

Report on Bachelor Thesis

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

Student:	Ivana Strnadová
Advisor:	Mgr. Petr Polák, M.Sc.
Title of the thesis:	Willingness to pay for streaming services: Evidence from the Czech Republic

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.

Contribution

The topic of the thesis is original, and the thesis offers new findings about an up-to-date issue, as it focuses on willingness of Czech population to pay for streaming services. As this topic was not investigated in the Czech conditions before, the thesis contributes to the literature significantly.

The findings of the thesis are twofold: (1) a set of key variables with discriminatory power and (2) an analysis of price that the consumers are willing to pay, with extension to an optimal price from the provider's point of view. Both these findings are interesting and may be used for practical use, for example by the streaming companies.

Overall, the thesis shows author's deep knowledge of the industry, also supported by a wide range of literature used throughout the thesis. The theoretical part of the thesis is very well handled, it is actually very interesting to read and introduced a variety of interesting findings and trends for a reader from outside the industry.

The fact that the study deals with a quite new industry however also brings some challenges. The new industries have a typical cycle, in which only a group of „pioneers“ enters the industry over the first years, whereas most of the population waits for the products to become more commonly used before trying them (the thesis states 4% share of people who paid for video content online). This has consequences for the thesis, as it is even more stressed by the fact that the data were gathered using an online questionnaire (see comments further below). This does not mean the interpretation is wrong neither the contribution small—but it must be noted, that the identified findings are valid for the group of the “pioneers”, or, put differently, in dividing the population between pioneers and the others. After several years, once the industry spreads into the whole population, the key variables determining the subscription probability may be different, as well as the demand function. This should be emphasized when interpreting the results.

At the same time, the topic can be read as both “Are the people willing to pay?” and “Which of the people are willing to pay?”. Whereas the first interpretation leads to a study about the determinants of the attractiveness of the industry as a whole, the second interpretation is a usual discrimination analysis. It must be admitted that the thesis deals mostly with the second exercise. It means, it correctly identifies factors that decide whether the person will subscribe or not, and what is its demand function. The apparent question of the type: “Why the same Czech person (by age, education etc.) subscribes with probability 10%, whereas the same person in the U.S. subscribes with probability 50%?” is however not answered. This could be a hint for a future extension of the research, including international comparison and identification of the life cycle of the industry in various countries.

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Methods

The methods are well selected, their successful application shows sufficient econometric knowledge of the author, given the bachelor level of studies. The application of the analysis of the optimal price also shows understanding of basic microeconomic concepts. The only confusing issue is the “profit-maximization” exercise. The assumption of zero marginal costs is used, however, still, it would be better to speak about revenue-maximization rather than profit, as the costs could significantly change the conclusions.

A major caveat lies in using the online questionnaire, distributed into quite homogenous group (mostly students). The bias seems to be so large that even controlling for such attributes as age, education etc. may not be sufficient to correct it, given the relatively small number of observations beyond the basic group. Similarly, as in the case of to the comment about the industry life cycle above, the consequence is that the findings are valid only for the given sample and may not be simply generalized for the whole population. Author mentions the risk of the bias when introducing the data and in the discussion, but otherwise ignores it – since this bias may be strong, it should be reflected throughout the interpretation of the results. It would not decrease the value of the thesis if the fact that the thesis focuses on the specific group of people (as noted on p.55) rather than the whole population was admitted already in the introduction.

Apart this caveat, the setup of the models is overall good. Some uncertainty is, however, linked to the fact that some groups of explanatory variables are extremely small. For example, the group of people with elementary education consist of only 9 people. Such small number then contrasts with the finding that elementary education results in much higher probability of subscription – there is hardly any statistic power in such finding, given only 9 people forming the sub-sample. This is particularly apparent in the price regression, where the less educated people are willing to pay more. Therefore, the sample could be better balanced or grouped (joining elementary and high school education, for instance).

At the same time, the results for the impact of income on the desired price is also surprising, being largest for lower income buckets. This also shows the consequence of the gathered sample, where the low-income students still have enough funds to be willing to spend (support from family, prospects of high future income etc.). However, such discussion is not present in the thesis.

Literature

The thesis uses a wide range of literature, including literature to both explain the motivation and describe the methods, use them properly and interpret the results. I consider the use of literature as perfectly sufficient for the bachelor thesis.

Manuscript form

The thesis written in a consistent manner, the text flows well, is easy to follow and well structured, with no language mistakes identified. The referencing and other formal requirements and handled correctly.

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Summary and suggested questions for the discussion during the defense

Overall, I evaluate this bachelor thesis as slightly above average. It is particularly strong in its theoretical part, especially the extent of the literature used. The practical part is done correctly and consistently, the methods are appropriate and well used. The contribution is good, although the specifics of the life cycle of the industry questions the validity of results beyond the present state, and the bias caused by the gathered sample limits generalization of the results on the whole population. Still, these caveats are understandable for the bachelor thesis, given the possible challenges to gather a well-balanced sample.

Given these facts, I propose the grade A, given the student proves during the defense that she is aware of the mentioned caveats and able to understand their consequences for the conclusions of the thesis.

Questions:

1. What do you think are the reasons for the low share of population using the streaming services in the Czech Republic, compared to other countries? Are these reasons related more to the life cycle of the industry (the Czech Republic being "lagged" behind the U.S. in the new services and technologies) or are these more structural reasons (i.e. different consumer preference, different approach to illegal downloads etc.)?
2. How do you interpret the fact that less-earning people are willing to pay more for the streaming services, according to your results? Is this related to the gathered sample characteristics?

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

CATEGORY	POINTS
<i>Contribution (max. 30 points)</i>	26
<i>Methods (max. 30 points)</i>	25
<i>Literature (max. 20 points)</i>	20
<i>Manuscript Form (max. 20 points)</i>	20
TOTAL POINTS (max. 100 points)	91
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Adam Kučera

DATE OF EVALUATION: 2019/08/29



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