Report on **Bachelor / Master Thesis**

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

Student:	Botka, Jan
Advisor:	PhDr. Hlaváček,M. Ph.D.
Title of the thesis:	Political Cycles and Their Impact on Macroeconomic Indicators in the Central Europe

OVERALL ASSESSMENT:

Short summary
The author study effect of Political Business Cycle on real GDP, unemployment and inflation. The author finds decrease in repal GDP growth one quarter after elections, decrease in unemployment for a quarter during election and lower inflation one quarter before election.

Contribution
The contribution of the manuscript is fairly significant. It shows great promise. My main concern is that the author does not discuss the magnitude of the Business cycle impact on macro indicators. I wish to see a more elaborate introduction and conclusion, where the author would describe in detail the necessity of all thirty-nine VARs, their implications, and why they differ. The rule of thumb is that one should opt for the fewer, simpler specifications that can deliver robust results. Running any number of regressions cannot be counted as a contribution alone.

Methods
The author has done impressive work with the data, VAR models and their varios specifications. I appreciate the the volum of work and thought the author invested in this manuscript.

Literature
The literature review is well-written, covers a reasonable number of papers, and delivers information clearly and coherently. The section offers relatively comprehensive information to the reader on the field and describes the niche the author fills with this manuscript and the importance of the contribution.

However, I have a few concerns. Even though the study addresses central Europe, it is essential to present findings and methodologies used in similar results both for central Europe and the rest of the world. Especially since the author hints at the existence of such literature:

> ➢ p.2, „It should be noted that <u>previous analyses</u> of this topic have yielded quite ambiguous results."
> ➢ P. 4, „However, empirical evidence typically does not support the hypothesis... „

Also, on p.4 the author mentions „In subsequent research conducted across 18 OECD countries...," but does not cite said „subsequent research."

Additionally, the author falls short of supporting the claim a few times:
> *„This contradictory movement of inflation and unemployment is*
> *an application of the famous Phillips curve within one election*
> *term1. However, one of the limitations of this model is its*
> *assumption of a nonrational voter."*

The author does not explain how nonrational voter assumption is the limitation of the Phillips (1958) model.

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Manuscript form

The manuscript is beautifully organized. However, I have some comments on Figures and Tables.

I suggest writing more elaborate comments for the **figures**. Only writing „Source: Plotting our time series in R" is insufficient. The author should consider including more details in the figure comment, like a description of the plot, data, and source of the data, and in the end, „generated by author" can be added. Also, I recommend against using the plural personal pronoun „we" and opting for „I" instead since the manuscript has a single author.

Also, in the **tables**, one should avoid including variable names as used in the code and instead write in the more clearer form.

GDP.l1 $\rightarrow$ GDP_{t-1}, ,unemployment.l1 $\rightarrow$ $unemployment_{t-1}$

Citations

Some citations are not compleat, few examples below:

- ➢ Nordhaus, W. D. (1975): "The Political Business Cycle." 42: pp. 169–190.
  - ➔ Nordhaus, W. D. (1975). The political business cycle. The review of economic studies, 42(2), 169-190.
- ➢ „Hibbs, D. A. (1977): "Political Parties and Macroeconomic Policy." 71: pp. 1467–1487."
  - ➔ Hibbs, D. A. (1977). Political parties and macroeconomic policy. American political science review, 71(4), 1467-1487.
- ➢ Nordhaus, W. D. (1975): "The Political Business Cycle." 42: pp. 169–190.
  - ➔ Nordhaus, W. D. (1975). The political business cycle. The review of economic studies, 42(2), 169-190.
- ➢ Alesina, A. (1988): "Macroeconomics and Politics." NBER Macroeconomics Annual 3.
  - ➔ Alesina, A. (1988). Macroeconomics and politics. NBER macroeconomics annual, 3, 13-52.
- ➢ Gałązka, M. (2021): "The political business cycle in municipalities in Poland."
  - ➔ Gałązka, M. (2021). The political business cycle in municipalities in Poland 2001-2019. In Conference Proceedings Determinants Of Regional Development (No. 2, pp. 579-592).

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Overall evaluation and suggested questions for the discussion during the defense

1.1 Abstract

The abstract should serve as a "hook" for the reader. It is to *advertise* the paper. It should be to the point, showing **what** one studies and **why** it matters. The message should be clear as a "stand-alone" text. Therefore, I have suggestions that could improve this essential part of the manuscript.

Quote from the thesis:
1. *This study examines the impact of the political cycle on macroeconomic indicators in Central Europe, with a special focus on the Czech Republic.*
2. *Thirty-nine Vector Autoregressive (VAR) models were constructed using data from 1998 to 2022 aiming to apply the Political Business Cycle (PBC) theory.*
3. *It is the first time the VAR model has been used in this context for most of the selected countries.*
4. *As the main variables in the model, subject to potential influence by political cycles, were chosen real GDP, inflation and unemployment.*
5. *The results showed that no consistent significant relationship exists across all countries, with each nation displaying varying connections and occasional contradictions to the presupposed theory.*
6. *Nevertheless, certain associations between the political cycle and macroeconomic indicators were observed in individual countries, supporting the presence of the PBC to some extent in the Czech Republic, Hungary, and Austria.*
7. *Conversely, no evidence or even contradictory results were found for the PBC in Slovakia, Poland, and Germany.*
8. *Additionally, the presence of the "partisan" political cycle was identified in Hungary but not in the Czech Republic, Germany, or Austria.*
9. *Poland's significant results exhibited signs opposite to those expected.*
10. *This research opens new avenues for further in-depth analyses of the political cycles in this region. "*

Suggestive comments:
1. [1] „*This study examines the broadly anticipated impact of the political cycle on real GDP, inflation and unemployment in Central Europe - Czech Republic, Hungary, Austria, Poland, and Germany"* – since the author does not mention how study treats Czechia differently, I would recommend listing all countries, as this can be the selling point of the paper.
2. [2] I would recommend against using the word „aiming" since the author has executed said methodology:
   a. „I *apply the Political Business Cycle (PBC) theory using thirty-nine Vector Autoregressive (VAR) models constructed using data from 1998 to 2022. "*
      But immediately after this sentence, I would recommend writing specific findings. Usually, no more details are needed.

3. „*It is the first time the VAR model"* [3] -- this formulation is risky to use in academic writing in general. Using certain methodologies cannot be counted as a contribution on its own. One should advocate why this specific methodology is important and how it improves on the previous studies in the luterature.

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4. I would recommend amending sentence [4] to "*Specifically, I test the broadly assumed significant influence of political cycles on real GDP, inflation, and unemployment,*" – but I tried to include this information in sentence [1] [see commend 1]. In sentence [4], as it is formulated now, it is unclear how these variables are included in the model.
5. The author mentions the results in sentence [5]; I recommend moving it to the second or third sentence. However, more than placement, the author should avoid using working like „presupposed theory." Ruther, I would recommend explicitly stating what this expression means. ... „*no consistent significant relationship exists across all countries. "* – What relationship? Between?
6. Only in sentence [6] does a reader understand that the author is looking at the relationship between Political cycles and indicators. <<< This should be clear from the beginning of the abstract.

Important comments:
1. The author needs to define the Political Business Cycle and how it is measured (one sentence on this would be essential).
2. The Political Business Cycle (PBC) theory is not explained. One should avoid writing titles of the theory; rather, state hypothesis and keep it simple.
3. Same for „*partisan" political cycle"* – It is not clear what „*partisan" political cycle means.*
4. *[6] Supporting the presence of the PBC to some extent – what does „presence of PBC" mean? And what does its absence indicate for the economy?*
5. [7] No evidence of what? It is also unclear what the author means by „contradictory results."
6. [7] mentions that Poland is one of the countries with „no evidence," but in [9], it says, „*Poland's significant results exhibited signs opposite to those expected,"* and also, what is „*expected"?*
7. The abstract uses phrases like *specific associations, no evidence or even contradictory results, and signs opposite to those expected.* – However, I could not see the answer to the main question: „*How does the PBC affect real GDP, inflation, and unemployment?"*
8. *This research opens new avenues for further in-depth analyses of the political cycles in this region.* – *If this is a contribution worth mentioning in the abstract, the author should specify how exactly this manuscript „opened new avenues."*

1.2 Introduction

Introduction is well written, only concern I have is that the author should mention the short summary of the results and importance of finding in already the interoduction.

The main message of the manuscript is summarized on the page 42:

> „*After considering all the models, three main significant results were found: lower real GDP growth one quarter after elections, lower unemployment in a quarter during elections and lower inflation one quarter before elections."*

I would strongly recommend to mention these results also in introduction and further elaborate on them. Discussing the magnitude of the impact over different specifications would also be very interesting. I would also recommend summarizing the effect of including extra controls such as the HHI and Power variables.

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In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade of **A**.

The results of the Turnitin analysis do not indicate significant text similarity with other available sources.

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

CATEGORY	POINTS
Contribution (max. 30 points)	25
Methods (max. 30 points)	29
Literature (max. 20 points)	19
Manuscript Form (max. 20 points)	19
TOTAL POINTS (max. 100 points)	**92**
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Nino Buliskeria

DATE OF EVALUATION: 30.08.2023

Digitálně podepsáno (30.08.2023)
Nino Buliskeria

_____
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.*

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.*

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

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.*

Overall grading:

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