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Letter of Recommendation for Selva Bahar Baziki

It is my pleasure to write this letter in support for Selva Bahar Baziki's application for a position. I have been Selvas's second supervisor since I took up a position at Uppsala University in 2012 and over the years we have had frequent opportunities to discuss her research. Selva is in my view a very bright student with a good ability to identify interesting questions to study, as well as, being equipped with the tools to carry the analysis to completion. She also has strong communication/social skills and has been a much appreciated department citizen during her time at Uppsala University.

Selva's dissertation, which will be defended in the spring of 2015 at Uppsala University, presents a broad set of papers in the intersection of macro-, labor- and international economics with an overall theme of the effect of globalization on firm and worker outcomes. Let me briefly discuss her thesis.

In the first chapter (job market paper), *Import Competition and Technological Changes: Mobility of Workers and Firms*, Selva and coauthors (Rita Ginja and Teodora Borota Milicevic, both junior faculty at the department) studies the increasing matching of workers to firms that resemble their type. Previous literature has attributed the cause of this change to either innovations in ICT technology, or rising imports from China. Identifying firm/worker types using a (Abowd, Kramarz, Margolis, 1999, Econometrica) methodology on Swedish linked employer-employee data they find that the sorting pattern is not uniform across industries within the high ICT intensity group. This points to the importance of the interaction between technology and other factors (unlike what the literature has done so far). Moreover, in the group of high ICT industries with a high change in Chinese import penetration, they observe a strong increase in the share of high fixed effect workers in the high fixed effect firms. And, by contrast, in the high ICT industries with a low change in the Chinese import penetration, they observe an increase in the share of low fixed effects workers in the low fixed effects firms.

In a recent paper, Autor *et. al.* (2014, Economic Journal) attempt to disentangle the two forces, ICT technology and import competition, in their effect on employment across skills. That paper finds that technological progress and import competition have rather independent effects, as opposed to some previous hypotheses of the two being just two faces of the same phenomenon The approach Selva and coauthors follow resembles

Autor *et. al.* (2014), but they add three important dimensions: First, since they have access to firm data, they can track changes of firm effects over time and control for the firm where the individual works. Secondly, they study the impacts of technological changes and trade not only on employment, but on labor allocations, and finally they study the interaction between technology and import competition and look at movements in the wage distribution.

In the second chapter, *Globalization, Chinese Imports, and Wage Premia*, single authored by Selva, she studies the dynamic response of the skill premia for college educated workers in the face of tougher competition from low wage countries by using Swedish linked employer-employee data. It is difficult to single out globalization's effects on wage dispersion, or skill premia more specifically, as there are other simultaneous forces at play. Here, Selva treats the Chinese membership to WTO as an exogenous imports shock to be able to identify the effects.

Recent empirical work looking at the effect of rising Chinese import penetration has not reached a consensus as to the effect on the wages in the domestic market. This paper differs from previous studies in the detailed data it uses, and the attention it gives to differentiating the effect for workers who switch their jobs, versus those who are employed at the same firm. Interestingly, Selva finds that higher Chinese import penetration lowers wages for low-skilled workers, but generates a positive premium for skilled workers. Low-skilled workers who move between firms suffer a larger negative impact from rising Chinese imports compared to those who stay on at the same firm. Moreover, high-skilled employees who stay on at the same firm enjoy a larger return to their educational investment.

In the third chapter of her thesis*, International Restructuring: Cross-border Buyouts and Acquisitions*, Selva and coauthors (Pehr-Johan Norbäck, Lars Persson, and Joacim Tåg, all at IFN) studies what factors contribute to the presence and effects of cross-border buyouts performed by cross-border private equity (PE) and their interaction with cross-border mergers and acquisitions. To this end they develop a theory of the determinants of a cross-border buyout, and analyze its welfare effects. Their contribution is to propose a model of cross-border acquisitions and buyouts where multinational enterprises (MNEs) exploit firm specific `business as usual' assets and retained earnings, whereas PE exploits restructuring skills. They then use this model to examine how financial market and property right characteristics affect the MNE acquisition- PE buyout pattern and the corresponding welfare effects.

In the policy debate there has been a concern that private equity buyouts, in particular buyouts by foreign private equity firms, are driven by short-run gains resulting in long-run inefficiencies. Interestingly, when performing a welfare analysis on the effects of restricting foreign private equity buyouts, they show that that restricting buyouts can be counterproductive since private equity buyouts and a subsequent IPOs may prevent a concentration of the market. In particular, they show that this risk is higher in times when the risk premium in the economy is high, which would put MNEs at a comparative advantage over PEs due to their retained earnings.

In the final chapter, *Cross-border Leveraged Buyouts*, single authored by Selva, she builds a model to explain the difference across time and countries of the share of Leveraged Buyouts (LBO) type of takeovers compared to incumbent Mergers and Acquisitions (M&A). In the setup, a domestic target firm is up for sale by potential buyers who are either of the incumbent type that conducts an M&A, or a private equity type which conducts an LBO. The paper first theoretical contribution is to suggest that both types of buyers invest in restructuring at the newly acquired firm, but since the private equity type maximizes the resale price of its newly acquired firm they restructure more intensely.

In terms of determinants of LBO presence: She first shows that stronger property rights decrease the likelihood of private-equity buyouts relative to incumbent-firm buyouts. When property rights are protected, MNEs will be able to restructure more efficiently since they can then use their firms specific assets in restructuring without too much knowledge spillover to rivals. Therefore, better property rights will decrease the relative presence of LBOs. Secondly, since private-equity firms buy firms to sell them, LBOs will incur transaction costs first at the initial take over, and secondly when they are reselling the target firm after restructuring, whereas a firm buying to keep only incurs the transaction cost once. Therefore higher transaction costs in a country should make it relatively less attractive to private-equity firms, decreasing cross-border LBO shares. Finally, high levels of international market integration should have a positive effect on the cross-border LBO share. This intense restructuring by private-equity firms gives foreign incumbents incentives to outbid private-equity firms in the initial acquisition auction to prevent the private equity firm from intensely restructuring the firm. However, as the domestic market integrates with international markets, more international firms serve the domestic market, and competition intensifies between producing incumbents. This implies that the value of outbidding private equity firms to prevent intense restructuring falls, as the market is already more competitive. Thus, high levels of international market integration should increase the cross-border LBO share.

There is a small theoretical literature addressing the industry investment and welfare aspects of crossborder M&As in international oligopoly markets. However, this literature does not explicitly address cross border private equity buyouts. Selva's paper extends this literature by allowing cross-border buyouts to affect the international merger and restructuring procedures. The features of the model developed should make it useful for analyzing issues like the interplay between cross-border M&A and buy outs, firm restructuring and different types of corporate and industrial policies. Also, on the empirical side she tests the predictions of the model and finds that they are broadly consistent with the data.

Overall, I think Selvas's dissertation work shows that she has the right skills and motivation to attack ambitious projects and to solve them successfully. I think that Selva has written a very good dissertation with a strong publishing potential and that he shows considerable promise for a future academic career. I thus think that any institution below the very best looking to hire in macro/labor/international should consider Selva.

Sincerely,

Mikael Carlsson
Professor of Economics