Opponent’s review of the Diploma thesis

Title: An Analysis of Causes and Consequences of US Fiscal Imbalance

Author: Bc. Chen Ji

Opponent: doc. Ing. Aleš Melecký, Ph. D.

The diploma thesis presented by Chen Ji deals with interesting topic of fiscal imbalance in the USA, which is often discussed nowadays. Overall, the text of presented thesis is well structured. The level of English language used in the thesis is in some parts lower and difficult to understand but overall I had no problem to understand the text and the main messages.

The weakest part of the thesis is the work with references. In references are not written according to the norm and faculty rules in many cases and I believe that there are definitely some references (sources) missing in the thesis so it is impossible to check some of the statements.

After the brief introduction the student focus on theory of fiscal imbalance and sets the main relationships that are further used in the empirical analysis. There are some minor mistakes in this chapter, e.g. equation (2.1) does not take into account for the situation when revenues=expenditures, i.e. fiscal balance, so it should be named fiscal imbalance equation. On p. 9 student mentions table 2.2 but refers to graph 2.3. On the other hand, causes and consequences of fiscal deficit are well described.

In chapter 3, the graphs often only duplicate information, which is already contained in the table without adding addition information. In addition, two axis in the graph would help in the cases of significant differences in values. This chapter is rather descriptive and based on downloaded data. I often miss information about units and currency in the figures. I have some doubts about the figure 3.12, the student should explain it in detail during defense of the thesis. In figure 3.15, the 30Yr yield curve should start from 2006. I miss more personal opinions in this and the following parts of the thesis.

Empirical part and estimates presented in chapter 4 are relatively simple for master's level. I do not understand table 4.8, why the cyclical balance is still negative even in the times of strong
economic growth when GDP is larger than potential GDP. While discussing solvency ratios the
author does not mentions what are the optimal or recommended values of selected indicators.
Overall, the student has proved ability to self-study new area, understand the topic and employ
the analytical tools.

I recommend presented master thesis for defense.

Questions for defense:

Could you explain in detail figure 3.12?

Why is the cyclical balance negative even in the times of strong economic growth?

Could you please explain difference between external debt and foreign currency debt and risks
associated with their large shares in the government debt portfolio?

In Ostrava, May 16, 2018

doc. Ing. Aleš Melecký, Ph. D.