Discussion of “Domestic Investment and Aid: The Role of Political Instability”

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Nice paper

- Important policy implications are clear.
- Well motivated. Introduction clearly defined its place in the literature.
- Methodology was simple, provided clear answers to the question.

Revision suggestions

- Address endogeneity in the narrative, even if you do not in the method.
- Dummy-up the four categories in `Type of Regime` (`Polit02`).
- This would be cool: Huge table of marginal effects for each country (Appendix 1)

Related Questions

How does aid, political instability, and the interaction affect...

Financial capital inflows?

- Aid + political stability → increases the productivity of transforming financial capital to physical capital.
- Higher return on this productivity may increase the supply of capital inflows.
- Reinforcing mechanism.

Marginal product of capital?

- Specifically, capital that is produced with foreign aid:

$$\hat{I}_{i,t}^{Aid} = \hat{\alpha}_3 \text{Aid}_{i,t} + \hat{\alpha}_4 \text{Aid}_{i,t}^2 + \hat{\alpha}_5 Aid_{i,t} PI_{i,t}$$

- Growth regression:

$$g_t = \beta_0 + \beta_1(L) I_{i,t} + \beta_2(L) \hat{I}_{i,t}^{Aid} + \beta_3(L) \hat{I}_{i,t}^{Aid} PI_{i,t} + \beta_4' X_{i,t} + \beta_5 S_i + \beta_6 W_t + u_{i,t}$$