

# Report on Bachelor Thesis

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

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|----------------------|------------------------------------------------------------------------------|
| Student:             | Adam Kolesa                                                                  |
| Advisor:             | Martin Gregor                                                                |
| Title of the thesis: | Measuring the Government Effectiveness Using Worldwide Governance Indicators |

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

The thesis provides a link between a quantitative index of the quality of governance and the overall index of economic environment for a sample of 12 EU countries. It also offers a rather comprehensive introduction and survey into the general topic of measuring institutions.

Chapter 1 introduces into the effect of (governance) institutions on economic performance. This is a vast area, where the author in brief points to a couple of renowned authors (e.g., Barro, Easterly, Keefer, Acemoglu, Robinson, Johnson). The main purpose is to show that part of lasting puzzles have to do with the problem of quantifying the institutions. Chapter 2 then analyzes World Governance Indicators (WGI) by the World Bank Institute. The content is chiefly a discussion of unobserved components model and its assumptions. Another value added of this chapter is a survey of criticisms and recent developments of these indicators.

Chapter 3 constructs own "economic environment index" as a latent variable model a la Nagar and Basu (2002). The index is applied in Chapter 4 upon 12 new EU member states. Then, WGI is compared with this index. Two observations stand out: Malta and Cyprus ranks worse in terms of economic environment, and Hungary improves. For Hungary, this is because its notoriously known weaknesses (e.g. debt service) are weighted less than its strengths (FDI), and the weight is given by variation in the sample. An alternative way to check for robustness would be to use a full EU-27 sample and then eliminate from the ranking the EU-15.

I consider the thesis a relatively straightforward analysis of the relation between governance and economic environment, that may serve as a necessary but still just a first step for serious research on the link between the political institutions and economic performance. **I recommend grade 2.**

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

| CATEGORY                              | POINTS    |
|---------------------------------------|-----------|
| Literature (max. 20 points)           | 16        |
| Methods (max. 30 points)              | 20        |
| Contribution (max. 30 points)         | 20        |
| Manuscript Form (max. 20 points)      | 18        |
| <b>TOTAL POINTS</b> (max. 100 points) | <b>74</b> |
| <b>GRADE</b> (1 – 2 – 3 – 4)          | <b>2</b>  |

NAME OF THE REFEREE: Martin Gregor

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