

# Report on Bachelor / Master Thesis

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

<b>Student:</b>	<b>Jan Sosnovec</b>
<b>Advisor:</b>	<b>Vilém Semerák, Ph.D.</b>
<b>Title of the thesis:</b>	<b>Trade and Politics: Political Determinants of International Trade Flows</b>

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

*Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.*

The relatively long text consists of 6 main sections (+ introduction and conclusion). The sections 1-4 can be understood as a lengthy introduction which result in derivation of the main hypothesis in section 4.7 (p. 50). The empirical section (section 6) is relatively short, the same can be said about the discussion of the results and of their implications.

### **Contribution**

The author attempts to contribute in two main ways:

- Attempts at formulation of two simple models analyzing the interaction between institutions and trade:
  - o P. 26-28 – a simple model which suggests that countries may have a motivation to keep worse institutions. The author does not provide any reference, it seems that it is his own idea. The model makes an interesting point, but the analysis remains a bit incomplete. The resulting situation can have slightly different implications if you assume that both countries are of a similar size – the next level could be a kind of coordination game (a la “battle of the sexes”). Existence of similar situations (and games) is not new to IPE theorists, it might have been interesting to relate the model to this kind of literature.
  - o P. 44-48 – a simple model which attempts to explain the motivation to trade reforms by analyzing the shares of “winners” and “losers”. Again the author does not provide any reference and it seems that he formulated the contribution independently. At the same time, similar ideas are not new, there are quite a few relevant contributions to the political economy of (trade policy) reforms that should have been mentioned and which might have helped the author extend his analysis – e.g. Fernandez and Rodrik (1991) who show that there is yet another very important feature – individual (idiosyncratic) uncertainty concerning the distribution of the effects of trade policies.
- Formulation and estimation of a gravity model which includes institutional and political variables. This idea is not new, but what can be considered as quite interesting is the author’s selection of variables – for example data on voting in the U.N. The selection of the variables and merging of all the different datasets can be considered as the most direct contribution of the paper.

### **Methods**

The first several sections are based on a simplified description of existing models, occasionally expanded into own attempts at a contribution in the form of relatively simply theoretical demonstrations.

The design of the empirical section suggest that the author studied the relevant recent literature on the micro-foundations and econometrics of gravity models. The author attempted to apply Baier-Bergstrand approximation of the multilateral resistances as well as more traditional approach based on dummy variables (although the description of the latter approach is a bit incomplete and it is not quite sure whether the author followed all the recommendations included e.g. in Baldwin & Taglioni (2006). It is also interesting that the author did not try to use e.g. principal component analysis which might helped reduce the number (and collinearity issues) of the institutional and political variables.

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The description of the implementation of some features (e.g. of interaction terms) is rather short and incomplete.

Interestingly enough, the author's estimates of the model with country fixed effects (table 6.2, p. 73) include coefficients for variables which are likely to be time-invariant. The author also does not provide any direct mathematical description of the specification – inclusion of a few simple equations might have clarified the afore-mentioned issues with fixed effects.

## Literature

It is not easy to evaluate the quality of the literature review unambiguously. On the one hand, the list of references is rather extensive and includes many recent and highly relevant sources. On the other hand, the rather wordy style and lengthy “theoretical sections” make a bit unconvincing overall impression – for example the attempt at an extensive overview of trade theories is necessarily oversimplified and perhaps should have been avoided.

In its current form the text contains both petty imprecisions (Ricardo's Principles were published in 1817 rather than 1812 – p. 5) as well more serious simplifications and generalizations. The author also often resorts to using relatively banal claims or claims which are not supported by a direct reference (or empirical data). The author should have tried to connect his ideas with the existing and relevant literature more convincingly.

## Manuscript form

The text is quite long and contains relatively few direct typos or errors. Its biggest weakness is the wordy style (this is especially relevant for the sections 1-4) and a bit unclear focus. The style of the whole text is a bit unbalanced, some sections would be expected rather in a bachelor thesis or in an introductory essays rather than in a master thesis. The form and terminology are somewhere between an introductory political science text, an overview of (some) IPE concepts and an economic text. I am also not quite convinced that it was necessary to include some of the subsections; the resulting empirical model is relatively loosely related to the lengthy general introduction.

I believe that it would have been possible to streamline and improve the text substantially by focusing on key issues, omitting digressions (e.g. section 2 or 3.1) and avoiding duplicities (e.g. gravity model is presented in section 1.3 and then again in section 5.).

The quality of diagrams used in the text is adequate, the tables with results of econometric estimates are legible and understandable – although it might be better to focus on key variables (and show the complete results only in the appendix).

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## Summary and suggested questions for the discussion during the defense

In my opinion, the paper could easily be improved if the author streamlined and modified especially the first 4 sections of the text and if he spent more time improving and analyzing his econometric results. It seems that the text was finished in a hurry, i.e. that the author had much less time to work on the final empirical sections. This is a pity because it severely devalues the usefulness of the results.

Questions:

1. What is a principal component analysis? How could it be combined with your implementation of the gravity model and which problems can it reduce?
2. Can you explain your implementation of the fixed effects? What do fixed effects (whether at the level of countries or country-pairs) typically mean for time-invariant variables? How did you obtain these estimates?

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

<b>CATEGORY</b>	<b>POINTS</b>
<i>Contribution (max. 30 points)</i>	23
<i>Methods (max. 30 points)</i>	22
<i>Literature (max. 20 points)</i>	12
<i>Manuscript Form (max. 20 points)</i>	14
<b>TOTAL POINTS (max. 100 points)</b>	<b>71</b>
<b>GRADE (A – B – C – D – E – F)</b>	<b>C</b>

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

**DATE OF EVALUATION:** *24. ledna 2018*

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*Referee Signature*

**EXPLANATION OF CATEGORIES AND SCALE:**

**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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

**Overall grading:**

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F