Report on Bachelor / Master Thesis

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

Student:	**Ondřej Filip**
Advisor:	**Petr Janský, M.Sc.**
Title of the thesis:	**Treasure Islands: The Economic Analysis of Tax Havens**

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

In the thesis, the author investigates the issue of tax havens from several points of view. First, he extends the traditional definition of tax havens by including, besides countries with no or low taxes, additional two groups of countries (or regions): offshore financial centres and countries which ensure above-standard bank secrecy to the clients of banks. In this way, he identifies 63 countries or regions as tax havens. Next, the author provides some descriptive statistics (in terms of geographical properties and economic performance) of tax havens and then he tries to quantify two questions: what is the role of a non-haven country's GDP and geographical proximity on the capital flows between the two types of countries. He comes to the conclusion that the flow from/to non-haven countries with larger GDP is larger. On the contrary, the distance from the tax haven affects negatively both portfolio and direct investment.

The thesis is written in a competent way, without any major issue on its formal side. The descriptive part about tax havens is very interesting, however I miss some description of mechanisms how the "clients" of the tax haven countries take advantage of the low tax treatment - do they usually set up a subsidiary or does the company usually move its headquarters in the tax havens?

What I find most problematic about the thesis is the statement of tested hypotheses and the econometric estimation. First, I miss some deeper motivation for the stated hypotheses (what is the role of the distance and the economic activity for the amount of capital flows between a haven and a non-haven country). The author should, I think, explain why he expects the geographical distance of a country from a tax-haven country to have an effect on the flows (maybe it is because firms from the EU countries would prefer tax-havens within the EU, on the other hand, non-EU companies would prefer the non-EU tax havens?). Also, I think the absolute value of GDP as a measure of economic development in the hypotheses is not a good choice (e.g. p. 33), since a large developing country can still have a larger GDP compared to a small advanced country.

I have some other doubts about the estimation:

- The test of endogeneity (p. 29, assumption 2, Table A.5) is wrong, because residuals from the regression estimated by the OLS are uncorrelated with explanatory variables by construction (in fact, the estimated correlations in Table A.5 are "surprisingly" 0.00). Instead, Hausman test (or its variant) should be used to test endogeneity.

- The hypothesis that a larger GDP would mean larger flows seems a tautology for me - obviously, when a country is large, flows will be larger compared to the flows from/to a small country. Instead, maybe a foreign portfolio / direct investment over GDP ratio should be used on the left hand side and GDP per capita on the right hand side?

- The author does not specify which non-haven countries he uses for the econometric analysis (Section 3.4). Are they only the countries which have transactions with the tax-haven countries? If they are, the estimates most likely suffer from selection bias (which could be corrected by the Heckman model).

A minor comment: the author mentions "a traditional paradigm" in the abstract and in the conclusions of the thesis. Can he explain what he means by that? (I think that the word is confused with the word "definition")

Overall, due to the shortcomings in the econometric analysis and a rather weak reasoning for the estimation, I suggest a 2 (velmi dobře) grade.

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

CATEGORY		POINTS
Literature	*(max. 20 points)*	17
Methods	*(max. 30 points)*	18
Contribution	*(max. 30 points)*	20
Manuscript Form	*(max. 20 points)*	18
TOTAL POINTS	*(max. 100 points)*	**73**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE: Tomáš Adam

DATE OF EVALUATION: 6.6.2013

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Referee Signature

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