AMEM SPRING 2024 FINAL PROJECT COMMENTS:

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General comments:

- I liked Group 1's forecast best. I liked Group 4's text the most.

- Generally you don't want to give tunes for the whole forecast period, that doesn't make much sense; build the scenario that represents the shock, which usually happens at the beginning of the forecast. But can you really predict what shocks will happen 3 years from now? Not usually.

- There were also sometimes random shocks clearly added just to fit the data better. It's fine for the project, but I really want you to understand that in practice, all your shocks have to have clear connection to the story that you are trying to describe. The best forecast is the one which has a small number of shocks, each can be easily linked to the economic story you want to describe in the forecast, and together the tunes paint a coherent picture.

Group 1:

Forecast:

- Forecast is good, I only have minor comments.

- The UIP premium remains elevated until the end of the forecast. That's a bit strange, the country will be 3 years past the shock, and you suggest that they will still be perceived as extremely risky. Generally, you want the variables at the forecast end to be close to the steady-state.

- Same comment as above applies to the REER gap - it's still quite open, implying that the economy will not be in equilbrium by the end of the forecast. That's generally discouraged.

- Some shocks are a bit "overengineered", you would not e.g. do such a long shock_dl_cpi for forecasting future. If you need to use a long series of shocks, most likely there is a trend that shoiuld be different. Not necessarily wrong in this project, but just want to mention that.

Text:

- Doporucuju nepsat veci v pasivni forme ("se predpoklada"). Tohle je trochu ceske specifikum, i kdyz nejen ceske. Je to vase dilo, tak se k tomu tak postavte :) Ve zbytku textu uz to pak tak pisete, coz je dobre, ale prepinate z aktivniho na pasivni rod.

- "upravy v rizikove premii" - to zni trochu jako by ty premii nekdo kontroloval, coz neni pravda, resp je to trzni cena, takze neni jedna autorita ktera by ji kontrolovala.

- Popis mechanismu devalvace je pekny.

- Posledni odstavec je zbytecny, jednu stranku neni treba sumarizovat, to by si ctenar mohl zvladnout zapamatovat :)

- Trochu jste preskocili realnou ekonomickou aktivitu, je zminena jen lehce.
- A doporucuju psat anglicky :)

Group 2:

Forecast:

- You sent the HTML with the history, not the forecast, so I cannot comment on the forecast as much as for other groups.
- Generally you don't want to give tunes for the whole forecast period, that doesn't make much sense; build the scenario that represents the shock, which usually happens at the beginning of the forecast. But can you really predict what shocks will happen 3 years from now? Not usually.
- The tunes suggest you did a lot of fine tuning to match the data. Not wrong in this case per se, but please understand in real life you would have less precise tunes, and less "fine tuned". For example, the shock_i is obviously driven by the data and not some scenario that you want to build.

Text:

- Like the intro part, which gives a nice summary (even if somewhat incomplete). This is the part that I wanted you to write, because it describes and explains the forecast.
- I understand that for school projects, you are usually required to describe the model etc. However, outside of school / academia no one cares what model you used. It's your work, and whether you used QPM, Excel, or T34 tank is not important to anyone but you.
- The last part suggests that you took fit to data to be an objective, which in unfortunate. Our objective was not to fit the data, it was to show how you can create a scenario that is similar to data using relatively few tunes.

Group 3:

Forecast:

- the HTML fails to open, so I can only give limited comments based on the CSV with tunes. Much of the comments to other groups apply:
  - A bit of over-fitting, some shocks seem a bit random. E.g. the shock_i in 2016Q3 - if I asked you to explain what is represents in the story of the forecast, you would not be able to do so, you only added it to fit the data better. It's fine for the project, but I really want you to understand that in practice, all your shocks have to have clear connection to the story that you are trying to describe.

Text:

- Text is nice.
- There are a few places where I would quibble if the economic causality is really like you describe it. Example is the third paragraph, where I think the drop in GDP was immaterial to the developments on the forex market.

- But there are some nice places in the text and I would be happy to get something like this as a first draft.
- Thinking about it, the text would benefit from being shorter, like Group 4 did.

Group 4:

Forecast:

- The tunes suggest you did a lot of fine tuning to match the data. Not wrong in this case per se, but please understand in real life you would have less precise tunes, and less "fine tuned". For example, the shock_i or shock_dl_cpi is obviously driven by the data and not some scenario that you want to build.
- Generally you don't want to give tunes for the whole forecast period, that doesn't make much sense; build the scenario that represents the shock, which usually happens at the beginning of the forecast. But can you really predict what shocks will happen 3 years from now? Not usually.
- Looking at the gaps (showing position of the economy wrt equilibrium), we see couple things that we might not want to see:
  - Output gap is quite negative even at the end of the forecast, RER gap is overvalued, ... I think that's because you used a looooong series of tunes, so the economy keeps getting new shocks, so it doesn't come back to equilibrium.
  - The RER depreciation trend is a bit wild, and ends with -15% appreciation trend... I think that's because you used shock_dl_z_tnd, which ius quite persistent, while I recommended using shock_l_z_tnd. You don't have to care about the difference, takeaway is that choosing the right shock to build your scenario is important.
  - Real interest rate gap peaks at -24%, implying VERY loose policy in that period, which I don't think matches reality.
- For inspiration, check group 1, I liked their approach.

Text:

- This might be the best text I've seen in the seven (?) years of teaching this class. It's short, on the point, and covers nearly everything it needs to cover. If you've written it yourselves, congratulations. If it's AI generated, congratulations too because you masters in prompting and getting the AI to actually write something useful. The only comment I have is that forecast is about future, so it's best to use future tense :)