

Problem Set #9: SMM

This problem set requires estimating models of firm dynamics using the Simulated Method of Moments (SMM) estimator to generate the tables 2 and 3 from Cooper and Ejarque (2003). The results obtained after running the final ProblemSet9_Bilen.py script

Table 1: SMM results

	α	γ	ρ	σ	ψ
Table 2	0.759 (0.015)	0.163 (0.017)	0.110 (0.001)	0.812 (0.016)	
Table 3	0.699 (0.012)	0.164 (0.020)	0.111 (0.018)	0.857 (0.009)	0.000 (0.04)

The results are very close to the estimates from Cooper and Ejarque (2003). Hence, as in Cooper and Ejarque (2003), we can conclude that adding financial frictions to the model does not give too different results thus it does not necessarily provide a better fit. Structural parameter estimates from table 2 already perform well matching the moments. Lastly, as in Cooper and Ejarque (2003), we can conclude that results obtained from Q-theory regressions, in general, do not necessarily provide evidence of financial frictions.