

Report on Bachelor/Master Thesis

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

Student:	Bc. Jakub Matějů
Advisor:	Roman Horváth, Ph.D.
Title of the thesis:	Two Essays on Inflation Targeting

OVERALL ASSESSMENT

The thesis consists of two essays on inflation targeting – a monetary policy regime that has become increasingly popular among many central banks and researchers nowadays. Since its first introduction in New Zealand in 1989, inflation targeting has undergone a vivid development and has become the main monetary policy strategy in number of developed as well as developing countries including the Czech Republic. Even though, inflation targeting has been already deeply explored by different researchers from various angles, the author's contribution can be labelled as a novel piece of work in this field. Especially the first essay that examines how do central banks set their inflation targets is outstanding and puts together both theory and practical experience in an original way. Firstly, Jakub shortly introduces inflation targeting per se. Secondly, he elaborates on the importance of appropriate inflation target setting from theoretical point of view. One of the motivations for further analysis is a finding that not as many central banks fully reveal their decision-making concerning precise inflation target determination. In the theoretical section, Jakub builds on Svensson's "simple closed-economy backward-looking model" and provides his own modifications that make inflation target endogenous variable. Moreover, Jakub runs different simulations to provide the reader better understanding of the particular setting of the model coefficients. Last but not least, Jakub presents his empirical analysis where he econometrically estimates the determinants of inflation targets. In particular, he runs a number of regressions to find how important in inflation target setting the following variables are: CPI inflation, inflation volatility, credibility, GDP growth (as proxy for the output gap), world inflation, independence of central bank and government orientation. Jakub not only runs regressions for all the countries in his sample, but he also explores independently so called stationary targeters and converging targeters. In conclusion, I will not present Jakub's particular findings here for two reasons: Firstly, I would like to motivate the reader of this report to read Jakub's thesis by him/herself. And secondly, I believe it is appropriate to leave the space for the author himself to introduce the main findings of his own work during the final defence.

To sum up, I evaluate the thesis as a very high level academic writing. In his thesis, Jakub showed the ability of full understanding and commanding of recent literature together with proper quoting of sources. The tools used were appropriate. The issues chosen were comprehensively analysed. Jakub presented original ideas on the topic and demonstrated critical thinking and brought a distinct value added. I especially liked the econometric part of the paper, although, there was one misspecified error term in my opinion (see equation on page 40, 43). In case of further utilization of the thesis in form of academic article, I recommend to proofread the whole text once more. It would be a pity if this otherwise excellent piece of work was depreciated by language errors (such as Czech Republic and Czech National Bank without "the" ☺, and so forth). However, I must appreciate that the whole text was written efficiently with a high academic style while stayed still fluently readable. My final note concerns the form of graphs and tables. These were not always fully clear. This problem could be solved in some cases by alternative adjustment of graphics in the software and in other cases by adding short explanatory notes.

In conclusion, I would like to thank for the opportunity to read this inspiring thesis and I believe that Jakub is on a good way to defend his work with distinction.

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SUMMARY OF POINTS AWARDED

CATEGORY		POINTS
<i>Literature</i>	<i>(max. 20 points)</i>	20
<i>Methods</i>	<i>(max. 30 points)</i>	30
<i>Contribution</i>	<i>(max. 30 points)</i>	30
<i>Manuscript Form</i>	<i>(max. 20 points)</i>	15
TOTAL POINTS	<i>(max. 100 points)</i>	95
GRADE	(1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: *PhDr. Kamila Koprnická*

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Referee Signature