Report on Master Thesis

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

Student:	Bc. Adam Duraj
Advisor:	PhDr. Mgr. Jiří Skuhrovec, Ph.D.
Title of the thesis:	Public investments and election cycle - microeconomic analysis

Contribution

The thesis analyzes the electoral cycle in awarded public procurement contracts in 58 largest municipalities in the Czech Republic in 2017-2018. The study exploits that since 2016, the law requires disclosure of all procurements in the registry of contracts, including procurements for which the value is low enough to avoid procurement regulations.

The thesis firstly classifies procurements into several types, and secondly constructs a distribution of the procurement types for each of the 58 units in 2017 and 2018. Then, the thesis focuses on how changes in the shares of particular procurement types are associated with reelection of the incumbent politician (with various definitions of the incumbent).

The thesis finds positive associations between relection rates and small-scale contracts, and negative associations between relection rate and soft services purchases (such as PR) or amendments. The thesis argues that these associations are causal but this research design does not allow us to make any statement on the causal effects.

Methods

A substantial part of the thesis involves only data preparation, combining mainly data from the Bulletin of Public Procurements (collected in the Econlab database) and the registry of contracts. Nevertheless, out of the very rich data, the author eventually only obtains a distribution of procurement types for each of 58 units in 2017 and 2018, and effectively generates only a cross section.

While there are many reasonable and justified choices, what remains unclear is why instability of a council of a municipality justifies elimination of observations (p. 17). The work clearly should account for the fact that the control of incumbents over procurements may vary across municipalities, and should introduce a control variable for that.

The cross section is estimated by OLS. There are no control variables at all, not even about contestability of the elections, the size of the coalition, or mayor party characteristics.

Literature

The literature covers a couple of standard references on political cycles (or political business cycles), but does not borrow from the established methods to identify political cycles and estimate the effects of procurement manipulations on reelection rates.

Manuscript form

The manuscript is written properly. The results of the Urkund analysis do not indicate significant text similarity with other available sources (the only significant overlap is with an early draft of the thesis).

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Summary and suggested questions for the discussion during the defense

The main problem of this research design is that the y-variable (reelection rate) is likely affected also by omitted variables that affect the x-variable (a change in the share); the error term in the regression is correlated with the x-variable and we have endogeneity. For instance, suppose that only a highly popular mayor can afford to undertake unpopular (i.e., relection-rate decreasing) manipulations. Then, we may observe a positive association between the reelection rate and the level of manipulations, but the true causal effect is negative. (The x-variable eliminates this problem only when the popularity is constant and thus this fixed effect is eliminated.)

Moreover, it is possible that willingness to earn rents from procurement manipulations may be *non-monotonic* in contestability; rents might be earned by the mayors with both low approval (releection) rates and high approval (reelection) rates.

It is also striking that results are not robust to redefinitions of y-variable; namely, by replacing mayor with mayor party, we are losing the associations.

During the defense, the author should propose an alternative research design that could address these issues.

I recommend the thesis for defense and propose grade D.

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

CATEGORY		POINTS
Contribution	*(max. 30 points)*	17
Methods	*(max. 30 points)*	13
Literature	*(max. 20 points)*	12
Manuscript Form	*(max. 20 points)*	20
TOTAL POINTS	*(max. 100 points)*	**62**
GRADE	**(A – B – C – D – E – F)**	**D**

NAME OF THE REFEREE: doc. PhDr. Martin Gregor, Ph.D.

Digitálně podepsáno (31.8.2020):
Martin Gregor

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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