Report on **Master Thesis**

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

Student:	Bc. Kulíková Veronika
Advisor:	doc. Bc. Horváth Roman, M.A., Ph.D
Title of the thesis:	Comparison of the inflation prediction approaches: Monetary growth vs. Output gap analysis

OVERALL ASSESSMENT (provided in English):

The thesis analyzes the main determinants of inflation in a sample of 16 European countries over the 1997-2012 period, using quarterly data. The thesis is developed along the standard research paper outline and is executed nicely. The author employs Bayesian Model Averaging in order to determine the optimal model for the prediction of inflations and finds that monetary aggregates are generally better predictors than the output gap.

While the application of BMA and the results look credible, there are several questions that the author does not address in the thesis. Particularly, the author stresses in several instances that the output gap is nowadays believed to be a good predictor of inflation, without actually providing any source for backing this statement. Even the literature review section does not provide too much credit to the idea. While this might seem a trivial issue, I believe that it is crucial given that this thesis builds its hypothesis on this very premise. Generally I believe that the literature review should be rewriten in order to give us a clearer view of the context of the study – both in order to get a better undersatnding of the theoretical underpining of the hypothesis and also to shed light on the existing empirical studies on the subject and how exactly they relate to this thesis. This would also enhance the motivation and highlight the contribution of the thesis to the related literature.

This shortcomings in the literature review translate also into the discussion of the results. Generally, the results are not contrasted with any existing similar studies employing a different or similar sample of countries, time span or selection of variables. The author also only highlights the results, without discussing possible reasons why the output gap is not significant. The author presents two ways to compute the output gap, however only the HP filtering is employed – could this have any impact on the results? If yes, how does this measurement affect the results? Moreover, it is well known that the GDP figures are under constant revision – could this also affect the results? What are the empirical findings in this sense, if any?

Finally, I missed the motivation for chosing the "g" prior as well as any discussion on any possible endogeneity problems of certain variables. Other issues, albeit minor, relate to several grammar mistakes that could have been eliminated by careful proofreading. Some of the big tables are better suited for the appendix than for the main body of the thesis – this would markedly improve the readability of the thesis.

Overall, I would grade the thesis with "velmi dobře", i.e. 2 (two).

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

CATEGORY		POINTS
Literature	*(max. 20 points)*	10
Methods	*(max. 30 points)*	30
Contribution	*(max. 30 points)*	25
Manuscript Form	*(max. 20 points)*	15
TOTAL POINTS	*(max. 100 points)*	**80**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE: *Adrian Babin*

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Referee Signature