

## **Abstract**

This dissertation thesis is focused on the microeconomic analysis of public policy in the Czech Republic. It consists of three parts, the first two parts deal with the analysis of tax policy; the third part of this thesis is focused on inflation differentials.

The first chapter deals with the analysis of value added tax. The rates of value added tax (VAT) have recently changed in the Czech Republic, and I simulate the impact of these reforms. They are an example of changes in indirect taxes that change the prices of goods and services, to which households can respond by adjusting their expenditures. I first estimate the behavioural response of consumers to price changes in the Czech Republic by applying a consumer demand model of the quadratic almost ideal system (QUAIDS) on the basis of the Czech Statistical Office household expenditure and price data for the period from 2001 to 2011. I derive estimates of own- and cross-price and income elasticities for individual households. I then use these elasticities to estimate the impact of the changes in VAT rates that were proposed or implemented between 2011 and 2013, on households' quantity demanded and government revenues. One of the main findings is that the estimated increases in government revenues that take the consumer responses into account are more than a quarter lower than the estimates that use the static simulation.

The second chapter deals with the analysis of excise duties. Excise duties are an important source of government revenue and their rates change relatively often in the Czech Republic. Reforms of excise duties change the prices of goods, a change to which households respond by adjusting their expenditures. I use detailed Czech Statistical Office data and estimates of own- and cross-price and income elasticities for individual households to create a microeconomic simulation model that enables me to simulate the impact of changes in excise

duties on households' demands. I show the distributional impact of current excise duties and then I simulate the impact of hypothetical increases of 10 per cent in each of them. I further simulate impact of certain approved or proposed changes in excise duties including the unsuccessful 2012 proposal to introduce an excise duty on wine.

The third chapter deals with the analysis of inflation differentials. Households differ in their spending patterns and there are differences in the price growths of various goods and services. Therefore different households experience different inflation rates. These differences seem to have been significant in the Czech Republic during the period 1995-2010. Only around 60% of households experienced a real inflation rate that was closely similar to the national average inflation rate. Furthermore, the higher the magnitude of average inflation rate over time, the lower the percentage of households whose real inflation rate was similar to that average. The main determiners of inflation were expenditure for housing and energy and, especially for low-income households and pensioners, expenditure on food and non-alcoholic drinks. In most years, pensioners and low-income households faced significantly higher inflation rates than the average rate for the whole population.