

# Report on Bachelor Thesis

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

<b>Student:</b>	<b>Ondřej Gabaš</b>
<b>Advisor:</b>	<b>Vilém Semerák, Ph.D.</b>
<b>Title of the thesis:</b>	<b>Euro and the Effect on Bilateral Trade: Gravity Model Analysis</b>

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

*Please provide your assessment of each of the following four categories. The minimum length of the report is 300 words.*

### **Contribution**

Mr Gabaš has decided to test the effects of monetary integration on trade with the use of the relatively traditional gravity model. The main contribution can be divided into three parts:

- i) The use of relatively newer data, which implies the chance that the results will be more relevant for the current world.
- ii) The author is aware of the methodological issues of older papers (including the famous Rose(2000) result) and attempts to follow recommendations by Baldwin & Taglioni (2006) and other authors which should reduce the risk of biased results. This makes the results a bit more credible than results based on older attempts at application of gravity models.
- iii) The author explicitly focuses not just on the trade-creation effect of monetary integration on mutual trade of the observed countries, but also considers (and tests) possible trade diversion effects.

### **Methods**

The gravity models, such as the model proposed by Mr Gabaš, have been rehabilitated in 1990s and can be considered at least as reliable as any widely used empirical strategies in international trade and macroeconomics – provided that the authors follow several basic recommendations derived from the underlying micro-foundations and features of available data.

Mr Gabaš decided to follow a well-known “cookbook” – Baldwin-Taglioni (2006) – which summarizes the afore-mentioned recommendations. This class of approaches is widely used by empirical analysts of international trade flows, and the reliance on them enhances the probability that the author’s model is designed and tested in a sufficiently acceptable way.

The author also decided to try methods which go beyond the simple addition of various systems of dummy variables and decided to try the Baier-Bergstrand (2009) linear approximation of the MRT. He also tested a PPML-based approach which should (among other benefits) reduce the potential problems caused by zero observations.

### **Literature**

The author mentions (and in relevant cases also explains) most of the papers which are relevant for the methodology as applied in works expected at undergraduate level. However, the literature review appears to a bit too concise – e.g. Santos Silva & Tenreyro (2006) paper is mentioned in the description of the PPML estimator (p. 18), but results by the same authors on the effects of monetary integration are not included in the literature review.

At the same time it should be mentioned that the author decided to build on a rather extensive meta-analytical study by Havránek, which means that many older papers are still “included indirectly” without being mentioned explicitly.

### **Manuscript form**

The manuscript, citations/references as well as charts and equations are all presented clearly, in a standard form. A bit surprising can be the author’s decision to refer to one of his main inspirations as B-T (2006) instead of using the full name of the authors (as in the case of other references he mentions).

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## Final summary:

The author submitted a relatively standard paper which is not too ambitious methodologically, but which is based on more or less trusted and accepted methodology. The overall results are not perfect, but they are comparable with quite a few previously published papers, especially with applied policy-oriented approaches and could be considered more or less standard. However, the author also decided to forgo the opportunity to try even more ambitious approaches which might have led to a bit more attractive results.

## Questions for the defense:

1. Does your empirical strategy account for possible endogeneity of currency unions, i.e. for situations where countries which are expected to trade more form currency unions?
2. What is the logic of effects of Euro introduction on trade with non-Eurozone countries identified in the Micco (2003) and tested in your paper too?

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

<b>CATEGORY</b>	<b>POINTS</b>
<i>Contribution</i> (max. 30 points)	24
<i>Methods</i> (max. 30 points)	23
<i>Literature</i> (max. 20 points)	17
<i>Manuscript Form</i> (max. 20 points)	18
<b>TOTAL POINTS</b> (max. 100 points)	<b>82</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>1</b>

**NAME OF THE REFEREE:** *Vilém Semerák*

**DATE OF EVALUATION:** *September 7th, 2017*

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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