

Report on Bachelor / Master Thesis

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

Student:	Tomáš Ulrich
Advisor:	Petr Janský M.Sc.
Title of the thesis:	Factors influencing the origin and evolution of tax havens

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

The author Tomáš Ulrich provides in this thesis a replication of an empirical study Dharmapala and Hines (2006) on the factors influencing the emergence of tax havens and increasing the analysis to the year 2009. He concludes that the factors positively influencing the probability of creation of tax haven are small size of the country, quality of governance and low index of corruption, almost the same as in the original paper, also in the year 2009.

Manuscript form: the thesis is divided into two parts with the total length of 25 pages, (with figures and tables 37), which touches the lower threshold that a thesis should fulfill. The author uses academic English, however the thesis should have gone through a grammar check by a native speaker as there are often elementary grammar mistakes and typos in the text that make the overall impression rather low and spelling mistakes of authors' names in the references should always be avoided. Author also interchanges key words like explanatory and explained variable, or mixes up plural and singular form of a verb, which leaves the reader irritated and confused. The tables with results included in the appendix miss significance labeling and in case of Figure 2 even the label of y-axis is missing, which makes the results illucid. This should not happen at the university level, specially if it concerns a final thesis, even if it is only Bachelors degree.

Literature review: In the first theoretical part author summarizes relevant literature about definition of tax haven and related concepts, economic consequences and finally factors influencing probability of emergence of a tax haven that have been identified by other authors. The presented literature is rather brief, but citing most of the recent seminal papers as there have not many been published. The introduction to the problematic is more or less sufficient, although author could cite more sources and he also does not mention the importance of tax havens for individual finance. I would personally appreciate if the subsection *Economic effects* was extended and better structured (it is the reason why tax havens are studied in economics) and more views of both conflicting sides were presented. Apart from that, I would appreciate deeper discussion and more cited papers than just one especially in the core subsection – *Desirability of becoming a tax haven*.

Methodology:

In the second part author replicates the study Dharmapala and Hines (2006) and consequently he extends it by adding more and up-to-date data. First he discusses the causality issues involved in the analysis, then he advocates his choice of dependent and independent variables. In this part I would appreciate more detailed information on selection of the variables – why the author selected particular areas and what behavior he expected. Moreover, the specific form of the model is not included as in the text it is not clear what variables are then included and which estimation technique is eventually used. Moreover, neither the regression diagnostics nor checking the assumptions of probit is mentioned. I also miss a clearly stated research hypothesis with particular reasoning and background, even though it can be retrieved from the text. During the description of data the author repeats already known characteristics of the tax havens versus other countries, very similarly as in the original paper and as stated in the literature review. The agumentation of the original paper is in running the probit regression for the data from the year 2009 in order to compare the results with the year 2004, which the author claims to be the new time-dimension of the analysis and points out that the results are remarkably similar, which could have been expected. The dealing with the causality issue and also the fact that log of GDP p.c. are strongly correlated with governance may require more sophisticated method than simple probit and it is not clear whether the author uses also instrumental variables probit the same way as in the original paper. The author also often compares estimate values in the text, but a proper statistical test for their equality is omitted.

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Summary:

This thesis replicates the study Dharmapala and Hines (2006) and reaches the same results. The author has shown that he is capable to individually collect data and perform regression analysis. Reaching the same result as in the original paper proved that he made the analysis correctly. However, the only own contribution is in collection of data used in the original experiment and extending the dataset to the year 2009, running the simple probit regression for dataset for year 2009 and comparing the results to conclude that there have happened almost no changes, which does not really enhances the world pool of knowledge, but can be considered as sufficient for a bachelor thesis. The manuscript form is rather weak while showing great inspiration in the replicated paper, even in the formatting and order of sections. The author is also probably not very sure about the econometric methods used in the original model to distinguish causality and correlation (IV Probit).

Suggested question for defense:

How is the core model specified? Why the author decided to pick e.g. geographical variables as explanatory variables, what role did he expect to play in the model? Why does the author discuss the effect of UN-membership variable, when it is insignificant? How are the instrumental variables used in the clarification of the causality that is mentioned at the beginning of the second section?

In case of successful defense I recommend the commission to give the **grade 3 (satisfactory/dobře)**.

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	15
<i>Methods</i> (max. 30 points)	20
<i>Contribution</i> (max. 30 points)	10
<i>Manuscript Form</i> (max. 20 points)	10
TOTAL POINTS (max. 100 points)	55
GRADE (1 – 2 – 3 – 4)	3

NAME OF THE REFEREE:

PhDr. Lubomír Cingl

DATE OF EVALUATION:

September 2, 2011

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