

Report on Bachelor / Master Thesis

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

Student:	Marta Šimůnková
Advisor:	Michal Bauer
Title of the thesis:	Liberalization of trade in Peru: Analysis of the FTA with USA and its effects on incomes

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

The thesis aims to answer one of the central questions in economics: Does liberalization increase labor income in affected sectors? Does it increase income also for the poorer part of the population?

Marta Šimůnková chooses Peru and the liberalization of some of its products, as a part of FTA, which became effective in 2009. She uses detailed individual-level data from Peruvian National Survey of Households which were collected in years 2007-2011, thus shortly before and after the implemented policies. She matches information about occupation to identify individuals working in the newly liberalized sectors and compares the income development in this group with a „comparison“ group, i.e. people from sectors that were liberalized earlier. She uses a difference-in-difference method to identify possible effects of the policy. The results do not provide unambiguous picture.

I start with a note about a process of preparing this thesis. The author spent quite a lot of effort to receive the data from the Peruvian statistical office during her stay in Peru, to understand which sectors were affected by FTA and then by matching these two sources of information. I appreciate this part of the thesis work quite a bit. Unfortunately I must say, Marta decided to submit the thesis too early, in my view. As a consequence, the data analysis and thesis writing has not received sufficient attention, there are a lot of typos, referencing is everything but careful, etc. In fact, although I have consulted the thesis quite extensively in the earlier stages, I received a draft of the thesis too late to be able to read it before submission, especially the core part including the data analysis and conclusions before submission.

Overview about Peru

I think the macroeconomic overview part is too general and long, often not directly related to main question of interest. This is a more general issue with diploma theses and history of length requirements at FSV. For example, I don't understand why a reader needs to see distribution of wealth in Lima in two consecutive years (graph 1.3) and then the same graph repeated in graph 1.4 when Lima is compared to Peru. At some places the description contradicts. In particular on p.11 the author claims that growth in recent decades has not benefited the poor while the graph 1.9 and the accompanying discussion shows the opposite.

Literature review

There is very little synthesis of the findings in the literature, mostly citations from related studies.

Trade liberalization in Peru and identification strategy

There are two main issues with the identification strategy which are common for this type of empirical analysis and the author is aware of them, but it would be good to make it clearer. The analysis exploits reduction in tariffs in 2009 due to FTA. It would be of course nicer to exploit the variation in 1990, but for that period there are no good survey data before and after available. Therefore, the 2009 policy affects the last set of products that have not been liberalized earlier and it's difficult to argue these have been random. Moreover, there are large pre-existing differences in income and other characteristics in policy-affected and policy non-affected groups that make causal inferences difficult.

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It's a positive feature of the thesis that the author is aware of this limitation and cautious in interpretation of the results.

The second issue is that there may be spillovers between affected sectors and non-affected sectors, probably reducing the size of the estimated effects. So it's worthwhile that the author uses more comparison groups, each with different limitation. Nevertheless, I admit that more could and should have been done to identify sectors that are most similar to those affected by the FTA.

Results and interpretation

The results do not give a clear answer to the question of interest. Overall, the author finds that newly liberalized sectors experienced *relative* increase in wages compared to sectors that liberalized earlier, in line with initial hypothesis. However, the author is rightfully cautious to interpret these findings as evidence for causal effect of liberalization. This is because the interaction effect (DiD estimate) is an outcome of decrease in wages in comparison group rather than increase in the „treatment“ group. Thus, very plausible alternative explanation is that due to large macroeconomic shock (happening in parallel to liberalization) had disproportionate negative effects on income in already liberalized sectors and smaller effect in sectors that were becoming liberalized.

Given the fact, that the policy has been implemented in 2009 and the data are from 2011, it should be made clearer that this study tries to estimate very short-term effects while some of the effects may in fact appear in longer term horizon.

Style

There are lots of typos, showing the thesis has finished in the hurry. Eg. „he had got a second change“ on p. 18. Also referencing is weak: on the same page footnote 11 references Jimenez Felix and that's all. Deaton 1997 is mentioned in the text but not referenced.

Summary

The author has put substantial effort into preparing the thesis, but the final outcome has a lower quality than it could if more time were allowed for. I propose grade C but my evaluation is not far from the threshold with B.

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

CATEGORY	POINTS
<i>Literature (max. 20 points)</i>	10
<i>Methods (max. 30 points)</i>	18
<i>Contribution (max. 30 points)</i>	27
<i>Manuscript Form (max. 20 points)</i>	10

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TOTAL POINTS	<i>(max. 100 points)</i>	55
GRADE	(1 – 2 – 3 – 4)	3+

NAME OF THE REFEREE:

Michal Bauer

DATE OF EVALUATION:

12.1.2012

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