

REPORT ON THE MASTER THESIS

IEPS – International Economic and Political Studies, Faculty of Social Sciences, Charles University

Title of the thesis:	Does Aid Lead to More Trade? Evidence of the Effect of US Aid on its Exports
Author of the thesis:	Anna Schütz
Referee (incl. titles):	Michal Paulus

Comments of the referee on the thesis highlights and shortcomings (following the 5 numbered aspects of your assessment indicated below).

1) Theoretical background:

The study is well based in theory. The author was able to combine theoretical perspectives concerning foreign aid (field of the international political economy) and gravity models. The empirical model follows the standard treatment of micro-founded gravity model which is derived from microeconomic theory. I have no serious comments concerning this criterion.

2) Contribution:

The thesis offers sufficient and also an interesting contribution to the academic literature on foreign aid. The author presents results that are specific for US exports and updated and extends the results presented by Martinez-Zarzoso et al. (2014). In other words, the main contribution of the thesis is empirical. I have no serious comments concerning this criterion.

3) Methods:

The methodological part meets standards for IEPS diploma theses. The author was able to handle standard treatment of micro-founded gravity modeling. She presents proper tests for panel data econometrics and also checks for possible multicollinearity. Therefore, I find the estimates and results as reliable.

I have several questions where I would demand better clarification of some methodological steps and results.

1) On page 27 you state:

“Authors such as Egger et al. (2011) account for that by implicitly modeling zero trade flows with two-step estimation methods. Nevertheless, this is beyond the scope of this thesis.”

- What was your approach to missing trade observations? Did you replace them with zero or did you drop them?

2) On page 30 you state:

“However, since this study focuses on exports of a developed country to developing countries, the usage of export data seems more reliable.”

- Can you explain why the export data are in this application more reliable? I missed the argument.

3) On page 34 you state:

“The dropped partner countries were distributed in a random manner and of lesser importance for this research.”

- How did you evaluate whether the dropped countries were distributed randomly?

4) I would recommend rounding all numbers to two decimal points. Level of rounding should be consistent across the whole thesis.

5) Please, present final specifications (revision of equations 3.2 and 3.3) of your equations also with all dummies that are approximating MRT (can be coded as a matrix).

- 6) It is more proper to say that you „support or corroborate a hypothesis“ rather than to „confirm it“ (you combine both narratives), because you can only reject a hypothesis for sure (Popper).
- 7) I would explicitly add to the chapter 4.2 that the results for regions are much less robust than the results presented in chapter 4.1 because the estimates via OLS are often insignificant.
- 8) On pages 49-50 you state

“More specifically, our estimates show that if the 50 United States increases its aid by 10%, US exports tend to grow by between 0.12% to 0.65%.”

- Can you explain the source of those results (range 0.12-0.65)? Is it based on the calculations of monetary returns or the coefficients?

- 9) On page 42 you state:

“The OLS estimates show only highly significant aid elasticities for t-0 and t-1 and vary more in magnitude than the PPML estimates. However, they are all positive.”

- In the last sentence do you also comment OLS estimates for t-2 and t-3? Realize that those coefficients are insignificant so there is no reason to comment their value (very likely they are zero or close to zero).

- 10) How did you compute the effect of RTA (18.5 %) on page 41? It is a dummy variable, therefore you cannot interpret it as a simple elasticity. In other words, you had to use some formula.

4) Literature:

The author went through the large bulk of relevant literature from both fields relevant for the thesis: gravity models (theoretical and empirical studies) and foreign aid (IPE literature). The thesis, therefore, offers coherent and in-depth literature review. I have no serious comments concerning this criterion.

5) Manuscript form:

The thesis is divided according to a logical structure. The manuscript is also well written. I have no serious comments concerning this criterion.

Box for the thesis supervisor only. Please characterize the progress in the working out of thesis (e.g. steady and gradual versus discontinuous and abrupt) and the level (intensity) of communication/cooperation with the author:

Anna has been very cooperative and communicative. I have witnessed gradual cooperation on the thesis which worked very well. We communicated on a regular basis. I have no complaints about her work effort.

Suggested questions for the defence are:

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I recommend the thesis for final defence. I recommend the following grade: “A”.

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

CATEGORY	POINTS
<i>Theoretical background (max. 20)</i>	20
<i>Contribution (max. 20) points</i>	19
<i>Methods (max. 20) points</i>	15
<i>Literature (max. 20) points</i>	20
<i>Manuscript form (max. 20) points</i>	20
TOTAL POINTS (max. 100) points	94
The proposed grade (A-B-C-D-E-F)	A

DATE OF EVALUATION: January 26, 2018

Referee Signature

Overall grading scheme at FSV UK:

TOTAL POINTS	GRADE	Quality standard
91 – 100	A	= outstanding (high honour)
81 – 90	B	= superior (honour)
71 – 80	C	= good
61 – 70	D	= satisfactory
51 – 60	E	= low pass at a margin of failure
0 – 50	F	= failing is recommended