

Structural models for policy-making*

Coping with parametric uncertainty

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The ex-ante evaluation of policies using structural econometric models is based on estimated parameters as a stand-in for the truth. This practice ignores uncertainty in the counterfactual policy predictions of the model. We develop a generic approach that deals with parametric uncertainty using uncertainty sets and frames model-informed policy-making as a decision problem under uncertainty. The seminal human capital investment model by [Keane and Wolpin \(1997\)](#) provides us with a well-known, influential, and empirically-grounded test case. We document considerable uncertainty in their policy predictions and highlight the resulting policy recommendations from using different formal rules on decision-making under uncertainty.

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