

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

*by Sai Zhang*

**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 that

- $\mathbb{E}[u_{ig} | \mathbf{x}_{ig}] = 0$
- error independence across clusters: for  $i \neq j$

$$\mathbb{E}[u_{ig}u_{jg'} | \mathbf{x}_{ig}, \mathbf{x}_{jg'}] = 0 \quad (5.1)$$

unless  $g = g'$ , that is, errors for individuals within the same cluster may be correlated.

Grouping observations by cluster, get

$$\mathbf{y}_g = \mathbf{X}_g\boldsymbol{\beta} + \mathbf{u}$$

where  $\mathbf{X}_g$  has dimension  $N_g \times K$  and  $\mathbf{y}_g$  has dimension  $N_g \times 1$ , with  $N_g$  observations in cluster  $g$ . Stacking over cluster, get the matrix form of the model

$$\mathbf{y} = \mathbf{X}\boldsymbol{\beta} + \mathbf{u}$$

with  $\mathbf{y}, \mathbf{u}$  being  $N \times 1$  vectors,  $\mathbf{X}$  being an  $N \times K$  matrix. OLS estimator gives

$$\hat{\boldsymbol{\beta}} = (\mathbf{X}'\mathbf{X})^{-1} \mathbf{X}'\mathbf{y} = \left( \sum_{g=1}^G \mathbf{X}_g' \mathbf{X}_g \right)^{-1} \sum_{g=1}^G \mathbf{X}_g' \mathbf{y}_g \quad (5.2)$$

then, by CLT, we have that  $\sqrt{G}(\hat{\boldsymbol{\beta}} - \boldsymbol{\beta}) \xrightarrow{d} \mathcal{N}(0, \boldsymbol{\Sigma})$  where the variance matrix of the limit normal distribution  $\boldsymbol{\Sigma}$  is

$$\left( \lim_{G \rightarrow \infty} \frac{1}{G} \sum_{g=1}^G \mathbb{E}[\mathbf{X}_g' \mathbf{X}_g] \right)^{-1} \left( \lim_{G \rightarrow \infty} \frac{1}{G} \sum_{g=1}^G \mathbb{E}[\mathbf{X}_g' \mathbf{u}_g' \mathbf{u}_g \mathbf{X}_g] \right) \times \left( \lim_{G \rightarrow \infty} \frac{1}{G} \sum_{g=1}^G \mathbb{E}[\mathbf{X}_g' \mathbf{X}_g] \right)^{-1} \quad (5.3)$$

If the primary source of clustering is due to group-level common shocks, a useful approximation is that for the  $j$ th regressor, the default OLS variance estimate based on  $s^2(\mathbf{X}'\mathbf{X})^{-1}$  should be inflated by  $\tau_j \simeq 1 + \rho_{x_j}\rho_u(\bar{N}_g - 1)$ , where

- $s$  is the estimated standard deviation of the error

- $\rho_{x_j}$  is a measure of within-cluster correlation of  $x_j$
- $\rho_u$  is the within-cluster error correlation
- $\bar{N}_g$  is the average cluster size

It's easy to see the  $\tau_j$  can be large even with small  $\rho_u$  (Kloek, 1981; Scott and Holt, 1982; Moulton, 1990). If assume the model for the cluster error variance matrices  $\mathbf{\Omega}_g = \mathbb{V}[\mathbf{u}_g | \mathbf{X}_g] = \mathbb{E}[\mathbf{u}_g \mathbf{u}_g' | \mathbf{X}_g]$ , and there is a consistent estimate  $\hat{\mathbf{\Omega}}_g$  of  $\mathbf{\Omega}_g$ , we can estimate  $\mathbb{E}[\mathbf{X}_g' \mathbf{u}_g \mathbf{u}_g' \mathbf{X}_g] = \mathbb{E}[\mathbf{X}_g' \mathbf{\Omega}_g \mathbf{X}_g]$  via GLS.

**Cluster-robust variance matrix estimate** consider

$$\hat{\mathbb{V}}[\hat{\beta}] = (\mathbf{X}'\mathbf{X})^{-1} \left( \sum_{g=1}^G \mathbf{X}_g' \hat{\mathbf{u}}_g \hat{\mathbf{u}}_g' \mathbf{X}_g \right) (\mathbf{X}'\mathbf{X})^{-1} \quad (5.4)$$

where  $\hat{\mathbf{u}}_g = \mathbf{y}_g - \mathbf{X}_g \hat{\beta}$ . This estimate is consistent if

$$G^{-1} \sum_{g=1}^G \mathbf{X}_g' \hat{\mathbf{u}}_g \hat{\mathbf{u}}_g' \mathbf{X}_g - G^{-1} \sum_{g=1}^G \mathbb{E}[\mathbf{X}_g' \mathbf{u}_g \mathbf{u}_g' \mathbf{X}_g] \xrightarrow{P} \mathbf{0}$$

as  $G \rightarrow \infty$ . An informal presentation of Eq.(5.4) is to rewrite the central matrix as

$$\hat{\mathbf{B}} = \sum_{g=1}^G \mathbf{X}_g' \hat{\mathbf{u}}_g \hat{\mathbf{u}}_g' \mathbf{X}_g = \mathbf{X}' \begin{bmatrix} \hat{\mathbf{u}}_1 \hat{\mathbf{u}}_1' & \mathbf{0} & \cdots & \mathbf{0} \\ \mathbf{0} & \hat{\mathbf{u}}_2 \hat{\mathbf{u}}_2' & & \vdots \\ \vdots & & \ddots & \mathbf{0} \\ \mathbf{0} & \cdots & & \hat{\mathbf{u}}_G \hat{\mathbf{u}}_G' \end{bmatrix} \mathbf{X} = \mathbf{X}' (\hat{\mathbf{u}} \hat{\mathbf{u}}' \otimes \mathbf{S}^G) \mathbf{X} \quad (5.5)$$

where  $\otimes$  denotes element-wise multiplication. The  $(p, q)$ th element of this matrix is

$$\sum_{i=1}^N \sum_{j=1}^N x_{ia} x_{jb} \hat{u}_i \hat{u}_j \cdot \mathbf{1}(i, j \text{ in the same cluster})$$

with  $\hat{u}_i = y_i - \mathbf{x}_i' \hat{\beta}$ .

$\mathbf{S}^G$  is an  $N \times N$  indicator matrix with  $\mathbf{S}_{ij}^G = 1$  only if the  $i$ th and  $j$ th observation belong to the same cluster: it zeros out a large amount of  $\hat{\mathbf{u}} \hat{\mathbf{u}}'$  (asymptotically equivalently,  $\mathbf{u} \mathbf{u}'$ ), specifically, only  $\sum_{g=1}^G N_g^2$  out of  $N^2 = \left( \sum_{g=1}^G N_g \right)^2$  terms are not zero (sub-matrices on the diagonal). Asymptotically

- for fixed  $N_g$ ,  $\frac{1}{N^2} \sum_{g=1}^G N_g^2 \xrightarrow{G \rightarrow \infty} 0$
- for balanced clusters  $N_g = N/G$ ,  $\frac{1}{N^2} \sum_{g=1}^G N_g^2 = \frac{1}{G} \xrightarrow{G \rightarrow \infty} 0$

A strand of literature popularizes this method:

- Liang and Zeger (1986): in a generalized estimatin equations setting
- Arellano (1987): fixed effects estimator in linear panel models
- Hansen (2007): asymptotic theory for panel data where  $T \rightarrow \infty$  in addition to  $N \rightarrow \infty$  (or  $N_g \rightarrow \infty$  in addition to  $G \rightarrow \infty$  in the notation above).

## 5.2 Two-Way Clustering

Now, consider the case of two-way clustering,

$$y_{i,gh} = \mathbf{x}'_{i,gh} \boldsymbol{\beta} + u$$

where each observation may belong to **two** dimension of groups: group  $g \in \{1, \dots, G\}$  and  $h \in \{1, \dots, H\}$ , and for  $i \neq j$

$$\mathbb{E} [u_{i,gh} u_{j,g'h'} | \mathbf{x}_{i,gh}, \mathbf{j}, \mathbf{g}'\mathbf{h}'] = 0 \quad (5.6)$$

unless  $g = g'$  or  $h = h'$ , that is, errors for individuals within the same group (along either  $g$  or  $h$ ) may be correlated.

**Cluster-robust variance matrix estimate** extending the one-way clustering case, keep elements of  $\hat{\mathbf{u}}\hat{\mathbf{u}}'$  where the  $i$ th and  $j$ th observations share a cluster in **any** dimension, then similar to Eq.(5.5)

$$\hat{\mathbf{B}} = \mathbf{X}' \left( \hat{\mathbf{u}}\hat{\mathbf{u}}' \otimes \mathbf{S}^{GH} \right) \mathbf{X} \quad (5.7)$$

here  $\mathbf{S}^{GH}$  is an  $N \times N$  indicator matrix with  $S_{ij}^{GH} = 1$  only if the  $i$ th and  $j$ th observation share any cluster, the  $(p, q)$ th element of this matrix is

$$\sum_{i=1}^N \sum_{j=1}^N x_{ia} x_{jb} \hat{u}_i \hat{u}_j \cdot \mathbf{1}(i, j \text{ share any cluster})$$

$\hat{\mathbf{B}}$  can also be presented in one-way cluster-robust fashion:

$$\hat{\mathbf{B}} = \mathbf{X}' \left( \hat{\mathbf{u}}\hat{\mathbf{u}}' \otimes \mathbf{S}^{GH} \right) \mathbf{X} = \mathbf{X}' \left( \hat{\mathbf{u}}\hat{\mathbf{u}}' \otimes \mathbf{S}^G \right) \mathbf{X} + \mathbf{X}' \left( \hat{\mathbf{u}}\hat{\mathbf{u}}' \otimes \mathbf{S}^H \right) \mathbf{X} - \mathbf{X}' \left( \hat{\mathbf{u}}\hat{\mathbf{u}}' \otimes \mathbf{S}^{G \cap H} \right) \mathbf{X} \quad (5.8)$$

where  $\mathbf{G}^{GH} = \mathbf{G}^G + \mathbf{G}^H - \mathbf{G}^{G \cap H}$ , with

- $\mathbf{G}^G$ :  $G_{ij}^G = 1$  only if the  $i$ th and  $j$ th observation belong to the same cluster  $g \in \{1, 2, \dots, G\}$
- $\mathbf{G}^H$ :  $G_{ij}^H = 1$  only if the  $i$ th and  $j$ th observation belong to the same cluster  $h \in \{1, 2, \dots, H\}$
- $\mathbf{G}^{G \cap H}$ :  $G_{ij}^{G \cap H} = 1$  only if the  $i$ th and  $j$ th observation belong to **both** the same cluster  $g \in \{1, 2, \dots, G\}$  and the same cluster  $h \in \{1, 2, \dots, H\}$

then, similar to one-way clustering case,

$$\begin{aligned} \hat{\mathbf{V}}[\hat{\boldsymbol{\beta}}] &= (\mathbf{X}'\mathbf{X})^{-1} \mathbf{X}' \left( \hat{\mathbf{u}}\hat{\mathbf{u}}' \otimes \mathbf{S}^G \right) \mathbf{X} (\mathbf{X}'\mathbf{X})^{-1} \\ &\quad + (\mathbf{X}'\mathbf{X})^{-1} \mathbf{X}' \left( \hat{\mathbf{u}}\hat{\mathbf{u}}' \otimes \mathbf{S}^H \right) \mathbf{X} (\mathbf{X}'\mathbf{X})^{-1} \\ &\quad - (\mathbf{X}'\mathbf{X})^{-1} \mathbf{X}' \left( \hat{\mathbf{u}}\hat{\mathbf{u}}' \otimes \mathbf{S}^{G \cap H} \right) \mathbf{X} (\mathbf{X}'\mathbf{X})^{-1} \end{aligned} \quad (5.9)$$

that is,

$$\hat{\mathbf{V}}[\hat{\boldsymbol{\beta}}] = \hat{\mathbf{V}}^G[\hat{\boldsymbol{\beta}}] + \hat{\mathbf{V}}^H[\hat{\boldsymbol{\beta}}] - \hat{\mathbf{V}}^{G \cap H}[\hat{\boldsymbol{\beta}}] \quad (5.10)$$

each of Eq.(5.10) can be separately computed by OLS of  $\mathbf{y}$  on  $\mathbf{X}$ , with variance matrix estimates  $\hat{\mathbf{V}}$  based on

- clustering on  $g \in \{1, 2, \dots, G\}$
- clustering on  $h \in \{1, 2, \dots, H\}$
- clustering on  $(g, h) \in \{(1, 1), \dots, (G, H)\}$

**Practical considerations** It is required to know what *ways* will be potentially important for clustering, which can be tested via checking the dimension of correlations in the errors. There are several ways to test

- estimate sample covariances of  $\mathbf{X}'\hat{\mathbf{u}}$  within dimensions, test the null that the **average** of such covariances is 0: rejecting this null is sufficient (not necessary) to reject the null of no clustering (White, 1980)
- for **small samples**, Eq. (5.4) is biased downwards. This is corrected (in Stata) by replacing  $\hat{\mathbf{u}}_g$  with  $\sqrt{c}\hat{\mathbf{u}}_g$ , where  $c = \frac{G}{G-1} \frac{N-1}{N-K} \simeq \frac{G}{G-1}$ . For two-way clustering (Eq. 5.8), there are 2 ways of correction:
  - choose correction terms for each of the 3 components:

$$c_1 = \frac{G}{G-1} \frac{N-1}{N-K}, c_2 = \frac{H}{H-1} \frac{N-1}{N-K}, c_3 = \frac{I}{I-1} \frac{N-1}{N-K}$$

with  $I$  being the number of unique clusters determined by  $G \cap H$

- choose a constant terms for all components:

$$c = \frac{J}{J-1} \frac{N-1}{N-K}$$

with  $J = \min(G, H)$

- **Var-cov matrix not positive-semidefinite**:  $\hat{\mathbf{V}}[\hat{\boldsymbol{\beta}}]$  might have negative elements on the diagonal (Eq. 5.10), informly, this is more likely to arise when clustering is done over the same groups as the fixed effects. One way to address this issue is using *eigendecomposition* technique:

$$\hat{\mathbf{V}}[\hat{\boldsymbol{\beta}}] = \mathbf{U}\mathbf{\Lambda}\mathbf{U}'$$

where

- $\mathbf{U}$  containing the eigenvectors of  $\hat{\mathbf{V}}$
- $\mathbf{\Lambda} = \text{diag}[\lambda_1, \dots, \lambda_d]$  contains the eigenvalues of  $\hat{\mathbf{V}}$

then create  $\mathbf{\Lambda}^+ = \text{diag}[\lambda_1^+, \dots, \lambda_d^+]$  with  $\lambda_j^+ = \max(0, \lambda_j)$  and use  $\hat{\mathbf{V}}^+[\hat{\boldsymbol{\beta}}] = \mathbf{U}\mathbf{\Lambda}^+\mathbf{U}'$  as the estimate

### 5.3 Multiway Clustering

Cameron et al. (2011) extended the framework to allow clustering in  $D$  dimensions, then we can do the following reframing

- $G_d$ : the number of clusters in dimension  $d \in \{1, 2, \dots, D\}$
- $D$ -vector  $\boldsymbol{\delta}_i = \boldsymbol{\delta}(i)$ , with function  $\boldsymbol{\delta} : \{1, 2, \dots, N\} \rightarrow \times_{d=1}^D \{1, 2, \dots, G_d\}$  lists the cluster membership in each dimension of each observation

then we have

$$\mathbf{1}[i, j \text{ shares a cluster}] = 1 \Leftrightarrow \delta_{id} = \delta_{jd}$$

for some  $d \in \{1, 2, \dots, D\}$ , where  $\delta_{id}$  denotes the  $d$ th element of  $\boldsymbol{\delta}_i$ . Also

- $D$ -vector  $\mathbf{r}$ : define the set

$$R \equiv \{\mathbf{r} : r_d \in \{0, 1\}, d = 1, 2, \dots, D, \mathbf{r} \neq \mathbf{0}\}$$

elements of the set  $R$  can be used to index all cases where 2 observations share a cluster in at least one dimension. Define the function

$$\mathbf{I}_{\mathbf{r}}(i, j) \equiv \mathbf{1}[r_d \delta_{id} = r_d \delta_{jd}, \forall d]$$

which indicates whether observations  $i$  and  $j$  have identical cluster membership for **all** dimensions  $d$  s.t.  $r_d = 1$ . Then we have a *aggregate* identifier

$$\mathbf{I}(i, j) = 1 \Leftrightarrow \mathbf{I}_r(i, j) = 1 \text{ for some } \mathbf{r} \in R$$

i.e., 2 observations share **at least** one dimension.

The define the  $2^D - 1$  matrices

$$\tilde{\mathbf{B}}_r \equiv \sum_{i=1}^N \sum_{j=1}^N \mathbf{x}_i \mathbf{x}_j' \hat{u}_i \hat{u}_j \mathbf{I}_r(i, j) \quad (5.11)$$

with  $\mathbf{r} \in R$ .

**Var-cov matrix estimator** consider, similarly, an estimator

$$\hat{\mathbb{V}}[\hat{\beta}] = (\mathbf{X}'\mathbf{X})^{-1} \tilde{\mathbf{B}} (\mathbf{X}'\mathbf{X})^{-1} \equiv (\mathbf{X}'\mathbf{X})^{-1} \left( \sum_{\|\mathbf{r}\|=k, \mathbf{r} \in R} (-1)^{k+1} \tilde{\mathbf{B}}_r \right) (\mathbf{X}'\mathbf{X})^{-1} \quad (5.12)$$

where cases of clustering on an odd number of dimensions are added, those of clustering on an even number of dimensions are subtracted. Consider the case of  $D = 3$ ,

$$(\tilde{\mathbf{B}}_{(1,0,0)} + \tilde{\mathbf{B}}_{(0,1,0)} + \tilde{\mathbf{B}}_{(0,0,1)}) - (\tilde{\mathbf{B}}_{(1,1,0)} + \tilde{\mathbf{B}}_{(1,0,1)} + \tilde{\mathbf{B}}_{(0,1,1)}) + \tilde{\mathbf{B}}_{(1,1,1)}$$

$\tilde{\mathbf{B}}$  is identical to  $\hat{\mathbf{B}}$  defined analogically as in Eq.(5.8), since

- no observation pair with  $\mathbf{I}(i, j) = 0$ : this is immediate, since  $\mathbf{I}(i, j) = 0 \Leftrightarrow \mathbf{I}_r(i, j) = 0, \forall \mathbf{r}$
- the covariance term corresponding to each observation pair with  $\mathbf{I}(i, j) = 1$  is included **exactly once** in  $\tilde{\mathbf{B}}$ : by inclusion-exclusion principle for set cardinality

$$\mathbf{I}(i, j) \Rightarrow \sum_{\|\mathbf{r}\|=k, \mathbf{r} \in R} (-1)^{k+1} \mathbf{I}_r(i, j) = 1$$

**Curse of dimensionality** this could arise in a setting with **many dimensions** of clustering, and in which one or more dimensions have **few** clusters<sup>1</sup>. **Cameron et al. (2011)** suggested an ad-hoc rule of thumb for approximating sufficient numbers of clusters.

### 5.3.1 Non-linear Estimators

**m-Estimators** Consider an  $m$ -estimator that solves

$$\sum_{i=1}^N \mathbf{h}_i(\hat{\theta}) = \mathbf{0}$$

under standard assumptions,  $\hat{\theta}$  is asymptotically normal with estimated variance matrix

$$\hat{\mathbb{V}}[\hat{\theta}] = \hat{\mathbf{A}}^{-1} \hat{\mathbf{B}} \hat{\mathbf{A}}'^{-1} \quad (5.13)$$

where  $\hat{\mathbf{A}} = \sum_i \frac{\partial \mathbf{h}_i}{\partial \theta'} \Big|_{\hat{\theta}}$  and  $\hat{\mathbf{B}}$  is an estimate of  $\mathbb{V}[\sum_i \mathbf{h}_i]$ .

<sup>1</sup>The square design (each dimension has the same number of clusters) with orthogonal dimensions has the **least** independence of observations.

- **one-way clustering**  $\hat{\mathbf{B}} = \sum_{g=1}^G \hat{\mathbf{h}}_g \hat{\mathbf{h}}_g'$  where  $\hat{\mathbf{h}}_g = \sum_{i=1}^{N_g} \hat{\mathbf{h}}_{ig}$ , clustering may not lead to parameter inconsistency, depending on whether  $\mathbb{E}[\mathbf{h}_i(\boldsymbol{\theta})] = \mathbf{0}$  with clustering
  - **population-averaged approach**: assume  $\mathbb{E}[y_{ig} | \mathbf{x}_{ig}] = \Phi(\mathbf{x}_{ig}'\boldsymbol{\beta})$
  - **random effects approach**: let  $y_{ig} = 1$  if  $y_{ig}^* > 0$  where  $y_{ig}^* = \mathbf{x}_{ig}'\boldsymbol{\beta} + \epsilon_g + \epsilon_{ig}$ , where
    - \* idiosyncratic error  $\epsilon_{ig} \sim \mathcal{N}(0, 1)$
    - \* cluster-specific error  $\epsilon_g \sim \mathcal{N}(0, \sigma_g^2)$
 then we have the alternative moment condition

$$\mathbb{E}[y_{ig} | \mathbf{x}_{ig}] = \Phi\left(\frac{\mathbf{x}_{ig}'\boldsymbol{\beta}}{\sqrt{1 + \sigma_g^2}}\right)$$

- **multiway clustering** replacing  $\hat{u}_i \mathbf{x}_i$  in Eq.(5.11) with  $\hat{\mathbf{h}}_i$ , then we have

$$\hat{\mathbb{V}}[\hat{\boldsymbol{\theta}}] = \hat{\mathbf{A}}^{-1} \tilde{\mathbf{B}} \hat{\mathbf{A}}'^{-1}$$

where

$$\hat{\mathbf{A}} = \sum_i \frac{\partial \mathbf{h}_i}{\partial \boldsymbol{\theta}'} \bigg|_{\hat{\boldsymbol{\theta}}} \quad \tilde{\mathbf{B}} = \sum_{\|\mathbf{r}\|=k, \mathbf{r} \in R} (-1)^{k+1} \tilde{\mathbf{B}}_{\mathbf{r}} \quad \tilde{\mathbf{B}}_{\mathbf{r}} \equiv \sum_{i=1}^N \sum_{j=1}^N \hat{\mathbf{h}}_i \hat{\mathbf{h}}_j' \mathbb{I}_{\mathbf{r}}(i, j)$$

with  $\mathbf{r} \in R^2$ .

**GMM estimation** Consider an example of over-identified models: linear two stage least squares with more instruments than endogenous regressors, we have

$$\hat{\boldsymbol{\theta}} = \arg \min_{\boldsymbol{\theta}} Q(\boldsymbol{\theta}) = \arg \min_{\boldsymbol{\theta}} \left( \sum_{i=1}^N \mathbf{h}_i(\boldsymbol{\theta}) \right)' \mathbf{W} \left( \sum_{i=1}^N \mathbf{h}_i(\boldsymbol{\theta}) \right)$$

where  $\mathbf{W}$  is a symmetric positive definite weighting matrix. Under standard regularity conditions,  $\hat{\boldsymbol{\theta}}$  is asymptotically normal, with estimated variance matrix

$$\hat{\mathbb{V}}[\hat{\boldsymbol{\theta}}] = (\hat{\mathbf{A}}' \mathbf{W} \hat{\mathbf{A}})^{-1} \hat{\mathbf{A}}' \mathbf{W} \tilde{\mathbf{B}} \mathbf{W} \hat{\mathbf{A}} (\hat{\mathbf{A}}' \mathbf{W} \hat{\mathbf{A}})^{-1}$$

again,  $\hat{\mathbf{A}} = \sum_i \frac{\partial \mathbf{h}_i}{\partial \boldsymbol{\theta}'} \bigg|_{\hat{\boldsymbol{\theta}}}$ , and  $\tilde{\mathbf{B}}$  is an estimate of  $\mathbb{V}[\sum_i \mathbf{h}_i]$ .

---

<sup>2</sup>This multiway clustering can be implemented using several one-way clustered bootstraps. Each of the one-way cluster robust matrices is estimated by a pairs cluster bootstrap that resamples with replacement from the appropriate cluster dimension. They are then combined as if they had been estimated analytically (Cameron et al., 2011).

## References

- Manuel Arellano. Computing robust standard errors for within-groups estimators. *Oxford bulletin of Economics and Statistics*, 49(4):431–434, 1987.
- A Colin Cameron, Jonah B Gelbach, and Douglas L Miller. Robust inference with multiway clustering. *Journal of Business & Economic Statistics*, 29(2):238–249, 2011.
- Christian B Hansen. Asymptotic properties of a robust variance matrix estimator for panel data when  $t$  is large. *Journal of Econometrics*, 141(2):597–620, 2007.
- Teunis Kloek. Ols estimation in a model where a microvariable is explained by aggregates and contemporaneous disturbances are equicorrelated. *Econometrica: Journal of the Econometric Society*, pages 205–207, 1981.
- Kung-Yee Liang and Scott L Zeger. Longitudinal data analysis using generalized linear models. *Biometrika*, 73(1):13–22, 1986.
- Brent R Moulton. An illustration of a pitfall in estimating the effects of aggregate variables on micro units. *The review of Economics and Statistics*, pages 334–338, 1990.
- Andrew J Scott and D Holt. The effect of two-stage sampling on ordinary least squares methods. *Journal of the American statistical Association*, 77(380):848–854, 1982.
- Samuel B Thompson. Simple formulas for standard errors that cluster by both firm and time. *Journal of financial Economics*, 99(1):1–10, 2011.
- Halbert White. A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity. *Econometrica: journal of the Econometric Society*, pages 817–838, 1980.