

Report on Bachelor / Master Thesis

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

Student:	Lukáš Janásek
Advisor:	doc. PhDr. Martin Gregor, Ph.D.
Title of the thesis:	Numerical fiscal rules and fiscal institutions in an economy with a dynamic common pool problem

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

The author tests two possible remedies to the problem of “debt bias” in an economy with decentralized fiscal decision making. To this end, the author derives a model of “a dynamic common pool”, by generalizing two models of fiscal common pools which are known from existing literature (referred to as PT and KW models). Using such model, as well as numerous simplified sub-models, the author first shows various inefficiencies of the decentralized fiscal decision making. In this context, the author examines the effects on the fiscal decision making of six fiscal frameworks (differing from each other in the degree of (de)centralization of the decision making; *first potential remedy to the debt bias*) with and without budgetary constraints (*second potential remedy the debt bias*). The author concludes that the full centralisation of the fiscal decision making is not necessary to attain socially desirable fiscal policy, provided that budgetary ceiling is agreed on before the decision making starts.

Contribution

The author departs from two existing models, which he puts together and generalizes for the purpose of analysing his research question. As such, the contribution of the thesis is obvious. The author also derives clear conclusions from the models which were adjusted for the individual fiscal frameworks (sections called „Brief summary“ in Chapters 4.2-4.3), as well as from the overall analysis (points 1-6 in Chapter 6, p. 55). Finally, the author provides discussion of the results with regards to the characteristics of his model (Chapter 5, pp. 52-53).

Methods

The thesis is of theoretical nature. The author demonstrates ability to further develop existing game-theoretic models and use them to derive conclusions related to his research question. First, he adjusts the general model for each of the distinct fiscal frameworks and for the presence of the budgetary constraints. Secondly, he derives the outcome and costs of the fiscal decision making for each of these settings and compares it to the outcome and costs of socially optimal fiscal policy as defined in the thesis (by comparing both outcomes and costs of the individual settings to those of socially optimal fiscal policy, two sets of results are presented for each setting).

Literature

In Chapter 2 the author presents overview of the existing literature on remedies to a common pool problem in the fiscal decision making. The overview contains sufficient number of sources and it is not only a simple review of individual works, but also a good synthesis of their results. In relation to this, I appreciate author's ability to describe the conclusions of these works briefly and efficiently. The PT and KW models, which the author develops in his work, are described in Chapter 3.1. A sentence on models, which are used to analyse the remedies to the common pool problem, might be added to the end of Chapter 2, so that it connects it with Chapter 3.1.

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Manuscript form

The thesis is written using solid academic English and the author demonstrates good command of LaTeX software. The text provides sufficiently detailed explanation to the individual steps of the analysis and it does not contain unnecessary parts which would not be directly related to the analysis. As such, the author demonstrates his ability to determine what is important for the work. For the future I would suggest using different names to the individual sub-chapters, so that it facilitates the reading of the work. As an example, numbering of the various institutional settings which are analyzed in Chapter 4, might help for this purpose.

Summary and suggested questions for the discussion during the defense

I regard this thesis as a high-quality one, especially given the fact that it is a bachelor thesis. In case of successful defense, I recommend „grade A“.

Suggested questions for the defense are the following:

1. Are there any implications of your conclusions for the potential fiscal union in the EU? (What would need to be the institutional setting of such union, so that the potential distortions were minimised?)
2. Please discuss the relevance of the assumptions of your model with respect to the „real world“.

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	30
<i>Methods</i> (max. 30 points)	30
<i>Literature</i> (max. 20 points)	19
<i>Manuscript Form</i> (max. 20 points)	19
TOTAL POINTS (max. 100 points)	98
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: PhDr. Hana Hejlová

DATE OF EVALUATION: May 20, 2019

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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

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

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

Overall grading:

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