

The relation between the euro cash changeover and the perceived inflation in the Baltic countries

Abstract

This thesis focuses on the effect of euro cash changeover on inflation perception, and its relation to the inflation measured by central banks or by national statistical offices. We present an analyses of inflation gap in Estonia, Latvia and Lithuania at the euro introduction and detect its determinants by econometric methods. We use Ordinary Least Squares, Random Effects Generalized Least Squares and Fixed Effects estimator. The thesis is divided into two main parts. The first part examines the theoretical background of perceived inflation and focuses at the phenomenon of increased inflation gap at the euro introduction. Second part contains an empirical study on inflation gap. We find out that perceived inflation in Baltic countries does not show such a divergence, as it was presented at the establishment of the Eurozone. Moreover, we find out that education and available income in general has a small, but evincible effect on inflation gap observed at euro introduction.