

The aim of this project is to answer two very basic questions:

- Do people care about inflation?
- What should authorities do about people's perception of inflation?

It may be surprising that after so many years of research economics have not answered those simple questions. However, we have to keep in mind that it is only a social science, so the answers are never as simple as questions. I have decided to do research of this topic because I have not found satisfying answers to those issues in the literature. This matter is not well researched, because it lays somewhere between monetary economics (which is a very mathematics-oriented discipline) and psychology. The analysis I conduct is based on the happiness economics approach towards people's life satisfaction. I measure the effects of price changes on the reported satisfaction based on survey results.

The findings of the study will answer the question whether price changes really influence the reported well-being of respondents. I also look for different inflation measures that reflect the phenomenon of inflation perception. It will allow a better understanding of what inflation is for people and how it influences their lives.

Moving one step further, I use these results to analyse the monetary policy decision-making process. There is a very important link between those two issues because one of the main goals of the monetary policy is to provide price stability in the economy. After understanding how the monetary policy council is making its decisions (which is a big part of my research) I want to adjust this decision-making process using inflation perception measures. It will shed a new light on the monetary policy mandate and its goals. If people's perception of inflation is something different than inflation measures used by policymakers the policy may not be optimal for society.