

# Report on Bachelor / Master Thesis

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

<b>Student:</b>	<b>Martin Milenovský</b>
<b>Advisor:</b>	<b>doc. ing. Tomáš Cahlík, CSc.</b>
<b>Title of the thesis:</b>	<b>Does Money Guarantee Success in Football?</b>

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

The author Martin Milenovský analyzes the pay-performance relationship on the team level data in several football leagues. He aims to answer three questions: if wages are a significant predictor of success in league; if transfer fees work similarly as wages in this respect; and if the leagues differ to each other. He utilizes panel-data estimation to conclude that wage is a significant predictor while transfer fees is not, and the relationship holds more for more prestige leagues. A comparison to academic sector and an extensive description of the dataset is provided

### **Manuscript Form**

The thesis is written in an understandable English, the figures and tables look fine. The description of the dataset and leagues is too extensive. An average reader does not need a detailed description of each of the leagues for understanding of the pay-performance relationship. Or, if this is important, such as the various financial regulations introduced in some of the examined leagues, how does it relate to the analysis? Next, it is not clear from tables presenting regression outputs if there were any control variables included. There were too many abbreviations in the text which did not make the reading very smooth. The footnotes are organized in a rather strange way and are sometimes missing. The author sometimes refers to a different table than he means (e.g. table 5.5 instead of 5.4 on page 39). Generally, there are too many unnecessary facts about the football leagues and players that were not relevant for the purpose of the thesis. The part of analysis where the author connects the findings to the ranking of universities could have been omitted completely – it is a different topic and a simple reference in the literature review would have been enough.

**Literature** – the author cites in the Chapter 2 a lot of relevant literature, nevertheless there are important papers that he misses, such as Togler and Schmidt (2007), Nüetsch (2009), Peeters and Szymansky (2014) and others that would help in the discussion of the pay-performance research in sports and current state of the discussion.

**Methods** – This section could have been improved a lot, but for a Bachelor's thesis it is still satisfactory. I present remarks to the execution of the econometric analysis. The author presents estimates from pooled and panel data regressions to test the questions he posed at the beginning. However, he does not provide any statistical tests for many claims and the interpretation of results is wrong.

The regressions probably do not include any controls, which could have been beneficial for the analysis, e.g. for the introduction of the financial controls, the GDP of the country, proxy for talent of the players and others. I miss the tests of assumptions of OLS for all the regression models – the author states on page 34 that he did all of them and the assumptions were not violated. So, why not report them? By the way, if the RESET test proved the linear specification to be the most suitable, why the squared term of WRM? "It could expose whether the marginal effect of an additional increase in WRM on *perpoints* is positive or negative, and how big it is." is not a very plausible explanation. Next, why the fixed effects model is carried out without the time dimension? This could have accounted for some of the dynamics in the variation.

An important note is on the interpretation of the results: the squared term of wage cannot be interpreted separately – the F-test of the joint significance is appropriate, but I miss it in all of the regressions. Also the interpretation on the page 36 and 37 that an increase by 100% of median budget results in 15.35% increase in points is a wrong interpretation of the results – a simple addition of the estimated coefficients of the terms WRM and WRM2 cannot be interpreted as such. Squared-term adds an interesting possibility to discuss a tipping-point of the relationship, which is an opportunity for the paper.

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I am also concerned about the endogeneity of the relationship which the author mentions but does not deal with: the author claims that more money for players make clubs be more successful; but a more successful team will win more money and therefore will pay more to better players. The Granger causality test in Hall et al. (2002) is not very persuasive, especially when the authors do not control for the talent – see Nüetsch (2009) who applies 2SLS regression on Togler and Schmidt (2007) data and the wage term becomes insignificant.

**Contribution** – it is safe to say that the author has done a lot of work: creation of the unique dataset and running the regressions is clearly enough for a Bachelor's thesis. In my opinion, after reducing the volume of information not directly relevant to the topic and correcting the econometric part, the results could be presented in the form of a working paper.

## Questions for the defence:

Why do you include the squared coefficient of WRM2 into your regressions? Please interpret correctly the findings when the WRM2 is included in the regression equation (e.g. in table 5.3). How will you test for its significance? Could you please comment on the finding of a tipping-point and its interpretation?

In case of a successful defense, I suggest grade 2 (velmi dobře).

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

<b>CATEGORY</b>	<b>POINTS</b>
<i>Literature</i> (max. 20 points)	15
<i>Methods</i> (max. 30 points)	12
<i>Contribution</i> (max. 30 points)	25
<i>Manuscript Form</i> (max. 20 points)	18
<b>TOTAL POINTS</b> (max. 100 points)	<b>70</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	

**NAME OF THE REFEREE:**

**Lubomír Cingl**

**DATE OF EVALUATION:**

**10.6.2015**



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**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	<b>1</b>	= excellent	= výborně
61 – 80	<b>2</b>	= good	= velmi dobře
41 – 60	<b>3</b>	= satisfactory	= dobře
0 – 40	<b>4</b>	= fail	= nedoporučuji k obhajobě