Report on **Master Thesis**

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

Student:	**Bc. Petr Nedvěd**
Advisor:	**PhDr. Jaromír Baxa, Ph.D.**
Title of the thesis:	**ECB Monetary Policy: "One Size Doesn't Fit All" Problem and Its Impact on Credits Volume**

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

The aim of this thesis is to show an evidence of inappropriateness of ECB monetary policy for the eurozone member states. It is focused on attractive, One size doesn't fit all, problem and since we are far from its perfect understanding, the analysis on this topic could bring interesting insights.
The thesis is structured as follows: It starts with literature review on the topic and then the Taylor rule is presented as a benchmark for evaluation of appropriateness of the policy. Then, two different versions of the Taylor rule are presented and the deviations from the two rules are compared. Finally, the estimated deviations are used in a dynamic panel regression analysis that aims to identify potential determinants of credit expansion. The thesis concludes that the deviations from the Taylor rule are important determinant of credit growth in the eurozone member states.
The author worked with an extensive list of literature, which should be appreciated. Furthermore Petr shows good level of his econometric skills, the part with dynamic panel regression is well elaborated with a description of estimation approach and estimation results.

Personally, I have some reservations to the presented thesis. First, I find the choice of the Taylor rule as a benchmark as being rather arbitrary and oversimplifying. There are number of reasons for that: There is no single Taylor rule, it is a difference between estimated Taylor rule and Taylor rule derived from structural model as a stabilizing device. Furthermore, even with one sort of Taylor rule, there's an issue of ex-post vs. real-time evaluation of deviations of the actual interest rates from the prescription resulting from the rule. Also, different representation of economic activity such as unemployment can be considered and there's a waste evidence for the U.S. that all these minor modifications could lead to substantially different evaluations of economic policy.
All these issues lead to substantial model based uncertainty even with setting up the benchmark. The good is that the author seems to be aware of that and deals with two alternative specifications. On the other hand the panel regression is done mainly with just one specification of the Taylor rule and one set of deviations: out of 8 models, just one utilizes the alternative specification and, sadly, the results for this regression differ from the baseline model in the most important aspect and it is the significance of the Taylor rule deviation for the credit growth. For baseline specification, the deviation seem to be significant, for the other it isn't. Hence, my conclusion from this analysis would be that measurement matters and it is hard to derive strong policy conclusions from this analysis.

It should be noted that my perspective could be somewhat biased and being rather more critical then necessary. Let me explain why it could be so. From my point of view, the main problematic point of the thesis stands already at its origin: it is a difference to approach the problem with a perspective of analysing potential discrepancies in adequacy of the ECB monetary policy for the members of eurozone, and to presume that the ECB interest rate setting has not been adequate for every particular eurozone member and adjusting the analysis accordingly. With the second perspective, chosen by Petr, I think it is quite hard to deliver an objective analysis that balances both pros and cons of single monetary policy and that tries to evaluate alternative hypotheses about diverging tendencies in the eurozone, that are not necessarily of permanent nature.
We've been struggling with this conflicting perspective since the very beginnings and at some point I arrived to a point, that the supervisor is here to respect the choice of the student after providing him with information about possible caveats of that particular choice. Hence, my evaluation should be considered while taking this internal conflict of mine into account.

Overall, I recommend grade B. The final decision should be made by the committee during the final defence where the choice of the methodology should be discussed.

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

CATEGORY		POINTS
Literature	*(max. 20 points)*	18
Methods	*(max. 30 points)*	18
Contribution	*(max. 30 points)*	15
Manuscript Form	*(max. 20 points)*	20
TOTAL POINTS	*(max. 100 points)*	**71**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE: *Jaromír Baxa*

DATE OF EVALUATION: *19.9.2014*

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                    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