



The Public Defense  
of the Doctoral Thesis in Economics  
by

**Katarína Lukácsy**

on

## **Essays on Price Setting Mechanisms**

will be held on

Wednesday, December 7, 2011 at 2:00 pm

in the

Monument Building, Senate room  
Central European University  
Nádor Street 9, Budapest  
Hungary

# Thesis Committee

László Mátyás (Chair)  
Ádám Reiff (Internal Examiner)  
Attila Rátfai (Internal Member)  
Ibolya Schindele (External Member)  
Iván Major (External Member)

The doctoral thesis is available for inspection  
at the CEU Economics Department

# Abstract

The large amount of theoretical research on the micro foundations of macroeconomic behavior has made clear that a thorough understanding of the extent and causes of the sluggish adjustment of nominal prices is crucial to the design and conduct of monetary policy. In this respect, empirical work aimed at an improved characterization of the price-setting behavior of firms is of major interest for monetary policy making.

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*Fabiani (2006) (WP)*

Prices do not adjust instantly in response to changes in the economic conditions that price-setters are exposed to, such as the size of demand, size of supply, production costs etc. In recent decades a large number of papers have documented the rigidity of prices and modeled its implications. In these models monetary policy is of main interest and impact of the extent of price rigidities is examined on the dynamic behavior of some macroeconomic variables, such as consumption and inflation.

This thesis consists of three parts which are strongly interlinked. The first part documents the rigidity of prices in Slovakia to contribute to the large pool of related research by analyzing one of the less-documented countries. While most of the research focuses on the U.S. and Europe economies, studies on transition countries are more scarce. During the period examined Slovakia was preparing for integration into European Union (EU) and for the introduction of Euro as the national currency. Therefore, analyzing this country makes this study a valuable exercise as impacts of these factors can be examined and some lessons can be learned.

Findings from the first part of this thesis directly motivate the second part. The general behavior of price adjustments turns out to follow a special distribution; prices seem to adjust upwards more often than downwards; inflation seems to affect how price-setters adjust their prices both in the timing of adjustment as well as in the size etc. These and other factors are examined in the second part of this thesis to establish on the causal relationship between these and the price setting using a novel estimation approach.

The third chapter builds on the results of the second part in that it evaluates the implications of the pricing structure used in a macroeconomic model on the resulting welfare. More importantly, though, it shows that if an economy is modeled assuming pricing structure very different from the true one, the estimated welfare losses can be significantly under- or over-estimated. This highlights how important role the right assumptions play in the standard macroeconomic models which are the crucial tool in hands of the central optimizer.

# Curriculum Vitae

## Education

- 2006 – present    Central European University  
Budapest, Hungary  
*Ph.D. in Economics*
- 2003 – 2005      Central European University  
Budapest, Hungary  
*MA in Economics*
- 2000 – 2003      Faculty of Mathematics, Physics and Informatics  
Faculty of Management  
Comenius University, Bratislava, Slovakia  
*B.Sc. in Mathematics and Management*

## Grants, Awards, Fellowships and Certifications

- 2011    *Oracle Certified Associate*  
Oracle University
- 2010    *Olga Radzyner Award 2010*  
Central Bank of Austria
- 2009    *Doctoral Research Support Grant*  
National University of Ireland - Galway
- 2006 – 2009    *Soros Foundation Fellowship*  
Central European University
- 2003 – 2005    *Soros Foundation Fellowship*  
Central European University

## Publications

- Book Chapters:
  - *Structural Change and Economic Dynamics in the European Union*; Welfens, Paul J.J.; Ryan, Cillian (Eds.), 1st Edition., 2011, XXVI, 387 p., Hardcover ISBN: 978-3-642-16273-2, Chapter 9, p. 311-337, (with Július Horváth)

- Technical Journals:

- *Generating Random Samples from User-defined Distributions*  
Stata Journal, 2011, Issue 11, Number 2

- Economic Journals:

- *An Implication of Rational Inattention for the Asymmetric Price Adjustment "in the Small": A Comment.* The Empirical Economics Letters, 2010, Issue 9, Number 7
- *Price Rigidity in Slovakia: Some Facts and Causes*  
Research in Economics and Business: Central and Eastern Europe, 2009, Vol 1, Issue 28, Number 2

## Refereeing Activities

International Review of Applied Economics

## Work Experience

- 2011 – present    ***Software Engineer***  
CISCO, Galway, Ireland  
*Database design and management*  
IBM IDS, SQL, XML, C++, Java
- 2010 – 2011      ***Statistical Analyst***  
L10NBRIDGE, Ballina, Ireland  
*Data mining, statistical analysis*  
MySQL, SPSS, Visual Basic
- 2010 – 2010      ***Visiting Researcher***  
MNB, Budapest, Hungary  
*Price-setting modeling*  
Stata, MatLab, Maple, L<sup>A</sup>T<sub>E</sub>X

## Languages

Slovak (native), English(fluent), Hungarian (fluent)