Report on Master Thesis

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

Student:	**Tomáš Šestorád**
Advisor:	**Jaromír Baxa**
Title of the thesis:	**The Exchange Rate Pass-Through at the Zero Lower Bound**

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

This thesis estimates the exchange rate pass through in the Czech Republic by means of TVP-VAR-SV model that shall account for instability both, parameters and volatility. While the methodology is not entirely new and it had been applied on the Czech data already (Franta et al.s'paper with the data up to the year 2010), there is a good reason to perform such an exercise again: The Czech National Bank started with exchange rate interventions almost four years ago assuming that 1) devaluation of the Czech koruna would help to alleviate deflation 2) to achieve inflation target 3) exchange rate pass through might be stronger at zero lower bound. The empirical evaluation of the effects of the exchange rate floor regime is still emerging and it leaves a lot of space for research.
The results suggest the exchange rate pass through to prices actually declined in times of zero-lower bound thus not proving the claims of the central bank's officials that devaluation had been an appropriate response to low inflation. On the other hand, relatively larger pass through is observed between the exchange rate and output. Nevertheless, it shall be admitted that the results are surrounded by substantial uncertainty which is quite common to these kind of models.

Methods

Tomáš has chosen a framework of time-varying VAR model with stochastic volatility. The methodology is described in an appropriate way and throughout the text, a lot of technical details are provided (especially with respect to Bayesian estimation). Also, the utilization of non-linear framework is supported by appropriate tests, which is not often the case in the literature. Clearly, Tomáš is able to undertake independent research using the tools of advanced time series econometrics.
I appreciate the extensive sensitivity analysis provided in the thesis, giving higher credibility to these results. Furthermore, I'd wish to point out an excellent comparison of the results that were obtained with other papers. For me, this is the best part of the thesis. It demonstrates that Tomáš does not just estimate no-matter-how-advanced model but he knows the economics behind.

Literature

The literature review is excellent. It‘s a good synthesis of the field, not just a description of one and other paper.

Manuscript form

Without objections.

Overall evaluation: Overall, Tomáš delivered an excellent diploma thesis and I warmly recommend grade A. The thesis also offers opportunities for the future research. Mainly, it shows there exist a discrepancy between predictions of theoretical DSGE models which predict increased exchange rate pass through under zero lower bound and the growing empirical literature which is by large unable to confirm that view. Being able to explain this dichotomy might bring interesting policy implications. This point is also correctly mentioned in the paper.

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

CATEGORY		**POINTS**
Contribution	*(max. 30 points)*	*30*
Methods	*(max. 30 points)*	*30*
Literature	*(max. 20 points)*	*20*
Manuscript Form	*(max. 20 points)*	*20*
TOTAL POINTS	*(max. 100 points)*	**100**
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.*

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