

Report on Master Thesis

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

Student:	Josef Strasky
Advisor:	Jaromir Baxa
Title of the thesis:	Can Bayesian Econometric Methods Outperform Traditional Econometrics in Inflation Forecasting?

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

The thesis by Josef Strasky is devoted to forecasting of inflation and formal testing of forecasting performance of various approaches. With respect to the method used, the thesis is well above the standards of our Institute and it goes far beyond the methods covered in the econometric courses. Also, many of the computations, which were done, are computationally highly demanding and required a lot of experimenting and programming.

The first part introduces the concept of the Bayesian econometrics. It is a summary of the theory as it occurs in a number of textbooks, but as it is non-standard and non-obvious stuff, it is acceptable to include it in the thesis. Also, it makes the text in the following chapters understandable to the reader, who is not familiar with it. And, it is nice, that the formula "this chapter closely follows..." is not missing. Then Josef moves to the problem he wish to solve. So he describes the caveats connected with inflation forecasting and he gives an overview of the current and up-to-date literature.

The chapters 5, 6 and 7 contain the most important part of the text. Basically, two topics are covered: forecasting per se and the problem of finding good predictors of inflation. It is nice that the author didn't stick with pseudo out-of sample forecasts, but that also the predictions of the inflations in 2011 and 2012 are included and compared with forecasts of the CNB. Interestingly, the forecast of the CNB is above the results of the paper suggesting that the deflationary pressures in the Czech economy are maybe larger than commonly accepted. It should be noted that the CNB uses a different approach to forecasting. Another interesting result is that the Philips curve based forecasts are very poor.

However, there are several weaknesses of this thesis. First and foremost due to the time constraints given by the large amount of time spent with experimenting and waiting for the results of computations, the form is not at the same level, as the content of the work. There are quite many typos and also the structure is perhaps not as smooth an as straightforward as it should be. And, frankly, it is the only reason why I cannot recommend the Dean of the faculty distinction for this thesis. But still, I believe it deserves the grade A.

Josef Strasky wants to continue with this work during his PhD. Studies at our Institute. I believe this thesis is a good start and can lead to a successful, published paper, after the shortcoming it has will be corrected.

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

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>	10
TOTAL POINTS	<i>(max. 100 points)</i>	90
GRADE	(1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Jaromir Baxa

DATE OF EVALUATION: 18th June, 2010

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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

Strong Average Weak
20 10 0

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.*

Strong Average Weak
30 15 0

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.*

Strong Average Weak
30 15 0

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.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě