

Report on Master Thesis

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

Student:	Adam Dobiáš
Advisor:	Mgr. Michal Paulus
Title of the thesis:	Observing Globalization Using the Gravity Model of Trade

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

The study of Mr Dobiáš presents an innovative approach to the usage of gravity equation that is extended to the study of the evolution in globalization between the former East and West. Another value added of the thesis is the estimate of the model both in aggregate and in the breakdown by 10 industrial sectors.

Chapter 2 with the review of literature is a repetition of a standard exposé with two exceptions: a) of pp. 14-15 dedicated to zero observations that brought new views on the problem analysed by Santos Silva & Tenreyro (2006) and b) the treatment of „Missing Globalization Puzzle“ that became a pivot problem to be explained in the thesis.

The direct jump into the model specification in ch. 3.1.2 could have been softer by treating first the criteria for selecting the particular explanatory variables and the proxies substituting the missing data for theoretical variables. This part deserved to be more extensive. The reader loses the overview in this point. The final specifications of models are quite short (i.e. mere 5 variables) and there could be explained how the potential problem with omitted variables was averted. I have also missed a remark why the tests of multicollinearity were not applied.

It is also a pity that author lost the initial „scope“ in estimation once he distinguished between the cross-section and time-series estimation in the introductory parts. All his estimations are easy cross-sectional ones (where the GDP is the „sluggish“ variable in given year), while his data would allow to attempt a time-series estimation, which would be a much more challenging treat.

I praise highly the idea of testing the evolution of inter-bloc dummies that indeed revealed a significant convergence. I would not be so sure about the conclusion that „distance“ (in the meaning of globalization) has been „shortening“ in time, as is claimed on p. 66.¹ In case of applying a single trend model on the coefficients it would be testable if the significance of the slope would confirm such an evolution in claimed 9 years.

The results of Mr. Dobias, where the coefficients differ between estimations by industries, do not disprove the hypothesis that the industrial structure of trade is a very important determining factor of the „behaviour“ of aggregated trade. This implies that gravity models working with aggregate data are poor estimators for predicting the trade once the trade structure is changing.

¹ „... the level of globalization increased in 9 out of 10 sections.

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What concerns the literature, the list of references and the usage of them in the thesis were quite impressive. I have missed just two titles² that would be useful in explaining the „mystery“ of the changing intensity of distance that is a crucial variable in this study.

Mr Dobiáš has proven that he was able to form interesting research questions, work effectively with sophisticated econometric techniques and derive interesting economic conclusions from the estimated results. My proposed grade is 1.

Question to be explained at the defence: How the potential problem with omitted variables was averted and why the tests of multicollinearity were not mentioned?

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

CATEGORY	POINTS
Literature (max. 20 points)	19
Methods (max. 30 points)	21
Contribution (max. 30 points)	25
Manuscript Form (max. 20 points)	18
TOTAL POINTS (max. 100 points)	83
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: Vladimír Benáček

DATE OF EVALUATION: 17 June 2016

Referee Signature

² Chaney T. (2013), The Gravity Equation in Int. Trade: An Explanation, WP 19285, NBER. And Bleaney M. and Salazar Neaves A. (2014) Declining Distance Effects in International Trade: Some Country-Level Evidence. World Economy. 2013, Vol. 36, No. 8, pp. 1029–1040.

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