

Report on Master Thesis

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

Student:	Vladimir Vesely
Advisor:	Doc. Roman Horvath, PhD
Title of the thesis:	(How) Does low inflation in euro area affect inflation in the Czech Republic?

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

The thesis is well balanced in terms of the subject's introduction, review of the literature, methods, as well as the applied analysis. The empirical work itself is well presented, albeit at places in somewhat mechanical way. The language of the thesis is easy to understand except some minor inconsistencies. Overall, this is a well written thesis with clearly defined subject, competently executed empirical work and well presented interesting results. The comments below point at some non-critical shortcomings – their absence could further improve the thesis.

Hypotheses are stated in a very clear manner and point at the goal of the thesis itself. Still, the hypotheses are stated as questions. The correct way to formulate the hypotheses is to write them as negative statements so that the hypotheses can be either rejected or not rejected.

Results based on the CUSUM test are used to show the stability of the model. However, the wide intervals of the test leave enough room for the model to exhibit stability.

The data from the highly volatile period from September 2007 till December 2009 are left out from the model. This might be a sensible approach. However, it would be much better to try to employ some proper techniqu to account for heightened volatility or at least provide some discussions on the subject. As of now the issue is left out hanging in the air.

Issue of the structural change in the data is treated correctly with adequate reasoning. It is also well tested for and discussed, along with its implementation. Still, the issue of the structural break could be better paired with the high volatility period and maybe a more convenient treatment could be found, rather than simply leaving a time-section of the data out od the model.

There are some minor shortcomings that marginally downgrade the thesis. For example, in the first sentence of the thesis (p. 1) "Inflation is defined as a sustained increase in the general price level of goods and services in the economy over a certain period". However, later on, in a data section on p. 25, it is claimed that "a price level, consumer price index (CPI), will work as a proxy of inflation for the Czech economy and euro zone's harmonised index of consumer prices (HICP) for euro zone". I understand that the latter claim is made with respect to the VAR methodology but the wording itself completely defies the logic behind the definition and undersanding of inflation.

Despite of the above, the thesis is well exected. Literature review is divided by subjects and presented in an organized manner. This feature is further exploited when results of the empircal analysis are compared with relevant literature in section 8.2. This approach is quite informative and also indicates a well-thought design of the thesis.

The thesis poses specific questions and provides specific answers. This is further complemented by policy implications offered in section 9. Such a clear design and outcome are appreciated.

In the case of successful defense, I recommend the grade "výborně" (good, 1).

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

CATEGORY	POINTS
Literature (max. 20 points)	19
Methods (max. 30 points)	28
Contribution (max. 30 points)	28
Manuscript Form (max. 20 points)	18
TOTAL POINTS (max. 100 points)	93
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Evžen Kočenda

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Referee Signature