

Introduction

The research conducted for my dissertation covers topics from labor economics and consists of three empirical papers.

In the first chapter, co-authored with Michal Franta, we analyze the demand for tertiary education in the Czech Republic depending on university proximity. The study explores the difference in the probability of entering tertiary education for two secondary school graduates who differ only in that the first one resides within commuting distance to a university while the other one does not. We presume that the advantage of having access to a local university follows in two ways: first, attending a non-local university is associated with costs, either for monetary or non-monetary reasons. These include direct costs (travel costs, accommodation outside the parental home) and indirect costs (opportunity costs). If individuals are cost sensitive, these extra costs may affect their decision to attend a university and which particular university to attend. Second, informational advantages from a university environment are beneficial in the enrollment process to a university. The information advantage to a potential applicant transfers through face-to-face contacts with university students and easier access to preparatory courses organized by local faculty for applicants, etc. We distinguish two stages—the application stage and admission to a university—therefore, our research goes beyond existing studies that usually deal with university enrollees only. The results suggest that the presence of a university per se is not driving the student's decision to apply, but it constitutes a premium in the admission examinations. We further show that the influence of a local university is specific to the field of study. Therefore, living near a university that provides an applicant's preferred program increases the admission probability to that field even if the applicant applies to a different university. The premium is larger if the student applies to a highly oversubscribed program. As expected, both the decision to apply to a university and the probability of admission are also affected by the student's ability and socio-economic status. The study provides important information for making informed policy decisions because in most European countries the spatial distribution of higher education institutions, is to a large extent, determined by the national government. To equalize the chances in the admission examinations, policy makers should consider a geographical expansion of the system of universities accompanied by an expansion of university programs.

The second chapter demonstrates the existence of a welfare trap in the Czech Republic, created by the tax and social security systems. This result was documented by several studies by means of simulations for the selected types of households. The contribution of my analysis is that it explores the interactions of tax-benefit systems and the individual labor supply behavior directly. The methodology is adapted from Commander and Heitmueller (2007) and I significantly improved the computations of household income under working and non-working alternatives. Combining individual data from the Czech Labor Force Survey and the Czech Household Income Survey, the analysis exploits the difference between the available social benefits and the net household income when a person is employed. This information allows us to calculate the net replacement rate based on the parameters of the taxation system and rules for means-tested social benefits at the household level. Estimates imply the existence of a welfare trap, which means that individuals who receive relatively higher social benefits are also more likely to remain unemployed. It is shown that the most affected groups are those with low education and long unemployment spells. Furthermore, the paper documents the disadvantaged position of women in the Czech labor market. The estimates imply that women outflows to employment are particularly influenced by the high social benefits, and the existence of a welfare trap persists even when the job-search intensity is controlled. This finding contributes to the discussion on the persistent and large unemployment gender gap in the Czech Republic initiated by Lauerova and Terrell (2005). The results of the analysis support policy improvements towards low-income households. A better harmonization of tax and social security systems is necessary in order to ensure that the incentives to leave unemployment are not hampered by high social benefits. The suggested solution that would help the unemployed return to work is to allow individuals to receive full social benefits for some period while they are earning an income. To further strengthen the incentives, the measure should be accompanied by improvements in the monitoring and in the enforcement of job searching.

The third chapter presents the findings of the project I engaged in at the IZA. It studies welfare migration in European countries. The purpose of the study is to test the welfare magnet hypothesis for international migration, which suggests that migrants move across countries because of the differences in the welfare systems. As a result, countries with particularly generous unemployment benefits could attract a greater number of immigrants. The analysis is based on a panel of 19 European countries observed over the period 1993 to 2008. In order to address the endogeneity problem implied by reverse causality, the spending on unemployment benefits is instrumented with the number of political parties within each winning parliamentary coalition. This choice is motivated by an empirical study done by Bawn and Rosenbluth (2006), which shows that the public sectors in European countries are larger when coalitions are formed by more political parties. The estimates obtained from the ordinary least squares regressions indicate the existence of a moderate welfare magnet effect for non-EU immigrants, while the instrumental variable approach reveals

that the effect is substantially smaller and becomes essentially zero when the generalized method of moments technique is implemented. All estimates for EU immigrants are essentially zero, which suggests that immigration within the EU does not respond to unemployment benefit incentives. This finding supports the argument that EU immigrants are more skilled, and hence, less likely to be attracted by welfare states (Brücker, 2002), or they may rely on their home country unemployment benefit system. Our results lead to the rejection of the welfare magnet hypothesis. Although the effect of spending on unemployment benefits on immigration is zero on average, it is not possible to exclude it for immigrants from certain origins; unemployment benefits constitute a strong incentive to immigrate. Future availability of detailed data will allow us to explore this hypothesis further.