

Interactions

Log GDP per Capita, 1995

10
9
8
7
6

4

6

8

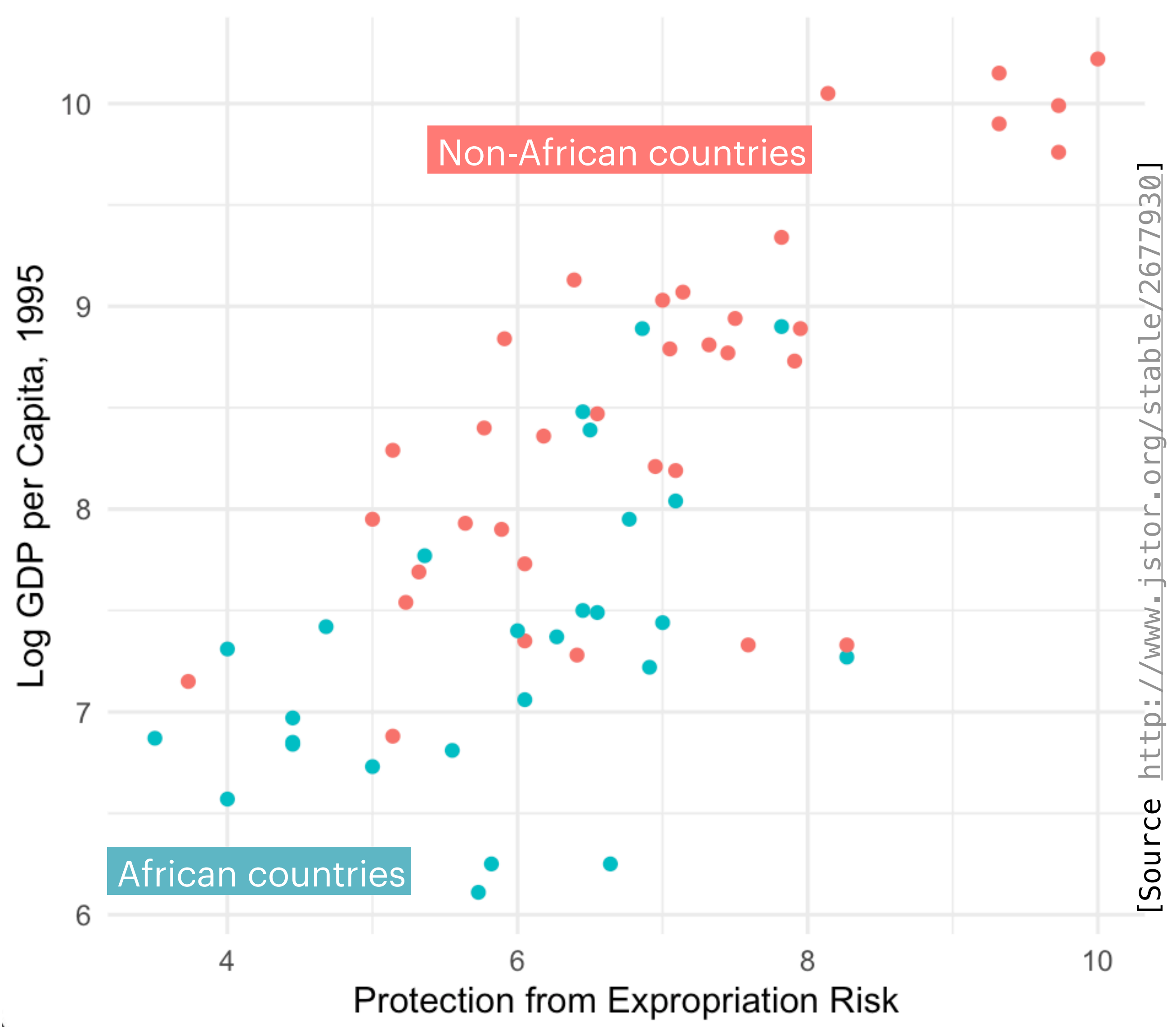
10

Protection from Expropriation Risk

Non-African countries

African countries

[Source <http://www.jstor.org/stable/2677930>]



African/Non-
African countries

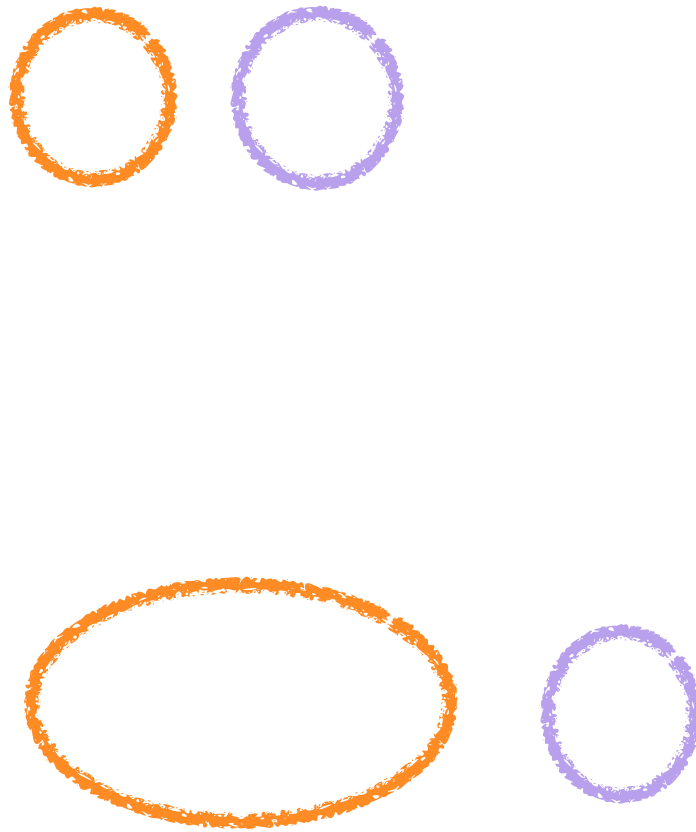
$$Y = \beta_0 + \beta_1 X + \beta_2 Z$$

expropriation
risk protection

log GDP

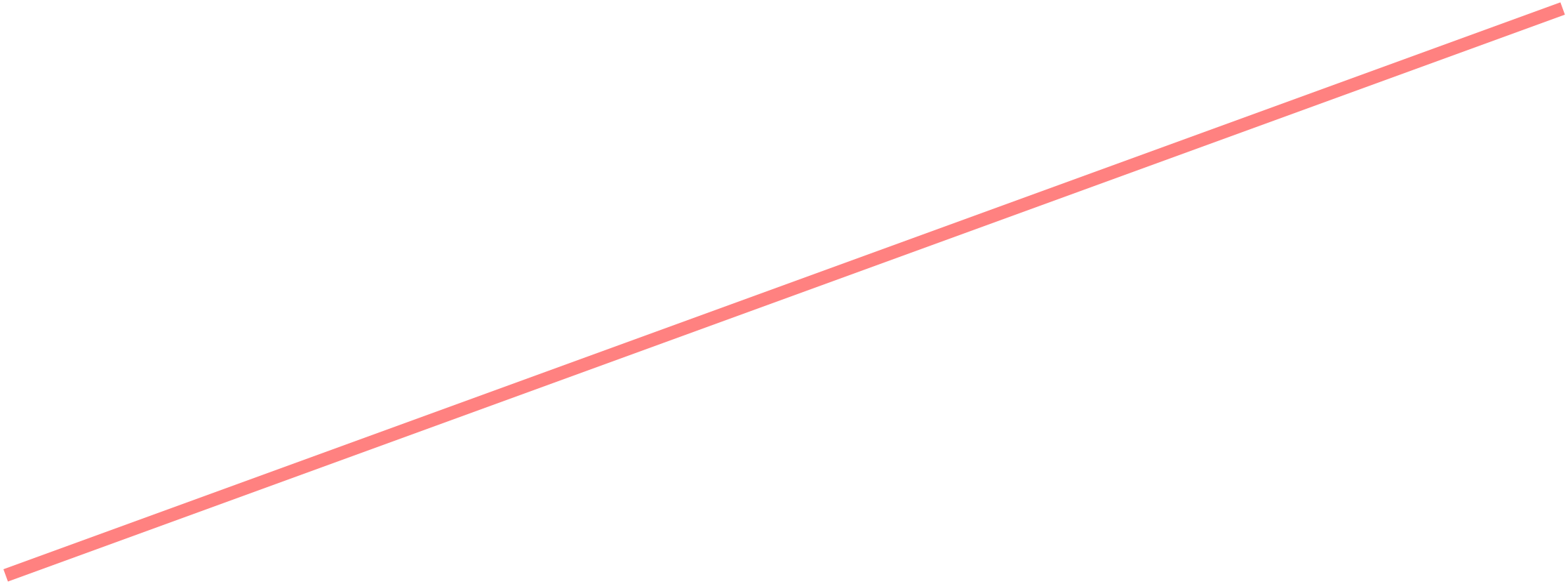
$$\begin{aligned} Z = 0 \quad \implies \quad Y &= \beta_0 + \beta_1 X + \beta_2 Z \\ &= \beta_0 + \beta_1 X + \beta_2 \cdot 0 \\ &= \beta_0 + \beta_1 X \end{aligned}$$

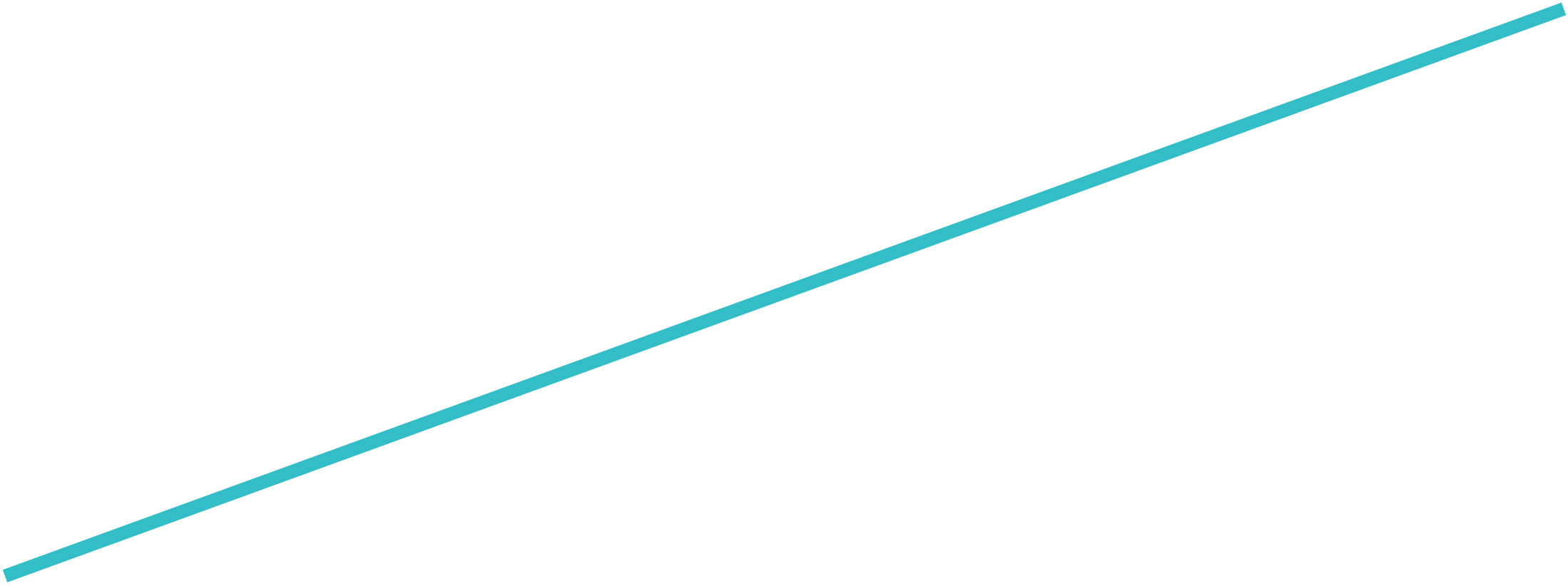
$$\begin{aligned}
 Z = 1 &\implies Y = \beta_0 + \beta_1 x_1 + \beta_2 Z \\
 &= \beta_0 + \beta_1 X + \beta_2 \cdot 1 \\
 &= (\beta_0 + \beta_2) + \beta_1 X
 \end{aligned}$$



different intercepts

same slope





Interactions

$$Y = \beta_0 + \beta_1 X + \beta_2 Z$$

log GDP

expropriation
risk protection

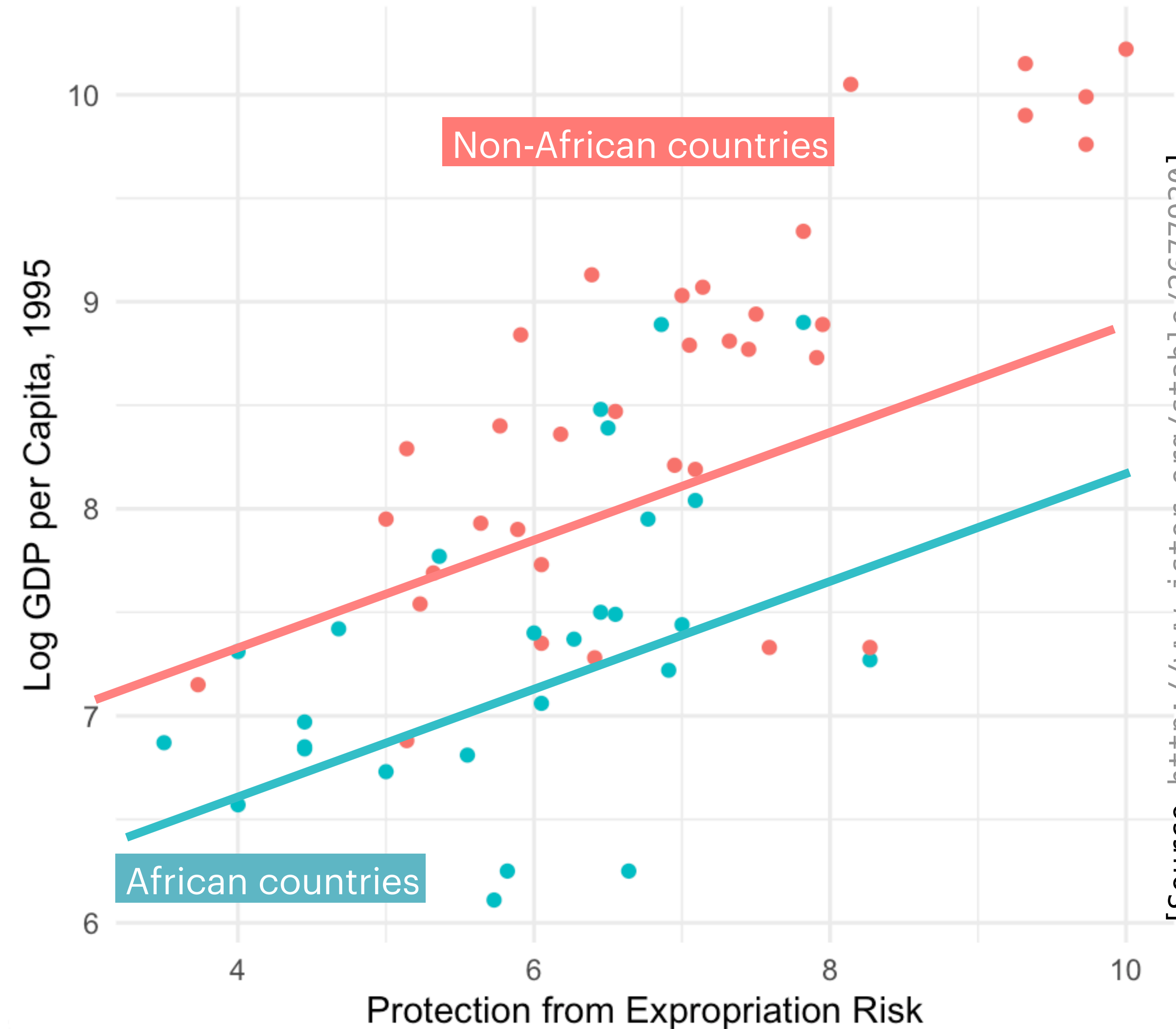
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