Report on Bachelor / Master Thesis

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

Student:	**Petra Valíčková**
Advisor:	**Doc. Roman Horváth, PhD**
Title of the thesis:	**The Role of Financial Development in Economic Growth: A Meta-Analysis**

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

The link between financial development and economic performance has been a central topic in economics, both theoretical and empirical, for decades. Consequently, many studies have tried to quantify the relation – but their results vary broadly. In such a case, narrative surveys of empirical economics literature usually conclude that „the evidence is mixed." I find it quite sad that after many decades of empirical research, our profession's best guess about certain key parameters is „we don't know." I believe that the existing empirical evidence should be taken seriously; we should look rigorously at the range of estimates reported and ask why the estimates differ so much. Meta-analysis helps us answer these questions, but it can also help us understand the socio-economics of economics research. For example, it has been shown that the incentives to publish in our profession lead to significant publication selection bias, which distorts policy implications. I am glad that meta-analysis is the approach chosen by the author of this master thesis.

The meta-analysis presented here is very careful. The author collected her own data for the thesis (1334 observations from 67 different studies), which means that she had to code tens of thousands of data points by hand (the number of observations times the number of explanatory variables). This is laborious; indeed, I know few meta-analyses that are so large. The author uses partial correlation coefficients to summarize the effect of financial development on growth, which is the correct way to synthesize results that are not directly comparable. The conversion to partial correlation is relatively straightforward, but sometimes plays tricks with the researcher, and I have seen mistakes in the application of partial correlation coefficients even in solid international journals. I see no such problems in this thesis. The meta-regression methods used here are up-to-date and I have no objections to them (to be fair, the latter is probably also given by the fact that the author draws heavily on my previous work and that I gave her some suggestions as one of the people responsible for the master thesis seminar). The thesis is written in good English.

There area few things one may call problematic, but they are not very important. For example, it is not clear why the author only focuses on studies that include at least one Asian country. Given that this leads to an exclusion of only 53 studies (out of almost 300), I am not sure why such an arbitrary inclusion criterion is used. If the number of studies (and the associated work on data collection) is the issue, it would be better to select the sample randomly. The standardisation of the partial correlation coefficient should be explained more (it is not really typical to do this in a meta-analysis). If this was a journal article and I was a referee, I would particularly dislike the use of sequential t-tests (general-to-specific approach). I think it is better to exlude all „insignificant" variables using a joint test, or to use a fancy method to deal

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with model uncertainty (such as Bayesian model averaging). It can also be shown that the default PET test is valid for testing the existence of the genuine effect, but it is biased when used to determine the magnitude of the effect (for this, thet PEESE test should be used). I wonder whether the meta-regression results survive a robustness check in which the model is estimated using simple OLS with standard errors clustered at the study level (or there can be a way to run mixed effects with clustered standard errors, but I guess that it would be a slightly different model, maybe using GLS). Some variables in the regression are pretty similar (number of countries used by the primary study, number of time periods, number of observations); in this case, the number of observations should probably be excluded. I would like to see some collinearity diagnostics. I am not sure about the use of dummies for specific decades; I prefer to include a variable corresponding to the middle year of the sample used in the primary study.

This is a great thesis that should be awarded.

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

CATEGORY		**POINTS**
Literature	*(max. 20 points)*	20
Methods	*(max. 30 points)*	29
Contribution	*(max. 30 points)*	28
Manuscript Form	*(max. 20 points)*	19
TOTAL POINTS	*(max. 100 points)*	**96**
GRADE	**(1 – 2 – 3 – 4)**	**1**

NAME OF THE REFEREE: PhDr. Tomáš Havránek

DATE OF EVALUATION: 23.8.2012

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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*

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*

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*

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 POINTS	**GRADE**		
81 – 100	**1**	= excellent	= výborně
61 – 80	**2**	= good	= velmi dobře
41 – 60	**3**	= satisfactory	= dobře
0 – 40	**4**	= fail	= nedoporučuji k obhajobě