Report on Master Thesis

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

Student:	Jaroslav Štěpán
Advisor:	Jaromír Baxa
Title of the thesis:	Asymmetric developments in the EU: Is the Lucas Paradox behind?

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

Jaroslav Štěpán addresses an important topic of the EU integration: the prevailing asymmetry in economic developments of its Member States. More specifically, he seeks whether we can observe significant differences in capital flows in the EU that might foster rather than mitigate the cross country growth differences. Subsequently, he tests whether the growth effects of capital flows are different across the EU Member States. He follows the literature on the so-called Lucas Paradox. According to R. Lucas, the capital shall flow from the rich to poor countries, because of the higher marginal product of capital in the poor countries in comparison to the rich countries. However, the empirical evidence reveals the capital flows mainly in the opposite direction (Lucas, AER, 1990). Jaroslav has shown that the Lucas paradox cannot be identified among the old and the new EU Member States, but this hypothesis is supported for the capital flows between the EU core and periphery.

Methods

Most of the papers that test for the presence of the Lucas Paradox rely on cross-sectional data. However, this thesis employes a much more complex and advanced methodology, the Panel VAR model. This approach seems to be a better choice, mainly when potential asymmetries among the effects of the capital flows are investigated. However, this complexity has its costs. One needs to be sure that the specification of the model meets the assumptions of the method, to set the instruments for the GMM estimation properly, and the results are also more complex and harder to interpret. Jaroslav succeeded especially in the implementation of the methodology. He presents the results of relevant specification tests, and the GMM is implemented without apparent issues in Hansen statistics or so. However, the thesis would deserve some additional effort to distill the essential results and to focus the presentation in that direction.

Literature

The relevant literature on the topic is covered and well-referenced throughout the text.

Manuscript form

The manuscript form is by far the weakest part of the thesis, due to the language style. The text is hard to read and to follow the main arguments.

Summary and suggested questions for the discussion during the defense

Overall, Jaroslav Štěpán has demonstrated his excellent command of up-to-date econometric methods. Unfortunately, the calculations are not presented in the most accessible and appealing form.

For the defense, two questions are suggested:
1. What are the most crucial specification tests and caveats for the panel VAR models?
2. What are the policy implications of the results?

In case of successful defense, I believe the thesis deserves grade B.

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

CATEGORY	POINTS
Contribution (max. 30 points)	25
Methods (max. 30 points)	27
Literature (max. 20 points)	18
Manuscript Form (max. 20 points)	12
TOTAL POINTS (max. 100 points)	**82**
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE: *Jaromír Baxa*

DATE OF EVALUATION: *September 6, 2019*

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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.*

Strong	*Average*	*Weak*
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.*

Strong	*Average*	*Weak*
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.*

Strong	*Average*	*Weak*
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.*

Strong	*Average*	*Weak*
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