Methodology

Since we have panel data there are several estimation techniques that we could employ. For this paper we consider two estimation techniques, pooled regression and fixed effects method. We will begin by examining our data to gain an inclination of which estimation technique would be best. Next, we will propose a hypothesized population model that we believe is the correct representation of the data generating system. Finally, we will fit a model based on our hypothesized model as well as one other estimation technique. We will compare the hypothesized model to the alternative model to test if our hypothesized model is the correct estimation technique.

We will consider two estimation techniques, pooled regression and fixed effects model. Pooled regression involves using OLS estimations on panel data without controlling for group or time variables. In effect we are pooling all observations into a single group. In contrast with this is fixed effect technique, which includes dummy variables to control for the group and year variables.

Results