

Report on Bachelor Thesis

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

Student:	Klára Koubková
Advisor:	Vilém Semerák
Title of the thesis:	Effects of foreign direct investment on international trade

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

Ms Koubková has decided to analyze very interesting questions concerning the complementarity or substitutability between direct investment and trade flows. Her paper analyzes these issues on empirical data on trade and investment flows between Germany, Czech Republic and their trade partners. The paper is divided into 7 basic parts: 1) explanation of the concept of FDI, 2) introduction to the theory of multinational enterprises, 3) outline of motives for FDI and policies focused on stimulation of FDIs, 4) overview of possible impacts of FDI on host countries, 5) overview of relationship between trade and investment, 6) outline of the gravity theory, 7) estimates of own econometric model based on gravity.

The lengthy outline of the contents of the paper shows one of the problems of the paper: the author has tried to cover quite a few related but different topics, but did not have the space and time for in-depth treatment of most of the topics. Time is also related to the second major issue with the form of the text, the presented version still includes many typos, grammatical errors, discontinuities in text, and inconsistencies in names and references (Benacek v. Benáček – p. 25, Heksher – Heckscher, Tinberger-Tinbergen, etc.). Unfortunately it is quite apparent that the author was trying to meet a deadline. It is a pity because she had invested quite a lot of time into construction of interesting datasets and the current form of the text severely devalues her effort.

As far as econometrics is concerned, the author estimated standard gravity model for direct investments (for both of the countries vis-à-vis their partners), gravity model for foreign trade, and then tried to use residuals from the investment regression in order to analyze the relationship between trade and investment flows. Both the logic (the likely problems with omitted variables) as well as tests motivated the use of fixed effect model. The gravity estimates seem relatively standard, what is surprising though is the lack of individual statistical significance of most of the variables in the case of trade flows. The results of the analysis of the interaction between FDI flows and trade are hardly surprising – especially in the case of the Czech Republic – as 1) investment flows include sectors which do not have direct effect on trade (service sectors such as banking or real estate) and 2) the fact that many export-oriented investment projects are actually focused on exports to other countries than the country of origin of the invested capital.

Problems in the econometric part:

- The description of the effect of heteroscedasticity on p. 42 is rather simplified. However, I agree that in the context of the data used by the author heteroscedasticity is expected and does not have to be a problem as long as we try to obtain “corrected” estimates of standard errors.
- A similar problem can be found on p. 47 – we simply cannot say that “the better results we would obtain, if we do not take into account the groupwise heteroscedasticity in our data” as it is not a matter of a random decision.

All in all, the author invested considerable effort into preparing the data and clearly showed a potential for independent research. Therefore I propose grade either 2 or 3 depending on the performance during the defense.

Proposed question for the defense:

1. On page 25 the author mentions “excessive usage” related to FDI and suggests that this is a threat that may deviate the economy from its equilibrium. Would the author explain this effect?
2. Explain the logic of your approach – what kind of coefficient would you expect for the investment residual term in the trade gravity equation?

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	15
<i>Methods</i> (max. 30 points)	20.5
<i>Contribution</i> (max. 30 points)	15
<i>Manuscript Form</i> (max. 20 points)	9
TOTAL POINTS (max. 100 points)	60.5
GRADE (1 – 2 – 3 – 4)	2 (2 – 3)

NAME OF THE REFEREE: **Vilém Semerák**

DATE OF EVALUATION: **August 23rd, 2012**

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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

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

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

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 POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě