Report on Master Thesis

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

Student:	**Tereza Veselá**
Advisor:	**Jaromír Baxa**
Title of the thesis:	**Disagreement about Expected Inflation and the Transmission of Monetary Policy in the Czech Republic**

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

Short summary + Contribution

The recent inflationary wave revealed that even after a long period of low and stable inflation, anchoring inflation expectations shall not be taken for granted. Moreover, several recent contributions (most notably Falck, Hoffman, Hürtgen, JME, 2021) highlighted the role of disagreement in inflation expectations for the transmission of monetary policy, showing lower effectiveness of incremental policy measures at times when the disagreement is higher.
Tereza Vesela built on the paper by Falck et al. and estimated the effects of inflation disagreement on the effectiveness of the monetary policy of the Czech National Bank. She had to cope with the fact that detailed microdata on inflation expectations are not available here, but she reconstructed both quantiative inflation expectations and their disagreement from the qualitative responses to the EC Consumer Survey.
Moreover, Tereza provides the first estimates of the CNB's monetary policy shocks using high-frequency identification. Then, using regime-switching local projections, Tereza shows that interest rate policy works as expected when the disagreement is low, but the price puzzle appears when this non-linearity is omitted from the model. Her thesis has important policy implications as it shows, using a data-driven approach, that the CNB interest rate policy remains effective, which has not been shown with more recent data for more than a decade.

Methods

Tereza uses an up-to-date methodology. Inflation expectations are estimated using the procedure developed by Lyziak and Sheng (JMCB, 2023). The idea to test the role of inflation disagreement on monetary policy comes from Falck et al. (JME, 2021). The monetary policy shocks are identified from the futures using the high-frequency data in the spirit of Gertler and Karadi (AEJ:Macro, 2015), which is considered as a superior approach to other alternatives, perhaps along with the narrative approach by Romer and Romer (AER, 2004). The impulse responses are estimated using local projections, proved to be robust alternatives to standard impulse responses by Montiel Olea and Plagborg-Moller (Econometrica, 2021). Such a mixture of up-to-date methodologies in master thesis is exceptional.
All the important steps are carefully described and applied with a great attention to detail, but still the reader does not get overwhelmed by discussion of excessive nuances.
The greatest uncertainty is associated with the quantification of inflation expectations that appear quite high, and my feeling is that a bit more tests need to be done in the future to test that there are no statistical artifact affecting the results – although we discussed this deeply and have not discovered any problem yet. However, the identification of periods with high disagreement seems quite plausible.

Literature

As good as it gets.

Manuscript form

Perfect.
The results of the Turnitin analysis do not indicate significant text similarity to those of other available sources.

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Overall evaluation and suggested questions for the discussion during the defense

Tereza Veselá delivered an excellent thesis, which – due to its quality – has the potential to contribute to the debate on conduct of monetary policy in the Czech Republic by restoring trust to the power of interest rate policy, particularly if it would have been possible to rationalize the results with a structural model explaining why price puzzle/limited effects of monetary policy can appear at times of high inflation expectations disagreement.

I recommend grade A and I recommend considering nomination of the thesis for an award.

My suggested question for defense is related to the relevancy of expectations of financial market inflation expectations. Why do they differ so much from consumer inflation expectations? Are they a relevant instrument for monetary policy at all?

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

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

NAME OF THE REFEREE: *Jaromír Baxa*

DATE OF EVALUATION: *27.8.2024*

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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.*

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.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

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.*

Overall grading:

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