

Charles University in Prague  
Faculty of Social Sciences  
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Master's thesis

## **Trade and Politics: Political Determinants of International Trade Flows**

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### **Abstract**

This thesis takes a comprehensive look at the relationship between international trade and politics.

The first part of this thesis is theoretical. Besides providing a useful overview of this highly complex subject, it makes a contribution to the contemporary theory by proposing two simple models. The first of these models explains how because of complementarity of institutions, countries end up stuck with inefficient institutions and consequently high trade costs; countries can break out of this inefficient equilibrium only by coordinating their actions. The second proposed model shows how governments set trade barriers in order to pursue their political aims, while at the same time staying popular in order to remain in power. This model is consistent with a wide variety of regime types and ideologies, and takes into account voter heterogeneity.

The second part of this thesis is empirical. It uses the gravity model of trade, with multilateral resistance terms represented either by fixed effects or by the Baier-Bergstrand linear approximation of the theoretically derived resistances. The model is estimated by the PPML estimator. The findings are broadly consistent with the conclusions of the theoretical chapters as well as with the previous literature. However, the results regarding the role of market institutions and governance quality are inconsistent and somewhat puzzling.