UPPSALA UNIVERSITY

Confidential

To the recruitment committee

20 November 2014

Letter of recommendation for Selva Bahar Baziki

Selva Bahar Baziki started the graduate program at Uppsala University in September 2010. She is now finishing her thesis and the formal defense will take place in the spring of 2015. The thesis consists of four papers. Her main interest is in macro, labor, and international economics but she has also ventured into industrial organization. The papers document Selva´s excellent skills in research, especially applied work using large datasets and advanced statistical methods as well as model simulation.

The job market paper ***Import Competition and Technological Changes: Mobility of Workers and Firms*** (joint with Rita Ginja, Teodora Borota Milicevic) studies one factor behind the increasing wage inequality that is observed in many OECD economies: assortative matching. Using matched worker-firm micro data for the Swedish manufacturing sector in the 1996-2007 period, they use the Abowd, Kramarz, Margolis (1999) methodology to decompose individual wages into the contributions of the individual and the firm characteristics. They then construct the joint distribution of individual and firm effects, thus creating a map of the manufacturing sector labor force allocation which they follow over time. In line with findings by Autor and Dorn (2013) they find increased assortative matching whereby workers increasingly match to firms that resemble their type in the economy (high type workers to high type firms, and low to low) and this is an important factor contributing to increased wage inequality.

They then analyse whether this change is related to differences in Chinese import penetration and increased adoption of information and communication technologies (ICT), finding that the pattern is not uniform across industries. In the group of high ICT industries with a large increase in Chinese import penetration, they observe increased sorting at the top: a strong increase in the share of high fixed effect workers in the high fixed effect firms and a reduction in the shares of low fixed effect workers in the high effect firms. In the high ICT industries with a low change in the Chinese import penetration, the sorting occurs at the low end of the worker-firm distribution, i.e. low-skill workers sorting to low quality firms. For industries with little use of ICT they find no major effects of Chinese import penetration on

Department of Economics Professor Nils Gottfries

Visiting Address: Kyrkogårdsgatan 10 UPPSALA SWEDEN
Postal Address: Box 513 SE-751 20 UPPSALA SWEDEN
Telephone: +46 18 471 23 04
Telefax: +46 18 471 14 78
E-mail: Nils.Gottfries@nek.uu.se

the sorting. This paper gives a fascinating view into the detailed dynamics of firm and worker sorting in the face of globalization. The results suggest that import competition and technological change have different effects on the sorting of workers across firms. More theoretical analysis is needed to understand these changes.

Selva has been in charge of the empirical analysis and it is clear that she has contributed at least her share to this paper. In the process she has learnt a lot about empirical methods from Rita and about theory from Teodora. Both co-authors are junior faculty at our department.

Selva is working on a single-authored paper ***Globalization, Chinese Imports, and Wage Premia***. This paper uses matched worker-firm data to study the effects of increased competition from low wage countries on the wage gap between skilled and unskilled workers in privately owned Swedish manufacturing firms between 1996 and 2009. The basic idea is to take Chinese accession into WTO as an exogenous shock to domestic competition and exploit its differential impact across industries in order to measure causal effects on wages. The corresponding sector-wise Chinese import penetration in Finland is used as an indicator of the competition shock, both directly in a "reduced form" OLS regression and in an IV estimation where it is used as instrument for import penetration in Sweden. Higher Chinese import penetration lowers wages for low skilled workers, and generates an increase in the wage premium for skilled workers that is much larger in magnitude than the negative effect on the low skilled in the total population of manufacturing workers. The data allows the study of the overall wage changes – within and between jobs – as well as wage changes within a specific match. (As far as I know this is a novel aspect compared to similar studies for other countries.) Low-skilled workers who move between firms suffer a larger negative impact from rising Chinese imports compared to those who stay at the same firm, which may be explained by downward wage rigidity. High skilled employees who stay at the same firm enjoy a larger increase in the return to their educational investment which suggests that upwards wage adjustment happens to a larger degree on the job. These workers do not have to move in order to enjoy the fruits of globalization. IV estimates suggest large effects of globalization. These results are striking and interesting and the paper will be developed further.

Together with Pehr-Johan Norbäck, Lars Persson, and Joacim Tåg at the *Research Institute of Industrial Economics* in Stockholm, she has written the paper ***International Restructuring: Cross-border Buyouts and Acquisitions***. This is a theoretical paper motivated by the increase in cross-border private equity buyouts which has generated much debate. The authors propose a theory of cross-border acquisitions and buyouts with two types of potential buyers playing different roles. Incumbent multinational enterprises have access to retained earnings and they also have firm-specific assets (knowledge etc.) that can be used by the unit that is purchased while private equity firms specialize in restructuring. The authors analyse what factors determine the type of buyout that occurs and find that lower risk

premia and better financial market development will increase the private equity buyout share by reducing the advantage that incumbent multinational enterprises have because of their financial resources while an increase in intellectual property rights protection decreases the equity buyout share because the acquisition synergies of multinational enterprises increase. Restricting PE-buyouts is likely to be counterproductive for welfare. The auction setup draws on previous work by Norbäck and Persson. Selva has made a substantial contribution including the analysis of the effects of risk premia and the welfare analysis.

Cross-border Leveraged Buyouts is a single-authored paper which is closely related to the previous one but presents a somewhat different theory and combines it with empirical work. In this 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. In this model, both types of buyers invest in restructuring the newly acquired firm, but since the private equity type maximizes the resale price of its newly acquired firm PE firms restructure more intensely. Incumbent firms act strategically and, anticipating competitors' reactions, hold back restructuring compared to PE firms. 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 firm-specific assets in restructuring without too much knowledge spillover to rivals. Since private equity firms buy firms to sell them, they 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 high transaction costs in a country should make it relatively less attractive for private equity firms to operate there, decreasing cross-border LBO shares. The role of concentration and openness is also studied. These predictions are tested on a comprehensive data covering all majority-owned cross-border M&As in the world and support for the theory is found. To put together and analyze this dataset has been a major piece of work.

These two papers are not in my area of research so it is somewhat hard for me to evaluate precisely but it is interesting work and very competently done. Lars Persson should be able to give more detail.

Our Ph. D. program follows the American model. It is a four year program with close to two years of courses. The first year consists of mandatory courses in math, econometrics, micro and macro. The second-year advanced Ph. D. courses are elective and we cooperate with Stockholm University and the Stockholm School of Economics concerning these courses. Selva has taken the following advanced Ph D courses in Stockholm and Uppsala: Labor Macro Economics (with Per Krusell), Recursive Macroeconomic Theory (with Lars Ljungqvist), Development Economics, Time Series Econometrics, International Macroeconomics, Monetary Economics, Advanced Stata, Topics in Labor Economics. Selva is an active member

of the macroeconomics workshop and the labor workshop in Uppsala, both of which meet almost every week.

Presentations of papers have been excellent. Selva's presentation skills are above average among our graduate students. She writes and speaks excellently in English.

Selva is very social and easily establishes contact with colleagues. In the beginning I thought that she may be "too social" (in a Swedish perspective) but over time I have learnt that she is focused and works hard. Selva is very enthusiastic about research.

Selva Bahar Baziki has been teaching assistant on the first year *Ph.D. course in macroeconomics*. Student evaluations were very positive and the lecturer, Daria Finocchiaro, was very satisfied with her work. She has also been teaching assistant on a master course in *Applied Econometrics* three times where she has lead exercises using STATA with about 20 students. The teacher Niklas Bengtsson is very satisfied with her work. She is very reliable and student evaluations have been very positive. She has managed these sessions with increasing independence and freedom to design exercises and sessions. She is clearly above the average as a teacher. If you want more information about her teaching performance you are welcome to contact Daria Finocchiaro Finocchiaro, daria.finocchiaro@riksbank +46-8-7870432 or Niklas Bengtsson. niklas.bengtsson@nek.uu.se, +46-18-471 5129.

Selva Bahar Baziki is a very competent researcher with broad interests. She is especially skilled with the computer handling large datasets and advanced statistical methods as well as model simulation. Two of the papers are joint papers but she has been a full member of the research teams for those projects. Thus I view her as an excellent researcher with great promise for the future. I would put her in the upper half among our graduate students and I can recommend her for jobs at academic institutions below the top 20 world-wide. She would do very well in professional jobs at central banks, research institutions etc.

Please contact me if you have any further questions.

Best regards

Nils Gottfries

Professor (chair) of Economics

Uppsala University

nils.gottfries@nek.uu.se, +46 18 471 2304, +46 73 0358101