Abstract

In this thesis, we explore the effect of globalization on the income inequality. We examine some features of methodology used in the majority of research on this topic that can have significant impact on results but they are not addressed in the publicly available research. Firstly, we proposed a new method of normalization that creates more stable data and created a new simple index of globalization using this method. This index then yielded more consistent results than the standard globalization indices. Secondly, we found out the most significant variable in a composite index can have no economic or logical interpretation. This was the case with the effect of mobile cellular subscriptions per 100 people on the income inequality. This means results of composite indeces should be interpreted carefully and a better analysis is probably estimating effects of all underlying variables individually. Moreover, we found that underlying variables in a composite globalization index can have opposite effects on the income inequality. The effects than cancel out, at least partly, and this can lead to smaller, statistically less significant results. Nevertheless, the overall effect of globalization on the income inequality, though statistically not significant, appeared to be negative. This is the case especially in developing countries. The effect is higher (closer to 0 or positive) for developed countries but the sign is ambiguous. Finally, we found the evidence of Kuznets curve and also found out taxation schemes have probably significant impact on the post-tax income inequality, though we were not directly controlling for it (we dealt with it by fixed effect estimation).