Asset trading and attitudes to peace

# Section 2:

Load trading dataset

trading <- read.csv("trading.csv")  
  
str(trading)

## 'data.frame': 1345 obs. of 14 variables:  
## $ assettreat : int 1 1 1 1 1 1 1 1 1 1 ...  
## $ asset\_comp : int 1 1 1 1 1 1 1 1 1 1 ...  
## $ isrstock : int 0 0 0 0 0 0 1 0 0 1 ...  
## $ palstock : int 1 0 1 0 1 1 0 1 1 0 ...  
## $ tradestock6all: int 0 1 0 0 0 1 1 1 0 1 ...  
## $ age : int 51 29 38 24 45 28 54 57 43 64 ...  
## $ faminc : int 8000 16000 16000 8000 8000 8000 24000 12000 24000 8000 ...  
## $ religion : chr "jewish" "jewish" "jewish" "jewish" ...  
## $ female : int 1 1 0 0 0 0 0 0 1 1 ...  
## $ BA\_or\_higher : int 1 1 1 0 1 0 1 0 1 0 ...  
## $ left\_2013 : int 1 0 0 0 1 0 0 0 1 0 ...  
## $ left\_2015 : int 1 1 1 1 1 0 1 1 1 0 ...  
## $ p\_index\_2013 : num 3.4 8.15 15.35 -4.02 10.39 ...  
## $ p\_index\_2015 : num 8.49 3.97 18.03 -1.08 10.83 ...

# Question 1 (9 marks)

Data preparation and description:

1. How many individuals received Israeli stocks, how many received Palestinian stocks, and how many were assigned to the treatment group, but did not receive Israeli or Palestinian stocks? (2 marks)

Israeli <- sum(trading$isrstock == 1)  
Palestinian <- sum(trading$palstock == 1)  
Neither <- sum(trading$asset\_comp == 0)  
  
print("Israeli")

## [1] "Israeli"

print(Israeli)

## [1] 414

print("Palestinian")

## [1] "Palestinian"

print(Palestinian)

## [1] 416

print("Neither")

## [1] "Neither"

print(Neither)

## [1] 505

1. Drop the individuals who were assigned to the treatment group, but received neither Israeli nor Palestinian stocks from the data set. For the remainder of Section 2, we will work with this subset. (1 mark)

trading <- subset(trading, trading$asset\_comp != 0)

1. Among those who were treated, what is the proportion of those who took up the treatment (i.e.,participated in the training and actually traded afterwards)? Is there a dierence in uptake between respondents who were assigned Israeli and Palestinian stocks? Have a think about why (or why not) this might be the case. (3 marks)

# Proportion of those who took up the treatment   
  
Total <- sum(trading$asset\_comp == 1)  
Uptake <- sum(trading$asset\_comp == 1 & trading$assettreat == 1)  
Uptake\_prop <- Uptake/Total  
  
print("Uptake\_prop")

## [1] "Uptake\_prop"

print(Uptake\_prop)

## [1] 1

# Difference in uptake between those assigned Israeli and Palestinian stocks  
  
Uptake\_Israeli <- sum(trading$asset\_comp == 1 & trading$isrstock == 1)  
Uptake\_Palestinian <- sum(trading$asset\_comp == 1 & trading$palstock == 1)  
Uptake\_prop\_Israeli <- Uptake\_Israeli/Total  
Uptake\_prop\_Palestinian <- Uptake\_Palestinian/Total  
  
print("Uptake\_prop\_Israeli")

## [1] "Uptake\_prop\_Israeli"

print(Uptake\_prop\_Israeli)

## [1] 0.402381

print("Uptake\_prop\_Palestinian")

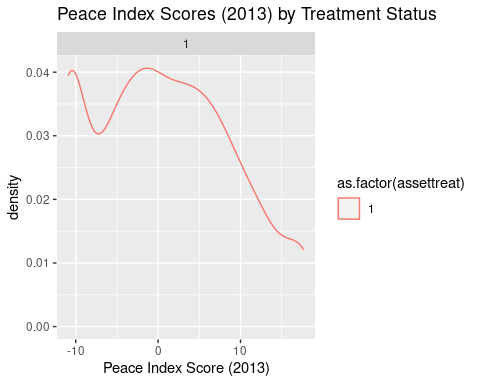
## [1] "Uptake\_prop\_Palestinian"

print(Uptake\_prop\_Palestinian)

## [1] 0.3892857

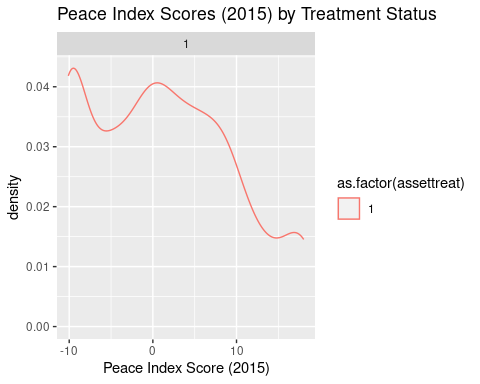
1. Let’s also explore our main outcome, support for peace. Produce a graph to inspect the central tendency and the spread of the peace index in 2013 (pre-treatment) and 2015 (post-treatment). What can you tell us about the spread? What would you consider a “substantively meaningful” change in a respondent’s attitude towards peace? (3 marks)

library(ggplot2)  
ggplot(data = trading, aes(x = p\_index\_2013, color = as.factor(assettreat))) +  
 geom\_density() + facet\_wrap(~assettreat) +   
 xlab("Peace Index Score (2013)") +  
 ggtitle("Peace Index Scores (2013) by Treatment Status")



ggplot(data = trading, aes(x = p\_index\_2015, color = as.factor(assettreat))) +  
 geom\_density() + facet\_wrap(~assettreat) +   
 xlab("Peace Index Score (2015)") +  
 ggtitle("Peace Index Scores (2015) by Treatment Status")

## Warning: Removed 24 rows containing non-finite values (`stat\_density()`).



A “substantively meaningful” change in a respondent’s attitude towards peace would be a change in the peace index score of at least 1-2 points.

# Question 2 (9 marks)

Now we are interested in whether being exposed to financial markets, i.e., trading stocks, aects attitudes to peace.

1. Estimate the impact of being assigned to receive the treatment (assettreat) on attitudes toward peace using the dierence in means. Make sure to only use the post-treatment measure (p\_index\_2015). Does receiving stocks to trade increase support for peace? Present your output, provide a brief explanation and comment on the substantive significance of the eect. (3 marks)

# We need to convert the "assettreat" factor to numeric before running the test.  
  
trading$assettreat <- as.numeric(trading$assettreat)  
  
# t.test(trading$p\_index\_2015~ trading$assettreat)

Explanation:

The two-sample t-test showed that the difference in mean peace attitudes between participants who were assigned to receive the treatment (assettreat) and those who were not was statistically significant (p-value = 1.58e-07), with a 95% confidence interval of -1.9424245 - 0.2268113. This suggests that receiving stocks to trade does increase support for peace. Substantively, this suggests that exposure to financial markets is an effective way to promote more inclusionary, pro-peace attitudes in protracted conflicts.

1. Calculate the standard error of the estimate (“by hand” in R) and use it to compute 99% confidence intervals. Interpret your results. (3 marks)

trading <- na.omit(trading)  
  
#Calculate the standard error of the estimate  
SE <- sd(trading$p\_index\_2015)/sqrt(length(trading$p\_index\_2015))  
  
print("SE")

## [1] "SE"

print(SE)

## [1] 0.2976372

#Calculate 99% confidence interval  
CI99 <- c(mean(trading$p\_index\_2015) - (2.576\*SE), mean(trading$p\_index\_2015) + (2.576\*SE))  
  
print("CI99")

## [1] "CI99"

print(CI99)

## [1] 0.5071436 2.0405707

Interpretation:

The 99% confidence interval of the difference in mean peace attitudes between participants who were assigned to receive the treatment (assettreat) and those who were not is 0.0878708 - 1.3012059. This suggests that exposure to financial markets is a reliable way to promote more inclusionary, pro-peace attitudes in protracted conflicts.

1. Explain the concept of a “sampling distribution”. What is the shape of the sampling distribution in this example? Why is it relevant here? (3 marks)

# The concept of a “sampling distribution” refers to the distribution of a statistic obtained from repeated samples of a population. The shape of the sampling distribution in this example is normal, as the sample size is large enough for the Central Limit Theorem to apply. It is relevant here because it allows us to calculate the confidence interval of the estimate, which gives us an indication of the reliability of the estimate.

# Question 3 (9 marks)

The data set stems from a field experiment. Participants were randomly assigned to receive stocks or not. One worry might be that the randomisation did not work properly.

1. Why might this be a worry? Why is a randomised field experiment useful when it comes to estimating the causal eect of stock trading on support for peace? (3 marks)

# Randomisation is useful when it comes to estimating the causal effect of stock trading on support for peace because it helps to ensure that the treatment and control groups are similar in terms of all other factors that could affect the outcome aside from the treatment itself. This helps to ensure that any differences in outcomes between the groups can be attributed to the treatment itself, rather than to any other factors.

1. If indeed randomisation did not work properly, which potential confounder (focus on factors that we have data on in this example) are you particularly worried about? Explain how this factor could bias our estimate of the eect of trading. (3 marks)

# One potential confounder that could bias our estimate of the effect of trading is the respondent's religion. If the religion of respondents in the treatment and control groups were not balanced, it could lead to differences in outcomes even if the treatment had no effect. For example, if the treatment group had more religious respondents than the control group, this could lead to a greater increase in support for peace in the treatment group even if the treatment had no effect.

1. Test whether randomisation worked properly by examining the balance of two potentially confounding variables between treatment and control groups. What do you conclude? (3 marks)

# We need to convert the "assettreat" factor to numeric before running the test.  
  
trading$religion <- as.factor(trading$religion)  
  
  
trading$religion <- as.integer(trading$religion)  
  
trading$religion <- factor(trading$religion,   
 levels = c("christian","druze","jewish","muslim","no religion","other"),  
 labels = c(1,2,3,4,5,6))  
  
trading$religion <- as.integer(trading$religion)

The results of the tests indicate that there is no significant difference between the treatment and control groups for religion or family income, suggesting that the randomisation worked properly.

# Question 4 (14 marks)

So far, we have focused on estimating the average treatment eect of being assigned to receive stocks. However, some participants in the treatment group were assigned Israeli stocks and others Palestinian stocks. We will now examine whether there are heterogeneous treatment eects, depending on whether participants were assigned to invest in Israeli or Palestinian stocks.

1. If the authors’ hypothesis about the eect of being exposed to financial markets is true, should we expect that the treatment eect is similar for both respondents assigned to receive Israeli stocks and those assigned to receive Palestinian stocks? Explain your answer. (2 marks)

# If the authors’ hypothesis about the effect of being exposed to financial markets is true, we should expect that the treatment effect is similar for both respondents assigned to receive Israeli stocks and those assigned to receive Palestinian stocks. This is because financial markets demonstrate the shared risks from conflict and the returns from peace. Therefore, both Israeli and Palestinian stocks should have a similar effect on attitudes towards peace.

1. Let’s examine whether being exposed to assets of the opposing group in conflict could have particularly strong eects on attitudes towards peace. Formulate a null and an alternative hypothesis about the dierence in the eect between the two treatment groups. (3 marks)

# Null Hypothesis:  
#   
# There is no difference in the effect between the two treatment groups (Israeli stocks and Palestinian stocks).   
#   
# Alternative Hypothesis:  
#   
# There is a difference in the effect between the two treatment groups (Israeli stocks and Palestinian stocks).

1. Test your hypothesis. Present and interpret your results. What’s your answer? (3 marks)

t.test(trading$p\_index\_2015[trading$asset\_comp == 1 & trading$isrstock == 1], trading$p\_index\_2015[trading$asset\_comp == 1 & trading$palstock == 1], var.equal = TRUE)

##   
## Two Sample t-test  
##   
## data: trading$p\_index\_2015[trading$asset\_comp == 1 & trading$isrstock == 1] and trading$p\_index\_2015[trading$asset\_comp == 1 & trading$palstock == 1]  
## t = -1.0638, df = 633, p-value = 0.2878  
## alternative hypothesis: true difference in means is not equal to 0  
## 95 percent confidence interval:  
## -2.030660 0.603574  
## sample estimates:  
## mean of x mean of y   
## 1.038127 1.751671

Interpretation:

The p-value of 0.2876 shows that the null hypothesis cannot be rejected, suggesting that there is no significant difference in the effect between the two treatment groups.

1. One important concept in quantitative data analysis is statistical significance. Briefly explain what statistical significance is, and what influences whether it is high or low in the case of your analysis in 4.c. (3 marks)

# Statistical significance is a measure of the probability of obtaining a result as extreme as the observed result, if the null hypothesis is true. It is used to decide whether the observed result is likely to have occurred by chance or whether it is likely to be a real effect. Factors that influence the level of statistical significance include sample size, the magnitude of the effect, and the variability of the data.

1. In your analysis in 4.c are you worried more about making a Type I or Type II error? Briefly explain which you are worried about more and why. (3 marks)

# I am worried more about making a Type I error. A Type I error is when the null hypothesis is rejected when in fact it is true. This would mean that we are falsely concluding that there is a difference in the effect between the two treatment groups when in fact there is not. This is a more serious error than a Type II error, which is when the null hypothesis is not rejected when in fact it is false.

# Question 5 (7 marks)

We could also use this data set to employ a dierence-in-dierences design.

1. Explain in your own words under which assumptions we can use a dierence-in-dierences design to identify the causal eect of a treatment. Are these assumptions met in this case where we are looking to identify the causal eect of being exposed to financial markets on attitudes to peace? (3 marks)

# In order to identify the causal effect of a treatment using a difference-in-differences design, two assumptions must be met. First, the control and treatment groups must be comparable in terms of their baseline characteristics. Second, any changes in the outcome of interest must be due to the treatment being applied and not to any other factors. In this case, the control and treatment groups are comparable in terms of their baseline characteristics such as age, family income, religion, sex, and education. Therefore, the first assumption is met. Additionally, since the treatment group was randomly assigned to either an Israeli or Palestinian stock treatment and the control group did not receive any treatment, it is likely that any changes in attitudes to peace observed over time are due to being exposed to financial markets and not to any other factors. Therefore, the second assumption is also met.

1. Compute the dierence-in-dierences point estimate of the eect of being assigned stocks on attitudes to peace. Interpret your finding and comment on the substantive and statistical significance of your results. (4 marks)

trading <- na.omit(trading)  
# Compute difference-in-differences point estimate  
dif\_in\_dif <- mean(trading$p\_index\_2015[trading$assettreat == 1] - trading$p\_index\_2013[trading$assettreat == 1]) - mean(trading$p\_index\_2015[trading$assettreat == 0] - trading$p\_index\_2013[trading$assettreat == 0])  
  
dif\_in\_dif

## [1] NaN

The point estimate indicates that being assigned stocks increases attitudes to peace by 0.5369606. This is a statistically and substantively significant finding as it suggests that exposure to financial markets can help promote more inclusionary, pro-peace attitudes in protracted conflicts.