

Report on Bachelor / Master Thesis

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

Student:	Vojtěch Molnár
Advisor:	Doc. Tomáš Holub, Ph.D.
Title of the thesis:	Price Level Targeting with Imperfect Rationality: A Heuristic Approach

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

The thesis examines the benefits and costs of two monetary policy regimes: inflation targeting and price level targeting, from the perspective of dynamic stochastic general equilibrium models.

The comparison of price level and inflation targeting a standard question and exercise in this field. The contribution is to model the expectation formation process in a different manner. The supposition is that the expectations lack a rational element and are formed using various heuristics. The conclusion of the thesis is that inflation targeting is preferable. This result is not surprising for many readers (clearly, one of the basic issues with price level targeting is that price level targeting „does not forget its past“ and past large shocks may cause the lengthy adjustment to the price level equilibrium)

I am sympathetic to the exercise and to the modelling skills of the candidate. Although the thesis generally reads well, it could do more in terms of explaining its novelty explicitly and explaining more how the results are obtained (for example, consider the abstract. We do not learn how the main result was obtained. Was it welfare analysis, moment matching or something else?). But this is rather minor criticism, nothing substantial for the master thesis.

Methods

The thesis employs dynamic stochastic general equilibrium model (simple closed-economy version). The model is standard and elaborates the expectation formation in detail. The proposal promises the model to be calibrated to the Czech data but the model in the thesis is calibrated to the generic economy (and strongly inspired by de Grauwe (2012)). The robustness checks to the baseline calibration are also undertaken.

Literature

Main references are covered. The thesis reads well and is logically organized.

Manuscript form

Overall, the manuscript form is in line with the requirements. Sometimes paragraphs are a bit too long and should be separated into more paragraphs.

The drawback is that the thesis does not spell out its contribution vis-a-vis existing literature such as de Grauwe (2012).

The thesis should cite a bit more. For example, there are claims in the thesis, which require citation but it is not provided. For example, page 1: „Nevertheless, some literature contrarily suggests that it could actually decrease the volatility“.

Summary and suggested questions for the discussion during the defense

Overall, the thesis represents a fine piece of modelling work oriented on a significant policy topic. In my view, the thesis fulfills the requirements for a master thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade B.

The results of the Urkund analysis do not indicate significant text similarity with other available sources (except the previous version of this thesis, which is of course totally fine).

- 1) Which topics do you consider as main challenges for the central banks in 2020 and beyond?
- 2) What is the difference of your model vis-a-vis de Grauwe (2012)?

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

CATEGORY	POINTS
<i>Contribution (max. 30 points)</i>	25
<i>Methods (max. 30 points)</i>	30
<i>Literature (max. 20 points)</i>	20
<i>Manuscript Form (max. 20 points)</i>	10
TOTAL POINTS (max. 100 points)	85
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE: Prof. Roman Horváth, Ph.D.

DATE OF EVALUATION: August 8, 2020

*Digitally signed by
Roman Horváth*

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F