

Report on Bachelor / Master Thesis

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

Student:	Dominika Cimpová
Advisor:	Petr Janský, Ph.D.
Title of the thesis:	Misalignment of Profits and Economic Activity by Multinational Enterprises

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

This thesis adds to a growing field of empirical literature that tries to quantify the extent of tax abuse by multinational enterprises. The author uses a relatively widely used dataset on US multinationals from the Bureau of Economic Analysis, and first replicates previous research using newly available recent observations. I think the author could have done a better job at presenting her results from this part to be more comparable with similar previous studies, which have provided complete tables with results at country level. I would expect the author to even improve on the presentation of results, for example by including a calculation of the value of missing tax revenue that each tax haven is responsible for. In the second part of the thesis, the author alters a well-known model used to estimate the elasticity of profits of MNEs with respect to tax rate. Specifically, she alters the specification as to focus on misalignment of profits versus real economic activity, which is in my view the biggest contribution of the thesis.

Methods

Regarding the methodology, the thesis largely builds on existing approaches, with a notable extension to the Hines-Rice approach. I have some specific comments for the methodology, some of which may well be explainable very easily, but I did not find these explanations in the thesis.

- Why do you use “Caribbean” in your results instead of individual tax havens in that region, when the focus of your thesis is on tax havens?
- How did you estimate statistics on PPE for missing years? This should be more explained.
- Figures 1 and 2: we do not know what misalignment means here, you should explain it here or at least point to the section in which it is explained.
- The formulations of model selection in Section 3.2 are often imprecise. For example, the author writes “In case of no heterogeneity in data, we can use pooled OLS...”, while the author clearly means heterogeneity that is unobserved by the data.
- In Figures 4-6, you should use weighted averages of effective tax rates, otherwise the interpretation of this graph is very limited. This is also why the expectation expressed in the last sentence on page 42 did not materialize in the results.
- The spikes in the difference in AETRs in Figure 4, notably the one in 2002, raises a lot of doubt as to the usability of this variable. You should spend some time on discussing this.

Literature

Literature review is far from comprehensive and many relevant studies are missing. I think the author should devote much more space in the thesis to specify the relation of her thesis to the existing literature. For example, studies by international organizations (IMF, UNCTAD) are not mentioned at all. On the other hand, a relatively large share of the thesis is devoted to description of methods that are not even used in the analysis.

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Manuscript form

- There are inconsistent font sizes in tables (compare, for example, Tables 3 and 8).
- Some citations use different styles.
- There are relatively frequent typos and mistakes in interpunctuation.
- Sources of data should be described in more details and links to websites from which they were downloaded should be provided.
- Presentation of some tables and figures could be improved significantly to increase their readability.

Summary and suggested questions for the discussion during the defense

I generally liked the thesis and despite some issues, I think that it deserves to have a chance to be defended with grade A, provided that the presentation during the defense is satisfactory to the committee. Below I provide some questions that the author could answer during the defense.

- In Figures 9-11, you document a large increase in the share of profits reported in the 5 tax havens that you focus on, but do not explain it. How do you explain this sharp increase? Is it a feature of the data or is there an actual economic reason?
- How do your results compare to estimates of profit shifting that use other approaches, such as the FDI approach?
- There are studies that used Orbis data to answer similar research questions. What are the advantages and disadvantages of using BEA data rather than Orbis?
- What would be the policy recommendations or conclusions of your work?

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	28
<i>Methods</i> (max. 30 points)	27
<i>Literature</i> (max. 20 points)	18
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	91
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: *Mgr. Miroslav Palanský, M.A.*

DATE OF EVALUATION: *June 3, 2018*

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	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.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F