

Report on Rigorous Thesis

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

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

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

This thesis examines the determinants of inflation in 16 European countries and focuses on one of highly debated issue, whether money growth or output gap is important for near-term inflation forecasts. It also provides a short overview of this literature from the historical perspective. Even though this issue has analyzed numerous times, Veronika introduces a new perspective employing econometric methods robust to model uncertainty (so-called Bayesian model averaging - BMA). At least to my knowledge, examining the importance of output gap vs. money growth for inflation prediction within the BMA framework is new.

BMA technique is very difficult to learn and definitively not easy to apply. I would like to emphasize that only a handful of our students were able to master the BMA for their MA thesis. Therefore, the author should be congratulated for her effort. The thesis also contains a substantial sensitivity analysis with the author employing various prior structures to further assess the robustness of results. The benefit of BMA is that it can rigorously address the issue when there is an uncertainty about correct regression model. In addition, it can jointly examine the significance of many regressors. For the case of this thesis, the author examines as many as 32 potential determinants of inflation.

The thesis has a logical structure and in principle is well written. It is excellently written when discussing the econometric issues, although stronger comparison with previous literature would be welcomed. The comparison is made mostly within the historical perspective (Keynesians vs. monetarists) but more on the current literature can be mentioned. The results are interesting showing that money growth is a better predictor than output gap. My take would be that when carefully revised, the results could be even published in some specialized macro journal.

The current version of the thesis was revised in response to the reviewers and it explains endogeneity issues, the real-time data issues and trend-cycle filtering issues in a greater detail.

I fully recommend the thesis for defence.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	16
<i>Methods</i> (max. 30 points)	30
<i>Contribution</i> (max. 30 points)	29
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	94
(doporučuji, nedoporučuji)	doporučuji

NAME OF THE REFEREE: *Doc. Roman Horváth, Ph.D.*

DATE OF EVALUATION: *October 4, 2014*

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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			
81 – 100	= excellent		
61 – 80	= good		
41 – 60	= satisfactory		
0 – 40	= fail		= nedoporučuji k obhajobě