

Report on Bachelor / Master Thesis

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

Student:	Marek Chadim
Advisor:	Matěj Bajgar, D.Phil.
Title of the thesis:	Markups and Public Procurement

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

Short summary

This thesis uses data on public procurement in the construction sector in Czechia combined with financial statements of companies to assess whether markups of companies that supply public procurement tenders are systematically higher than those of companies operating in the private sector only. Marek finds that government contractors show significantly higher markups than their private sector serving counterparts, and provides a series of additional results and robustness checks.

I believe that Marek has done an exceptional job on this thesis, and that he should aim to rework it into an article format and submit his work to an academic journal. The field would benefit from more high-quality empirical research using public procurement data, and this thesis is an example of such work. My comments below therefore should be taken into account mostly as on top of what I would expect from an excellent Bachelor Thesis defended at our Institute.

Contribution

Marek has written a thesis that contributes nicely to existing literature. His approach is novel and useful, and thereby the methodological and empirical contribution is clear. Where I think the thesis could have been clearer is explaining how the findings contribute to our current understanding of public procurement efficiency. If the approach is novel methodologically, does it bring novel insights empirically?

Marek also hints at an all-important question related to the findings of his research, on p.37: “the question of why government contractors charge higher markups remains.” I believe that there is some scope to figure out which of the potential explanations given in that paragraph are most likely to account for the observed differences in markups, especially the last one related to tendering inefficiencies. This would bring a much more significant contribution of the paper, and thereby would increase chances of publishing in a good journal.

I would also suggest another potential reason: From Table 6.3, which provides descriptive statistics of markup estimates for companies that are and are not among government contractors, it seems that government contractors have, on average, larger markups, but the standard deviation of those averages is lower. I wonder whether a potential explanation for this result could be that companies that supply tenders are more consistent and able to estimate their costs better, which would result in higher markups on average, and less variation in markups across companies. Is there a way to measure this?

To make the results more convincing, the author would also need to compare much better the companies that supply tenders and those that don't – for example, how many tender-supplying companies have a comparable counterparty? What is the distribution of tenders among the tender-supplying companies? What is the relationship between markups and company size?

Methods

Overall, I find the used methods appropriate for the research question at hand and well implemented, although I am not entirely convinced by some of the interpretations of the results – and it would be helpful to drill down into them a bit more (see above in “Contribution” and below in “Questions for defence”).

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Literature

Marek was able to identify well the most important literature in the field, and ties his thesis well to these papers. The literature review is well structured and guides the reader well through the various areas of work that had been done. In case the author decides to work on publishing his work in a journal, I would suggest to focus a bit more on the work that has been done using Czech public procurement data, which is voluminous (incl. many theses defended at our Institute and later published in respected academic journals), and sometimes can provide nice evidence for the underlying reasons for the markup differences (such as the work done on corruption and tender inefficiencies, some of which is cited already).

Manuscript form

The manuscript is very well written and structured. Figures and tables are polished and it is clear that the author has taken the time to carefully review his work. The manuscript form is well above the average for theses that I have had the chance to review.

Overall evaluation and suggested questions for the discussion during the defense

Suggested questions for the defense:

- How did you deal with cases of consortia of construction companies supplying tenders?
- Table 5.4 shows that companies supplying tenders are very different from companies that do not supply tenders – from what I can tell, primarily they are much larger. From my (limited) knowledge of how construction companies work, often, many companies that do not supply tenders are subcontractors for the companies that administer/supply the tender itself. This could well explain lower markups of subcontractors vs. tender suppliers, which potentially have stronger market power. What are your thoughts on this?

In my view, the thesis fulfills the requirements for a Bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade A.

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

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

CATEGORY	POINTS
Contribution (max. 30 points)	28
Methods (max. 30 points)	28
Literature (max. 20 points)	19
Manuscript Form (max. 20 points)	20
TOTAL POINTS (max. 100 points)	95
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: PhDr. Miroslav Palanský, M.A., Ph.D.

DATE OF EVALUATION: 3.8.2023

Referee Signature