

Policy experiments are where our model meets the real world

These experiments are the whole point of estimating the structural model

- Structural estimation  $\implies$  recovering the DGP of the model
- Once we know the DGP, we can simulate data from it and do policy experiments
- We can predict the effects of proposed or hypothetical policies
- Quantify the exact mechanisms through which policies affect outcomes of interest

Why we should do structural estimation, according to Michael Keane:

- Examine effects of policies not yet implemented
- Learn more about economics by looking through the lens of a model
- Assess performance of theoretical models in explaining real-world data
- Gradually build up long-run “canonical” models of behavior in many areas
- Enjoy the rigor of more complicated econometrics
- Observational data is much cheaper to collect than experimental data

Why *not* do structural estimation, according to me:

- Difficult to develop and estimate a tractable yet realistic model
- Understanding identification takes more effort
- The complicated econometrics can be so challenging as to not be any fun at all
- Much longer time to program and obtain estimates
- Things are already pretty complicated even in this overly stylized model of schooling choice