

Report on Master Thesis

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

Student:	Miroslav Palanský
Advisor:	Petr Janský, PhD.
Title of the thesis:	The Value of Political Connections: Evidence from the Czech Republic

The thesis measures how firms' contributions to Czech political parties affect their ROAs and ROEs. It builds on a new and rich dataset on Czech party finances and employs modern matching techniques to address endogeneity that plagues classic contribution-equations estimates.

I have the following comments:

- The existing literature defines political connection as a form of personal tie/relationship between the politician and the firm/special interest. This relationship is typically not proxied by monetary contributions. Therefore, the title might be rephrased to stress that the analysis is precisely of the effect of political donations on firm value. (An exception is Bertrand, Bombardini and Trebbi, F. (2014), but their contribution-proxy is used only on the individual level between lobbyists and congressmen. Also, their idea is not that a contribution works as an investment into connection, but that an existing connection is manifested by willingness to provide a small – not quid-pro-quo – campaign contribution.)
- The thesis may benefit from discussing more in detail the classic literature on the effects of campaign contributions on the corporations, based on the US data since 1980s. A great part of the literature is surveyed in Ansolabehere, de Figueiredo, and Snyder (2003) and their related papers. This would make the research even more internationally relevant.
- Table 3.3, Models (3) and (4): The analysis is carried only on the subsample of donating firms. Why not running the analysis on the entire sample, where both dummy and the level are employed? (The level variable is equivalent to the hypothetically constructed interaction term between level and the dummy, hence it can be effectively interpreted as the marginal effect of extra contribution conditional on being a donating firm.)
- Tables 3.3 and 3.5: If there are different effects of any variable on ROA and ROE, we would be interested in understanding the difference because ROA and ROE, as far as I understand, are in the thesis treated as two equally relevant concepts of firm value.
- LocSize: In our context, what if this variable reflects industry differences? (Certain industries are located in cities of certain size.) In Table 3.4, opposite signs for different brackets is indeed suspicious.
- The explanation of why Don*Power is negative in Table 3.5 is that the variable Power is mistakenly set with respect to the central government instead of the local governments. This explanation however works only if control over local and central governments is negatively correlated (which might be the case at least in part of the examined period). In any case, a new variable (e.g. LocalPower) should be constructed if this hypothesis is taken seriously.
- The idea that a firm has multiple tools of influence (p. 45) which might be substitutes or complements is an important idea in the literature on the political influence of firms. To link results in the thesis to this literature, I would recommend to look more into the large theoretical literature on the means of political influence, especially from the literature on multiple tools of influence, and also on the subsequent empirical literature.

I recommend grading the thesis as **excellent (A)**.

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

CATEGORY	POINTS
Literature (max. 20 points)	16
Methods (max. 30 points)	28
Contribution (max. 30 points)	30
Manuscript Form (max. 20 points)	20
TOTAL POINTS (max. 100 points)	94
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: PhDr. Martin Gregor, PhD

DATE OF EVALUATION: May 27, 2016



Referee Signature

