

Report on Rigorous Thesis

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

Student:	Victoria Donu
Advisor:	Doc. Ing. Pavel Mertlík, CSc.
Title of the thesis:	Institutional Determinants of Investment Inflows into Transition Economies

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

The rigorous thesis of Miss Victoria Donu „Institutional Determinants of Investment Inflows into Transition Economies“ is an extension of her master thesis „Institutional Factors affecting Investment Inflows in Transitional Countries“ of 2012. With its length of 83 pages it is by 13 pages longer where the additional pages belong more than proportionally to the section of “Theoretical Background”. This section, with its 42 pages, constitutes more than a half of the thesis. The remaining sections follow, both methodologically and by implementation of tests, the proceedings in the master thesis.

In the first place I will assess the progress in the section on “Theoretical Background”. Pages 3-8 provide a simple description of the UNCTAD recent FDI report and trends. I do not see the reason for inserting the Table 2 there, which seems to be identical with Table 1. Pages 9-17 are dedicated to the types of FDI where the theoretical background is just based on verbal descriptions that follow again the style of UNCTAD reporting (e.g. those of greenfield vs M&A FDI or vertical vs horizontal FDI). Though, there are many references to literature, unfortunately the more recent titles (e.g. those after 2008) are missing.

Pages 18-44 focused on the role of institutions in investments and their evolution. They offer the main value added of the reviewed thesis, if compared with the master thesis. There are many references to relevant literature, which unfortunately did not offer much space for own contributions (or at least assessments) of the author. Taken altogether, theoretical backgrounds in the thesis lack a general model. This section is just verbal, pointing to various long-known theoretical aspects of FDI.

Chapter (section) 2 discusses the empirical aspects of the final econometric model to be tested econometrically. It consists of reasons why some particular exogenous (independent) variables were selected for the model. This was done by referring to past empirical studies, unfortunately without a guiding general theory. A special section is dedicated to the selection of institutional variables (p. 47-52). I consider this part quite innovative. This allowed for making a dividing line between purely economic and institutional determining factors of FDI. The methodological and empirical part of the rigorous thesis thus followed the steps in the master thesis. The main change was in considering the time series for 1993-2013 instead of 1996-2010.

The author estimated the proposed empirical model in three separate regional groupings and each of these with two different institutional specifications. This allowed assessing the robustness of the behavioural characteristics of the model. Although the author provided various tests for the econometric validity of given estimates, too many of the estimated coefficients behaved counter-intuitively. E.g. the core economic variable of GDP for recipient country was found statistically insignificant (which in the gravity models of FDI is an extremely rare case). I would suspect that most probably it was “crowded out” by some other variable, e.g. wages or the GDP growth. (Why there were omitted the correlation matrices for the economic variables in the appendix?) Or that too many coefficients were so

Report on Rigorous Thesis

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

Student:	Victoria Donu
Advisor:	Doc. Ing. Pavel Mertlík, CSc.
Title of the thesis:	Institutional Determinants of Investment Inflows into Transition Economies

highly non-robust. Also none of the estimates was compatible with the random effects model (though rare, this could have been correct). I strongly recommend that further tests of cointegration, stationarity and endogeneity be applied in order to avoid their potential detrimental effects. I consider the omission of the tests for multicollinearity (e.g. VIF) a serious infringement of the econometric standards.

I have also lacked deeper comparison of the estimates with alternative institutional sets of data, as well as comparison of characteristics of regional groupings that seem to be highly idiosyncratic. Maybe it was a pity that the author missed my paper¹ that concentrated on nearly the same problem of FDI and whose methodology, estimates and conclusions were in many aspects different from the author of this thesis. There could have been found also more titles focused on the role of institutions and policy risks on FDI there.

Conclusions: In contrast to the two grades of „excellent“ for the master thesis of the author, I have provisos on the way how the empirical model was specified and estimated. The estimated results were too often non-robust and counter-intuitive, which signals potential technical problems with estimations. At least, I think that rigorous thesis should be assessed more rigorously than a master thesis.

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

CATEGORY	POINTS
Literature (max. 20 points)	17
Methods (max. 30 points)	13
Contribution (max. 30 points)	15
Manuscript Form (max. 20 points)	16
TOTAL POINTS (max. 100 points)	61
(doporučuji, nedoporučuji)	Doporučuji.

NAME OF THE REFEREE: Doc. ing. Vladimír Benáček, CSc.

DATE OF EVALUATION: 10.3.2016



Referee Signature

¹ Benacek V., H. Lenihan, B. Andreosso-O'Callaghan, E. Michalikova and D. Kan: Political Risk and FDI: How Do They Get Along in Various European Countries? The World Economy, vol. 37 (5): 625-653, 2014. It was published as the WP of IES already in 2012.

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			
81 – 100	= excellent		
61 – 80	= good		
41 – 60	= satisfactory		
0 – 40	= fail		= nedoporučuji k obhajobě