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APPLIED MICROECONOMETRICS

GROUP PROJECT A

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Insert Title

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# 1 Introduction

## 2 Theoretical Background/Literature Review

### 2.1 FDI

### 2.2 PSM

Since (I guess) we will be focussing on ATE rather than ATT, we need to satisfy the following two assumptions:

1. Assumption: **Unconfoundedness (CIA)**

*"[G]iven a set of observable covariates  $X$  which are not affected by treatment, potential outcomes are independent of treatment assignment"* (Caliendo & Kopeinig, 2008: 35).

2. Assumption: **Overlap**

*"persons with the same  $X$  values have a positive probability of being both participants and nonparticipants"* (Caliendo & Kopeinig, 2008: 35).

→ if Assumption 1 holds, all biases due to observable components can be removed by conditioning on the propensity score (Imbens, 2004).

### Binary Treatment

Difference between logit and probit lies in the link function. Logit assumes a log-distribution of residuals, probit assumes a normal distribution. Heteroskedastic probit models can account for non-constant error variances → Check for heteroskedasticity?

### Multiple Treatments

The multinomial probit model is the preferable option compared to logit. Alternatively, just run several binary ones (more complicated but also more robust to errors).

### Variable selection

- outcome variable must be independent of treatment conditional on the pscore (CIA)
- Only variables that influence simultaneously the participation decision and the outcome variable should be included (based on theory and empirical findings)

- variables should either be fixed over time or measured before participation (include only variables unaffected by participation)
- choice of variables should be based on economic theory and previous empirical findings

#### **Tests for variable selection**

Strategies for the selection of variables to be used in estimating the propensity score:

### **3 Data and Descriptive Analysis**

### **4 Empirical Specification**

**Reminder of a thought we had** We could drop all the state-owned enterprises, because wages are likely not to change just because the firm received foreign investment.

### **5 Results**

### **6 Discussion/Conclusion**

## Appendix