

Report on Bachelor / Master Thesis

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

Student:	Jitka Šenkýřová
Advisor:	Jaromír Baxa
Title of the thesis:	Influence of Culture on Macroeconomic Stability

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

This thesis presents a study on a link between culture and macroeconomic stability. The choice of the topic corresponds to the current trend in macroeconomics to move beyond purely macroeconomic determinants of various macroeconomic phenomena. These considerations become popular in growth economics (e.g. contributions in Durlauf, S., Temple, J., eds.: Handbook of economic growth or in Tabellini, JEEA, 2008) and more recently several authors started to include determinants such as trust also in the analysis of macroeconomic stability and persistent macroeconomic imbalances. In this area, the idea to include various dimensions of culture on macroeconomic stability is original and interesting.

Additionally, Jitka Šenkýřová tests whether the current prominence of trust among non-economic determinants of macroeconomic developments is justified or other variables such as culture could have significant explanatory power as well. For that purpose, Jitka incorporates various indicators of culture retrieved from the World Values Survey and the Hofstede's indicators of culture dimension. Up to my knowledge, these indicators have not been used in the economic literature much before. In this respect, the thesis is a clear contribution to the existing literature.

Works like those can be easily blamed to utilize ad hoc techniques or measurements and the author needs to be really precise in reasoning for its choices to make the final text convincing. To avoid such criticism, Jitka uses three alternative measurements of macroeconomic instability, e.g. the index derived in Buetzer et al. (2013), its modification for unemployment and the macroeconomic instability index by Ismihan (2003). Also, she estimates number of models with different indicators representing culture to avoid a criticism that choice of variables has been rather ad hoc.

The models are estimated using panel data with heteroscedasticity consistent estimator using clustered errors. Using this methodology Jitka identifies a strong, statistically significant link between culture and macroeconomic stability with number of interesting results and insights. In particular, she identifies negative impact of individualism and „uncertainty avoidance“ on macroeconomic stability. These results have number of interesting implications. First, regarding individualism, the results are in line with the literature that stress the importance of social capital on economic development, but it challenges the main principles of microfoundations of main macro-models based on optimum derived on optimization of representative agents that don't care about others explicitly. Second, the negative impact of uncertainty avoidance is even more interesting as it implies that the aim to secure „certainty“, stable economic relations, could be self-defeating.

Although I share the opinion that one needs to be cautious when deriving policy implications from econometric exercises, I consider these results as worthwhile mentioning.

Unfortunately, not everything is perfect with Jitka's thesis. Below, I provide a couple of critical remarks:

1. The choice of controls is somewhat questionable. Although many of them are definitively relevant, from my point of view one should also include some variables traditionally related to macroeconomic imbalances as well. These include: level of GDP, openness and share of credits over GDP. However I need to admit that it is not clear to what extent their inclusion would have affect the results since many other controls are already included, however some comments why these controls were not included are essential in the text.

2. The estimation relies on robust panel regression techniques with heteroscedasticity consistent estimation of standard errors via clustered standard errors. The estimation has been performed in Stata. From my point of view, the utilization of robust techniques in the panel estimation could have been stressed as another contribution of the paper (in case the author could be able to argue that such estimators have not been used in the literature previously). In that case, more detailed description of the method together with arguments supporting its relevance in this context should have been provided.

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3. The issue of endogeneity is not tested explicitly in this thesis, although a couple of a couple of reasons why it could not be a major omission are provided (section 5.2.1). Although these reasons are definitively relevant. However, if we had had enough time, I believe we would have done some attempt to treat endogeneity explicitly. The reasons are twofold: I think that one cannot rule out endogeneity without execution of regression accounting for that. Also, being it right or not, providing solid IV regression makes the paper in line with other research papers in the area.

4. Work with literature could have been improved. Although some of well known papers appear in the list of references the paper itself relies on a rather limited number of principal resources. Especially, deeper review of the macro literature on determinants of macroeconomic stability/imbalance could have been improved. This literature review could provide support for the choice of control variables.

Overall, my impression from the thesis is mostly positive and my critical remarks should be considered partly also as suggestions for the future research or for rewriting the thesis for the rigorous thesis. I recommend awarding the thesis with **grade B** or in case of solid performance during the defence, the committee could consider also the grade A due to originality of the thesis and Jitka's abilities to undertake solid research independently.

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)	25
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	78
GRADE (1 – 2 – 3 – 4)	2

NAME OF THE REFEREE:

Jaromír Baxa

DATE OF EVALUATION:

January 31, 2015



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