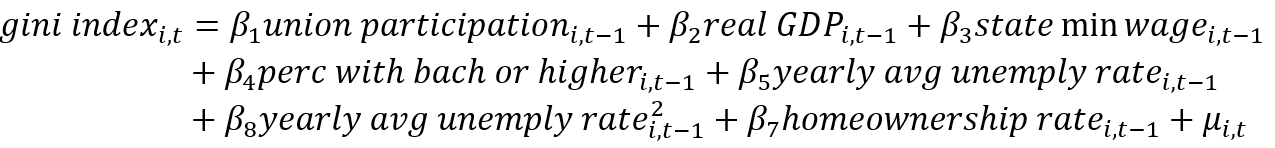
Methodology

We considered two models for our project. Pooled OLS and a two-way fixed effects model. Since we have panel data, there is a good chance that we have heterogeneity bias between our state and years. If so, pooled OLS would not be a good estimation technique because the covariance between our independent variables and the unobserved heterogeneity will not be zero. That will make POLS estimates biased and inconsistent.

The model we propose is below. We regress the gini index for state I at time t on the previous years union participation rate. We control for one year lagged real GDP, state minimum wage, percent of population with a bachelor’s degree or higher, average unemployment rate, average unemployment rate squared, and homeownership rate of the current year. The fixed effect model is the same except that all of our variables are demeans with respect to year and state.



Results