

Report on Bachelor / Master Thesis

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

Student:	Petra Linhartová
Advisor:	Petr Janský, Ph.D.
Title of the thesis:	Distributional Effects of Inflation in the Czech Republic

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

In the thesis "Distributional Effects of Inflation in the Czech Republic" the author strives to discuss how does the real inflation differ across various demographics with respect to the official rates. She achieves this using the data from household budget surveys. Panel estimation is also performed to get close insights about the distributional effects of the inflation.

Major points to the text:

- As you state, the problem of omitted variables, some categories might end up underreported and cause a bias in the estimation. Further you say „*We assume in line with other studies that used this dataset that the effect of over or underestimation is not very big, but we have in mind that results for selected categories might be a bit disturbed by this fact.*“ However, any bias in a regression smears and does not only bias the own coefficients but also the *other* coefficients. This might have serious consequences.
- Chapter 5 is more or less an anecdotal and descriptive evidence. Given that there are even no standard deviations it is hard to make any inference based on pictures. The point would be made much stronger had the author tried to use bootstrap to derive the distributional properties.
- Including the deciles of the income into the equation in the *number* form and not dummies has some consequences to your interpretation as you basically assume that going one decile up will always have the same effect. I would assume this should be added as a dummy variable.
- There is no evidence how big proportion of the variation is explained through the fixed and time effects in comparison to the proportion of the whole variance. Moreover, it is hard to tell that the correlates are exogenous which then leads to doubts about the causal interpretation of the coefficients in the regressions.

Minor points to the text:

- You operate with terms that deserve definition before defining them (if ever), e.g. Fisher index.
- The literature review might be briefly and nicely summarized in a big table.
- The text is rather informal, in places should be revised to follow academic standards. (E.g. *in reality people do not understand it [inflation] completely -> inflation is not properly understood by public.*)
- Often it is claimed that microeconomic theory states that people are rational and change the consumption basket with respect to changes in prices. There is another theory of habit formation which states that people tend to stick to choices they make. Is there any evidence to support your claim that people indeed behave rationally and tend to heavily revise their purchases?
- Many footnotes are distracting and unnecessary.
- Missing references (e.g. footnote 4, pg. 47).
- Dropping the household size could potentially bias your analysis, shouldn't you rather just define the *extra people = household size – children – pensioners*.? Or why not to use percentage of kids or pensioners?
- Why wasn't wealth included? Intuitively, you might be in the 1st decile, not making much money but still having relatively a lot of money that you are spending and thus you are behaving like being on a different decile.
- Sometimes for the effect it is better to give the examples in real currency than in percentage points.

More concisely to the separate points of the evaluation:

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Literature review: The literature review seems to be well-done with all the relevant sources discussed. Some summary in form of table might be very helpful for readers not well-versed in the relevant literature.

Methods: The panel estimation is used in the standard way. Author is omitting some information (household size) even though the information might be retained. Deciles should be included as dummies and then tested whether the effect is the same for all the changes. Multicollinearity should better be solved by multiple techniques not only looking at correlations. In chapter 5, bootstrapping could be used to get at least some insight into possible standard errors.

Contribution: The thesis deals with an important issue that is properly motivated and brings novel insights.

Manuscript form: Except for several occasions, the manuscript is clear and well formed.

Hence, I **suggest the thesis for defense with grade "1", i.e. excellent given that the author is able to answer the questions at the defense.**

Questions:

- Comment on possible use of quantile methods for the work you did. How would you then interpret your results?
- The survey is taken as it is. Comment please on the possible outliers in the survey, are there any single observations that strongly influence your results?

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	20
<i>Methods</i> (max. 30 points)	17
<i>Contribution</i> (max. 30 points)	25
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	81
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: *Mgr. Tomáš Křehlík, M.A.*

DATE OF EVALUATION: 8. 6. 2015



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