Abstract

In this thesis we examine the effect of introduction of inflation targeting as a monetary policy regime on the difference between actual inflation and perceived inflation. Perceived inflation is used in the analysis in contrast with previous research, because inflation perceptions are extracted from consumer surveys conducted in individual European Union countries on the whole population sample and thereby enable us to examine the effect that the introduction of inflation targeting has across the whole population.

A panel data set of 19 European Union members and 1 candidate, including 7 inflation targeters, is used in the analysis, with monthly information from the period beginning in January 1990 and ending in December 2012.

Based on the analysis using fixed-effects model with specific dummy variables to capture the difference-in-differences element, we find that inflation targeters experience lower differences between actual and perceived inflation and that the difference between actual and perceived inflation decreases after the introduction of inflation targeting. Furthermore, various groups divided according to socio-economic characteristics of the consumer survey respondents tend to be affected in a different way by the introduction of inflation targeting, although to a limited extent.

JEL Classification E31, E52, E58, C23

Keywords inflation targeting, perceived inflation, difference-in-differences, socio-economic characteristics

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