

# Report on Bachelor Thesis

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

<b>Student:</b>	<b>Kryštof Krotil</b>
<b>Advisor:</b>	<b>Martin Gregor</b>
<b>Title of the thesis:</b>	<b>Do Small Countries Outcompete Large Countries in Diesel Taxes? Evidence from the EU-16</b>

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

Kryštof Krotil's thesis is a straightforward and clean analysis of asymmetric fuel tax competition on the European level. His empirical analysis lies at the fruitful intersection of public economics and energy economics. In fact, the thesis can be read as a rigorous response to recent policy discussions on the role of excise fuel taxation in our country relative to the competing neighbors. (In about 2011, the Ministry of Finance was accused of having set tax rates that were above the peak of Laffer curve for this commodity. The analysis, however, has not accounted for a potential strategic response of the close neighbors.) I urged Kryštof to look into this issue in detail, and specifically to investigate a model where the tax policy is the dependent variable.

Kryštof has selected a model where a country's fiscal response function is from neighbors' prices to the domestic price. This is a nice way to treat demand differences, details in how fuel taxes are transmitted into the final price, and various elasticities to cross-border differences in a single model. Even if the model is not structural, it may be used to see if the country is setting a fuel tax monotonically by the price elasticity of consumption.

Kryštof has collected detailed data from various sources (esp. IEA) to test the hypothesis, and extended the focus from the original sample of CEEC countries to 16 EU countries. The study is unique since it has only three predecessors in the literature. We agreed that the most intriguing question is the effect of smallness (measured by geographic exposure to foreign suppliers) and if the effect of the country size is indeed significant, it directly confirms that policy-makers set rates strategically, reflecting the expected differences in price elasticities.

This study is thus additional evidence for a broad concept of tax competition, in a specific case of fuel taxes in the 16 EU countries in 2005-2010. What I appreciate is that the topic of (fuel) tax competition is not covered in classes on the undergraduate level, and Kryštof in this respect has undertaken a very original thesis. His thesis can be compared as having standards comparable to a study by Rietveld and van Woudenberg (2005) that has been published in *Energy Economics*.

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

<b>CATEGORY</b>	<b>POINTS</b>
<i>Literature</i> (max. 20 points)	19
<i>Methods</i> (max. 30 points)	27
<i>Contribution</i> (max. 30 points)	25
<i>Manuscript Form</i> (max. 20 points)	20
<b>TOTAL POINTS</b> (max. 100 points)	<b>91</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>1</b>

**NAME OF THE REFEREE: PhDr. Martin Gregor, PhD**

**DATE OF EVALUATION: June 3rd, 2013**

**Referee Signature**