

REPORT ON MASTER THESIS
CENTER FOR ECONOMIC RESEARCH AND GRADUATE STUDIES

STUDENT:	Pavel Koval
ADVISOR:	Filip Matějka
TITLE OF THE THESIS:	Inattention, Hand-to-mouth Behavior, and Poverty Trap

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

This is a very nice thesis. It studies a pressing issue of seemingly suboptimal consumption behavior leading to poverty and addresses it with a novel approach.

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

CONTRIBUTION:

The thesis provides a new point of view for the study of seemingly sub-optimal consumption. Many poor people seem to save even less than would be optimal for them. They tend to consume all monthly income within that month. This puts them under considerable stress and might make them consume too little in the future in case their income drops. Pavel's contribution is a novel explanation. He assumes that agents have limited information regarding future income, but they can refine the information, i.e., think about it more. This lack of information makes them choose current consumption or savings that are not optimal. However, the important novelty is not this – it is that agents also choose whether to think in terms of savings or consumption. Such two strategies are not equivalent under imperfect information. Pavel shows that poor people (who might face higher costs of information) are likely to choose such strategies that can exhibit hand-to-mouth behavior. Therefore, the behavior is optimal given the agents' constraints on mental abilities and might also change with policies that could affect volatility of income.

METHODS:

The methods are appropriate and some of them novel. Mental limitations have seemed to be one of the drivers of the described consumption behavior. However, it is not easy to model them in a useful way. Moreover, rational inattention does not typically generate systematic biases – e.g. that agents would tend to consume too much. This is something that emerges in this work due to the choice of consumption versus savings strategies.

LITERATURE:

The thesis describes existing literature quite insightfully. It describes two strands of existing literature: a) institutional limitations, b) behavioral constraints. The current approach is somewhat between the two, but closer to b) The literature describes extensively the empirical and theoretical foundations on both the issue of poverty-trap and hand-to-mouth, and also the literature on rational inattention.

MANUSCRIPT FORM:

The thesis is written very well. English is highly proficient. And both mathematical expressions as well as exhibits of numerical results are well developed. I would perhaps suggest that some of the main results are presented in forms of propositions, which would make them easier to follow.

SUMMARY AND SUGGESTED QUESTIONS FOR THE DISCUSSION DURING THE DEFENSE:

Summary is above.

Questions:

- Is there any evidence that different types of people choose in terms of consumption versus savings?
- What policy recommendations does your work provide?

Please indicate whether you recommend the Thesis for defense or not.

I recommend the thesis for defense.

TEXT ORIGINALITY CONTROL

I confirm that I acquainted myself with the report on the originality of the text of the thesis from

Theses Turnitin Ouriginal (Urkund)

Comments on the reported results:

SUMMARY OF POINTS AWARDED (for details, please see the page 3)

CATEGORY	POINTS
Contribution (max. 30 points)	26
Methods (max. 30 points)	26
Literature (max. 20 points)	30
Manuscript Form (max. 20 points)	20
TOTAL POINTS (max. 100 points)	92
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Filip Matejka

DATE OF EVALUATION: August 17, 2021

REFEREE SIGNATURE

EXPLANATION OF CATEGORIES AND SCALE:

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

OVERALL GRADING:

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