

Replication-Project.Rmd

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Introduction

For my final project, I replicated the analysis performed by Abhit Bhandari in his paper “Political Determinants of Economic Exchange: Evidence from a Business Experiment in Senegal.” In his experiment, Bhandari aimed to evaluate whether political connections and formal contracts impact the exchange of goods in Dakar, Senegal. To do this, he created his own business in Dakar that sold phone credits.

Senegal as a Place of Business

According to Bhandari’s paper, Senegal has weak legal institutions and consistently ranks poorly in work indexes for ease of doing business and enforcement of legal contracts (Bhandari 5). Furthermore, contractual enforcement becomes more complicated when the involved parties possess political connections. According to Bhandari, possessing political connections in Senegal affords one preferential treatment, including situations such as contractual enforcement. In essence, if a person breaks a legal contract, they are less likely to be held accountable if they hold political connections.

Bhandari’s Hypotheses

Given this background information, Bhandari poses the following three hypotheses: The first hypothesis is that sellers who possess political connections will deter buyers from purchasing their goods. The second hypothesis is that formal legal contracts between sellers and buyers will increase the probability that a buyer purchases goods from the seller. The third hypothesis is that buyers have a higher probability of purchasing goods if they hold political connections and the seller in question does not hold political connections; conversely, buyers have a lower probability of purchasing goods if the seller possess political connections and the buyer does not.

Below, I have replicated Table 1 of Bhandari’s paper, which shows his theoretical predictions.

Table 1: Theoretical Predictions Under Asymmetric Political Connections

	Buyer is politically connected	
	No	Yes
Seller is not politically connected	Intermediate probability of purchase	High probability of purchase
Seller is politically connected	Low probability of purchase	Intermediate probability of purchase

Bhandari’s Experiment Setup

Bhandari registered an official business in Senegal that offered phone credits. Since part of his hypothesis involved sellers’ signaling their political connections to buyers, he arranged for his nine hired employees to intern at a municipal council in Senegal (Bhandari 7). Afterwards, his employees began official employment.

Pertaining to treatment groups, Bhandari utilized a “factorial design” that involved three “treatment arms” which sought to assess how political connections and legal contracts would impact the exchange of goods between buyers and sellers (Bhandari 8).

The first treatment arm involved sellers revealing their political connections via bringing up their prior internship experience while talking to buyers (Note: according to Bhandari, it is customary for Sengal citizens to engage in long introductions when partaking in household business transactions).

The second treatment arm involved sellers’ requiring a formal contract signed between the seller and buyer for the transaction. This contract pertained to the transaction details, payment types, and product delivery information.

The third treatment arm involved sellers’ providing an optional formal contract to the seller. In this scenario, buyers could chose to receive the same contract described above in exchange for a small fee.

A factorial experiment involves analyzing each level of independent factors in every combination possible with levels of other independent factors (Source: Penn State college of Health and Human Development). For example, in Bhandari’s experiment, factorial design gives us six different treatment groups (including the control group). This is because we have three types of contract availability (no contract, mandatory contract, and an optional contract). Additionally, for each of these treatments, the sellers either signaled or did not signal their connections. Hence, $3 \times 2 = 6$ different permutations.

Below, I replicated Bhandari’s Table 2, which illustrates more vividly the six different treatment groups in his experiment.

Table 2: Treatment Groups

	Contract Availability		
	No contract	Contract (required)	Contract (optional)
Signaled connections	Pure control	Optional contract	Connection + required contract
Did not signal connections	Required contract	Connection	Connection + optional contract

Block Randomization

For his experiment, Bhandari utilized block randomization in order to reduce sampling bias, which may have skewed the experiment’s results. He conducted the experiment across three communes. Each of the three communes had exposure to all six treatment types. In essence, Bhandari’s employees went to various homes in each commune, and in each home visit, they were randomly assigned a certain treatment to provide. To ensure treated individuals’ responses were independent and identically distributed (IID), Bhandari instructed sellers to visit houses that were a certain distance away from each other (in that way, neighbors wouldn’t gossip with each other about the new phone credit business) as well as only sell products to one person in each household (so that household members wouldn’t confer and influence each others’ responses). Source: Bhandari 9.

Data Collection

Data was collected in two waves. The first wave was the selling stage (i.e., sellers selling phone credits to prospective buyers). The second wave was post- transaction, when buyers were surveyed about topics such as their perceptions of sellers’ competency, trustworthiness, etc (Bhandari 9).

Measuring Primary Outcomes

Bhandari aimed to measure the outcomes: buyers' willingness to purchase the product, as well as the amount of risk buyers were willing to take on in the transaction.

In order to capture the salient data, Bhandari's business offered three different phone credit packages. The first package cost 700 West African CFA francs and offered almost instant delivery of a small amount of phone credits. The second package was cheaper, offered more phone credits, but was subject to a 3-day delivery delay after purchase. (due to administrative processing). The third package was the most expensive option and also would be delivered after 3 days; however it also offered the greatest amount of phone credits per currency unit of all the packages available.

Below I have replicated Table 3 of Bhandari's paper, which showcases the full inventory of phone credit packages that his business offered as well as the associated risks of each package.

Table 3: Phone Credit Purchase Options

Purchase level	Cost (CFA)	Credits received (CFA)	When phone credit arrived	Type of risk
Declined deal	-	-	-	-
No delay	700	1,000	Several minutes	Risk of substandard quality
Delay (\$)	500	1,500	In 3 days	Risk of substandard quality and nondelivery
Delay (\$\$\$)	1,000	3,000	In 3 days	Risk of substandard quality and nondelivery

Conclusion

Bhandari ultimately found that employees who signal connections caused buyers to be less likely to purchase a service. This is likely due to buyers being hesitant that sellers with political connections are less likely to be held accountable if they breach a contract. Additionally, the presence of a formal sales contract induced buyers to be more willing to purchase a service; however, this effect was larger for buyers with political connections. This result may be due to politically buyers feeling more secure that they have the legal system's support, compared to individuals who do not have such comforting connections.

Additional Model Replications

I replicated 15 of Bhandari's models, which made up 3 tables total. *Note: In this paper, Bhandari uses exclusively OLS linear regressions*

Below, I have replicated Table 4, which Bhandari utilizes to prove the validity of the experiment set-up (i.e., that sellers' signalling political connections actually led buyers to believe the seller possessed political connections).

In creating this model, I regressed the `thinks_seller_is_connected` outcome variable on several covariates: The most significant covariate was `pool_T1`, which is a binary indicator for whether the seller signaled political connections. All other covariates made up fixed effects from block randomization and enumerators.

List of additional covariates: `-enum`, which indicated which enumerator surveyed the buyer after the transaction period (range: 1-9) `-block.id`, which randomization block the survey respondent resides in (range: 1-243) `-descriptives.age`, which refers to the survey respondent's age `-gender`, which refers to the survey respondent's gender `-educ_level`, which refers to the survey respondent's highest level of completed education (range: 1-5) `-employed`, binary indicator on whether the survey respondent is employed `-student`, binary indicator on whether the survey respondent is a student `-coethnicreligion`, binary indicator on whether the survey respondent and the seller shared the same ethnicity and/or religion

In replicating this model, I also included the interaction between `pool_T1` and `coethnicreligion`, which served to examine if sharing the same religion or ethnic affects how a buyer perceives a sellers’ signalling of political connections.

Just from reading the methodology in Bhandari’s paper alone, I was able to capture somewhat similar coefficients in my model. However, I ultimately had to glance at Bhandari’s code to see what I was missing, which ended up being the factorization of `enum`, `blockid`, `educ_level`. Factorization of these three variables was definitely important since otherwise, they would be erroneously been treated as numeric variables (which did end up skewing my regression outputs). Additionally, I did not include the interaction between `pool_T1` and `coethnicreligion` in my initial model.

However, in my initial model, I did include the `religion` and the `ethnicity` of the survey respondent, since I would consider them to be a part of the fixed effects. I assume Bhandari did not include them because he thought `coethnicreligion` would sufficiently cover that domain.

Table 4: Buyer Belief of Seller Connections Driven by Connection Signal

	<i>Dependent variable:</i>
	<code>thinks_seller_is_connected</code>
Connection signaled	0.188*** (0.023)
Control group outcome mean	0.169
Control group outcome std. dev	0.362
Outcome range	0, 1
Fixed effects	Yes
Controls	Yes
Observations	1,458
R ²	0.370
Adjusted R ²	0.233
Residual Std. Error	0.381 (df = 1196)
F Statistic	2.696*** (df = 261; 1196)
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01

As you can see from this table, buyers who were treated to the seller’s signaling of political connections were 18.8% more likely to believe the seller possessed political connections compared to buyers who did not receive the treatment (also noted in Bhandari 11).

I next replicated Table 5 of Bhandari’s paper, which analyzed how the three treatments (signalling political connections, requiring a contract, offering an optional contract) affected whether buyers purchased phone credits as well as the level of risk buyers were willing to engage in for their purchase.

This table contains four different models. The first model (1) regresses the `purchased` variable (if a buyer purchased anything) over covariates, including signaling political connection, requiring a contract, offering an optional contract, interaction terms between signaling political connections and the contracts, as well as various fixed effects and constants (same as those used for Table 4).

This first model uses “unpooled” data which means that the optional contract is separate from not offering a contract at all. However, Bhandari states that the optional contract treatment arm is “conceptually similar” to not offering a contract at all. Hence, in Model 2, the regression is identical to Model 1, except the optional contract variables has been “pooled” with the control group (not offering a contact at all). Hence, we do not see a model output for the optional contract and its interaction with political connection signal for Model 2.

Models 3 and 4 follow the same philosophy, except this time, the outcome variable is if the buyer ended up purchasing a phone credit service that entailed a day. Model 3 is a linear regression with the `optional`

contract variable unpooled, whereas Model 4 has **optional contract** pooled with the control group.

	<i>Dependent variable:</i>			
	purchased		subscription_trust	
	(1)	(2)	(3)	(4)
T1	−0.053 (0.042)		0.001 (0.036)	
T2	0.047 (0.043)		0.104*** (0.037)	
T3	−0.003 (0.043)		0.059 (0.037)	
pool_T1		−0.044 (0.031)		−0.013 (0.027)
pool_T2		0.048 (0.037)		0.075** (0.032)
T1:T2	0.045 (0.055)		−0.003 (0.048)	
T1:T3	0.019 (0.055)		−0.029 (0.047)	
pool_T1:pool_T2		0.035 (0.048)		0.011 (0.041)
Control group outcome mean	0.315	0.31	0.145	0.163
Control group outcome std. dev	0.466	0.463	0.353	0.37
Fixed effects	Yes			
Controls	Yes			
Observations	1,458	1,458	1,458	1,458
R ²	0.301	0.301	0.244	0.242
Adjusted R ²	0.145	0.147	0.074	0.074
Residual Std. Error	0.428	0.427	0.367	0.367
F Statistic	1.923***	1.947***	1.438***	1.442***

Note:

*p<0.1; **p<0.05; ***p<0.01

Analyzing the statistically significant variables, we see in the unpooled model (1) that, when a political connection is signaled, then buyers are are average 5.3 less likely to purchase a phone credit service. In the pooled model (3), when a political connection is signaled, buyers are are average 4.4 less likely to purchase a phone credit service.

Additionally, in the unpooled model (3), we see that when the seller requires a formal contract for the transaction, buyers are 10.4% more likely to purchase a phone credit package that entails a delay. Similarly, in the pooled model, we see that when the seller requires a formal contract for the transaction, buyers are 7.5% more likely to purchase a phone credit package that entails a delay.

Overall, based on Table 5, it appears that sellers' signalling political connections has a negative influence on buyers' willingness to make a purchase. Whereas when the seller requires a formal contract, buyers are more willing to buy more high-risk product options.

The final replication I conducted was Table 6 of Bhandari's paper, which includes 10 models total. These models measures quality criteria of both sellers and buyers.

	seller_quality		seller_trust		Dependent variable
	(1)	(2)	(3)	(4)	(5)
pool_T1	−0.023 (0.032)	−0.035 (0.038)	−0.004 (0.050)	−0.026 (0.059)	0.038 (0.028)
pool_T2	0.044 (0.034)	0.026 (0.045)	0.073 (0.052)	0.040 (0.070)	0.033 (0.030)
pool_T1:pool_T2		0.035 (0.058)		0.066 (0.091)	
Control group outcome mean	3.603	3.603	2.485	2.485	0.952
Fixed effects	Yes				
Controls	Yes				
Observations	1,458	1,458	1,458	1,458	1,458
R ²	0.307	0.307	0.246	0.246	0.666
Adjusted R ²	0.154	0.154	0.079	0.079	0.592
Residual Std. Error	0.520 (df = 1194)	0.520 (df = 1193)	0.808 (df = 1194)	0.809 (df = 1193)	0.457 (df = 1194)
F Statistic	2.011*** (df = 263; 1194)	2.004*** (df = 264; 1193)	1.477*** (df = 263; 1194)	1.473*** (df = 264; 1193)	9.044*** (df = 263; 1194)

Note:

Models 1 and 2 estimate buyers' perception of sellers' competence based on the same pooled covariates mentioned in Table 5. The only difference between Model 1 and Model 2 is that Model 2 also contains an interaction term between the **political connection signal** and **formal contract** variables.

The interaction term difference is identical for Models 3 & 4, Models 5 & 6, Models 7 & 8, and Models 9 & 10. Models 3 & 4 estimate sellers' perceived trustworthiness to buyers. Models 5 & 6 estimate sellers'

perceptions of the number of questions the buyer asked during the transaction. Models 7 & 8 estimate buyers' politeness as perceived by the sellers. Models 9 & 10 estimate buyers' level of suspiciousness to the transaction deal, as perceived by the sellers.

Looking at the statistically significant coefficients, we see that buyers were on average more likely to ask questions during the transaction when sellers' signaled having political connections compared to instances where sellers did not signal having political connections. Furthermore, buyers were on average more likely to ask questions during the transaction when sellers' required formal contract compared to instances where sellers did not require formal contracts.

Conclusion

Limitations of the Original Analysis + Proposed Extension

Bibliography