

MASTER'S THESIS EXAMINER REPORT

IEPS – International Economic and Political Studies

Faculty of Social Sciences, Charles University

Thesis title:	Monetary policy of oil-exporting countries with informality: a DSGE analysis of Iraq
Student's name:	Nour Safar
Referee's name:	doc. Mgr. Tomáš Holub, Ph.D.

Criteria	Definition	Maximum	Points
Major Criteria			
	Contribution and argument (quality of research and analysis, originality)	50	42
	Research question (definition of objectives, plausibility of hypotheses)	15	12
	Theoretical framework (methods relevant to the research question)	15	12
Total		80	66
Minor Criteria			
	Sources, literature	10	8
	Presentation (language, style, cohesion)	5	2
	Manuscript form (structure, logical coherence, layout, tables, figures)	5	0
Total		20	10
TOTAL		100	76

Plagiarism-check (URKUND) match score:

[NB:] If the plagiarism-check (URKUND) match score is above 15%, the reviewer has to include his/her assessment of the originality of the reviewed thesis in his/her review.

The work is clearly original. Its corner-stone in a NK-DSGE model, which is obviously inspired by a lot of previous research, but as a whole is innovative. At the same time, I do not find significant overlaps of the text with earlier literature.

Reviewer's commentary according to the above criteria (min. 1800 characters including spaces when recommending a passing grade, min. 2500 characters including spaces when recommending a failing grade):

A strong feature of the thesis is its research methodology, which is based on a New Keynesian DSGE model, i.e. a type of model that can be considered a work-horse of modern macroeconomic research. I was quite impressed to see how quickly the student was able to learn and implement such a technically advanced analytical approach. I am sure that this gives him a significant further research potential for the future. Moreover,

a model for a small open economy dependent on oil, and with a large informal sector is definitely not an easy thing to develop, and thus contributes to the literature significantly.

That said, a weak spot of the thesis is clearly its manuscript form. It is obvious that the drafting was finished under time pressure. The text contains many typos, unclear or even unfinished sentences. Moreover, some parts of the text are too brief to explain the relevant issues in sufficient detail. For example:

- In section 3.2, I miss some information on the evolution of key monetary policy variables in Iraq, such as the interest rate and exchange rate. The description of the CBI's operational framework is hard to understand for an uninformed reader. I also miss a discussion how well this framework could be represented by a Taylor-type reaction function, which is later on used in the DSGE model.
- It is not clear why section 3.4. appears in Chapter 3, and not already in the literature review of Chapter 2.
- The discussion of the model's calibration in section 4.5 is quite brief, I would expect a more detailed discussion of at least some other crucial calibration choices.
- The verbal description of simulated IRFs in Chapter 5 is quite brief, suffers from a lot of language imperfections, and is sometimes hard to understand (even though qualitatively the IRFs seem to be plausible).
- It would be much better for the reader, if the IRFs for smaller size of informal sector were presented in the same charts jointly with IRFs for the larger share of informality. Moreover, the corresponding text is in many places confusing in the sense that it is not clear if it comments on the IRFs as such, or their amplitude in comparison with the benchmark model. For example, when the author says "Home prices PH decreased 2 percent", what he probably means is that "Home prices PH increase by 2 percentage points less than in the model with larger informal sector". Related to that, conclusion 3 in section 5.2. goes too far, in my opinion. The model simulations only show that the overall inflation response to a positive oil price shock is more muted with smaller informal sector; not that the rate of inflation is lower in general in such an economy.
- The model is, at the same time, underexploited. The author presents only IRFs for an oil price shock (in two versions of the model). One could use it as well to analyse responses e.g. to a domestic demand-side shock, a monetary policy shock, or an exchange rate shock. The conclusion 4 in section 5.2. relates to monetary policy efficacy in Iraq, but it is not backed by any explicit analysis of monetary policy transmission mechanism within the model. Based on the presented research outcomes, we can only say that interest rates in the model respond in an intuitive direction to an oil price shock, but nothing more.
- There is no explicit comparison of the model outcomes with earlier literature surveyed in Chapter 2. As a result, the reader cannot see clearly the contribution of the thesis (which is potentially significant).

Proposed grade (A-B-C-D-E-F): C

Suggested questions for the defence are:

- 1) Explain in a non-technical manner the way in which you have introduced the informal sector into your model, and how it affects the economy's responses to oil price shocks.
- 2) Discuss, how well is the CBI's actual monetary policy framework represented by the Taylor rule in light of the information provided in section 3.2 of your thesis.
- 3) If possible, show at the defence your model's IRFs to a monetary policy shock, and discuss the functioning of monetary policy transmission based on this analysis.
- 4) Compare your model outcomes with the existing literature surveyed in Chapter 2.

I recommend the thesis for final defence.

Signed digitally by

Tomáš Holub

Referee Signature