IMESS DISSERTATION

Note: Please email the completed mark sheet to Year 2 coordinator (jiri.vykoukal@post.cz)

Student:	Yuhan Zhang
Dissertation title:	The impact of institutional quality on FDI: a study based on EU countries

	70+	69-65	60-61	59-55	54-50	<50
	A	B	C	D	E	F
Knowledge *Knowledge of problems involved, e.g. historical and social context, specialist literature on the topic. Evidence of capacity to gather information through a wide and appropriate range of reading, and to digest and process knowledge.*		68				
Analysis & Interpretation *Demonstrates a clear grasp of concepts. Application of appropriate methodology and understanding; willingness to apply an independent approach or interpretation recognition of alternative interpretations; Use of precise terminology and avoidance of ambiguity; avoidance of excessive generalisations or gross oversimplifications.*	72					
Structure & Argument *Demonstrates ability to structure work with clarity, relevance and coherence. Ability to argue a case; clear evidence of analysis and logical thought; recognition of an argument´s limitation or alternative views; Ability to use other evidence to support arguments and structure appropriately.*		66				
Presentation & Documentation *Accurate and consistently presented footnotes and bibliographic references; accuracy of grammar and spelling; correct and clear presentation of charts/graphs/tables or other data. Appropriate and correct referencing throughout. Correct and contextually correct handling of quotations.*		68				
Methodology *Understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.*	71					

ECTS Mark:	B/69	Charles Mark:	B/85	Marker:	Tomáš Holub
Deducted for late submission:	*No*			**Signed:**	
Deducted for inadequate referencing:	*No*			**Date:**	7 August 2024

MARKING GUIDELINES

A (UCL mark 70+) = A (Charles mark 91-100 - excellent): *Note: marks of over 80 are given rarely and only for truly exceptional pieces of work.*
Distinctively sophisticated and focused analysis, critical use of sources and insightful interpretation. Comprehensive understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.

B (UCL mark 69-65) = B (Charles mark 81-90– very good)
C (UCL mark 64-60) = C (Charles mark 71-80 – good): A high level of analysis, critical use of sources and insightful interpretation. Good understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research. 65 or over equates to a B grade.

D (UCL mark 59-55) = D (Charles mark 61-70 – satisfactory)
E (UCL mark 54-50) = E (Charles mark 51-60 – sufficient):
Demonstration of a critical use of sources and ability to engage in systematic inquiry. An ability to engage in sustained research work, demonstrating methodological awareness. 55 or over equates to a D grade.

F (UCL mark less than 50) = F (Charles mark 0-50 - insufficient):
Demonstrates failure to use sources and an inadequate ability to engage in systematic inquiry. Inadequate evidence of ability to engage in sustained research work and poor understanding of appropriate research techniques.

Please provide substantive and detailed feedback!

Comments, explaining strengths and weaknesses (_at least 300 words_):

The thesis analyses empirically the impact of institutional quality on net FDI flows in 26 EU countries, covering the time period since 2004, when a large wave of EU enlargement took place. A synthetic institutional quality variable is constructed from 6 alternative indicators using the principle component analysis (PCA) method. It is then explored empirically using the fixed effect panel data approach, as well as the GMM, if this synthetic IQ variable affects positively net FDI inflows into the individual EU countries. A set of 8 control variables is applied to capture other country-level characteristics, such as labor force participation rate, market size, tax-to-GDP ratio and euro area membership. It is also explored if the strength of the link between institutional quality and FDI is affected by the abundance of natural resources and openness to the international trade. Finally, the difference between CEE countries and western EU countries is analysed.

The author indeed confirms that there is a positive relationship between institutional quality and FDI inflows. Moreover, this positive impact of better institutional quality on FDI inflows increases with higher trade openness. It is also shown that the role of institutional quality is more pronounced in CEE countries. These are valuable, policy-relevant contributions to the empirical literature.

The thesis has a logical structure. After an introduction, there is a comprehensive literature review in Chapter 1, covering both theoretical and empirical papers including recent contributions. Chapter 2 provides some stylised facts concerning the FDI flows in the EU. Chapter 3 formulates the research hypothesis, describes the data and provides their standard statistical tests. Chapter 4 presents the econometric results, which are then discussed in Chapter 5. Chapter 6 concludes. The thesis is written in decent English any language imperfections are only minor and do not affect the overall reader's impression. The applied methodology is a standard one, is applied with no obvious errors, and there are sufficient robustness checks of the results in terms of alternative model formulations and econometric techniques. The results of the Turnitin check do not uncover significant overlaps with any previous research work.

The author consulted her work with me actively in several rounds, and the final draft incorporates all my major suggestions. I thus have only to partial comments at this stage:

- In section 2.1, the discussion of FDI flows in the EU often focuses on one year data only (in particular 2021), which needs to be considered purely illustrative. The author would need to provide a longer cumulative perspective if she really wanted to compare the individual countries in a more reliable way, without too much impact of short-term volatility.

- The standard fixed effects panel models seem to give more intuitive results for some of the control variables than the GMM approach. Fortunately, the econometric technique is not changing qualitatively the results for institutional quality, which is the main focus of the thesis. At the defence, the author could thus discuss these differences and their potential explanations.

Overall, I recommend the thesis for defence and suggest a B grade (depending on the student's performance at the defence).

Specific questions you would like addressing at the oral defence (*at least 2 questions*):

(i) Discuss the differences between the outcomes of the standard fixed effects panel models and the GMM approach as regards the institutional quality's effect on FDI, as well as the significance of control variables. What are the reasons for such differences? Which of the two methods do you see as more appropriate, and the results as more plausible?

(ii) In most regressions, euro area membership tends to have a positive coefficient, which is statistically significant in several cases. However, in Table 20 there is a weakly statistically significant, and large, negative coefficient for the CEE countries, which is contrary to the economic intuition. Please, comment on this result.