Report on Bachelor Thesis

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

Student:	**Soňa Součková**
Advisor:	**Martin Gregor**
Title of the thesis:	**War of attrition in delayed stabilizations**

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

This pure-theory thesis introduces into war of attrition in fiscal stabilization. It starts by covering extensively essential instruments from game theory that explain how a conflict over the distribution of stabilization costs necessarily leads, with a positive probability, to the destruction of part of stabilization benefits through delay. It shows that to cope with the topic, the author had to master non-trivial intermediate knowledge of game theory and of my MA-level lectures which I largely appreciate. The key value added of the thesis is a successful combination of several modeling approaches, providing comparative static properties of one of the models (polarization may prolong but also shortens delay, dependent on stabilization cost asymmetry; delay is shorter for large inflation cost asymmetry, and for larger absolute inflation costs), plus discussion over some extra determinants of the conflict (especially with respect to the effect of foreign aid). **I recommend the thesis for defense with grade 1**.

Minor corrections: "We do not search for pure or mixed equilibria as before, but for Bayesian equilibrium, which is determined by both strategies and beliefs of the players." (p. 12) The point is that we seek equilibrium assessments (strategies+beliefs), not only strategies. This may include also mixed strategies. Nevertheless, most of recent game theory research tends to find pure-strategy Bayesian equilibria, where each individual reveals its type (or subset of the types) by playing a pure strategy.

Introduction of the graphs of game trees, and figures with best replies, largely improved exposition. Wording could be economized, but in its current state, the details clearly show that the author has able to proceed in a right way, especially when constructing correctly the equilibria. The model developed by Martinelli and Escorza (2007) and simplified in the thesis would probably deserve a more thorough analysis. There is extra work to be done with this text, but after relatively minor improvements it has a fair chance to serve as a supplementary reading for Master students, mainly in my JEM080 course.

I cordially leave to the committee the decision whether the thesis deserves Dean's distinction.

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

CATEGORY		**POINTS**
Literature	*(max. 20 points)*	19
Methods	*(max. 30 points)*	29
Contribution	*(max. 30 points)*	24
Manuscript Form	*(max. 20 points)*	19
TOTAL POINTS	*(max. 100 points)*	**91**
GRADE	**(1 – 2 – 3 – 4)**	**1**

NAME OF THE REFEREE: Martin Gregor

DATE OF EVALUATION: June 11, 2009

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Referee Signature