

Report on Bachelor / Master Thesis

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

Student:	Bc. Martin Stárek
Advisor:	Petr Janský, Ph.D.
Title of the thesis:	The Scale of Corporate Profit Shifting out of the United States

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

Contribution

Martin Stárek wrote a very good, policy-relevant empirical thesis on the role of profit shifting by multinational enterprises (MNEs). This is an important topic of current interest to policy makers around the world. Martin is using the data on MNEs from the US government Bureau of Economic Analysis (BEA), which covers all foreign direct investment (FDI) by MNEs headquartered in the United States. This is the most relevant data available.

The methodological contribution of Martin's thesis in applying the following three innovations to the combination of the BEA data and the approaches from the previous literature: nonlinearity, time-variant tax semi-elasticity of profits and financial secrecy.

More generally, the methodological approach and the data Martin is using are sound and could serve for future research outputs of even higher quality than is the current version of the thesis. Martin delayed the submission of the thesis by half a year, but he has not been in much contact with me during this recent period. So, yes, I can easily imagine that his contribution might be bigger (e.g. by working more with the existing literature or presenting the results more carefully, as discussed below) and his thesis better, but, even as it is, it is a good thesis. Even in its current state, the thesis is a good piece of work as a graduate thesis, but it had the potential to be of higher relevance to researchers working on this topic and to be a more important contribution to the existing literature overall.

Methods

The methodological approach in general is appropriate and builds on the mainstream profits shifting literature. Martin applies the empirical methods suitable for the research question at hand and his application of the methods seems competent.

Still, there are a number of substantive as well as presentational aspects that could be improved. For example, the methodology is explained in a too complex way and I would expect a more coherent description than is included now in the two separate chapters. The methodology has, naturally, its limitations and I would expect Martin to discuss the limitations of his approach in more detail. I lack the presentation of country-level results. I would prefer to see more robustness checks included. I also believe that the exclusion/inclusion of US MNEs parents' activities data warrant more attention and this choice and its implications should be discussed in some detail (Martin is using only the MNEs' foreign affiliates data and not the MNEs' US headquarter data of the same companies – but the headquarters take up a major share of the overall activities and profits). I wish Martin would discuss the relevance of his results for existing literature or the economic theories consistent with his observed results in more detail. Some of these issues would not only improve his thesis, but they are preconditions for an influential piece of research and its associated contribution.

Literature

On the one hand, Martin explores some gaps in the existing research by focusing on nonlinearity, time-variant tax semi-elasticity of profits and financial secrecy while studying profit shifting with BEA data.

On the other hand, I wish Martin did a much better job of studying and engaging with the existing literature. From reading his thesis and looking at his list of references, his scope of the related research is too narrow and too shallow for the level of the best theses defended at the IES or, for that matter, papers published in academic journals. It is thus not surprising that some of the claims in the

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thesis, including those at the beginning of the abstract, might be overstating the contribution to the existing literature. There is more relevant papers than Martin is aware of. For example, Gabriel Zucman has published a couple of influential papers. More engagement of the results with the literature is perhaps the single biggest recommendation I could give him were he to develop his thesis into a paper publishable in an academic journal.

Manuscript form

My main comment on the manuscript form is this: while I like concise style of writing, Martin's thesis is – in some parts – too short. First, some sections are too brief (they should be longer to make the points Martin needs to make), including the results section (their discussion and their relevance to the existing research) and the conclusion (also the second section, due to writing style, should be either expanded or merged into another section). Second, some paragraphs are too short for the English style of writing expected of Martin and I can see a number of them in the introduction, data, conclusion as well as other sections. I am including these comments in the discussion of manuscript form and they are interrelated with the style of writing, but these are also substantive comments – there is, for example, not enough discussion of results and how they compare with the existing, not sufficiently covered, literature.

Suggested questions for the committee

In contrast with some of the previous research using the BEA data, you are using only the MNEs' foreign affiliates data and not the MNEs' US headquarter data of the same companies. Why did you opt to include only the MNEs' foreign affiliates and not the domestic operations? And how would you expect your results to differ according to whether you include or exclude the data on US parents' (the MNEs' headquarter companies') activities?

In short, Martin did a good job of writing a thesis and, depending on the defence and related discussion, I recommend a grade of C.

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	24
<i>Methods</i> (max. 30 points)	23
<i>Literature</i> (max. 20 points)	13
<i>Manuscript Form</i> (max. 20 points)	13
TOTAL POINTS (max. 100 points)	73
GRADE (A – B – C – D – E – F)	C

NAME OF THE REFEREE: Petr Janský, Ph.D.

DATE OF EVALUATION: 12 January 2019


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