
Ph.D. Candidate: Mohamed Zain Mohamed Aazim
Main Referee: James R. Rhodes
Referees: Tatsuo Oyama
Roberto L. Gonzales
N.S. Cooray
Dissertation Title: Monetary Policy & Yield Curve Dynamics: Three Country Perspectives

I. Findings and Result

1. The candidate gave a one-hour presentation of his thesis followed by a question and answer session. A separate thesis hearing was held on June 22 for the benefit of Professor Cooray who was unable to attend the main hearing. An examining committee meeting was held following the session on July 9th. Professor Cooray made written comments on the dissertation and these were presented and incorporated in the committee discussion.

2. There was unanimous agreement that the dissertation is a significant contribution to economic knowledge and policy. Committee members were impressed by the candidate’s deep understanding—acquired from on-the-job experience—of the institutional environment in which real-world monetary policy is conducted. The candidate demonstrated a profound knowledge, in both his dissertation and presentation, of the nature and functioning of money and bond markets.

3. The dissertation was accepted with only minor revisions suggested. I have reviewed the revised dissertation and determined that it adequately addresses the suggestions of committee members. The dissertation is accepted in its revised form.

II. Summary of Dissertation

This dissertation uses a simple and widely-used model of yield curve dynamics to examine a set of interesting questions about monetary policy in three countries with different circumstances and policies. Using the expectations hypothesis (EH) as a benchmark, the author reports the results of an empirical analysis using high frequency
data of the U.S., Sri Lanka, and Japan for the period 2000-2009. The U.S. is taken to be an example of a highly developed financial system; Sri Lanka represents the emerging market case; and Japan is an in-between case of an indirect finance system. The author tests the expectation hypothesis against alternative theories of preferred habitat and segmented markets. In addition to the extensive data base, the study stands out in its examination and comparison of heterogeneous and homogenous policy environments. Heterogeneity is characterized in two ways: (1) heterogeneity of the policy regime (interest rate targeting vs. quantity targeting) and (2) periods of “stable” vs. “unstable” money markets.

A major finding of the study is that conventional one-type-fits-all monetary policy is not effective, particularly in heterogeneous policy environments. The EH does not perform well in most of the environments studied. The observed impact of monetary policy measures is more consistent with the segmented market hypothesis, particularly in heterogeneous environments. The findings of this study are timely and relevant since they are consistent with the apparent lessons of the recent Global Financial Crisis. The empirical findings invite monetary policy makers to pay more heed to the characteristics of the financial system and to various structural impediments, especially in an environment of economic uncertainty, low market confidence and a binding interest rate floor.

III. Reviewer Comments

1. All members of the dissertation committee are well versed on Mr. Aazim’s dissertation since they have attended several previous presentations by him at GRIPS seminars and international conferences. [See appendix for conferences attended and publications.]

2. Three of the reviewers commented that this is a high quality Ph.D. thesis. There was general agreement that the topic, results, and policy implications are very important. Although the econometric methodology is very basic, there was general agreement that it is appropriate to the questions being examined. Most comments focused on technical issues with the aim being to make marginal improvements in the methodology, interpretation of results, and quality of presentation.

3. One reviewer made several suggestions for making more precise policy implications based on the econometric findings. He criticized the method of correcting for autocorrelation and suggested several alternative procedures. He
raised doubts about the consistency of several empirical estimates. He was also critical of the imprecise use of several econometric terms. These are defects that are easily remedied.

4. A second reviewer commented that the definition of instability used in this version of the thesis is an improvement over the earlier definition. He suggested the importance of conducting a sensitivity analysis on the choice of definition. This reviewer felt that more effort needed to be made in distinguishing the findings of the three countries. Although a common methodology is used for all three countries, there is insufficient effort made in comparing and contrasting the results.

5. A third reviewer and the main advisor felt that the thesis was acceptable in present form. They made some suggestions for improving the clarity of the presentation.

Respectfully Submitted,

James R. Rhodes, Ph.D.
Vice President and Senior Professor
APPENDIX
Publications and Conference Presentations of Mr. Mohamed Z.M. Aazim

Publications

Academic Conferences