In-Class Lab 16

ECON 4223 (Prof. Tyler Ransom, U of Oklahoma)

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The purpose of this in-class lab is to use R to practice with panel data estimation methods. The lab should be completed in your group. To get credit, upload your .R script to the appropriate place on Canvas.

For starters

Open up a new R script (named `ICL16_XYZ.R`, where `XYZ` are your initials) and add the usual "preamble" to the top:

```r
# Add names of group members HERE
library(tidyverse)
library(wooldridge)
library(broom)
library(magrittr)
library(stargazer)
library(clubSandwich)
library(plm)    # You may need to install this package
```

Load the data

Our data set will be a panel of wages for 545 men. Load the data from the `wooldridge` package, format `year` to be a factor, and rename the variable `nr` to something more descriptive (`id`):

```r
df <- as_tibble(wagepan)
df %<>% mutate(year=as.factor(year))
df %<>% rename(id = nr)
```

Summary statistics for panel data

It is important to know what your panel looks like. How many units? How many time periods? The easiest way to do this is the `pdim()` function in the `plm` package.

```r
pdim(df)
```

It is also helpful to "convert" the data to a cross-section of within-unit averages. Let's do this for some of the key variables of our analysis.

```r
df.within <- df %>% select(id,year,educ,married,union,rur) %>%
            group_by(id) %>%
            summarize(
                mean.edu = mean(educ),
                 var.edu  = var(educ),
               mean.marr = mean(married),
                var.marr = var(married),
              mean.union = mean(union),
               var.union = var(union),
              mean.rural = mean(rur),
```

```
                 var.rural = var(rur)
            )
df.within %>% as.data.frame %>% stargazer(type="text")
```

1. Is there any within-person variance in the `educ` variable? What about `married`, `union`, and `rural`?

2. What does it mean for the married, union, or rural variables to have a positive within-person variance?

3. Why is it important to know if a variable has positive within-person variance?

Pooled OLS, Random Effects, and Fixed Effects Models

Now estimate the following model using various options of the `plm()` function:

$$\log(wage_{it}) = \beta_0 + \beta_1 educ_i + \beta_2 black_i + \beta_3 hisp_i + \beta_4 exper_{it} + \beta_5 exper_{it}^2 + \beta_6 married_{it} +$$
$$\beta_7 union_{it} + \beta_8 rur_{it} + \sum_t \beta_{9,t} year_{it} + a_i + u_{it}$$

Pooled OLS

The pooled OLS model can be run from the `plm()` function as follows.

```
est.pols <- plm(lwage ~ educ + black + hisp + exper + I(exper^2) + married + union + rur + year,
                data = df, index = c("id","year"), model = "pooling")
```

4. Interpret the coefficient on β_7 in the pooled OLS model

Random effects

```
est.re <- plm(lwage ~ educ + black + hisp + exper + I(exper^2) + married + union + rur + year,
              data = df, index = c("id","year"), model = "random")
```

5. Explain why the standard errors in the random effects model are larger (or equal to) those of the pooled OLS model.

6. What is the estimate of θ in the RE model? (Hint: check `est.re$ercomp$theta`) What does this tell you about what you expect the random effects estimates to be relative to the fixed effects estimates?

Fixed effects

```
est.fe <- plm(lwage ~ I(exper^2) + married + union + rur + year,
              data = df, index = c("id","year"), model = "within")
```

7. Explain why we cannot estimate coefficients on `educ`, `black`, `hisp`, or `exper` in the fixed effects model. (Note: the reason for not being able to estimate `exper` is more nuanced)

Clustered standard errors

As discussed in class, the most appropriate standard errors are not those reported by `plm()`. Let's compute standard errors that account for within-person serial correlation, and that are robust to heteroskedasticity:

```
clust.po <- coef_test(est.pols, vcov = "CR1", cluster = "individual")
clust.re <- coef_test(est.re,   vcov = "CR1", cluster = "individual")
clust.fe <- coef_test(est.fe,   vcov = "CR1", cluster = "individual")
```

We can put these all in one `stargazer` table:

```
stargazer(est.pols,est.re,est.fe,se=list(clust.po$SE,clust.re$SE,clust.fe$SE),type="text")
```

8. Interpret the coefficient on `union` across the three models.

9. Comment on the comparability of the pooled OLS and RE estimators now that within-person serial correlation has been addressed.