

# Report on Bachelor Thesis

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

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<b>Title of the thesis:</b>	<b>Impact of excise taxation on government revenue and demand of Czech and Slovak households</b>

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

The thesis analyzes the effect of changes in excise taxes on motor fuels, alcoholic beverages and tobacco upon the households' consumption of these goods in CZ and SK, using the household budget surveys regularly conducted by the statistical offices. A flow adjustment model is used for motor fuels, and the partial adjustment model is used for the addictive goods. The thesis finds a small yet significant effect of fuel tax on fuel consumption. Tobacco expenditures are inelastic, which is interpreted such that the consumers switch to cheaper brands to maintain the level of tobacco consumption. Overall, the thesis is a well done job for a Bachelor student, and **I therefore recommend grade A.**

As to the theory of excise taxation (Section 2), the normative part (optimal excise taxation) is pretty sketchy and completely avoids the second-best nature of excise taxation, mentioning only in brief Pigouvian taxation, while the state of the art is to combine Ramsey and Pigouvian effects, and leisure complementarities. Given that the thesis is predominantly positive, not normative oriented, I nevertheless consider this just a minor shortcoming. The empirical literature is a little selective (there are hundreds of relevant studies: Leung and Phelps 1993; Clements et al. 1997; Leppänen et al. 2001; Manning et al. 1995; Farrell et al. 2003), but I admit that the literature here used serves sufficiently the purpose of the thesis.

The key work has been done in Section 4. OLS estimates of price and income elasticities are done separately for each of the three goods. I welcome thorough discussion on sampling, household data structure, and macroeconomic data. Generally, the OLS estimates of the elasticities here make sense, although a lot of technical issues that plague inference (especially for alcoholic beverages) may be raised. One thing is to control for VAT changes, retail prices also cannot be avoided from the analyses. Perhaps a less ambitious analysis tackling for complementarities with goods subjected to VAT, and addressing only certain types of products (e.g. wine) would be more helpful.

A last but not least point is that excellent English and also a good structure makes the thesis a pleasant reading. My advice for the author is to work more on the estimates and then try to publish some of the results in a local journal.

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

<b>CATEGORY</b>	<b>POINTS</b>
Literature (max. 20 points)	15
Methods (max. 30 points)	22
Contribution (max. 30 points)	29
Manuscript Form (max. 20 points)	20
<b>TOTAL POINTS</b> (max. 100 points)	<b>86</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>1</b>

**NAME OF THE REFEREE:** Martin Gregor

**DATE OF EVALUATION:** June 10, 2009

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*Referee Signature*