Report on Bachelor / Master Thesis

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

Student:	Martin Macháček
Advisor:	Ing. Vilém Semerák, M.A., Ph.D.
Title of the thesis:	Analysis of Free Trade Agreements Between European Union and Latin American Countries

***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.

Contribution

This thesis estimates the effect of signing a free trade agreement on international trade of five Latin American countries with EU countries. I generally like the thesis and believe that the author has done a good job, however, my major reservation about the contribution of the thesis is in the interpretation of the results, as I detail below.

Methods

The author uses appropriate methods in this thesis, however, I have several relatively major comments:

- From the methodology section, I got the idea that the interaction term 'eu_fta' is of the most interest as it estimates the effect of signing a trade deal with an EU country on trade between those two countries. If I then look at the results (the model preferred by the author is in Table 6.3), I observe that the interaction term more than offsets the general positive effect of a trade agreement, suggesting that there is virtually no effect of a trade deal with the EU countries. There is no comment on this, although I thought it is the main result.
- Why is GDP_d not included in the model's results (Tables 6.1-6.3.) when it is included in the equations of the models?
- It is not clear to me which countries are included in the model. On p. 20, the author states that 'For our model, we use member countries of the EU as the origin (i.e. eu_o = 1).' which suggests that only EU countries are included as countries of origin, but in the tables that contain results, the number of observations suggests that more origin countries are included (for a sample of 19 years).
- In the Results section, the interpretation is sometimes a bit confused. For example, on p. 31 the author interprets the positive coefficient for 'fta_wto' (i.e. a trade agreement with WTO, not the EU – this effect is taken out by the inclusion of the interaction variable 'eu_fta') as '…which means that FTA with European Union increases the trade with Mexico by 56.8%.'
- For model described by equation 5.2., the author states that he „did not include country-pair dummies due to complications in our used software." This explanation is not a valid argument. While I am not arguing that country-pair dummies must be used, if they are not, there should be a methodological reason, not a technical one. The sentence that follows, „We have to take into account possible biasedness of the results.", does not give us much clarity about the effect of not using country-pair dummies. Why biased? How biased?
- In Section 5.3., the argument that FEs are used because other papers have used it is not a valid argument. We need a statistical test – the Hausman test is mentioned but then not carried out.
- It would be very beneficial to present some descriptive statistics – of all variables used in the estimation, of trade flows over time, etc.

Literature

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The Literature review is well-structured and relates the thesis relatively well to the existing literature. It would help to stress which specific papers the thesis adds most to, but overall, I believe the author has done a good job.

Manuscript form

The thesis is polished, typos and errors are scarce, tables are clear and concise.

Summary and suggested questions for the discussion during the defense

Overall, I believe the author has done a decent job and, should he defend his thesis in front of the committee, I propose the grade B.

For the discussion, I suggest to discuss whether the author thinks that he confidently established causality of the effect of a trade deal. What would be the ways to find a counterfactual (i.e. what the trade flows would be in case no trade deal were signed)?

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

CATEGORY		POINTS
Contribution	*(max. 30 points)*	25
Methods	*(max. 30 points)*	20
Literature	*(max. 20 points)*	18
Manuscript Form	*(max. 20 points)*	20
TOTAL POINTS	*(max. 100 points)*	**83**
GRADE	**(A – B – C – D – E – F)**	**B**

NAME OF THE REFEREE: Miroslav Palanský

DATE OF EVALUATION: August 29, 2019

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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.*

Strong	Average	Weak
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.*

Strong	Average	Weak
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.*

Strong	Average	Weak
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.*

Strong	Average	Weak
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