

Topic 5: Two-Way Cluster-Robust (TWCR) Standard Errors

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Key points: The validity of Two-Way Cluster-Robust (TWCR) standard errors

Disclaimer: *This note is compiled by Sai Zhang.*

5.1 One-Way Clustering

First, consider the case of one-way clustering. The linear model with one-way clustering

$$y_{ig} = \mathbf{x}_{ig}\boldsymbol{\beta} + u_{ig}$$

where i denotes the i th of the N individuals in the sample, j denotes the g th of the G clusters, assume