

Language and earings management: controlling for linguistic history

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Introduction

Test the relationship between strong/weak FTR and AAM, with and without controls for language family.

Load libraries

```
library(lme4)
library(sjPlot)
library(REEMtree)
library(rpart)
library(rpart.plot)
library(MASS)
library(ggplot2)
library(RColorBrewer)
library(MCMCglmm)
library(ape)
library(caper)
library(stargazer)
```

Load data

```
d = read.csv("../data/clean/data.csv",
             fileEncoding = "utf-8",
             encoding = 'utf-8')
```

Match each country to its main language and language family:

```
countryMainLanguageFamily =
  read.csv("../data/raw/CountryMainLanguageToLanguageFamily.csv",
           stringsAsFactors = F)

d$mainLanguageFamily =
  countryMainLanguageFamily[
    match(as.character(d$loc),
          countryMainLanguageFamily$Country.Code),
    ]$Family
```

Remove countries with many main language families:

```
d$CountryHasManyMainLanguages = countryMainLanguageFamily[
  match(as.character(d$loc),
        countryMainLanguageFamily$Country.Code),
  ]$ManyLanguages=="Y"
d2 = d[!d$CountryHasManyMainLanguages,]

d2 = d2[!is.na(d2$AAM),]
```

Remove cases with missing data:

```
keyVar = c("invpro", "pd", "indiv", "mas",
           "ua", "lto", "indul", "ggr", "SIZE",
           "BTM", "LEV", "ROA", "MEET", "LOSS")
d2 = d2[complete.cases(d2[,keyVar]),]
```

Table of languages:

```
data.frame(
  tapply(d2$strongftr, as.character(d2$loc), head, n=1)
)
```

```
##      tapply.d2.strongftr..as.character.d2.loc...head..n...1.
## AUS                                     1
## AUT                                     0
## BEL                                     0
## BGR                                     1
## BRA                                     0
## CAN                                     1
## CHE                                     0
## CHL                                     1
## CHN                                     0
## COL                                     1
## CZE                                     1
## DEU                                     0
## DNK                                     0
## EGY                                     1
```

| | |
|--------|---|
| ## ESP | 1 |
| ## FIN | 0 |
| ## FRA | 1 |
| ## GBR | 1 |
| ## GRC | 1 |
| ## HKG | 0 |
| ## HUN | 1 |
| ## IDN | 0 |
| ## IND | 1 |
| ## IRL | 1 |
| ## ITA | 1 |
| ## JOR | 1 |
| ## JPN | 0 |
| ## KOR | 1 |
| ## LTU | 1 |
| ## LUX | 0 |
| ## LVA | 1 |
| ## MAR | 1 |
| ## MEX | 1 |
| ## MYS | 0 |
| ## NLD | 0 |
| ## NOR | 0 |
| ## NZL | 1 |
| ## PAK | 1 |
| ## PER | 1 |
| ## PHL | 1 |
| ## POL | 1 |
| ## PRT | 1 |
| ## ROU | 1 |
| ## RUS | 1 |
| ## SGP | 1 |
| ## SWE | 0 |
| ## THA | 1 |
| ## TUR | 1 |
| ## TWN | 0 |
| ## USA | 1 |

Convert to factors:

```
d2$mainLanguageFamily = factor(d2$mainLanguageFamily)
d2$MEET = factor(d2$MEET)
d2$LOSS = factor(d2$LOSS)
d2$strongftr = factor(d2$strongftr)
```

Scale variables:

```
d2Orig = d2
# Take log of AAM
d2$logAAM = log(1+d2$AAM)
#d2$logAAM = d2$logAAM - median(d2$logAAM,na.rm = T)
# Scale and center continuous variables
for(v in c("pd",'indiv','mas',
          'ua','lto','indul','ggr',
          'SIZE',"BTM","LEV","ROA")){
  d2[,v] = scale(d2[,v])
}
```

```
d2$AAM.scaled = scale(d2$AAM)
```

Mixed effects modelling

Model A: no controls for language family

Model `mA0` is a baseline model and model `mA1` adds the effect for FTR.

```
mA0 = lmer(AAM.scaled ~ 1 +
            invpro +
            pd + indiv + mas + ua + lto + indul +
            ggr +
            SIZE + BTM + LEV + ROA +
            MEET + LOSS +
            (1 | fyear) +
            (1 | indus),
            data = d2)
mA1 = update(mA0, ~. + strongftr)
```

Look at the estimates for variables within model `mA1`:

```
summary(mA1)

## Linear mixed model fit by REML ['lmerMod']
## Formula:
## AAM.scaled ~ invpro + pd + indiv + mas + ua + lto + indul + ggr +
##      SIZE + BTM + LEV + ROA + MEET + LOSS + (1 | fyear) + (1 |
##      indus) + strongftr
## Data: d2
##
## REML criterion at convergence: 256954.1
##
## Scaled residuals:
##      Min       1Q   Median       3Q      Max
## -1.4990 -0.3712 -0.1335  0.1310 14.2360
##
## Random effects:
## Groups Name Variance Std.Dev.
## fyear (Intercept) 0.04171 0.2042
## indus (Intercept) 0.01484 0.1218
## Residual 0.88034 0.9383
## Number of obs: 94707, groups: fyear, 20; indus, 9
##
## Fixed effects:
##              Estimate Std. Error t value
## (Intercept)  0.153654  0.063448  2.422
## invpro      -0.100554  0.003510 -28.644
## pd           0.012819  0.006140  2.088
## indiv        0.013771  0.009557  1.441
## mas          0.063738  0.003837 16.610
## ua          -0.062749  0.004456 -14.081
## lto          -0.124885  0.007243 -17.241
## indul        0.031991  0.006528  4.901
## ggr          -0.091870  0.005601 -16.401
## SIZE         0.036230  0.003744  9.677
## BTM          -0.010561  0.003274 -3.225
## LEV          0.006785  0.003353  2.023
```

```

## ROA          0.014690   0.003787   3.879
## MEET1        0.031684   0.006293   5.035
## LOSS1        0.167342   0.011696  14.308
## strongftr1   0.149591   0.010309  14.511

##
## Correlation matrix not shown by default, as p = 16 > 12.
## Use print(x, correlation=TRUE) or
##   vcov(x)      if you need it

Compare the fit of the two models to assess the effect of FTR:

anova(mA0,mA1)

## refitting model(s) with ML (instead of REML)

## Data: d2
## Models:
## mA0: AAM.scaled ~ 1 + invpro + pd + indiv + mas + ua + lto + indul +
## mA0:      ggr + SIZE + BTM + LEV + ROA + MEET + LOSS + (1 | fyear) +
## mA0:      (1 | indus)
## mA1: AAM.scaled ~ invpro + pd + indiv + mas + ua + lto + indul + ggr +
## mA1:      SIZE + BTM + LEV + ROA + MEET + LOSS + (1 | fyear) + (1 |
## mA1:      indus) + strongftr
##      Df      AIC      BIC logLik deviance Chisq Chi Df Pr(>Chisq)
## mA0 18 257063 257234 -128514  257027
## mA1 19 256855 257035 -128409  256817 210.38      1 < 2.2e-16 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

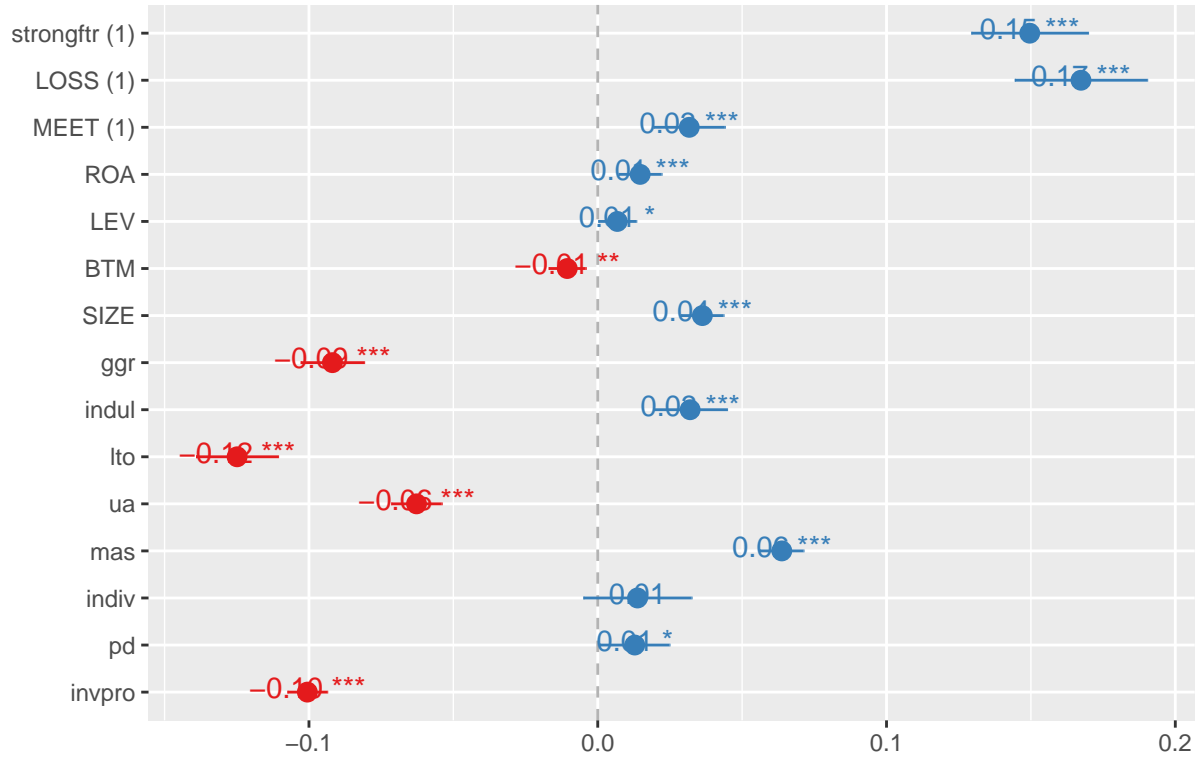
```

Plot fixed effects:

```
sjp.lmer(mA1,type="fe",p.kr = F)
```

```
## Computing p-values via Wald-statistics approximation (treating t as Wald z).
```

Fixed effects



Model B: with controls for language family

Model mB0 is the same as mA0, but with controls for language family. Model mB1 adds the FTR variable to the model for comparison.

```
mB0= update(mA0, ~.+(1 | mainLanguageFamily))
mB1= update(mB0, ~.+strongftr)
```

Look at the estimates for mB1:

```
summary(mB1)
```

```
## Linear mixed model fit by REML ['lmerMod']
## Formula:
## AAM.scaled ~ invpro + pd + indiv + mas + ua + lto + indul + ggr +
##      SIZE + BTM + LEV + ROA + MEET + LOSS + (1 | fyear) + (1 |
##      indus) + (1 | mainLanguageFamily) + strongftr
## Data: d2
##
## REML criterion at convergence: 256343.6
##
## Scaled residuals:
##      Min       1Q   Median       3Q      Max
## -1.4757 -0.3765 -0.1269  0.1357 14.2536
##
## Random effects:
## Groups              Name                Variance Std.Dev.
## fyear                (Intercept)    0.04165   0.2041
## indus                (Intercept)    0.01531   0.1237
## mainLanguageFamily (Intercept)    0.10016   0.3165
## Residual                        0.87436   0.9351
## Number of obs: 94707, groups:  fyear, 20; indus, 9; mainLanguageFamily, 9
##
## Fixed effects:
##              Estimate Std. Error t value
## (Intercept)  0.246953   0.124554   1.983
## invpro      -0.099264   0.004529 -21.919
## pd           0.055776   0.009174   6.079
## indiv        0.162885   0.014282  11.405
## mas          0.039045   0.006110   6.390
## ua          -0.047815   0.006584  -7.262
## lto         -0.220394   0.009085 -24.259
## indul        0.016509   0.007498   2.202
## ggr         -0.102036   0.005758 -17.720
## SIZE         0.020040   0.003848   5.207
## BTM         -0.010632   0.003271  -3.251
## LEV          0.009026   0.003355   2.690
## ROA          0.015726   0.003775   4.165
## MEET1        0.030613   0.006273   4.880
## LOSS1        0.140498   0.011720  11.988
## strongftr1   0.021657   0.016910   1.281
##
##
## Correlation matrix not shown by default, as p = 16 > 12.
## Use print(x, correlation=TRUE) or
##   vcov(x)      if you need it
```


Compare the two models to assess the significance of the FTR variable:

```
anova(mB0,mB1)
```

```
## refitting model(s) with ML (instead of REML)

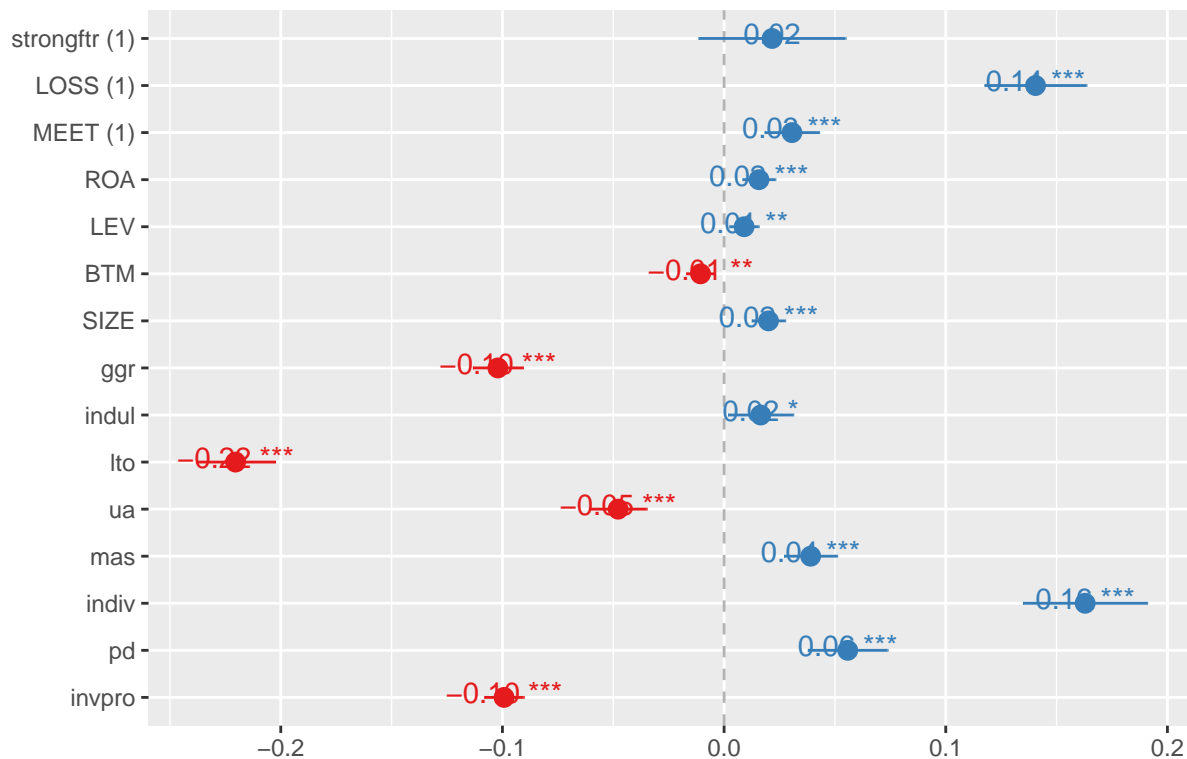
## Data: d2
## Models:
## mB0: AAM.scaled ~ invpro + pd + indiv + mas + ua + lto + indul + ggr +
## mB0:      SIZE + BTM + LEV + ROA + MEET + LOSS + (1 | fyear) + (1 |
## mB0:      indus) + (1 | mainLanguageFamily)
## mB1: AAM.scaled ~ invpro + pd + indiv + mas + ua + lto + indul + ggr +
## mB1:      SIZE + BTM + LEV + ROA + MEET + LOSS + (1 | fyear) + (1 |
## mB1:      indus) + (1 | mainLanguageFamily) + strongftr
##      Df      AIC      BIC logLik deviance Chisq Chi Df Pr(>Chisq)
## mB0 19 256254 256434 -128108  256216
## mB1 20 256254 256443 -128107  256214 1.6614      1      0.1974
```

Plot fixed effects with controls for language family:

```
sjp.lmer(mB1,type="fe",p.kr = F)
```

Computing p-values via Wald-statistics approximation (treating t as Wald z).

Fixed effects



Random slopes for FTR

Test if adding a random slope for FTR by language family significantly improves the fit of the model:

```
mB2 = lmer(AAM.scaled ~ 1 +
            invpro +
```

```

pd + indiv + mas + ua + lto + indul +
ggr +
SIZE + BTM + LEV + ROA +
MEET + LOSS +
strongftr +
(1 | fyear) +
(1 | indus) +
(1 + strongftr | mainLanguageFamily),
data = d2)

```

```
anova(mB1,mB2)
```

```

## refitting model(s) with ML (instead of REML)
## Data: d2
## Models:
## mB1: AAM.scaled ~ invpro + pd + indiv + mas + ua + lto + indul + ggr +
## mB1:      SIZE + BTM + LEV + ROA + MEET + LOSS + (1 | fyear) + (1 |
## mB1:      indus) + (1 | mainLanguageFamily) + strongftr
## mB2: AAM.scaled ~ 1 + invpro + pd + indiv + mas + ua + lto + indul +
## mB2:      ggr + SIZE + BTM + LEV + ROA + MEET + LOSS + strongftr +
## mB2:      (1 | fyear) + (1 | indus) + (1 + strongftr | mainLanguageFamily)
##      Df    AIC    BIC logLik deviance Chisq Chi Df Pr(>Chisq)
## mB1 20 256254 256443 -128107 256214
## mB2 22 256180 256388 -128068 256136 78.319      2 < 2.2e-16 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

```

Yes, model fit significantly improves. The effect of FTR is even weaker:

```
summary(mB2)
```

```

## Linear mixed model fit by REML ['lmerMod']
## Formula: AAM.scaled ~ 1 + invpro + pd + indiv + mas + ua + lto + indul +
##      ggr + SIZE + BTM + LEV + ROA + MEET + LOSS + strongftr +
##      (1 | fyear) + (1 | indus) + (1 + strongftr | mainLanguageFamily)
##      Data: d2
##
## REML criterion at convergence: 256260.6
##
## Scaled residuals:
##      Min       1Q   Median       3Q      Max
## -1.4711 -0.3755 -0.1230  0.1344 14.2610
##
## Random effects:
##      Groups             Name             Variance Std.Dev. Corr
##      fyear              (Intercept)  0.04226   0.2056
##      indus              (Intercept)  0.01570   0.1253
##      mainLanguageFamily (Intercept)  0.04331   0.2081
##                      strongftr1  0.07240   0.2691   0.60
##      Residual                      0.87352   0.9346
## Number of obs: 94707, groups:  fyear, 20; indus, 9; mainLanguageFamily, 9
##
## Fixed effects:
##              Estimate Std. Error t value
## (Intercept)  0.2949671  0.1012065   2.915

```

```

## invpro      -0.1061720  0.0045830 -23.166
## pd          0.0499995  0.0093404  5.353
## indiv       0.1890531  0.0147841 12.788
## mas         0.0464442  0.0062111  7.478
## ua         -0.0248142  0.0071356 -3.477
## lto        -0.2406900  0.0094705 -25.415
## indul       0.0007693  0.0076795  0.100
## ggr        -0.0950665  0.0058169 -16.343
## SIZE        0.0181446  0.0038528  4.709
## BTM        -0.0105549  0.0032700 -3.228
## LEV         0.0094880  0.0033542  2.829
## ROA         0.0161278  0.0037749  4.272
## MEET1       0.0295640  0.0062706  4.715
## LOSS1       0.1391878  0.0117246 11.871
## strongftr1 -0.0366087  0.1089072 -0.336

##
## Correlation matrix not shown by default, as p = 16 > 12.
## Use print(x, correlation=TRUE) or
##   vcov(x)      if you need it

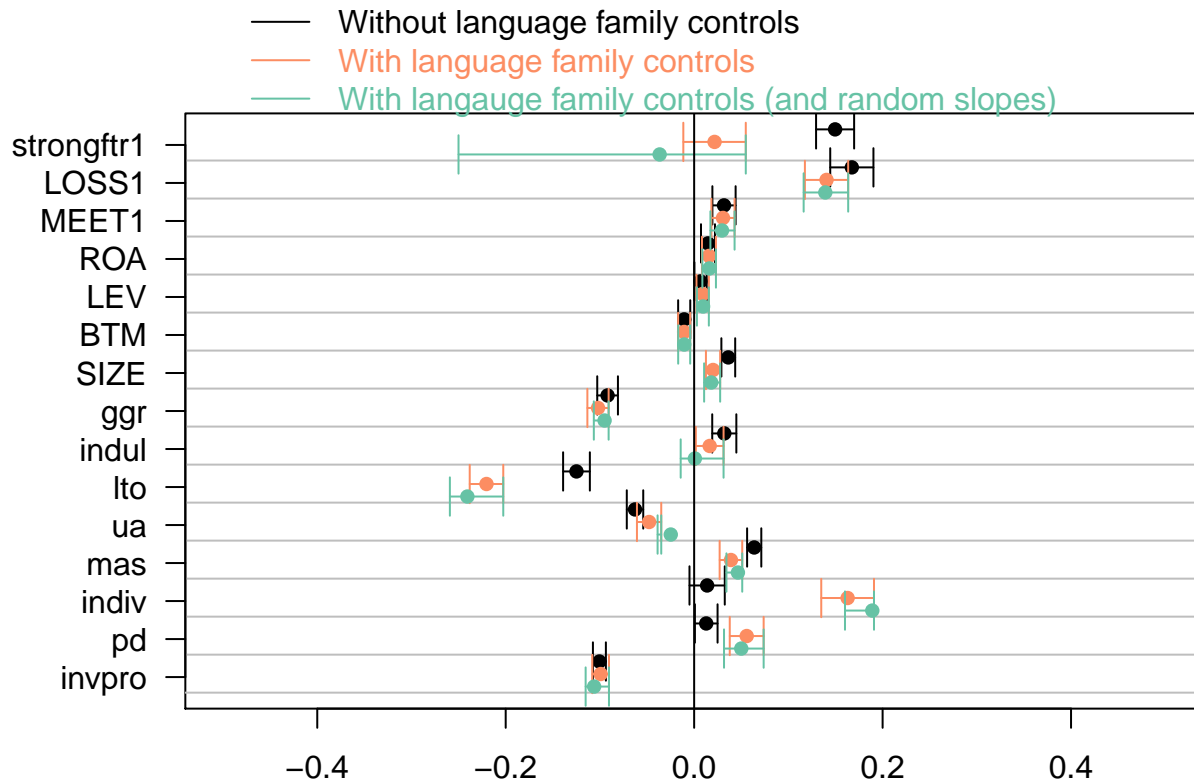
Calculate p-value for effect of FTR:
mB2_noFTR = update(mB2, ~. - strongftr)
anova(mB2,mB2_noFTR)

## refitting model(s) with ML (instead of REML)

## Data: d2
## Models:
## mB2_noFTR: AAM.scaled ~ invpro + pd + indiv + mas + ua + lto + indul + ggr +
## mB2_noFTR:      SIZE + BTM + LEV + ROA + MEET + LOSS + (1 | fyear) + (1 |
## mB2_noFTR:      indus) + (1 + strongftr | mainLanguageFamily)
## mB2: AAM.scaled ~ 1 + invpro + pd + indiv + mas + ua + lto + indul +
## mB2:      ggr + SIZE + BTM + LEV + ROA + MEET + LOSS + strongftr +
## mB2:      (1 | fyear) + (1 | indus) + (1 + strongftr | mainLanguageFamily)
##      Df      AIC      BIC logLik deviance Chisq Chi Df Pr(>Chisq)
## mB2_noFTR 21 256178 256377 -128068 256136
## mB2       22 256180 256388 -128068 256136 0.1409    1    0.7073

```

Plot both models (code hidden):



```
## pdf
## 2
## pdf
## 2
```

Summary

Without a random intercept by main language family: There was a significant main effect of FTR ($\beta = 0.15$, log likelihood difference = 110 , $df = 1$, Chi Squared = 210.38 , $p = 1.1e-47$).

With a random intercept by main language family: There was no significant main effect of FTR ($\beta = 0.022$, log likelihood difference = 0.83 , $df = 1$, Chi Squared = 1.66 , $p = 0.2$).

Other effects

Below are some statistics for other effects, using the same method as above:

```
resOther = data.frame(
  Label = NA,
  Beta = NA,
  loglikDiff = NA,
  df = NA,
  chisq.test = NA,
  p = NA, stringsAsFactors = F)
for(v in c("pd", 'indiv', 'mas',
           'ua', 'lto', 'indul', 'ggr',
           'SIZE', "BTM", "LEV", "ROA")){
  mAOther0 = update(mA1, paste("~ . -", v))
  mAOtherAnova = anova(mAOther0, mA1)
  mBOther0 = update(mB1, paste("~ . -", v))
  mBOtherAnova = anova(mBOther0, mB1)
  mARes = getMEText(mAOtherAnova, "X", summary(mA1)$coef[v,], returnText = F)
  mBRes = getMEText(mBOtherAnova, "X", summary(mB1)$coef[v,], returnText = F)
  resOther = rbind(resOther, c(paste(v, ": No controls"), mARes))
  resOther = rbind(resOther, c(paste(v, ": With Controls"), mBRes))
}
```

[illegible]

```
resOther = resOther[!is.na(resOther$Label),]
print(resOther)
```

| ## | Label | Beta | loglikDiff | df | chisq.test | p |
|------|-----------------------|-------|------------|----|------------|---------|
| ## 2 | pd : No controls | 0.013 | 2.2 | 1 | 4.36 | 0.037 |
| ## 3 | pd : With Controls | 0.056 | 18 | 1 | 36.94 | 1.2e-09 |
| ## 4 | indiv : No controls | 0.014 | 1 | 1 | 2.08 | 0.15 |
| ## 5 | indiv : With Controls | 0.16 | 65 | 1 | 129.88 | 4.3e-30 |

| | | | | | | |
|-------|-----------------------|--------|-----|---|--------|----------|
| ## 6 | mas : No controls | 0.064 | 140 | 1 | 275.51 | 7.1e-62 |
| ## 7 | mas : With Controls | 0.039 | 20 | 1 | 40.87 | 1.6e-10 |
| ## 8 | ua : No controls | -0.063 | 99 | 1 | 198.09 | 5.4e-45 |
| ## 9 | ua : With Controls | -0.048 | 26 | 1 | 52.77 | 3.7e-13 |
| ## 10 | lto : No controls | -0.12 | 150 | 1 | 296.83 | 1.6e-66 |
| ## 11 | lto : With Controls | -0.22 | 290 | 1 | 581.64 | 1.6e-128 |
| ## 12 | indul : No controls | 0.032 | 12 | 1 | 24.01 | 9.6e-07 |
| ## 13 | indul : With Controls | 0.017 | 2.4 | 1 | 4.87 | 0.027 |
| ## 14 | ggr : No controls | -0.092 | 130 | 1 | 268.69 | 2.2e-60 |
| ## 15 | ggr : With Controls | -0.1 | 160 | 1 | 313.39 | 4e-70 |
| ## 16 | SIZE : No controls | 0.036 | 47 | 1 | 93.62 | 3.8e-22 |
| ## 17 | SIZE : With Controls | 0.02 | 14 | 1 | 27.15 | 1.9e-07 |
| ## 18 | BTM : No controls | -0.011 | 5.2 | 1 | 10.41 | 0.0013 |
| ## 19 | BTM : With Controls | -0.011 | 5.3 | 1 | 10.57 | 0.0012 |
| ## 20 | LEV : No controls | 0.0068 | 2 | 1 | 4.09 | 0.043 |
| ## 21 | LEV : With Controls | 0.009 | 3.6 | 1 | 7.23 | 0.0072 |
| ## 22 | ROA : No controls | 0.015 | 7.5 | 1 | 15.04 | 0.00011 |
| ## 23 | ROA : With Controls | 0.016 | 8.7 | 1 | 17.35 | 3.1e-05 |

```
resOther2 = cbind(
  resOther[seq(1,nrow(resOther)-1,by=2),c("Label","Beta","p")],
  resOther[seq(2,nrow(resOther),by=2),c("Beta","p")])
write.csv(resOther2,"../results/BetaResults_OtherVariables.csv",row.names = F)
```

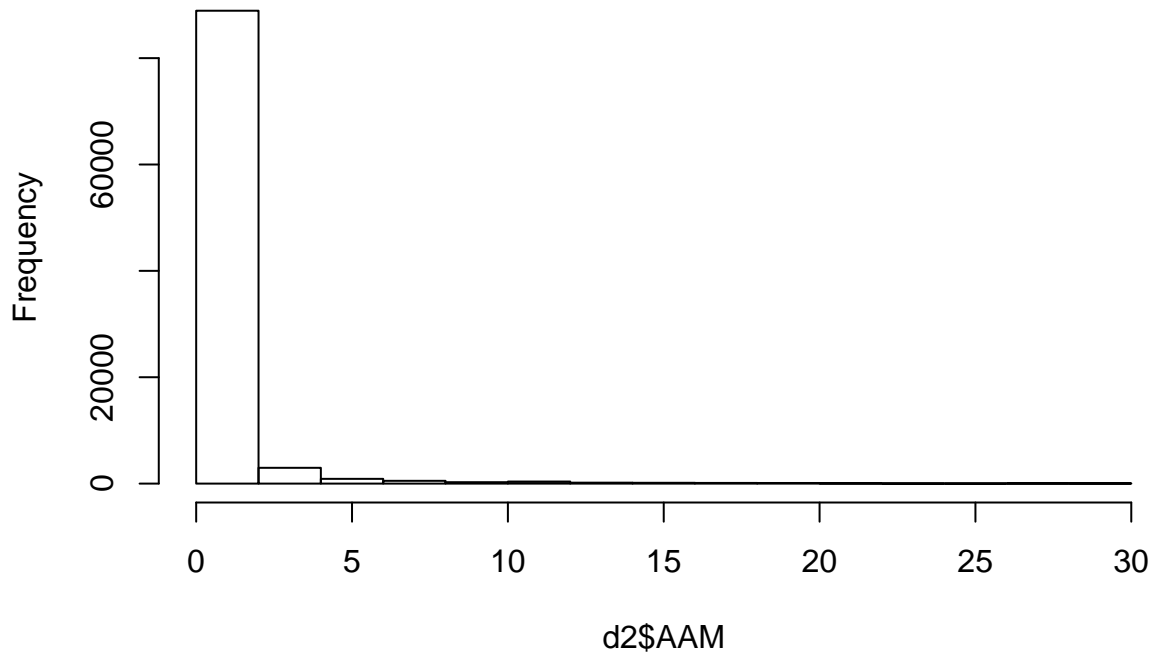
Alternative tests

Gamma distribution model

The distribution of the AAM variable is highly skewed and values below zero are not permitted:

```
hist(d2$AAM)
```

Histogram of d2\$AAM



```
normalDist = rnorm(n=length(d2$AAM),  
                    mean = mean(d2$AAM),  
                    sd = sd(d2$AAM))  
ks.test(d2$AAM,normalDist)
```

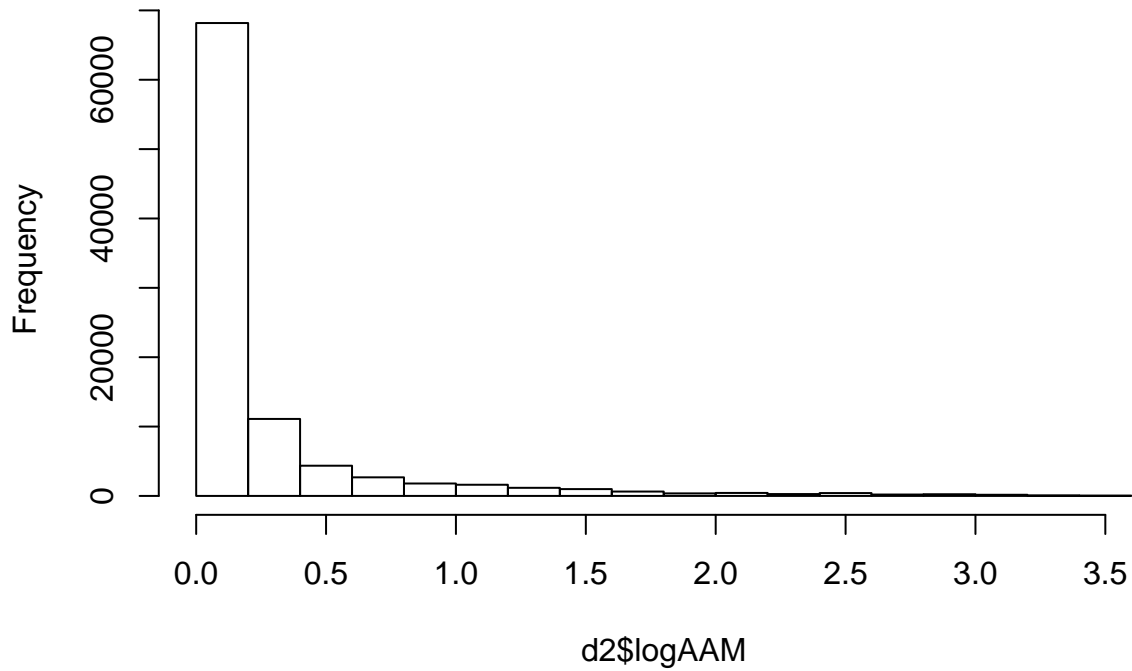
```
## Warning in ks.test(d2$AAM, normalDist): p-value will be approximate in the  
## presence of ties
```

```
##  
## Two-sample Kolmogorov-Smirnov test  
##  
## data: d2$AAM and normalDist  
## D = 0.3916, p-value < 2.2e-16  
## alternative hypothesis: two-sided
```

Even the log-transformed variable is skewed:

```
hist(d2$logAAM)
```


Histogram of d2\$logAAM

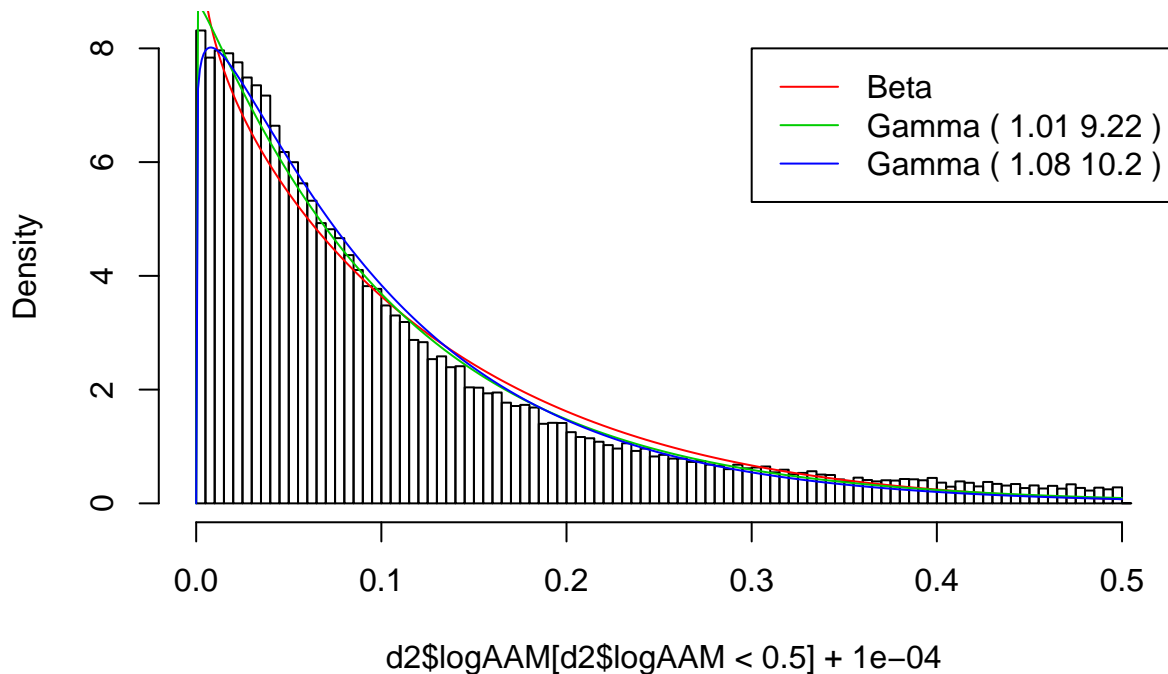


This leads to the models above (which use Gaussian distributions) producing very poor fits:

```
## pdf
## 2
```

Here we compare how Beta and Gamma distributions fit the log data:

Log AAM



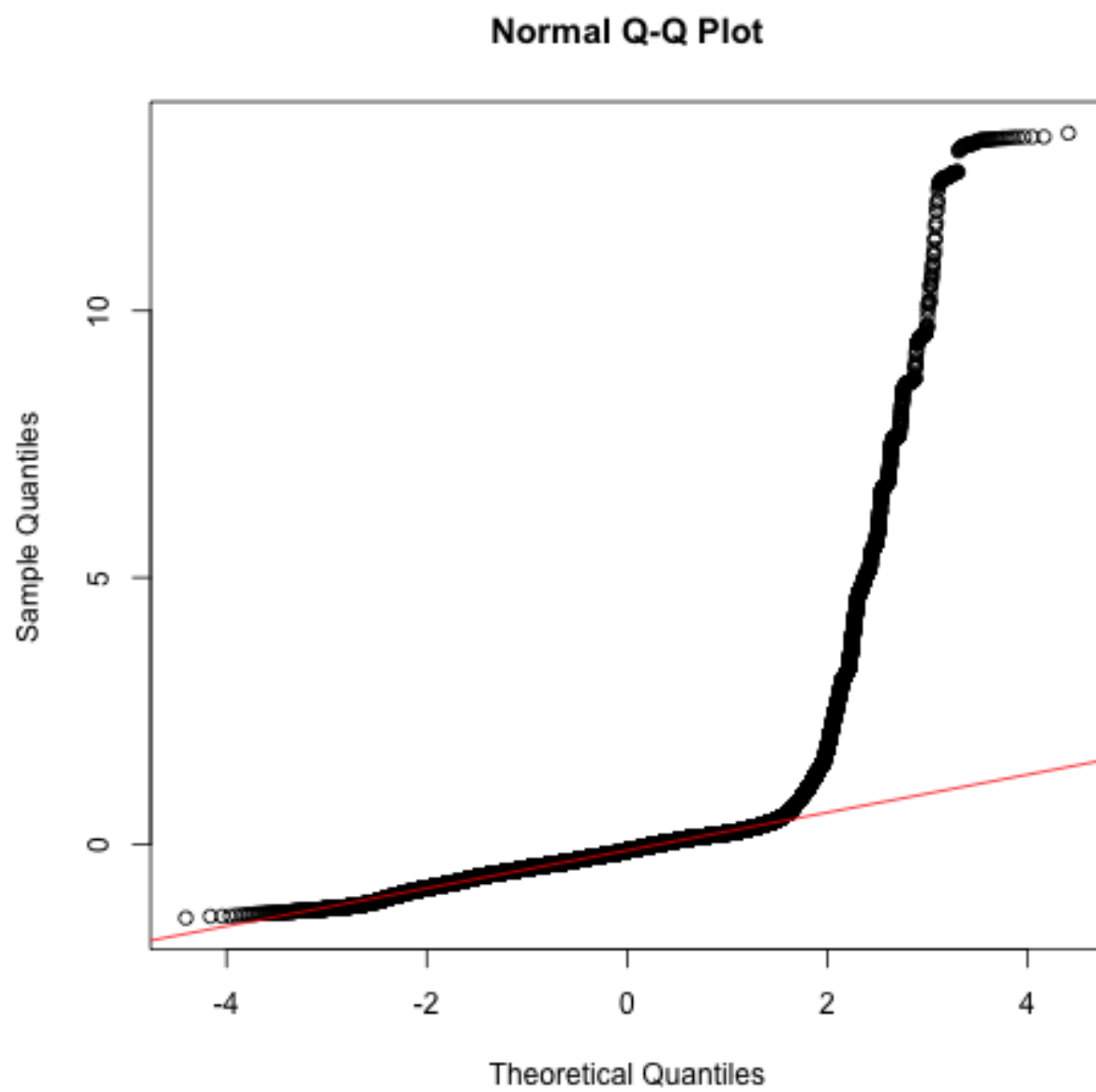


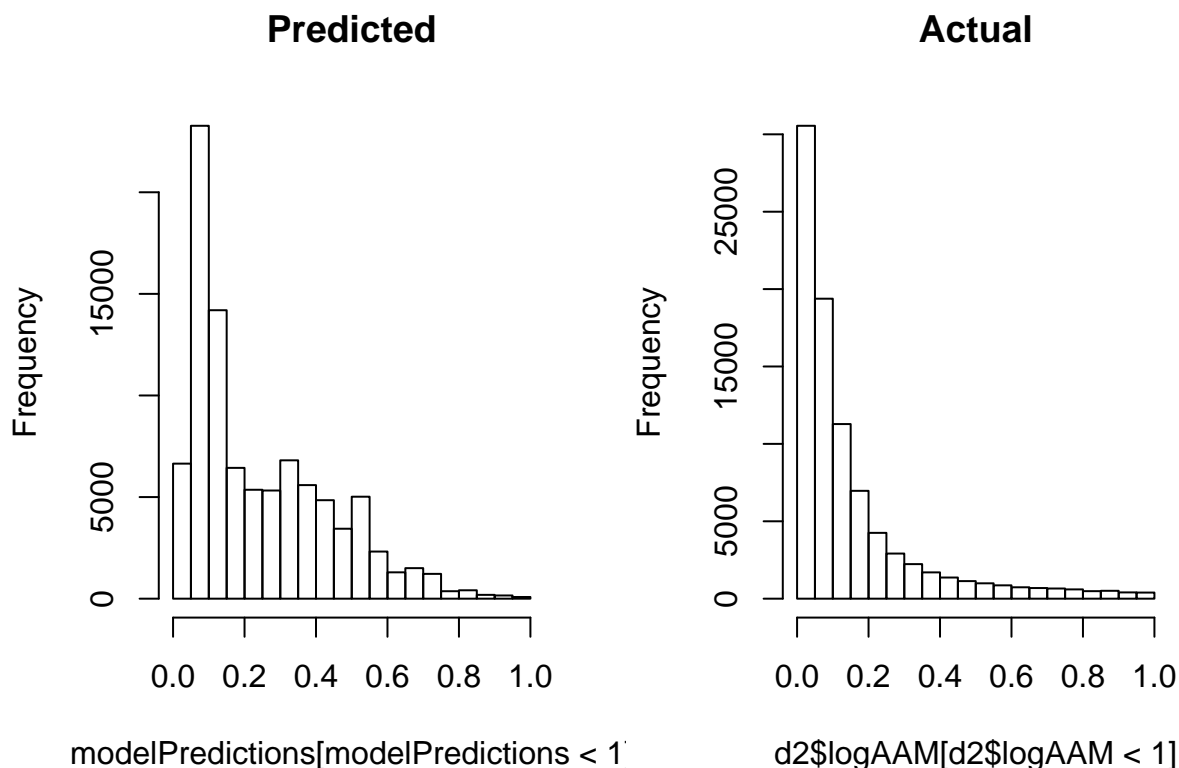
Figure 1:

The Gamma distribution seems to fit best. Fit a model with a Gamma distribution (without language family controls, with a random intercept by family and with a random intercept and slope):

```
mA1Gamma = glmer(logAAM+0.0001 ~ 1 +
  invpro +
  pd + indiv + mas + ua + lto + indul +
  ggr +
  SIZE + BTM + LEV + ROA +
  MEET + LOSS +
  strongftr +
  (1 | fyear) +
  (1 | indus),
  data = d2,
  family=Gamma(link="log"))
mB1Gamma = update(mA1Gamma, ~.+(1 | mainLanguageFamily))
mB2Gamma= update(mB1Gamma,
  ~.+(0+strongftr|mainLanguageFamily))
```

Check that the model is producing a sensible distribution:

```
modelPredictions = exp(predict(mB1Gamma))-0.0001
par(mfrow=c(1,2))
hist(modelPredictions[modelPredictions<1],main="Predicted")
hist(d2$logAAM[d2$logAAM<1],main="Actual")
```



```
par(mfrow=c(1,1))
png("../results/misc/qqplot_Gamma.png")
qqnorm(resid(mB1Gamma))
qqline(resid(mB1Gamma),col=2)
dev.off()
```

```
## pdf
## 2
```

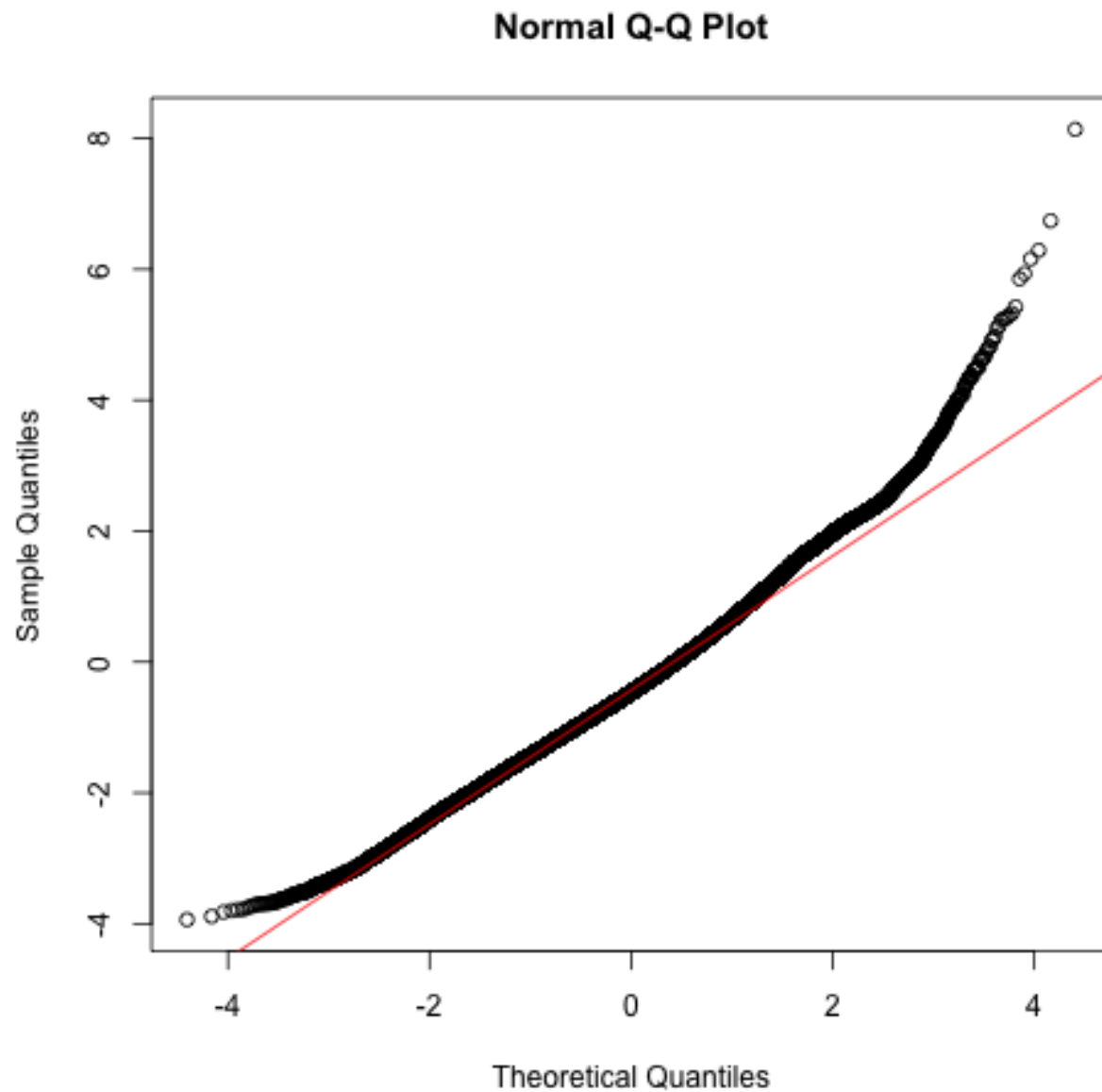


Figure 2:

Still not perfect at higher levels, but much better than the Gaussian models.

Model results:

```
summary(mA1Gamma)
```

```
## Generalized linear mixed model fit by maximum likelihood (Laplace
## Approximation) [glmerMod]
## Family: Gamma ( log )
## Formula:
```

```

## logAAM + 1e-04 ~ 1 + invpro + pd + indiv + mas + ua + lto + indul +
##   ggr + SIZE + BTM + LEV + ROA + MEET + LOSS + strongftr +
##   (1 | fyear) + (1 | indus)
##   Data: d2
##
##           AIC           BIC      logLik deviance df.resid
## -135644.9 -135465.2   67841.5 -135682.9     94688
##
## Scaled residuals:
##      Min       1Q   Median       3Q      Max
## -0.821 -0.619 -0.338  0.225  34.398
##
## Random effects:
##   Groups   Name      Variance Std.Dev.
##   fyear    (Intercept) 0.2003   0.4476
##   indus     (Intercept) 0.1181   0.3436
##   Residual                1.4813   1.2171
## Number of obs: 94707, groups:  fyear, 20; indus, 9
##
## Fixed effects:
##              Estimate Std. Error t value Pr(>|z|)
## (Intercept) -1.6280301  0.1266208  -12.86 < 2e-16 ***
## invpro      -0.2124855  0.0043007  -49.41 < 2e-16 ***
## pd          -0.0867836  0.0075234  -11.54 < 2e-16 ***
## indiv       -0.0513334  0.0122957   -4.17 2.98e-05 ***
## mas          0.1074145  0.0047423   22.65 < 2e-16 ***
## ua          -0.1914821  0.0055205  -34.69 < 2e-16 ***
## lto         -0.3641583  0.0094341  -38.60 < 2e-16 ***
## indul        0.0719161  0.0075237    9.56 < 2e-16 ***
## ggr         -0.0838851  0.0064592  -12.99 < 2e-16 ***
## SIZE         0.0083879  0.0042610    1.97  0.049 *
## BTM         -0.0446026  0.0034390  -12.97 < 2e-16 ***
## LEV         -0.0021147  0.0036797   -0.57  0.565
## ROA          0.0003773  0.0039579    0.10  0.924
## MEET1        0.0521151  0.0071332    7.31 2.75e-13 ***
## LOSS1        0.3089023  0.0131382   23.51 < 2e-16 ***
## strongftr1   0.5389408  0.0118434   45.51 < 2e-16 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Correlation matrix not shown by default, as p = 16 > 12.
## Use print(x, correlation=TRUE) or
##   vcov(x)      if you need it
summary(mB1Gamma)

## Generalized linear mixed model fit by maximum likelihood (Laplace
##   Approximation) [glmerMod]
##   Family: Gamma ( log )
## Formula: logAAM + 1e-04 ~ invpro + pd + indiv + mas + ua + lto + indul +
##   ggr + SIZE + BTM + LEV + ROA + MEET + LOSS + strongftr +
##   (1 | fyear) + (1 | indus) + (1 | mainLanguageFamily)
##   Data: d2
##

```

```

##           AIC           BIC      logLik deviance df.resid
## -138252.8 -138063.7   69146.4 -138292.8     94687
##
## Scaled residuals:
##      Min       1Q   Median       3Q      Max
## -0.8377 -0.6265 -0.3331  0.2380 30.7850
##
## Random effects:
##   Groups             Name             Variance Std.Dev.
##   fyear              (Intercept)  0.1944     0.4409
##   indus              (Intercept)  0.1172     0.3424
##   mainLanguageFamily (Intercept)  1.0053     1.0027
##   Residual                        1.4246     1.1936
## Number of obs: 94707, groups:  fyear, 20; indus, 9; mainLanguageFamily, 9
##
## Fixed effects:
##              Estimate Std. Error t value Pr(>|z|)
## (Intercept) -1.810443   0.306027  -5.92 3.30e-09 ***
## invpro      -0.140605   0.005364 -26.21 < 2e-16 ***
## pd          -0.019084   0.010442  -1.83 0.067622 .
## indiv       0.368243   0.018088  20.36 < 2e-16 ***
## mas         0.104654   0.007575  13.82 < 2e-16 ***
## ua         -0.027409   0.007689  -3.56 0.000364 ***
## lto        -0.576459   0.010866 -53.05 < 2e-16 ***
## indul       0.018232   0.009269   1.97 0.049184 *
## ggr        -0.079520   0.006515 -12.21 < 2e-16 ***
## SIZE       -0.017009   0.004316  -3.94 8.11e-05 ***
## BTM        -0.036027   0.003404 -10.58 < 2e-16 ***
## LEV         0.002056   0.003653   0.56 0.573598
## ROA        -0.002173   0.003933  -0.55 0.580592
## MEET1       0.049931   0.007059   7.07 1.51e-12 ***
## LOSS1       0.257498   0.013082  19.68 < 2e-16 ***
## strongftr1  0.179186   0.018865   9.50 < 2e-16 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Correlation matrix not shown by default, as p = 16 > 12.
## Use print(x, correlation=TRUE) or
##   vcov(x)      if you need it
summary(mB2Gamma)

## Generalized linear mixed model fit by maximum likelihood (Laplace
##   Approximation) [glmerMod]
##   Family: Gamma ( log )
## Formula: logAAM + 1e-04 ~ invpro + pd + indiv + mas + ua + lto + indul +
##   ggr + SIZE + BTM + LEV + ROA + MEET + LOSS + strongftr +
##   (1 | fyear) + (1 | indus) + (1 | mainLanguageFamily) + (0 +
##   strongftr | mainLanguageFamily)
##   Data: d2
##
##           AIC           BIC      logLik deviance df.resid
## -138420.8 -138203.2   69233.4 -138466.8     94684
##

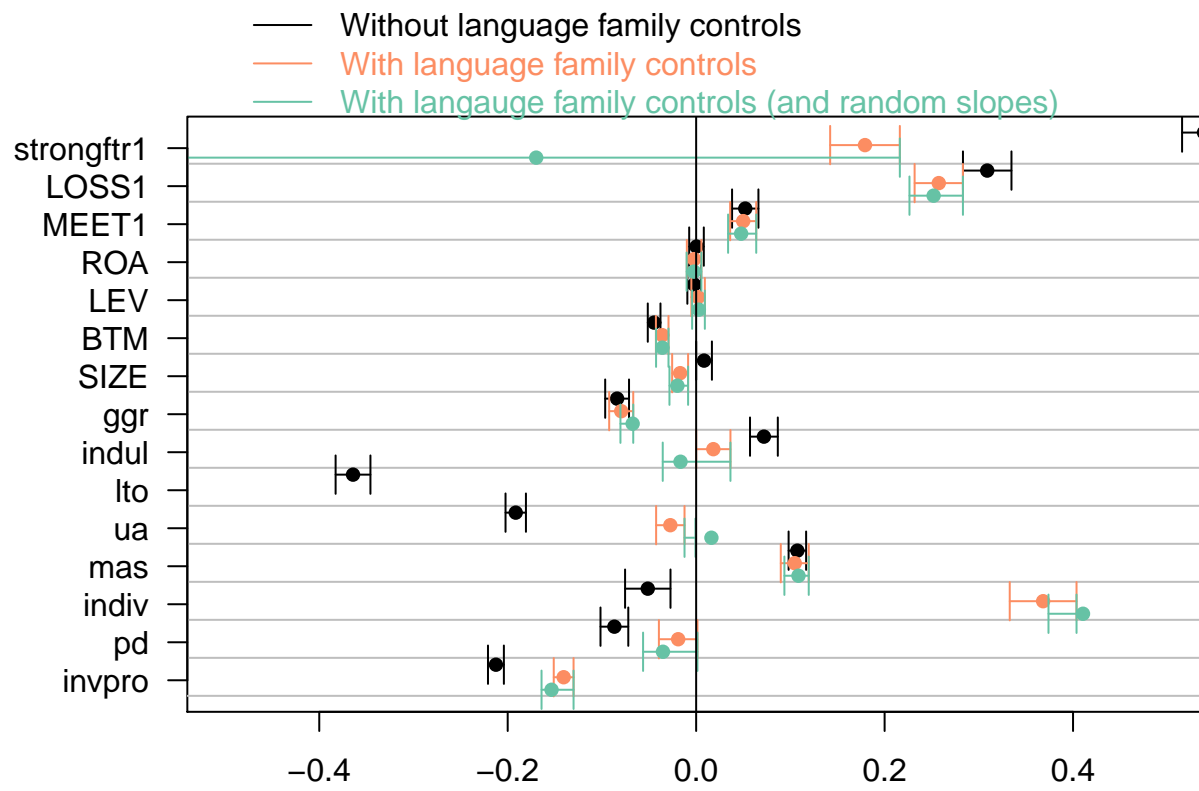
```

```

## Scaled residuals:
##      Min       1Q   Median       3Q      Max
## -0.8383 -0.6263 -0.3326  0.2380 31.1752
##
## Random effects:
##      Groups                Name         Variance Std.Dev. Corr
##      fyear                (Intercept) 0.2067261 0.45467
##      indus                (Intercept) 0.1191341 0.34516
##      mainLanguageFamily    (Intercept) 0.0003559 0.01887
##      mainLanguageFamily.1 strongftr0 0.6283060 0.79266
##                        strongftr1 1.7129177 1.30878 0.94
##      Residual                1.4226490 1.19275
## Number of obs: 94707, groups:  fyear, 20; indus, 9; mainLanguageFamily, 9
##
## Fixed effects:
##              Estimate Std. Error t value Pr(>|z|)
## (Intercept) -1.620158   0.266232  -6.09 1.16e-09 ***
## invpro      -0.153494   0.005415 -28.35 < 2e-16 ***
## pd          -0.035222   0.010760  -3.27 0.00106 **
## indiv       0.410556   0.018690  21.97 < 2e-16 ***
## mas         0.108590   0.007622  14.25 < 2e-16 ***
## ua          0.016180   0.008635   1.87 0.06096 .
## lto         -0.612745   0.011464 -53.45 < 2e-16 ***
## indul       -0.016607   0.009616  -1.73 0.08417 .
## ggr         -0.067387   0.006620 -10.18 < 2e-16 ***
## SIZE        -0.019870   0.004320  -4.60 4.24e-06 ***
## BTM         -0.035865   0.003402 -10.54 < 2e-16 ***
## LEV          0.002873   0.003653   0.79 0.43153
## ROA         -0.002389   0.003930  -0.61 0.54320
## MEET1        0.047749   0.007056   6.77 1.31e-11 ***
## LOSS1        0.252019   0.013080  19.27 < 2e-16 ***
## strongftr1  -0.169744   0.212595  -0.80 0.42461
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

##
## Correlation matrix not shown by default, as p = 16 > 12.
## Use print(x, correlation=TRUE) or
##      vcov(x)      if you need it

```



pdf
2

Decision tree

A decision tree is a machine learning technique that tries to find patterns in data. It finds a series of yes/no questions which divide datapoints into partitions that look similar. ‘Variable importance’ is a measure of how influential each variable is in making decisions in the tree. This is a useful way of spotting patterns in the data that linear models might miss. In this case, if FTR is a good predictor, we would expect it to appear on the tree and have relatively high variable importance.

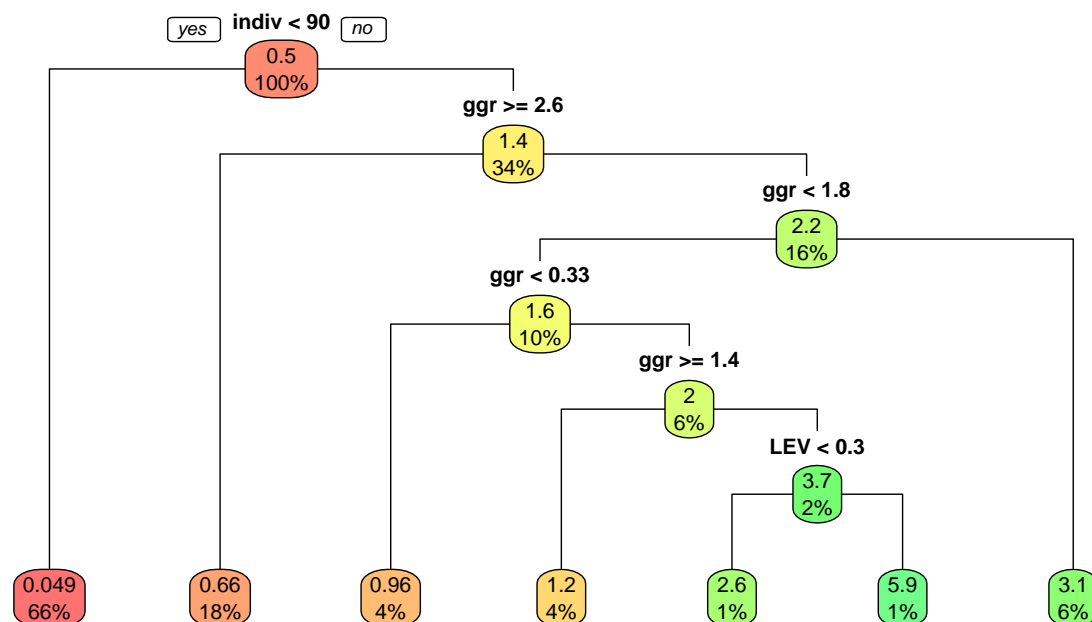
The package `REEMtree` allows the inclusion of random effects for year, industry type and main language family.

The tree below shows the yes/no questions at each branch in the tree. Coloured boxes show the mean AAM value and proportion of the data in that node. As it turns out, FTR does not appear on the tree. The most important factors are `ggr` and `indiv`.

```
set.seed(1111) # set random seed for reproducibility
rt = REEMtree(AAM ~
  strongftr +
  invpro +
  pd + indiv + mas + ua + lto + indul +
  ggr +
  SIZE + BTM + LEV + ROA +
  MEET + LOSS,
  data = d20rig,
  random = ~1|mainLanguageFamily
          ~1|fyear
          ~1|indus)
```

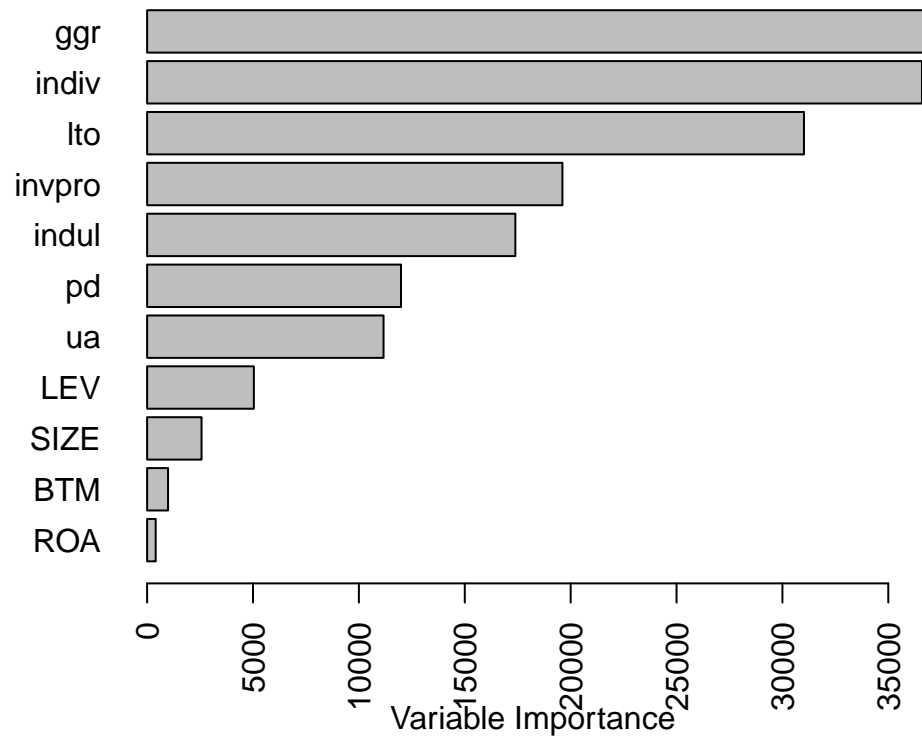
```
rpart.plot(tree(rt), type=1, extra=100, branch.lty=1, box.palette="RdYlGn", main="Colour")
```

Colour



```
varimp = rt$Tree$variable.importance
par(mar=c(5,10,2,2))
```

```
barplot(sort(varimp), horiz=T, las=2,
        xlab="Variable Importance")
```



```
par(mar=c(5, 4, 4, 2) + 0.1)
```

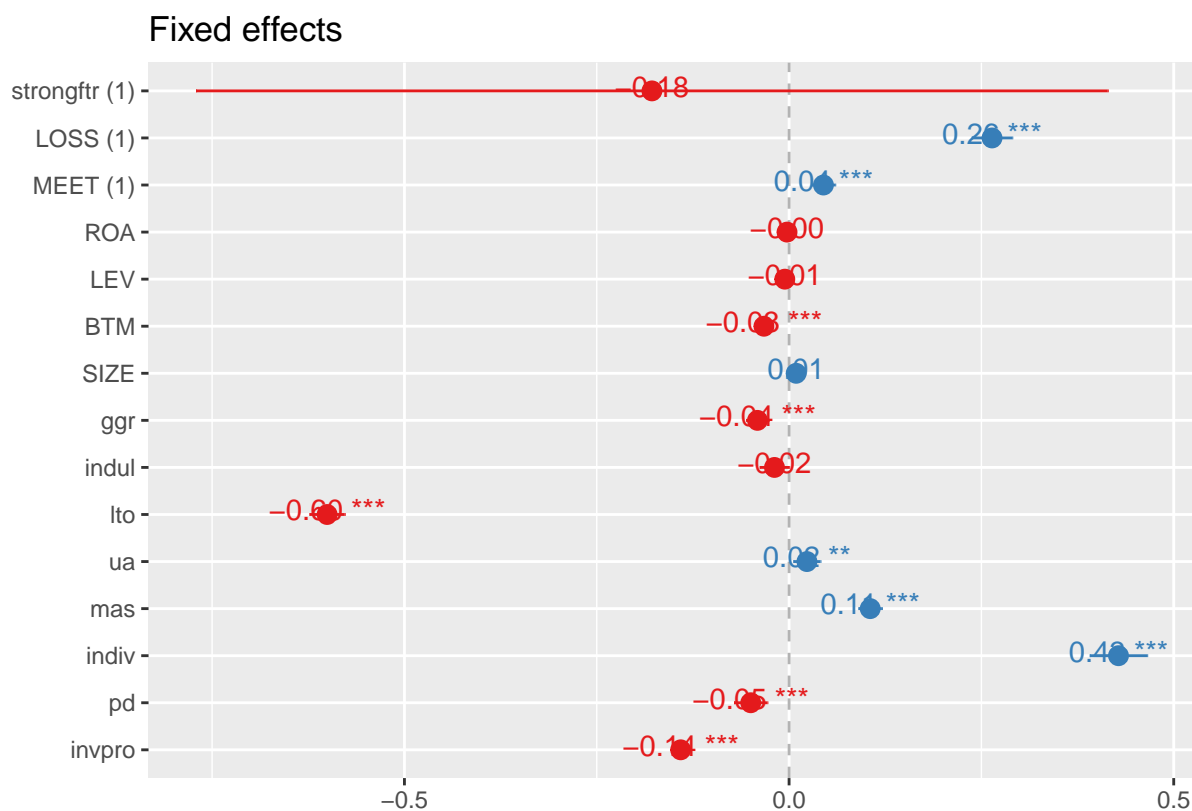
Random slopes

We can take a closer look at the random slopes for each language family:

```
d3 = d2[d2$mainLanguageFamily %in%  
  c("Austronesian", "Indo-European",  
    "Sino-Tibetan", "Uralic"),]  
mB2GammaFamily = update(mB2Gamma, data = d3)
```

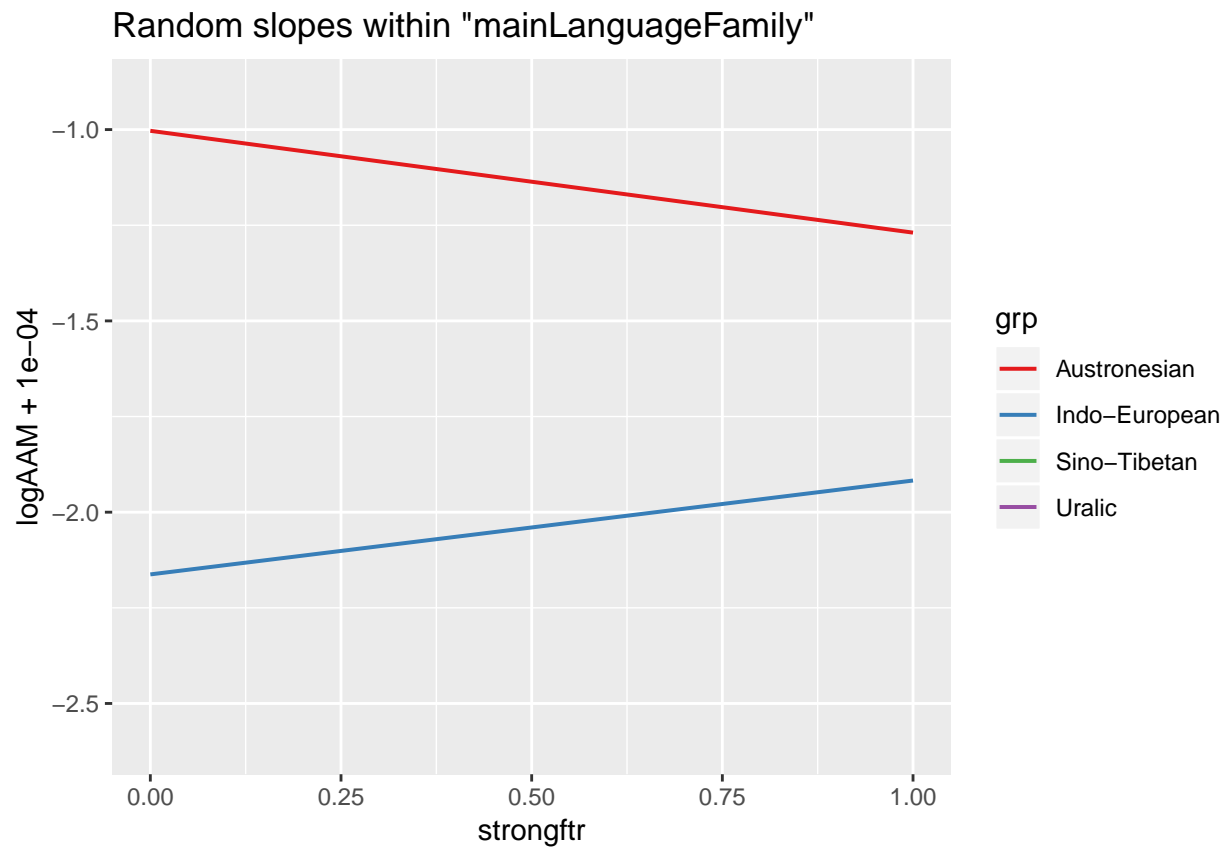
```
## Warning in checkConv(attr("derivs"), opt$par, ctrl = control  
## $checkConv, : Model failed to converge with max|grad| = 0.0013761 (tol =  
## 0.001, component 1)
```

```
sjp.lmer(mB2GammaFamily, type = "fe", p.kr = F)
```

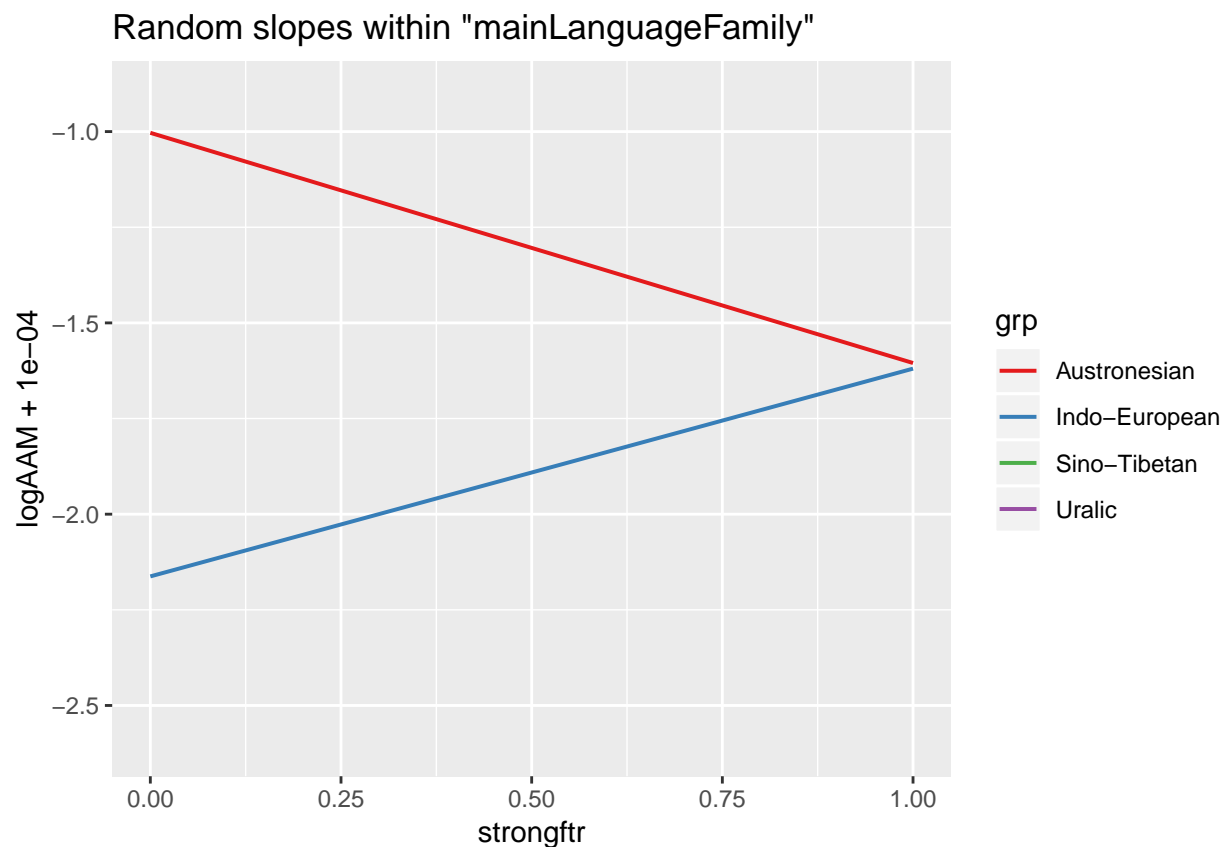


```
sjp.lmer(mB2GammaFamily, type = "rs.ri", vars = "strongftr", show.legend = T)
```

```
## Warning: Removed 2 rows containing missing values (geom_path).
```



Warning: Removed 2 rows containing missing values (geom_path).

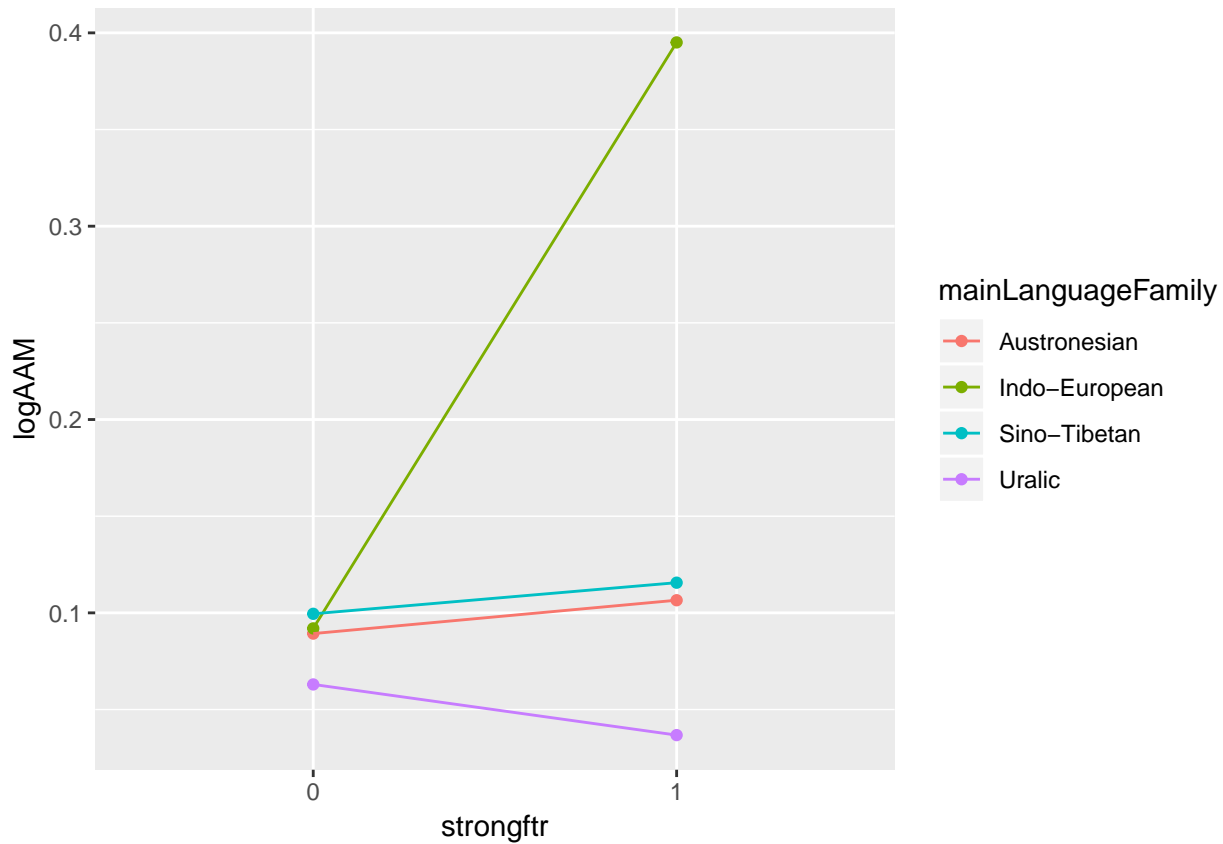


```
library(dplyr)

## Warning: package 'dplyr' was built under R version 3.3.2
##
## Attaching package: 'dplyr'
## The following object is masked from 'package:MASS':
##
##   select
## The following object is masked from 'package:nlme':
##
##   collapse
## The following objects are masked from 'package:stats':
##
##   filter, lag
## The following objects are masked from 'package:base':
##
##   intersect, setdiff, setequal, union

x = d2[d2$mainLanguageFamily %in%
      c("Austronesian", "Indo-European",
        "Sino-Tibetan", "Uralic"),] %>%
  group_by(mainLanguageFamily, strongftr) %>%
  summarise(logAAM=mean(logAAM))
ggplot(x, aes(x=strongftr, y=logAAM, color=mainLanguageFamily)) +
  geom_point() +
```

```
geom_line(aes(group=mainLanguageFamily))
```



Model just for Indo-European languages:

```
mB1GammaIE = update(mA1Gamma, data=d2[d2$mainLanguageFamily=="Indo-European",])
summary(mB1GammaIE)
```

```
## Generalized linear mixed model fit by maximum likelihood (Laplace
## Approximation) [glmerMod]
## Family: Gamma ( log )
## Formula:
## logAAM + 1e-04 ~ 1 + invpro + pd + indiv + mas + ua + lto + indul +
## ggr + SIZE + BTM + LEV + ROA + MEET + LOSS + strongftr +
## (1 | fyear) + (1 | indus)
## Data: d2[d2$mainLanguageFamily == "Indo-European", ]
##
##      AIC      BIC   logLik deviance df.resid
## -39726.8 -39555.3  19882.4 -39764.8    61616
##
## Scaled residuals:
##      Min       1Q   Median       3Q      Max
## -0.828 -0.632 -0.348  0.239 32.297
##
## Random effects:
##  Groups   Name                Variance Std.Dev.
## fyear    (Intercept)  0.2689   0.5186
## indus    (Intercept)  0.2729   0.5224
```

```

## Residual          1.4590   1.2079
## Number of obs: 61635, groups:  fyear, 20; indus, 9
##
## Fixed effects:
##           Estimate Std. Error t value Pr(>|z|)
## (Intercept) -0.326903   0.179472  -1.82 0.068535 .
## invpro      -0.460479   0.010504 -43.84 < 2e-16 ***
## pd          0.369501   0.013969  26.45 < 2e-16 ***
## indiv       0.222799   0.021596  10.32 < 2e-16 ***
## mas         0.244860   0.008143  30.07 < 2e-16 ***
## ua          -0.534175   0.013591 -39.30 < 2e-16 ***
## lto         -0.483771   0.016042 -30.16 < 2e-16 ***
## indul       -0.002515   0.013145  -0.19 0.848292
## ggr         -0.184346   0.013150 -14.02 < 2e-16 ***
## SIZE        -0.006981   0.005361  -1.30 0.192843
## BTM         -0.034560   0.004684  -7.38 1.61e-13 ***
## LEV         -0.014920   0.004513  -3.31 0.000947 ***
## ROA         -0.020073   0.004390  -4.57 4.81e-06 ***
## MEET1       0.015266   0.008982   1.70 0.089208 .
## LOSS1       0.176986   0.013648  12.97 < 2e-16 ***
## strongftr1  -0.105782   0.026847  -3.94 8.14e-05 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

##
## Correlation matrix not shown by default, as p = 16 > 12.
## Use print(x, correlation=TRUE) or
##   vcov(x)      if you need it

```

Phylogenetic test

Much of the data is linked to the Indo-European language family. We can use a phylogenetic tree (Bourckaert et al., 2012) to investigate the relationship between AAM and FTR when taking more fine-grained distinctions in linguistic history.

Subset of variables for the indo-european language family:

```
dIE = d[d$mainLanguageFamily=="Indo-European",]
dIE$DPlaceLang =
  countryMainLanguageFamily[
    match(as.character(dIE$loc),
          countryMainLanguageFamily$Country.Code),
  ]$DPlaceLang
```

Load tree and drop languages that are not in the dataset:

```
tree = read.nexus(file = "../data/raw/trees/bouckaert_et_al2012-d-place_2.NEXUS")
dplaceLangs = countryMainLanguageFamily$DPlaceLang[countryMainLanguageFamily$DPlaceLang!=""]
tree = drop.tip(tree,tree$tip.label[!tree$tip.label %in% dplaceLangs])
lx = read.csv("../data/raw/langftr.csv",stringsAsFactors = F)
countryMainLanguageFamily[countryMainLanguageFamily$FTR=="",]$FTR =
  c("Weak","Strong")[lx[match(countryMainLanguageFamily[countryMainLanguageFamily$FTR=="",]$Country.Code,
    lx$loc),]$strongftr+1]
```

```
## pdf
## 2
```

Collapse AAM and FTR within languages, and scale and center the AAM variable.

```
DP.FTR = factor(tapply(dIE$strongftr,dIE$DPlaceLang,head,n=1))
DP.LTO = scale(tapply(dIE$lto,dIE$DPlaceLang,mean,na.rm=T))
DP.AAM = scale(tapply(dIE$AAM,dIE$DPlaceLang,mean,na.rm=T))

cdata = data.frame(
  FTR = DP.FTR,
  AAM = DP.AAM,
  LTO = DP.LTO,
  lang = names(DP.FTR)
)
cdata = cdata[cdata$lang!="",]
```

Run a regression using the phylogenetic tree as a variance-covariance matrix.

```
# Priors
prior.PN<-list(
  G=list(
    G1=list(V=1,nu=0.002)),
  R=list(V=1,nu=0.002))
# Chain length
burnin = 100000
postBurnin =100000
thin = 10
# Run the model
set.seed(1289)
phyloModel0<-MCMCglmm(
  AAM ~ FTR,
  random=~lang,
```



```
ginverse=list(
  lang=inverseA(tree)$Ainv),
prior = prior.PN,
verbose=FALSE,
family="gaussian",
data = cdata,
nitt=burnin+postBurnin,
thin=thin,
burnin=burnin)
```

Results:

```
summary(phylModel0)
```

```
##
## Iterations = 100001:199991
## Thinning interval = 10
## Sample size = 10000
##
## DIC: 24.39859
##
## G-structure: ~lang
##
##      post.mean  1-95% CI u-95% CI eff.samp
## lang      1.395 0.0002236    4.025    578.1
##
## R-structure: ~units
##
##      post.mean  1-95% CI u-95% CI eff.samp
## units      0.597 0.0001479    1.568    494.9
##
## Location effects: AAM ~ FTR
##
##      post.mean 1-95% CI u-95% CI eff.samp pMCMC
## (Intercept)  -0.7944 -2.4719  0.6958  1485.2 0.310
## FTR1          0.9332 -0.4488  2.3000   905.9 0.188
```

There is no significant relationship between AAM and FTR.

Do the same test for Long-Term Orientation:

```
set.seed(12829)
phylModelLTO<-MCMCglmm(
  AAM ~ LTO,
  random=~lang,
  ginverse=list(
    lang=inverseA(tree)$Ainv),
  prior = prior.PN,
  verbose=FALSE,
  family="gaussian",
  data = cdata,
  nitt=burnin+postBurnin,
  thin=thin,
  burnin=burnin)
summary(phylModelLTO)
```

```

##
## Iterations = 100001:199991
## Thinning interval = 10
## Sample size = 10000
##
## DIC: 49.44665
##
## G-structure: ~lang
##
##      post.mean 1-95% CI u-95% CI eff.samp
## lang      0.4891 0.0001196      2.849      446.1
##
## R-structure: ~units
##
##      post.mean 1-95% CI u-95% CI eff.samp
## units      0.8295 0.0003182      1.571      1090
##
## Location effects: AAM ~ LTO
##
##      post.mean 1-95% CI u-95% CI eff.samp pMCMC
## (Intercept) -0.02423 -0.78404  0.72067      9630 0.9426
## LTO          -0.44768 -0.89869 -0.01900      8875 0.0476 *
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

```

OLS with clustered errors

Run an OLS regression, then print the results when clustering standard errors by language family. This uses code from Beaufrelet (2018) and Hlavac (2018).

Beaufrelet, I. (2018) <https://github.com/IsidoreBeaufrelet/economictheoryblog>

Hlavac, Marek (2018). stargazer: Well-Formatted Regression and Summary Statistics Tables. R package version 5.2.2. <https://CRAN.R-project.org/package=stargazer>

```
source("robust_summary.R")
reg <- lm(AAM.scaled ~
          strongftr +
          invpro +
          pd + indiv + mas + ua + lto + indul +
          ggr +
          SIZE + BTM + LEV + ROA +
          MEET + LOSS,
          data=d2)
sStandard = summary(reg)
sCluster = summary(reg, cluster = c("mainLanguageFamily"))
```

```
## Warning: package 'sandwich' was built under R version 3.3.2
```

```
sStandard
```

```
##
## Call:
## lm(formula = AAM.scaled ~ strongftr + invpro + pd + indiv + mas +
##      ua + lto + indul + ggr + SIZE + BTM + LEV + ROA + MEET +
##      LOSS, data = d2)
##
## Residuals:
##      Min       1Q   Median       3Q      Max
## -0.8968 -0.3581 -0.1046  0.0431 13.8734
##
## Coefficients:
##              Estimate Std. Error t value Pr(>|t|)
## (Intercept)  0.224931   0.013425  16.754 < 2e-16 ***
## strongftr1   0.131751   0.010477  12.575 < 2e-16 ***
## invpro      -0.098873   0.003412 -28.980 < 2e-16 ***
## pd           0.009507   0.006242   1.523 0.127773
## indiv        0.021466   0.009681   2.217 0.026609 *
## mas          0.061711   0.003891  15.858 < 2e-16 ***
## ua          -0.043890   0.004223 -10.394 < 2e-16 ***
## lto         -0.110883   0.007396 -14.992 < 2e-16 ***
## indul        0.024838   0.006597   3.765 0.000167 ***
## ggr         -0.071854   0.004298 -16.717 < 2e-16 ***
## SIZE         0.036102   0.003694   9.773 < 2e-16 ***
## BTM         -0.020304   0.003271  -6.208 5.40e-10 ***
## LEV         -0.005215   0.003353  -1.555 0.119921
## ROA          0.009100   0.003859   2.358 0.018382 *
## MEET1        0.030394   0.006442   4.718 2.38e-06 ***
## LOSS1        0.169889   0.011957  14.208 < 2e-16 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
```

```
## Residual standard error: 0.9628 on 94691 degrees of freedom
## Multiple R-squared:  0.07311,    Adjusted R-squared:  0.07296
## F-statistic: 497.9 on 15 and 94691 DF,  p-value: < 2.2e-16
```

```
sCluster
```

```
##
## Call:
## lm(formula = AAM.scaled ~ strongftr + invpro + pd + indiv + mas +
##      ua + lto + indul + ggr + SIZE + BTM + LEV + ROA + MEET +
##      LOSS, data = d2)
##
## Residuals:
##      Min       1Q   Median       3Q      Max
## -0.8968 -0.3581 -0.1046  0.0431 13.8734
##
## Coefficients:
##              Estimate Std. Error t value Pr(>|t|)
## (Intercept)  0.224931   0.155849   1.443  0.14895
## strongftr1   0.131751   0.079045   1.667  0.09556 .
## invpro      -0.098873   0.038224  -2.587  0.00969 **
## pd           0.009507   0.040960   0.232  0.81646
## indiv        0.021466   0.041456   0.518  0.60460
## mas          0.061711   0.023124   2.669  0.00762 **
## ua          -0.043890   0.027344  -1.605  0.10848
## lto          -0.110883   0.039225  -2.827  0.00470 **
## indul        0.024838   0.016036   1.549  0.12140
## ggr          -0.071854   0.037191  -1.932  0.05336 .
## SIZE         0.036102   0.006813   5.299 1.17e-07 ***
## BTM          -0.020304   0.009064  -2.240  0.02509 *
## LEV          -0.005215   0.002503  -2.083  0.03721 *
## ROA           0.009100   0.005587   1.629  0.10340
## MEET1        0.030394   0.006669   4.557 5.18e-06 ***
## LOSS1        0.169889   0.027220   6.241 4.35e-10 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 0.9628 on 94691 degrees of freedom
## Multiple R-squared:  0.07311,    Adjusted R-squared:  0.07296
## F-statistic: -5.107e+15 on 15 and 8 DF,  p-value: 1
```

```
htmlTable =
```

```
  stargazer(reg,reg,se=list(
    coef(sStandard)[, 2],
    coef(sCluster)[, 2]
  ), type = "html", out = "../results/modelResults/RobustClusterResults.html")
```