

Abstract

Citizens of the Czech Republic do not view Germany solely as their biggest trade partner, but also as a benchmark of advanced economy in Western Europe. This is the status that the Czech Republic would like to achieve. Comparison with Germany is more relevant than with the average of the European Union. In this paper, I search for answers to frequently asked questions such as whether the Czech Republic is catching up to Germany's level or how long it would take to do so. In the theoretical part of the thesis, I explain the convergence theory using the neoclassical growth model. I focus on the determinants of economic growth as well as the steady state position. Next, I discuss the arguments brought forward by the critics of the neoclassical growth model. The pros and cons of distinct types of convergence are explained in this work, and results of some influential convergence analyses are mentioned. In the empirical part of my thesis, I estimate beta and sigma convergence of the gross domestic product among the regions of both countries between years 1995 and 2009. Cross-sectional and panel data models were used for the estimation of the convergence coefficient. The results of my analysis are then confronted with the theory.