Report on Bachelor / Master Thesis

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

Student:	Bc. Khatia Zakaraia
Advisor:	Mgr. Pavel Ryska, MPhil
Title of the thesis:	The Impact of Age Structure on Inflation - Example of Developing Countries

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

The author has chosen a highly current and important topic. Some economists have recently discussed the potential effect of demographic changes on the rate of (consumer price) inflation, where aging population increases the share of people who save in preparation for retirement and therefore reduce consumption expenditures. This has been predominantly motivated by the case of Japan. Ms Khatia Zakaraia has chosen developing countries (as opposed to advanced countries), where research on this topic is largely missing.

The key stated result of the work is that the higher the share of old people on the overall population, the lower the inflation rate. Indeed, some of the results in the work point to this result, but some other specifications (in PVAR) do not corroborate it. I would personally interpret the regression results as a mixed finding. The author gives reasons why one of the samples – since it covers a longer period of time where there was little aging at the beginning – is less likely to corroborate this result. However, the case could have been reinforced if this sample had been shortened and made more comparable to the other, shorter sample.

Methods

The author uses panel VAR with GMM estimation and the fixed-effects model as two alternative approaches. Generally, these are correct methods for the given samples. The author also discusses lag selection and apart from coefficient estimates provides impulse-response function and forecast error variance decomposition.

I have reservations in relation to several missing pieces of econometric nature. First, in case of VAR, it should be discussed at the beggining whether the underlying series in levels are stationary or non-stationary, in order to make sure that VAR in percent changes is the correct specification (to rule out long-run relationship in levels). Second, the two variables „old people/total population" and „old people/working age population" seem to be very similar and correlated. It should be discussed why they should be both included in the regressions given that they could bring in collinearity. Third, the tables with results lack the number of observations and measures of fit (such as adjusted R^2). Fourth, the author should state precisely how outliers (especially inflation outliers) have been indentified before they were excluded.

Literature

Overall, the author uses appropriate literature. From my experience, the current stock of work on inflation/deflation and demographics is rather scarce, so the author could not have found much more on this than she has found. Perhaps she could have used a few more works on theoretical explanations of sources of deflation or low inflation.

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As regards the references at the end, I would suggest that references to literature should be separated from references to data sources, which would make this section clearer.

Manuscript form

In my view, the manuscript form is the biggest weakness of the work. The text has linguistic as well as other formal deficiencies (e.g., notations of tables and graphs) and it should be arranged better to make it easier for the reader to understand. For example, the two groups of countries could have been listed in a table, tables should have clearer notation of what they show and the references at the end should be better arranged.

Summary and suggested questions for the discussion during the defense

Overall, the author has chosen a very important and currently debated topic of the relationship between inflation rates and demographic developments. The relevance lies in the fact that if low inflation or deflation is partly due to demographics, then it is probably not of the sort that economic policy could (or should) counteract. She has also used the correct econometric methods to explore the topic. On the other hand, I think the contribution is lowered by the fact that the text, tables and graphs should have better organization, notation and better English, which would make it easier for the reader to grasp the message of the text.

Despite these deficiencies, the author has displayed understanding of the problem at hand and of econometric methods and I recommend the thesis for defense. For the defense, I suggest the following question:

- How do your findings on developing countries differ from those on advanced countries from other authors? What are the reasons for potential differences?

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

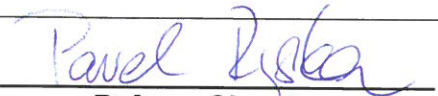| CATEGORY		POINTS
Contribution	(max. 30 points)	22
Methods	(max. 30 points)	25
Literature	(max. 20 points)	16
Manuscript Form	(max. 20 points)	8
TOTAL POINTS	(max. 100 points)	**71**
GRADE	(A – B – C – D – E – F)	C

NAME OF THE REFEREE: Mgr. Pavel Ryska, MPhil

DATE OF EVALUATION: January 24, 2018

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Referee Signature

<u>**EXPLANATION OF CATEGORIES AND SCALE:**</u>

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

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

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

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

<u>*Overall grading:*</u>

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F