

Report on Bachelor / Master Thesis

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

Student:	Tereza Flanderová
Advisor:	PhDr. Jiří Schwarz
Title of the thesis:	The Property Rights Security Is Important: How Exactly?

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

The thesis focuses on the impact of institutional quality on various firm characteristics in emerging or developing economies from the Central and Eastern Europe and Asia. Whereas the link between property rights security and the scope of economic activity is well-researched in the case of the least-developed countries (e.g. in Hernando de Soto's work), the exact influence is not that clear for more developed economies.

In order to answer the question posed in the title of her thesis, Tereza uses primarily firm-level survey data from the BEEPS survey to address the link between various measures of institutional quality and property rights security on one side, and various characteristics of firms on the other side. Such topic doesn't only belong to the stream of literature dealing with the importance of property rights security, but also to the literature empirically testing the conclusions of the theory of the firm. Interesting thing is, that these two distinct streams of the literature expect opposite effects of the quality of institutions. The first one expects the firms to be smaller and to invest less when the institutional environment is bad. The second, on the contrary, expects firms to vertically integrate and grow bigger in case of worse institutions, especially problematic contract law. Empirical literature suggests that the first effect is observable in less developed economies, whereas the second one prevails in the more developed ones. Tereza focuses on countries which do not clearly belong to neither of these two groups.

Tereza first thoroughly reviews both theoretical and empirical literature dealing with the relationship between institutions and firms. Here I slightly miss some references to the literature on the theory of the firm. In the main part of her thesis, Tereza very carefully chooses the most suitable method to analyze the data and introduces numerous checks for potential obvious sources of endogeneity and misidentification. She comes to the conclusion that in her data the prevailing effect of institutions on firm characteristics is the one predicted by the theory of the firm – i.e. the firms tend to be bigger and invest more in environments with worse institutions, mainly where the quality of the judicial system is lower.

Even though sometimes the text could have been a little more concise, it is nicely written and easy to follow. The literature is cited correctly.

I recommend the thesis for defense and suggest to be graded "výborně".

I have one provoking question for the defense: Would it be also possible to see a reversed causality in the empirical work (including yours) assuming the causality goes from the institutions to the firm? What if in economies where the firms due to any reasons tend to integrate more, grow bigger, and therefore have more resources available, the firms also resort more frequently to rent-seeking activities which leads to worse institutional quality?

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

CATEGORY	POINTS
Literature (max. 20 points)	17
Methods (max. 30 points)	28
Contribution (max. 30 points)	29
Manuscript Form (max. 20 points)	17
TOTAL POINTS (max. 100 points)	91
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Jiří Schwarz

DATE OF EVALUATION: 6.6.2012


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