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Essays on International Economics

(Abstract)

This dissertation focuses on various economic problems of central European countries in transition. Membership in the Economic and Monetary Union (EMU) and an inflow of foreign capital belong to the biggest challenges these countries have to face.

The first essay therefore focuses on exchange-rate stability in five new members of the European Union (EU). This stability is not only a criterion for joining the EMU but also a fundamental property of stable economic development. However, there are several factors that could slow or interrupt these countries' EMU-integration process. For this reason, this essay analyzes key factors contributing to euro exchange-rate volatility in the new EU members during the period 1999-2004: economic openness, the "news" factor, and the exchange-rate regime. A TARCh (threshold autoregressive conditional heteroskedasticity) model is employed to model the volatility of exchange rates. Although this essay focuses on each country separately, in general the results suggest that economic openness has a calming effect on exchange-rate volatility, news significantly affects volatility, and flexible regimes experience higher degrees of volatility. The extent of all these effects varies substantially across countries, however.

The remaining of this dissertation is then devoted to various impacts of foreign direct investment (FDI) on domestic companies in the Czech Republic. Particularly, the second essay analyzes their sales growth rates. Using firm-level panel data from 1995 to 2003, it studies both horizontal and vertical spillovers. I pay attention to the potential endogeneity of FDI with respect to future industry growth. The results suggest that domestic companies are mostly suffering from the presence of foreign companies, especially in upstream sectors.

The third essay is coauthored with Štěpán Jurajda and we ask there the following questions. Does foreign ownership improve corporate performance or do foreign firms merely select more productive targets for takeover? Do workers benefit from foreign acquisitions? We answer these questions based on comparing the before/after change in several performance indicators of Czech firms subject to foreign takeover after 1997, i.e., after the initial waves of privatization were completed, with the corresponding performance change of matched companies that remain domestically owned until 2005. We find that the impact of foreign investors on domestic acquisitions is significantly positive only in non-exporting manufacturing industries, while it is small in both services and manufacturing industries competing on international markets.