Report on Bachelor / Master Thesis

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

Student:	**Bc. Jakub Blaha**
Advisor:	**Petr Pleticha, MSc.**
Title of the thesis:	**The Stagnation of Productivity in the Czech Republic: Does the Country Suffer from Baumol's Cost Disease?**

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

The author analyzes Czech labor and total factor productivity in the context of the so called Baumol's diseases. That is, mainly, the impact of uneven productivity growth in individual industries and its price/cost/GDP growth consequences. These relationships are, indeed, analyzed in the thesis. But, unfortunately, nothing more. The biggest shortcomming of the thesis is its very limited contribution to the existing literature. If I understand it correctly, the only thing the author does is that he takes the existing rather simple models which has been already used for other countries, and fill them with Czech data from the Labor Force Survey (taken from the EU KLEMS database). Not only is there absolutely no effort to somehow enrich the methodology, but there is also almost no economics in the thesis. Which is, in my opinion and from my point of view, even more disturbing than the relative lack of original contribution.

The topic of Baumol's diseases is clearly a macroeconomic phenomenon. But the author of the thesis completely ignores the macroeconomic context of the analysis: Are the diseases just an observed regularity, or do they have some theoretical bases. If they do, are there any macroeconomic assumptions? Is the interpretation of a result that there is some correlation between productivity and prices really independent on the macroeconomic situation during the analyzed period? Does it matter whether the analyzed country is a developing or a developed country? Does it matter if it is in the middle of economic convergence to the level of its peer countries? Does it matter if the country converges via inflation differential or exchange rate appreciation? Does the business cycle play an important role in the interpretation of the results?

How is this phenomenon connected to other macroeconomic phenomena, such as the Balassa-Samuelson effect? In this parallel, are the productivity-growing industries those which produce tradable goods? What are the macroeconomic consequences of the Baumol's diseases? What are their sources? Are the diseases just a manifestation of consumers' demand shifts? Does it then make sense to consider them a negative phenomenon, as the thesis suggests?

These and many other questions came to my mind when reading the thesis. Unfortunately, none of them is addressed in the text which is, more or less, just a simple statistical exercise. Instead of some economic intuition, the author mostly presents technical and statistical explanations of the results.

Methods

I believe that the methods are used correctly and are appropriate for the analyzed topic. But what I rather miss is a more thorough discussion of the limitations caused by the generally used definition of productivity. The productivity measures are usually calculated as some measure of product, such as gross value added, divided by inputs, i.e. capital and labor. What to expect from an analysis that regresses, e.g. gross value added on productivity? And, moreover, without any control variables capturing the macroeconomic context of the analysis. Are there maybe some alternative measures of productivity imaginable? The exposition of the methodology was also rather confusing to me, which can, of course, be my problem. But the author didn't help me much in this regard.

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Literature

The author proves his orientation in the literature on Baumol's diseases. But, as I already mentioned above, wider context is missing.

Manuscript form

The manuscript form is fine, the structure of the thesis is OK. I was only not sure why in the Data section the author already provides some analysis of the data in the context of the diseases. Also, the thesis would have benefitted from a more thorough proofreading.

Summary and suggested questions for the discussion during the defense

If the author provided macroeconomic context of the topic and the analysis, it could have been a nice thesis. In its current form, the thesis fulfills the requirements for a master thesis but is far from being perfect. Therefore, I recommend it for defense and suggest grade "D".

Suggested questions for the defense:

1. A well known problem of the Labor Force Survey data is its imperfect capture of foreign workers who are reluctant to cooperate with the interviewers. Could this problem somehow influence your analysis, as the percentage of "gastarbeiter" changes over time and differs across industries?
2. How is the Balassa-Samuelson effect connected to the Baumol's diseases?
3. Is the Baumol's distinction between "progressive" and "stagnant" sectors a purely positive one, or does it also have a normative context such as the old American institutionalists' distinction between industry and business?

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

CATEGORY		POINTS
Contribution	*(max. 30 points)*	5
Methods	*(max. 30 points)*	20
Literature	*(max. 20 points)*	19
Manuscript Form	*(max. 20 points)*	18
TOTAL POINTS	*(max. 100 points)*	**62**
GRADE	**(A – B – C – D – E – F)**	**D**

NAME OF THE REFEREE: PhDr. Jiří Schwarz Ph.D.

DATE OF EVALUATION: 24.1.2020

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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.*

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.*

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

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.*

Overall grading:

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