
PROBLEM SET 8

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UNIVERSITY OF BRITISH COLUMBIA

ECONOMICS 326

This problem set is optional. If you hand it in, then your lowest problem set score will be replaced with your score on this assignment.

Read the paper “Stimulating Local Public Employment: Do General Grants Work?” by Lundqvist, Dahlberg, and Mrk (2014).

- (i) What is the main question that this paper answers?
- (ii) What would be the ideal experiment to answer the authors’ question?
- (iii) What is the structural equation the authors want to estimate? Why can’t they use OLS to estimate the structural equation?
- (iv) What do the authors use as an instrument? What two conditions must this variable satisfy for it to be a valid instrument?
- (v) What do we call the regression results in Table 2? Why do we care about the estimate of α_1 ? How does α_1 relate to Figure 4?
- (vi) Table 3 contains the main results of the paper. How can we interpret these coefficient estimates? Do the IV estimates have the expected sign?

REFERENCES

Lundqvist, Helne, Matz Dahlberg, and Eva Mrk. 2014. “Stimulating Local Public Employment: Do General Grants Work?” *American Economic Journal: Economic Policy* 6 (1):167–92. URL <http://www.aeaweb.org/articles.php?doi=10.1257/pol.6.1.167>.