University of Nottingham

Applied Microeconometrics

Group Project A

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).

3 Data and Descriptive Analysis

4 Empirical Specification

5 Results

6 Discussion/Conclusion

Appendix