Report on Bachelor / Master Thesis

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

Student:	**Bc. Marina Gorobetchi**
Advisor:	**Mgr Pavel Ryska, MPhil**
Title of the thesis:	**Deflation and Its Implications for Macrostability in Europe**

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

Marina Gorobetchi's thesis deals with the relationship between overall price changes and economic growth in Europe. She finds out that using a restricted dataset, inflation turns out to be significant for GDP growth while deflationary periods lack this significance. The thesis addresses a topic that is currently intensely discussed and uses appropriate methods. It is overall well balanced and uses adequate literature.

I have reservations regarding the formal appearance – the thesis could have been written in better language and overall appearance could have been more „polished". (For example, the text is aligned to the left on pages 19-20, while before and afterwards it's aligned to both sides.)

In terms of content, Chapter 2 (Short Summary of Available Knowledge and Information) is sufficient. I would suggest citing better what theory is being presented (i.e. not write „deflation is perceived…" but identify which school of thought or which theory says so). Also, I would suggest scrapping the second introduction (2.1 Introduction to the Topic) which comes immediately after Chapter 1, which is introduction too. That could confuse readers. Chapter 3 is fine, too.

Regarding Chapter 4 (Empirical Investigation), the methods used (fixed effects, random effects and GMM) are adequate and the regression analysis is done well. However, I have several remarks:
- The very beginning of Chapter 4 is confusing. The author uses the „ $\Delta\pi$" sign (p. 41) to denote inflation, although π alone is usually used to denote inflation. $\Delta\pi$ therefore looks as if it was the second derivative of the price level, not the first. In addition, then in the text the author writes that „when inflation increases we should expect the output level to decrease". But the regression equation refers to inflation and output *growth*, not output level.
- What is of interest in current policy-making is low deflation versus low inflation – as a result, the regression including hyperinflations is formally correct, but is of little relevance. I would suggest devoting more space to the restricted model and less space to the unrestricted one.
- The author writes in 5.3 (Main Findings, p. 65) that there is significant relationship between a country's GDP growth rate and inflation, but not between the GDP growth rate and deflation. However, it is not seen from the text why this should be so. Such a claim would have to be supported e.g. by truncating the observations, i.e. using only observations with deflation and then only observations with inflation. This claim should be further explained.

Finally, the author writes in the abstract that „the paper's analysis determines that one of the most effective tools for reversing deflation into inflation is quantitative and qualitative easing". I consider this statement stretched because the thesis does not really deal with ways how to counter deflation. Instead, quantitative and qualitative easing is only mentioned descriptively as a policy used by the Bank of Japan and the Fed. But in no way does the thesis „determine" it. The author should have been more careful with this statement.

Overall, I think the thesis uses an adequate dataset and literature and also appropirate methods. The author shows she can master econometric methods. On the other hand, there are formal glitches and internal inconsistencies. Therefore, I recommend the thesis for defence and give grade 2, i.e. good.

I suggest the following question for defence:
- The author mentions the fact that there are too few deflationary observations in the sample to draw strong conclusions. Could this problem be circumvented anyhow? Would it serve the

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purpose if instead of deflation the author used *disinflation*, i.e. not an absolute drop in the price level, but a drop in the rate of inflation? To what extent can disinflation be similar to deflation?

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

CATEGORY		POINTS
Literature	*(max. 20 points)*	18
Methods	*(max. 30 points)*	27
Contribution	*(max. 30 points)*	21
Manuscript Form	*(max. 20 points)*	10
TOTAL POINTS	*(max. 100 points)*	**76**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE: Mgr Pavel Ryska, MPhil

DATE OF EVALUATION: June 16, 2015

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Referee Signature