

# Advanced DID

## INTRODUCTION

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# Welcome!

Welcome to the Advanced Difference-in-Differences Mixtape Workshop!

- I am excited to learn with you all today.

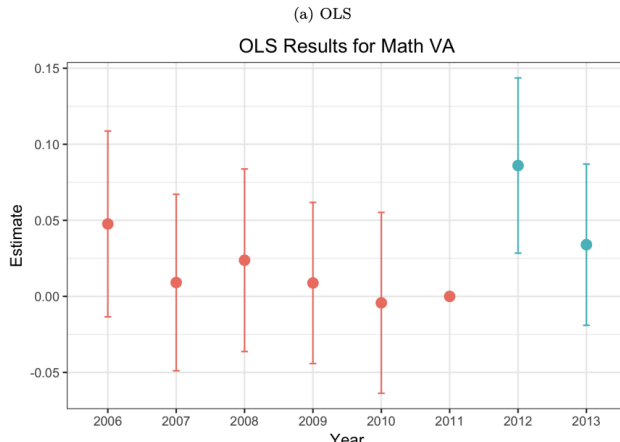
# Who Am I?

- Assistant Professor of Economics at Brown University.
- I consider myself an *applied econometrician*.
- The main goal of my research is to develop *usable* tools that improve the quality of empirical work.

# My DiD Journey

- Early-on in graduate school, I was an aspiring labor economist running a lot of DiDs...

Figure 7: Event Study Results for the Effects of Retirements in 2011 on Math Value-Added



# My DiD Journey

- I realized I had a lot of questions about the methodology of what I was doing.
  - Should I believe parallel trends holds in this context?
  - Why do I have pre-trends in some of my specifications but not others?
  - Is it okay if I focus only on the specifications without pre-trends...?

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- But the goal of my research has always been to try to inform real-world analyses of economic topics
- Today I hope to share with you some of the insights that I and others have learned over the last few years, with the **goal of helping you improve your research.**
  - Focus on both theory and applying it in practice!

# (Approximate) Schedule for the day

- 9-9:45 Preliminaries & The Canonical DiD Model
- 9:45-10 Break
- 10-11:15 Staggered treatment timing and heterogeneous treatment effects
- 11:15-11:30 Break
- 11:30-12:30 Coding Exercise
- 12:30-1:30 Lunch
- 1:30-2:45 Violations of Parallel Trends
- 2:45-3 Break
- 3-4 Coding Exercise
- 4-4:15 Break
- 4:15-5:15 Open "Office Hour" for your DiD questions



# Course logistics

- I strongly encourage you all to participate and ask questions!
  - It's more fun for me and helps you learn better!
- There are several ways that you can ask questions:
  - Raise hand on Zoom
  - Text question on Discord
- I will pause periodically for you to ask live questions and to review messages on Discord

# Introduction

- **Difference-in-differences** (DiD) is one of the most popular strategies for estimating causal effects in non-experimental contexts.
  - Used in over 20% of NBER WPs ([Currie et al., 2020](#))
- The last few years have seen an explosion of econometrics on DiD, making it hard to keep up (sorry!)
- In Roth, Sant'Anna, Bilinski, and Poe (RSBP 2022), we attempted to synthesize the recent literature and provide concrete recommendations for practitioners
- This course is loosely based on the structure in RSBP (2022), focusing on staggered timing (Section 3) and violations of parallel trends (Section 4)

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- Why? Because recent DiD lit can be viewed as relaxing various components of the canonical model while preserving others

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In the canonical DiD model, we have:

- 2 periods: treatment occurs (for some units) in period 2
- Identification of the ATT from parallel trends and no anticipation
- Estimation using sample analogs, equivalent to OLS with TWFE
- A large number of independent observations (or clusters)

# Canonical DiD – with math

- Panel data on  $Y_{it}$  for  $t = 1, 2$  and  $i = 1, \dots, N$
- **Treatment timing:** Some units ( $D_i = 1$ ) are treated in period 2; everyone else is untreated ( $D_i = 0$ )

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- **Treatment timing:** Some units ( $D_i = 1$ ) are treated in period 2; everyone else is untreated ( $D_i = 0$ )
- **Potential outcomes:** Observe  $Y_{it}(1) \equiv Y_{it}(0, 1)$  for treated units; and  $Y_{it}(0) \equiv Y_{it}(0, 0)$  for comparison

# Key identifying assumptions

- **Parallel trends:**

$$\mathbb{E} [Y_{i2}(0) - Y_{i1}(0) \mid D_i = 1] = \mathbb{E} [Y_{i2}(0) - Y_{i1}(0) \mid D_i = 0] . \quad (1)$$

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- **No anticipation:**  $Y_{i1}(1) = Y_{i1}(0)$

- Intuitively, outcome in period 1 isn't affected by treatment status in period 2
- Often left implicit in notation, but important for interpreting DiD estimand as a causal effect in period 2



# Identification

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- Under parallel trends and no anticipation, can show that

$$\tau_{ATT} = \underbrace{(E[Y_{i2} | D_i = 1] - E[Y_{i1} | D_i = 1])}_{\text{Change for treated}} - \underbrace{(E[Y_{i2} | D_i = 0] - E[Y_{i1} | D_i = 0])}_{\text{Change for control}},$$

a “difference-in-differences” of population means

# Proof of Identification Argument

- Start with

$$E[Y_{i2} - Y_{i1} | D_i = 1] - E[Y_{i2} - Y_{i1} | D_i = 0]$$

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- Add and subtract  $E[Y_{i2}(0) | D_i = 1]$  to obtain:

$$E[Y_{i2}(1) - Y_{i2}(0) | D_i = 1] +$$

$$[(E[Y_{i2}(0) | D_i = 1] - E[Y_{i1}(0) | D_i = 1]) - (E[Y_{i2}(0) | D_i = 0] - E[Y_{i1}(0) | D_i = 0])]$$

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- Cancel the **last terms** using PT to get  $E[Y_{i2}(1) - Y_{i2}(0) | D_i = 1] = \tau_{ATT}$

# Estimation and Inference

- The most conceptually simple estimator replaces population means with sample analogs:

$$\hat{\tau}_{DiD} = (\bar{Y}_{12} - \bar{Y}_{11}) - (\bar{Y}_{02} - \bar{Y}_{01})$$

where  $\bar{Y}_{dt}$  is sample mean for group  $d$  in period  $t$



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- Conveniently,  $\hat{\tau}_{DiD}$  is algebraically equal to OLS coefficient  $\hat{\beta}$  from

$$Y_{it} = \alpha_i + \phi_t + D_{it}\beta + \epsilon_{it}, \tag{2}$$

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$$Y_{it} = \alpha_i + \phi_t + D_{it}\beta + \epsilon_{it}, \quad (2)$$

where  $D_{it} = D_i * 1[t = 2]$ .

- **Inference:** And clustered standard errors are valid as number of clusters grows large

# Characterizing the recent literature

We can group the recent innovations in DiD lit by which elements of the canonical model they relax:

- **Multiple periods and staggered treatment timing**
- **Relaxing or allowing PT to be violated**
- **Inference with a small number of clusters**

Will focus today on the first two

# References I

**Currie, Janet, Henrik Kleven, and Esmée Zwiers**, “Technology and Big Data Are Changing Economics: Mining Text to Track Methods,” *AEA Papers and Proceedings*, May 2020, 110, 42–48.