

Report on Bachelor / Master Thesis

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

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| Student: | Bc. Anežka Svěchotová |
| Advisor: | Prof. Roman Horváth, Ph.D. |
| Title of the thesis: | Globalization, Rule of Law and Wealth Inequality |

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

Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.

Short summary

The thesis examines the determinants of wealth inequality using a large cross-country dataset. To address the regression model uncertainty, the thesis employs the Bayesian model averaging. Considering a rich set of economic, political, financial and other determinants, the thesis finds that only a few determinants robustly explain the cross-country differences in wealth inequality. According to this thesis, it is financial development rather than globalization which matters for cross-country differences in wealth inequality.

Contribution

Although previous literature and anecdotal evidence suggest that globalization contributes to wealth inequality, this thesis fails to observe such an effect. To the contrary, it finds that it is rather financial development that is associated with wealth inequality. However, the effects of financial development are complex. Some characteristics of financial development increase inequality, while other characteristics exert an opposite effect, i.e., decrease inequality.

The thesis correctly observes that the differences in wealth are of a much large magnitude than differences in income and that the differences in wealth are much more persistent and go across generations. And that if we want to understand economic inequality, our focus should concentrate much more on wealth inequality rather than inequality in incomes.

The ambition of the thesis is to extend the work of Hasan, Horvath and Mares (2020, Journal of International Money and Finance), who show that financial development matters for wealth inequality. Here, the author extends her database primarily by including several measures of globalization (economic, social, ...) to address the supposition that (economic) globalization contributed to lower (income) inequality (see, for example, the writings by Branko Milanovic, who observes that inequality at the global level declined because of enormous economic development of countries such as China or India). However, the extension of Hasan, Horvath and Mares (2020) does not lie only in considering additional potentially important explanatory variables, but the author of the thesis also considers more countries. While Hasan, Horvath and Mares (2020) use data from 73 countries, this thesis uses 89 countries.

Methods

The author applies Bayesian model averaging to study the determinants of cross-country differences in wealth inequality. The methods are applied correctly, and I must emphasize that the author learned these methods independently despite these methods do not belong to a standard curriculum at our institution. The standard prior structure is used to estimate the Bayesian model averaging.

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The methods are well documented but I would welcome to see the correlation values among explanatory variables to check the degree of multicollinearity.

Literature

The literature survey is quite comprehensive. The main contributions to the measurement and determinants of wealth inequality are cited and extensively discussed (the authors such as Davies or Zucman). A number of other relevant studies dealing with the different forms of inequality are discussed as well.

Manuscript form

The thesis reads well, and the arguments are easy to follow. I consider the number of typos to be small (but there are exceptions, see below). The thesis is logically structured.

Typically, I did not have any major obstacles to understanding tables and graphs presented in the thesis (only some minor points, for example, consider Figure 6, it does not have to be clear for the reader less familiar with the Bayesian model averaging literature what blue and red colors represent).

However, there is one major typo, subsection 5.3 (which contains only two sentences), which was planned to be erased but probably by mistake remained in the thesis. The author planned to use one additional package for the Bayesian model averaging, but this package (at least in the past, from my personal experience) exhibited certain instability and probably could not have been used anyway. I also could not find data definitions for the control variables.

Overall evaluation and suggested questions for the discussion during the defense

This is a very solid empirical work on an important but not so researched topic – the determinants of wealth inequality. The econometric methods are advanced and address some important modeling issues (for example, regression model uncertainty). The thesis reads well, and if the author would carefully revise the thesis once or twice, I would be inclined to suggest an even better grade.

In my view, the thesis fulfills the requirements for a master's thesis at IES, Faculty of Social Sciences, Charles University. I recommend it for the defense and suggest a grade B.”

The results of the Urkund/Turnitin analysis do not indicate significant text similarity with other available sources.

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

| CATEGORY | POINTS |
|--------------------------------------|---------------|
| <i>Contribution</i> (max. 30 points) | 28 |
| <i>Methods</i> (max. 30 points) | 29 |
| <i>Literature</i> (max. 20 points) | 19 |

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| <i>Manuscript Form</i> (max. 20 points) | 13 |
| TOTAL POINTS (max. 100 points) | 89 |
| GRADE (A – B – C – D – E – F) | B |

NAME OF THE REFEREE: Prof. Roman Horváth, Ph.D.

DATE OF EVALUATION: January, 20, 2023

***Digitally signed
Roman Horváth***

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.*

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.*

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

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.*

Overall grading:

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