

This thesis focuses on the term deflation, i.e., a decline in the price level in the economy, from a theoretical point of view, as well as empirically by an analysis of two deflationary periods in interwar Czechoslovakia. The first part focuses on theoretical concepts concerning the decline in price level. Deflation, currently a frequently discussed topic, can be distinguished as deflation caused by a negative demand shock and by a positive supply shock. Based on this distinction, a group of contemporary economists distinguishes between "good" and "bad" deflation. In contrast to this concept, the other group of economists consider deflation only as a negative phenomenon, even though deflation is caused by a positive shock.

The second part of this thesis analyzes two deflationary eras in the 1920's and 1930's in Czechoslovakia. The first deflation was induced by interventions on the foreign exchange market in order to reduce the price level and stabilize the currency. In contrast, the second deflationary period was associated with the Great Depression, i.e., with an external factor. The third part analyzes Czechoslovak interwar time series using Spearman's and Pearson's correlation.