

## **Abstract**

The aim of this thesis is to incorporate the effects of the indirect trade into the gravity model for Czech Republic. Using data from the recently released OECD-WTO TiVA database, a panel of 56 countries in 5 years between 1995 and 2009 is constructed. The traditional approach of estimating the log-linear form of the equation is questioned and in line with current academic research, the Poisson Pseudo Maximum Likelihood method is applied. The empirical analysis does not reveal any unambiguous effect of adjusting the gross exports for their foreign content; it rather confirms that Czech exports are significantly driven by the demand for German exports and finds that they are the higher the greater is the share of services value added. Furthermore, it is found that the destination of Czech exports is not significantly determined by target country's participation in global value chains.

**JEL Classification**

C13, C23, C67, F14, F60

**Keywords**

gravity model, indirect trade, trade in value added, Czech Republic, Poisson regression, panel data

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