoting price stability. That is all the more important for the thesis to follow the standard structure made up of the following building blocks:

1. The literature review dealing with the research topic.
2. Clarification of the transmission mechanism between managing gold reserves and price stability, which according to the author's opinion could have some empirical relevance.
3. Clarification of the econometric tools used to examine the relevance of the research question.
4. Quality of the data used.
5. Policy recommendations, if there are any, for central bank decision making.

Methods

Unfortunately, the diploma thesis has significant gaps in following the above structure. There is a completely absence of the second bullet aiming at clarifying an economic background of transmission channels, either direct or indirect, between gold inventory and affecting price stability. The author basically relies on the use of the correlation analysis only. However, this is a very problematic approach, prone to discovering spurious correlations. Similar to the classical example of a high correlation between sunrise and crowing of the cock.

The thesis does not also provide evidence of one its key propositions, namely that gold is a stable asset. On the contrary, historical volatility of gold is quite high. Here the author seems to mix up the gold's alleged price stability with the gold's function as a safe haven during economic turbulence. The thesis has its strong parts as well. One can appreciate a clear application of the econometric instruments. It is also the ability to work with large data sets, documented in an extensive sample of 110 countries. However, such a large sample, meaning also such an extremely heterogenous sample, raises the question of whether some general conclusions for particular group of countries can be drawn from it.

Literature

The literature review is sketchy. This is partly understandable, as the traditional central bank reasoning does not pay attention to the researched topic. This part missed the opportunity to summarize views about specific role of gold as one of the components of foreign exchange reserves. One would also expect a finer classification of countries using inflation targeting. Having a quantitative target for inflation does not mean that necessary preconditions of inflation targeting regime are respected in real life.

Manuscript form

The diploma thesis is written in a clear and careful manner. It is obvious that the author placed the appropriate emphasis on this matter. The English is good, not preventing to understand the content of the text.

Summary and suggested questions for the discussion during the defense

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One can conclude that the thesis meets the requirements and is eligible for defence. Its weakness is the absence of economic reasoning; its strength is the analytical grasping of the research question. During the defence the author should fill the gap and supplement economic arguments whether central banks should aim at increasing gold reserves for the sake of promoting price stability and what is the mechanism of achieving price stability in this way.

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	18
<i>Methods</i> (max. 30 points)	20
<i>Literature</i> (max. 20 points)	15
<i>Manuscript Form</i> (max. 20 points)	20
TOTAL POINTS (max. 100 points)	73
GRADE (A – B – C – D – E – F)	C

NAME OF THE REFEREE: *prof. Ing. Oldřich Dědek, CSc.*

DATE OF EVALUATION: 13 January 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

