Abstract

This bachelor thesis examines the relationship between the PPI and the CPI in the Czech Republic and the euro area. The primary method used in this thesis is the Granger causality test. Granger causality between the price indices is tested for in a bivariate model and also conditional on other variables describing the development of real GDP, a given monetary aggregate and wages. The most apparent conclusion that can be drawn from the empirical results indicates that the PPI Granger-causes the CPI in the Czech Republic and that there is no Granger causality going from the CPI to the PPI in the euro area. These results are consistent with conventional economic theory, which suggests a pass-through effect in the production chain going from producer prices to consumer prices.