



SDI Review Form 1.6

PART 1:

Journal Name:	<u>British Journal of Economics, Management & Trade</u>
Manuscript Number:	2013_BJEMT_4835
Title of the Manuscript:	Interactions between Asset Prices and Monetary Policy in Taiwan — A Structural VAR Model
Type of the Article	Research paper

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(<http://www.sciencedomain.org/page.php?id=sdi-general-editorial-policy#Peer-Review-Guideline>)

- This form has total 7 parts. Kindly note that you should use all the parts of this review form.



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PART 2: Review Comments

	Reviewer's comment	Author's comment (if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)
<u>Compulsory</u> REVISION comments	The author focuses more on the SVAR models in the literature review. The author should conduct a more thorough literature review on the general relationship between asset prices and monetary policy and monetary transmission mechanism (with an emphasis on Taiwan). For example, widely cited papers in this area include Gilchrist and Leahy (2002) "Monetary policy and asset prices," <i>Journal of Monetary Economics</i> 49 pp. 75-97. In the introduction, line 43, "Previous discussions on the" The author should give a few examples. The author needs to provide summary statistics on each of the variables. The author needs to add a few charts visualizing the correlations among the variables under study. The author keeps saying "effect of monetary policy" (for example, in line 9) it is not clear whether it is monetary tightening or expansion. Similar confusions occurs in lines 11, 123, 475-476, 479, etc.	We have supplemented the literature review by citing additional papers, including Gilchrist and Leahy (2002), Cheng and Jin (2013), Musso, Neri, and Stracca (2011), Lai (2002), Huang (2007), and Wu (2010). Please see the literature review section. We recognize that this sentence is too arbitrary and have therefore decided to delete it (i.e., deletion of lines 43 and 44). In time series data analysis, the basic statistics relating to variables do not seem particularly meaningful. The stationary sequence can, however, be determined by the trends chart and unit root test. As explained above. Statements regarding the monetary policy have been amended to indicate a contractionary monetary policy.



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	The paragraph starting line 36 mainly discusses the role of housing prices; however, at the end of this paragraph, the author states “Hence, this paper will discuss the role of stock price shocks.” This paragraph does not provide sufficient background for this conclusion. The author should use a separate paragraph to discuss the role of stock price shocks. There exist a few confusions when the author explains the impulse response functions- 1. In line 338-339, “...monetary shock results in output reduction through the eight quarter...” should be rephrased to something like “will result in output reduction after the eighth quarter...” 2. In lines 343 and 344, “the CPI responds positively to ..., CPI unexpectedly responds negatively,...” it needs to be clarified. 3. In line 353, the author should specify the time frame in which the initial positive response of house price falls to zero. 4. In the paragraph starting line 364, the author states that Figure 2(D) suggests a negative response of stock price; however, the figure shows a negative response only after the eighth quarter. 5. Figure 2(E) should be deleted as it is irrelevant. When explaining the results (from line 334 to 391), the author should comment on the magnitude of the impacts of one s.d. increase in the interest rate. Similarly, the author should also comment on the magnitude of the responses to house price shocks (lines 392-443), with special emphasis in the paragraph starting line 402. Specifically, what is the	We have revised the paper in light of this suggestion. 1. We have revised the text accordingly. 2. We have deleted the phrase “CPI unexpectedly responds negatively”. 3. Line 353 of the original article has been revised to “...falls to zero after 6 months but at ...” 4. We have revised accordingly. 5. We have deleted Figure 2(E). Line 402 of the original article has been revised to “interest rate responds positively and significantly after the house price shock after the fourth quarter ...”
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	expected interest rate after the 4th quarter? What is the expected interest rate after the eighth quarter? In conclusions (lines 475-483), the author should explain the time frame of the responses. In lines 501 the author should specify the direction of the response.	We have modified line 476 of the original article to "approaches zero after 6 months." We have modified line 501 to "...and significant positive response ..."
<u>Minor</u> REVISION comments	It is known that new loan issuance and money supply both play important roles in the monetary transmission mechanism and could significantly affect asset prices. The author could add these two variables as controls. Line 396, delete "will.." The first sentence in the conclusions (line 473-474) should not be a stand-alone paragraph.	If more than two variables are used, the VAR system will be too large and there will be less degree of freedom. But in the future we can try to replace the two variables of monetary policy in order to see whether there is a difference. We have deleted the word "will". We have revised accordingly.
<u>Optional/General</u> comments		