ANALYSIS OF PANEL DATA

Fixed-Effect and Random-Effect Models

datascience@berkeley

Fixed-Effect Model

Remarks on Fixed-Effect Models

R^2 and Degree of Freedom in a Fixed Effect Model

- Note that the R-squared of the fixed effect equation (i.e. demeaned equation) should be interpreted with caution.
- It measures the amount of time variation in y_{it} that can be explained by the variation of the explanatory variables.
- In a general fixed effect model, we have $N \times T$ observations and k independent variables. As such, we should have $NT - k$ degree of freedom. Is that correct?

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