

Report on Bachelor Thesis

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

Student:	Bc. Lenka Líšková
Advisor:	PhDr. Jaromír Baxa, Ph.D.
Title of the thesis:	The Strengths and Limitations of Input-Output Analysis in Evaluating Fiscal Policy

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

The thesis entitled "The Strengths and Limitations of Input-Output Analysis in Evaluating Fiscal Policy" by Bc. Lenka Líšková aims at providing discussion on one of the alternative ways of assessing the impact of governmental subsidies to the target macroeconomic variables. Within the work the complementary method to the current mainstream DSGE or VAR approaches - the input-output analysis - is described, discussed, and reviewed, and an empirical application exercise focused on calculation of input-output (I-O henceforth) multipliers of two selected industries in five developed countries is presented. The work inheres relatively strong methodological approach as the "gravity centre" of the work lies in the description of the method itself and related details, its strengths and weakness as well as an objective discussion of possible drawbacks and limitations.

The authors present three hypotheses which should be assessed in the thesis:

1. the question of the (numerical) applicability of the I-O analysis of the fiscal policy effects;
2. the feedback relevance of the I-O analysis for policy makers;
3. the comparability across sectors and countries.

At the beginning of this report I would like to stress that the macroeconomic focus of the thesis lies far-away from my research interests and therefore due to my limited knowledge of the topic I am honestly able to assess mainly the overall quality of the thesis and the technical side of the analysis without fully being able to judge the macroeconomic interpretation and discussion of results.

There are three valuable contributions of the thesis which need to be highlighted the most. The first is directly the idea to "resuscitate" a method which is not currently (as I understand from the text) part of the mainstream macro-analysis toolkit where econometric approaches strongly prevail. Together with a strong literature review and extensive methodological discussion the thesis might partly serve as a "user manual" for other authors of fiscal policy impact studies. The second contribution lies in the focus on the important period of the Global Financial Crisis, usage of almost latest 2005 and 2008 data and analyzing the effects of real amounts of contemporary subsidies in five developed countries (Australia, Germany, the UK, the U.S, and Japan). Moreover, authors specifically evaluate the effects of stimuli packages into automotive industry, around which there was a huge political debate in the Czech Republic ("šrotovné"), Germany, and the entire EU. The selection of two specific industries (automotive, ICT) and five partially similar countries allow authors to compare and contrast result of the methodology but keep the reader aware of what is going on. The results are thus clear and bring interesting and contributive knowledge.

On the other hand, I have to mention many imperfections and some concerns.

1. First, there are three working hypotheses structured in Chapter 4, which are, however, not very clearly developed further in the thesis. Assessing clearly stated hypotheses should be the core of any diploma thesis. One can find fragments of answers to those hypotheses thorough the text but an overall summary is missing. Perhaps the first hypothesis is not very relevant as authors answer it simply on page 31 based on a very basic bibliography.
2. The method itself is a bit trivial as it in fact consists of only some calculation of inverse matrices in MS Excel. This is not any criticism as the method is designed as it is and authors can hardly improve it further, but I was surprised by its simplicity. Therefore I expected a deeper analysis of results and a stronger focus on interpretation and inter-state/industry comparison, then was the reality. Instead, the Interpretation part is relatively simple and includes parts which I would rather place into the Literature Review (strengths and limitations by Fatemi (2002), pg. 54 - 55).

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3. There are several tables in Chapter 5 (Results and Interpretation) but many of them are redundant. Tab. 5.3 only combines info from Tab. 3.2. and Tab. 5.2. The same does Tab. 5.4. Tab. 5.5 summarizes Tabs. 5.1-5.4. and Tab. 3.2. Effectively, only Tab. 5.5 is needed, the others could have been erased without losing any important information.
4. Next, the formal quality of the text is relatively low with the respect to the importance of the work. I do not assess the level of English which is OK, but the text definitely needs to be read at least once more and corrected significantly. The reader is forced to re-read many unclear sentences several times to get to the point, sometimes words are missing, e.g. "even when the data and impact scenario equal" (pg. 8), or unusual stylistic forms are used ("fruitful article, supplements instead of complements??"). The punctuation is problematic, especially commas are very often misleading and completely wrongly used. Apparent typos which could have been corrected using some automatic spell-check are present: "underempoloyment" or "fiscal poclyi" (both pg. 13). Decimal figures are often wrongly stated in the Czech form (with a comma). Some terms are wrong: automobile instead of automotive industry, B-SBAR instead of B-SVAR. Some assertions are poorly cited or explained ("to supplement GE and VAR models, which were underperforming" on pg. 6, "multipliers may be well above 1" on pg. 8, "which can be easily converted into input-output tables using some standard assumptions" on pg. 30, "Due to the above mentioned assumptions, overestimation can occur, when the calculated multipliers are higher than it would be realistically." on pg. 41).
5. Third, the formal requirements/academic standards are not 100% met, e.g. the citation are sometime displayed in a bit crazy form where the author "Author (Year) format" is followed by the name of the article and year again, for instance: "... given by Blanchard et al. (2009) (Fiscal Policy for the Crisis, 2009) give:" (pg. 20). Referencing to Figures in Chapter 5 is almost completely misleading as such figures even do not exist ("Figure 5.1.2 for Australia, Figure 5.1.2 for Germany, Figure 5.1.2 for Japan, Figure 5.1.2 for UK, Figure 5.1.2 for USA"). Several items of bibliography seem incomplete, e.g. the very last one. Even when knowing both authors personally, I have no clue whether it is a scientific paper or a newspaper/magazine article.

Suggested questions for the defense are:

1. Comment on possible consequences of the fact that the I-O analysis measures the average, not marginal effects?
2. How can you explain for instance the case of Japan which has the highest Output multiplier among all countries, but put only a tiny amount of money (in comparison with others) into the vehicle scrappage schemes? That seem illogical.

Summary:

As large, **I find the master thesis of Bc. Lenka Líšková satisfying formal requirements for a successful defense.** Personally considered, the extensive methodology description + discussion and a specific focus on recent financial events are the most distinctive qualities of the thesis. On the other hand, the premature form of the entire text demeans the quality of the entire work significantly.

Finally, I do **recommend the thesis "The Strengths and Limitations of Input-Output Analysis in Evaluating Fiscal Policy" to defense at the IES FSV UK and in case the Commission agrees, I suggest the grade "2". i.e. "good".**

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	18
<i>Methods</i> (max. 30 points)	25
<i>Contribution</i> (max. 30 points)	20
<i>Manuscript Form</i> (max. 20 points)	10
TOTAL POINTS (max. 100 points)	73
GRADE (1 – 2 – 3 – 4)	2

NAME OF THE REFEREE: Jiří Kukačka

DATE OF EVALUATION: 5. 2. 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