README file

The file DATA_replication.zip includes

A. The following Stata do files:
1) readmemb_AER.do
2) readfmly_AER.do
3) readmtab_AER.do
4) create_bigfmly_AER.do
5) create_bigmtab_AER.do
6) cexall_new_AER.do
7) shell_AER.do
8) create1_AER.do
9) create2_AER.do
10) adjust_AER.do
11) impute_AER.do
12) graphs_AER.do
13) mean_comparison_AER.do
14) mindist_AER.do
15) mindist_extra_AER.do

B. The following Stata data files:
1) data.dta
2) cexall.dta
3) tax9192.dta
4) natpr.dta
5) finprice.dta
6) fit_model.dta
7) fig6.dta
8) cy_var_vs_y_var.dta
9) trans_var_using_e_y.dta
10) johnson.dta

C. The following gauss files:
1) cmV_AER.run
2) MD_AER.prg

- The file shell_AER.do gives the right sequence of the files.
- The files readmemb_AER.do, readfmly_AER.do, readmtab_AER.do, create_bigfmly_AER.do, create_bigmtab_AER.do, and cexall_new_AER.do create the CEX data set cexall.dta used in the imputation procedure (and provided here). These files require the original files of the CEX, which are publicly available (at a cost) and hence omitted. The file cexall_new_AER.do calls the file johnson.dta that contains imputed services of housing and vehicles as provided to us by D. Johnson at BLS.
- The file create1_AER.do extracts the variables of interest from the 1968-1993 PSID family files. The file create2_AER.do extracts the variables of interest from the PSID individual file. At the end of create2_AER.do the family files are merged with the individual file to create the data set data.dta (which is provided

herein – the family files and individual files of the PSID are available from the PSID website, so we're not including those). Note that the data set `data.dta` is later merged with `natpr.dta` (containing information on prices) and with `tax9192.dta` (containing information on taxes from TAXSIM for 1991-92, years in which the PSID did not collect information on federal taxes paid). Both files are provided.

- The file `adjust_AER.do` does the sample selection.
- The file `impute_AER.do` does two things. First it estimates the demand function for food in the CEX (using the data set `cexall.dta`). This is Table 2. Then, it imputes consumption in the PSID. It calls the file `finprice.dta` (containing information on prices),
- The file `graphs_AER.do` does all the graphs of the paper. It calls the data sets `fit_model.dta, fig6.dta, cy_var_vs_y_var.dta,` and `trans_var_using_e_y.dta` (all provided).
- The file `mean_comparison_AER.do` does the Table 1.
- The file `mindist_AER.do` does Tables 3, 4, 5, 6, 7 and part of Table 8. You need to change appropriately the "scalars" on the top of the file to get all the corresponding results. The file calls two gauss programs, `cmV_AER.run` and `MD_AER.prg`. The first creates the vector of (c,y) moments and its variance matrix. The second is the minimum distance program. You need to change appropriately the "scalars" on the top of this file to get the "varying insurance coefficients" case and tests. The file `cmV_AER.run` also generates the vector of (y) moments and its variance matrix in case you want to estimate the parameters of the income process. You can do this by simple modification of the `MD_AER.prg` file.
- Finally, the file `mindist_extra_AER`.do does the rest of Table 8. Again, you need to change appropriately the "scalars" on the top of the file to get all the corresponding results. The file calls two gauss programs, `cmV_AER.run` and `MD_AER.prg`. The first creates the vector of (c,y) moments and its variance matrix. The second is the minimum distance program.

Note: You need to have three softwares to run these files flawlessly: Stata, Gauss, and Stat Transfer.
All the program files contain enough explanatory notes so that replication should be easy. The files have been checked for bugs, but of course it is possible that we may have missed some (hopefully not!). Please contact us at r.blundell@ucl.ac.uk, pista@stanford.edu or i.preston@ucl.a.cuk if you have any questions or comments.