Report on Bachelor / Master Thesis

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

Student:	Marek Wlazel
Advisor:	Ing. Vilém Semerák, Ph.D.
Title of the thesis:	Gravity model for Czech Republic - Test of the effects of indirect trade

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

The thesis examines the factors that influence Czech exports to other countries. The most important contribution is the use of value added export instead of gross trade flows – this makes sense because some countries re-export of a lot of their imports with little additional value (think of Singapore), which could distort the results of gravity equations. I am suprised nobody has tried to do it before, which might be due to the fact that the corresponding statistics have only been released recently. Thus I urge the author to publish a paper based on the master thesis soon; it is a really good piece of research, and, in my opinion, it could be published (with some luck) in the World Economy or Review of World Economcs. I provide several comments which are meant to improve the quality of the resulting paper.

1) The author likes the PPML approach, which addresses some shortcomings of the typical log-linear approximation of the gravity equation, but has its own problems: see, for example, the chapter by Head and Mayer in the new Handbook of International Economics, or some recent papers by Peter Egger. Nonetheless, the author also provides robustness checks using log-lin estimation, so this is fine, I would just be less enthusiastic about PPML in the text.

2) In any gravity equation it is crucial to control for multilateral resistance terms (otherwise the estimation is not consistent). The author does not explain how he does it. If he uses destination fixed effects in all estimations, it will be ok because he only has trade flows from the Czech Republic to other countries (not bilateral flows between other countries; in this case he would have to use destination-year fixed effects). But Table 5.2 says he uses random effects. So I am puzzled because in the text it is stated that fixed effects are preferred (random effects obviously make no sense in gravity equations, because the author has data for almost the entire population -- countries).

3) The message of the thesis is not really clear. I would focus more on the differences between standard gravity equation (with gross trade flows) and the author's innovation (exports of value added). For example, does the estimated coefficient for distance make more sense when the new methodology is applied? What about the other structural parameters? I would probably include the data for all bilateral trade flows; the focus on the Czech Republic will restrict publication opportunities (and to me it's not really clear why the author does it; I would use all data and then prehaps compute the implied results for the Czech Republic).

4) The form of the manuscript is good, but careful proofreading is still necessary. There is a mistake even in the title.

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

CATEGORY		POINTS
Literature	*(max. 20 points)*	18
Methods	*(max. 30 points)*	30
Contribution	*(max. 30 points)*	28
Manuscript Form	*(max. 20 points)*	17
TOTAL POINTS	*(max. 100 points)*	**93**
GRADE	**(1 – 2 – 3 – 4)**	**1***

NAME OF THE REFEREE: PhDr. Tomáš Havránek, Ph.D.

DATE OF EVALUATION: 28. 5. 2014

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