Microeconometrics

This book provides a comprehensive treatment of microeconometrics, the analysis of individual-level data on the economic behavior of individuals or firms using regression methods applied to cross-section and panel data. The book is oriented to the practitioner. A good understanding of the linear regression model with matrix algebra is assumed. The text can be used for Ph.D. courses in microeconometrics, in applied econometrics, or in data-oriented microeconomics sub-disciplines; and as a reference work for graduate students and applied researchers who wish to fill in gaps in their tool kit. Distinguishing features include emphasis on nonlinear models and robust inference, as well as chapter-length treatments of GMM estimation, nonparametric regression, simulation-based estimation, bootstrap methods, Bayesian methods, stratified and clustered samples, treatment evaluation, measurement error, and missing data. The book makes frequent use of empirical illustrations, many based on seven large and rich data sets.

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To

my mother and the memory of my father

the memory of my parents
# Contents

<table>
<thead>
<tr>
<th>List of Figures</th>
<th>xv</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Tables</td>
<td>xvii</td>
</tr>
<tr>
<td>Preface</td>
<td>xxi</td>
</tr>
</tbody>
</table>

## 1 Preliminaries

1. **Overview**  
   1.1 Introduction  
   1.2 Distinctive Aspects of Microeconometrics  
   1.3 Book Outline  
   1.4 How to Use This Book  
   1.5 Software  
   1.6 Notation and Conventions

## 2 Causal and Noncausal Models

2.1 Introduction  
2.2 Structural Models  
2.3 Exogeneity  
2.4 Linear Simultaneous Equations Model  
2.5 Identification Concepts  
2.6 Single-Equation Models  
2.7 Potential Outcome Model  
2.8 Causal Modeling and Estimation Strategies  
2.9 Bibliographic Notes

## 3 Microeconomic Data Structures

3.1 Introduction  
3.2 Observational Data  
3.3 Data from Social Experiments  
3.4 Data from Natural Experiments
II Core Methods

4 Linear Models
   4.1 Introduction 65
   4.2 Regressions and Loss Functions 66
   4.3 Example: Returns to Schooling 69
   4.4 Ordinary Least Squares 70
   4.5 Weighted Least Squares 81
   4.6 Median and Quantile Regression 85
   4.7 Model Misspecification 90
   4.8 Instrumental Variables 95
   4.9 Instrumental Variables in Practice 103
   4.10 Practical Considerations 112
   4.11 Bibliographic Notes 112

5 Maximum Likelihood and Nonlinear Least-Squares Estimation
   5.1 Introduction 116
   5.2 Overview of Nonlinear Estimators 117
   5.3 Extremum Estimators 124
   5.4 Estimating Equations 133
   5.5 Statistical Inference 135
   5.6 Maximum Likelihood 139
   5.7 Quasi-Maximum Likelihood 146
   5.8 Nonlinear Least Squares 150
   5.9 Example: ML and NLS Estimation 159
   5.10 Practical Considerations 163
   5.11 Bibliographic Notes 163

6 Generalized Method of Moments and Systems Estimation
   6.1 Introduction 166
   6.2 Examples 167
   6.3 Generalized Method of Moments 172
   6.4 Linear Instrumental Variables 183
   6.5 Nonlinear Instrumental Variables 192
   6.6 Sequential Two-Step m-Estimation 200
   6.7 Minimum Distance Estimation 202
   6.8 Empirical Likelihood 203
   6.9 Linear Systems of Equations 206
   6.10 Nonlinear Sets of Equations 214
   6.11 Practical Considerations 219
   6.12 Bibliographic Notes 220
CONTENTS

7 Hypothesis Tests 223
  7.1 Introduction 223
  7.2 Wald Test 224
  7.3 Likelihood-Based Tests 233
  7.4 Example: Likelihood-Based Hypothesis Tests 241
  7.5 Tests in Non-ML Settings 243
  7.6 Power and Size of Tests 246
  7.7 Monte Carlo Studies 250
  7.8 Bootstrap Example 254
  7.9 Practical Considerations 256
  7.10 Bibliographic Notes 257

8 Specification Tests and Model Selection 259
  8.1 Introduction 259
  8.2 m-Tests 260
  8.3 Hausman Test 271
  8.4 Tests for Some Common Misspecifications 274
  8.5 Discriminating between Nonnested Models 278
  8.6 Consequences of Testing 285
  8.7 Model Diagnostics 287
  8.8 Practical Considerations 291
  8.9 Bibliographic Notes 292

9 Semiparametric Methods 294
  9.1 Introduction 294
  9.2 Nonparametric Example: Hourly Wage 295
  9.3 Kernel Density Estimation 298
  9.4 Nonparametric Local Regression 307
  9.5 Kernel Regression 311
  9.6 Alternative Nonparametric Regression Estimators 319
  9.7 Semiparametric Regression 322
  9.8 Derivations of Mean and Variance of Kernel Estimators 330
  9.9 Practical Considerations 333
  9.10 Bibliographic Notes 333

10 Numerical Optimization 336
  10.1 Introduction 336
  10.2 General Considerations 336
  10.3 Specific Methods 341
  10.4 Practical Considerations 348
  10.5 Bibliographic Notes 352
III Simulation-Based Methods

11 Bootstrap Methods 357
  11.1 Introduction 357
  11.2 Bootstrap Summary 358
  11.3 Bootstrap Example 366
  11.4 Bootstrap Theory 368
  11.5 Bootstrap Extensions 373
  11.6 Bootstrap Applications 376
  11.7 Practical Considerations 382
  11.8 Bibliographic Notes 382

12 Simulation-Based Methods 384
  12.1 Introduction 384
  12.2 Examples 385
  12.3 Basics of Computing Integrals 387
  12.4 Maximum Simulated Likelihood Estimation 393
  12.5 Moment-Based Simulation Estimation 398
  12.6 Indirect Inference 404
  12.7 Simulators 406
  12.8 Methods of Drawing Random Variates 410
  12.9 Bibliographic Notes 416

13 Bayesian Methods 419
  13.1 Introduction 419
  13.2 Bayesian Approach 420
  13.3 Bayesian Analysis of Linear Regression 435
  13.4 Monte Carlo Integration 443
  13.5 Markov Chain Monte Carlo Simulation 445
  13.6 MCMC Example: Gibbs Sampler for SUR 452
  13.7 Data Augmentation 454
  13.8 Bayesian Model Selection 456
  13.9 Practical Considerations 458
  13.10 Bibliographic Notes 458

IV Models for Cross-Section Data

14 Binary Outcome Models 463
  14.1 Introduction 463
  14.2 Binary Outcome Example: Fishing Mode Choice 464
  14.3 Logit and Probit Models 465
  14.4 Latent Variable Models 475
  14.5 Choice-Based Samples 478
  14.6 Grouped and Aggregate Data 480
  14.7 Semiparametric Estimation 482
## 14.8 Derivation of Logit from Type I Extreme Value

14.9 Practical Considerations

14.10 Bibliographic Notes

## 15 Multinomial Models

15.1 Introduction

15.2 Example: Choice of Fishing Mode

15.3 General Results

15.4 Multinomial Logit

15.5 Additive Random Utility Models

15.6 Nested Logit

15.7 Random Parameters Logit

15.8 Multinomial Probit

15.9 Ordered, Sequential, and Ranked Outcomes

15.10 Multivariate Discrete Outcomes

15.11 Semiparametric Estimation

15.12 Derivations for MNL, CL, and NL Models

15.13 Practical Considerations

15.14 Bibliographic Notes

## 16 Tobit and Selection Models

16.1 Introduction

16.2 Censored and Truncated Models

16.3 Tobit Model

16.4 Two-Part Model

16.5 Sample Selection Models

16.6 Selection Example: Health Expenditures

16.7 Roy Model

16.8 Structural Models

16.9 Semiparametric Estimation

16.10 Derivations for the Tobit Model

16.11 Practical Considerations

16.12 Bibliographic Notes

## 17 Transition Data: Survival Analysis

17.1 Introduction

17.2 Example: Duration of Strikes

17.3 Basic Concepts

17.4 Censoring

17.5 Nonparametric Models

17.6 Parametric Regression Models

17.7 Some Important Duration Models

17.8 Cox PH Model

17.9 Time-Varying Regressors

17.10 Discrete-Time Proportional Hazards

17.11 Duration Example: Unemployment Duration
### CONTENTS

17.12 Practical Considerations 608
17.13 Bibliographic Notes 608

18 Mixture Models and Unobserved Heterogeneity 611
18.1 Introduction 611
18.2 Unobserved Heterogeneity and Dispersion 612
18.3 Identification in Mixture Models 618
18.4 Specification of the Heterogeneity Distribution 620
18.5 Discrete Heterogeneity and Latent Class Analysis 621
18.6 Stock and Flow Sampling 625
18.7 Specification Testing 628
18.8 Unobserved Heterogeneity Example: Unemployment Duration 632
18.9 Practical Considerations 637
18.10 Bibliographic Notes 637

19 Models of Multiple Hazards 640
19.1 Introduction 640
19.2 Competing Risks 642
19.3 Joint Duration Distributions 648
19.4 Multiple Spells 655
19.5 Competing Risks Example: Unemployment Duration 658
19.6 Practical Considerations 662
19.7 Bibliographic Notes 663

20 Models of Count Data 665
20.1 Introduction 665
20.2 Basic Count Data Regression 666
20.3 Count Example: Contacts with Medical Doctor 671
20.4 Parametric Count Regression Models 674
20.5 Partially Parametric Models 682
20.6 Multivariate Counts and Endogenous Regressors 685
20.7 Count Example: Further Analysis 690
20.8 Practical Considerations 690
20.9 Bibliographic Notes 691

V Models for Panel Data

21 Linear Panel Models: Basics 697
21.1 Introduction 697
21.2 Overview of Models and Estimators 698
21.3 Linear Panel Example: Hours and Wages 708
21.4 Fixed Effects versus Random Effects Models 715
21.5 Pooled Models 720
21.6 Fixed Effects Model 726
21.7 Random Effects Model 734
CONTENTS

21.8 Modeling Issues 737
21.9 Practical Considerations 740
21.10 Bibliographic Notes 740

22 Linear Panel Models: Extensions 743
22.1 Introduction 743
22.2 GMM Estimation of Linear Panel Models 744
22.3 Panel GMM Example: Hours and Wages 754
22.4 Random and Fixed Effects Panel GMM 756
22.5 Dynamic Models 763
22.6 Difference-in-Differences Estimator 768
22.7 Repeated Cross Sections and Pseudo Panels 770
22.8 Mixed Linear Models 774
22.9 Practical Considerations 776
22.10 Bibliographic Notes 777

23 Nonlinear Panel Models 779
23.1 Introduction 779
23.2 General Results 779
23.3 Nonlinear Panel Example: Patents and R&D 782
23.4 Binary Outcome Data 795
23.5 Tobit and Selection Models 800
23.6 Transition Data 801
23.7 Count Data 802
23.8 Semiparametric Estimation 808
23.9 Practical Considerations 808
23.10 Bibliographic Notes 809

VI Further Topics

24 Stratified and Clustered Samples 813
24.1 Introduction 813
24.2 Survey Sampling 814
24.3 Weighting 817
24.4 Endogenous Stratification 822
24.5 Clustering 829
24.6 Hierarchical Linear Models 845
24.7 Clustering Example: Vietnam Health Care Use 848
24.8 Complex Surveys 853
24.9 Practical Considerations 857
24.10 Bibliographic Notes 857

25 Treatment Evaluation 860
25.1 Introduction 860
25.2 Setup and Assumptions 862
## CONTENTS

25.3 Treatment Effects and Selection Bias 865
25.4 Matching and Propensity Score Estimators 871
25.5 Differences-in-Differences Estimators 878
25.6 Regression Discontinuity Design 879
25.7 Instrumental Variable Methods 883
25.8 Example: The Effect of Training on Earnings 889
25.9 Bibliographic Notes 896

26 Measurement Error Models
26.1 Introduction 899
26.2 Measurement Error in Linear Regression 900
26.3 Identification Strategies 905
26.4 Measurement Errors in Nonlinear Models 911
26.5 Attenuation Bias Simulation Examples 919
26.6 Bibliographic Notes 920

27 Missing Data and Imputation
27.1 Introduction 923
27.2 Missing Data Assumptions 925
27.3 Handling Missing Data without Models 928
27.4 Observed-Data Likelihood 929
27.5 Regression-Based Imputation 930
27.6 Data Augmentation and MCMC 932
27.7 Multiple Imputation 934
27.8 Missing Data MCMC Imputation Example 935
27.9 Practical Considerations 939
27.10 Bibliographic Notes 940

A Asymptotic Theory
A.1 Introduction 943
A.2 Convergence in Probability 944
A.3 Laws of Large Numbers 947
A.4 Convergence in Distribution 948
A.5 Central Limit Theorems 949
A.6 Multivariate Normal Limit Distributions 951
A.7 Stochastic Order of Magnitude 954
A.8 Other Results 955
A.9 Bibliographic Notes 956

B Making Pseudo-Random Draws 957

References 961
Index 999
### List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Social experiment with random assignment</td>
<td>50</td>
</tr>
<tr>
<td>4.1</td>
<td>Quantile regression estimates of slope coefficient</td>
<td>89</td>
</tr>
<tr>
<td>4.2</td>
<td>Quantile regression estimated lines</td>
<td>90</td>
</tr>
<tr>
<td>7.1</td>
<td>Power of Wald chi-square test</td>
<td>249</td>
</tr>
<tr>
<td>7.2</td>
<td>Density of Wald test on slope coefficient</td>
<td>253</td>
</tr>
<tr>
<td>9.1</td>
<td>Histogram for log wage</td>
<td>296</td>
</tr>
<tr>
<td>9.2</td>
<td>Kernel density estimates for log wage</td>
<td>296</td>
</tr>
<tr>
<td>9.3</td>
<td>Nonparametric regression of log wage on education</td>
<td>297</td>
</tr>
<tr>
<td>9.4</td>
<td>Kernel density estimates using different kernels</td>
<td>300</td>
</tr>
<tr>
<td>9.5</td>
<td>$k$-nearest neighbors regression</td>
<td>309</td>
</tr>
<tr>
<td>9.6</td>
<td>Nonparametric regression using Lowess</td>
<td>310</td>
</tr>
<tr>
<td>9.7</td>
<td>Nonparametric estimate of derivative of $y$ with respect to $x$</td>
<td>317</td>
</tr>
<tr>
<td>11.1</td>
<td>Bootstrap estimate of the density of $t$-test statistic</td>
<td>368</td>
</tr>
<tr>
<td>12.1</td>
<td>Halton sequence draws compared to pseudo-random draws</td>
<td>411</td>
</tr>
<tr>
<td>12.2</td>
<td>Inverse transformation method for unit exponential draws</td>
<td>413</td>
</tr>
<tr>
<td>12.3</td>
<td>Accept–reject method for random draws</td>
<td>414</td>
</tr>
<tr>
<td>13.1</td>
<td>Bayesian analysis for mean parameter of normal density</td>
<td>424</td>
</tr>
<tr>
<td>14.1</td>
<td>Charter boat fishing: probit and logit predictions</td>
<td>466</td>
</tr>
<tr>
<td>15.1</td>
<td>Generalized random utility model</td>
<td>516</td>
</tr>
<tr>
<td>16.1</td>
<td>Tobit regression example</td>
<td>531</td>
</tr>
<tr>
<td>16.2</td>
<td>Inverse Mills ratio as censoring point $c$ increases</td>
<td>540</td>
</tr>
<tr>
<td>17.1</td>
<td>Strike duration: Kaplan–Meier survival function</td>
<td>575</td>
</tr>
<tr>
<td>17.2</td>
<td>Weibull distribution: density, survivor, hazard, and cumulative hazard functions</td>
<td>585</td>
</tr>
<tr>
<td>17.3</td>
<td>Unemployment duration: Kaplan–Meier survival function</td>
<td>604</td>
</tr>
<tr>
<td>17.4</td>
<td>Unemployment duration: survival functions by unemployment insurance</td>
<td>605</td>
</tr>
<tr>
<td>17.5</td>
<td>Unemployment duration: Nelson–Aalen cumulated hazard function</td>
<td>606</td>
</tr>
<tr>
<td>17.6</td>
<td>Unemployment duration: cumulative hazard function by unemployment insurance</td>
<td>606</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

18.1 Length-biased sampling under stock sampling: example 627
18.2 Unemployment duration: exponential model generalized residuals 633
18.3 Unemployment duration: exponential-gamma model generalized residuals 633
18.4 Unemployment duration: Weibull model generalized residuals 635
18.5 Unemployment duration: Weibull-IG model generalized residuals 636
19.1 Unemployment duration: Cox CR baseline survival functions 661
19.2 Unemployment duration: Cox CR baseline cumulative hazards 662
21.1 Hours and wages: pooled (overall) regression 712
21.2 Hours and wages: between regression 713
21.3 Hours and wages: within (fixed effects) regression 713
21.4 Hours and wages: first differences regression 714
23.1 Patents and R&D: pooled (overall) regression 793
25.1 Regression-discontinuity design: example 880
25.2 RD design: treatment assignment in sharp and fuzzy designs 883
25.3 Training impact: earnings against propensity score by treatment 892
27.1 Missing data: examples of missing regressors 924
List of Tables

1.1 Book Outline ................................. page 11
1.2 Outline of a 20-Lecture 10-Week Course ......................... 15
1.3 Commonly Used Acronyms and Abbreviations ................. 17
3.1 Features of Some Selected Social Experiments ............... 51
3.2 Features of Some Selected Natural Experiments ............. 54
4.1 Loss Functions and Corresponding Optimal Predictors .... 67
4.2 Least Squares Estimators and Their Asymptotic Variance .... 83
4.3 Least Squares: Example with Conditionally Heteroskedastic Errors 84
4.4 Instrumental Variables Example .......................... 103
4.5 Instrumental Variables Estimators .......................... 111
5.1 Asymptotic Properties of M-Estimators ..................... 121
5.2 Marginal Effect: Three Different Estimates .................. 122
5.3 Maximum Likelihood: Commonly Used Densities .......... 140
5.4 Linear Exponential Family Densities: Leading Examples .... 148
5.5 Nonlinear Least Squares: Common Examples ................ 151
5.6 Nonlinear Least-Squares Estimators and Their Asymptotic Variance 156
5.7 Exponential Example: Least-Squares and ML Estimates ...... 161
6.1 Generalized Method of Moments: Examples ................. 172
6.2 GMM Estimators in Linear IV Model and Their Asymptotic Variance 186
6.3 GMM Estimators in Nonlinear IV Model and Their Asymptotic Variance 195
6.4 Nonlinear Two-Stage Least-Squares Example ............... 199
7.1 Test Statistics for Poisson Regression Example ............. 242
7.2 Wald Test Size and Power for Probit Regression Example .... 253
8.1 Specification m-Tests for Poisson Regression Example .... 270
8.2 Nonnested Model Comparisons for Poisson Regression Example 284
8.3 Pseudo R²’s: Poisson Regression Example ................ 291
9.1 Kernel Functions: Commonly Used Examples ............... 300
9.2 Semiparametric Models: Leading Examples ................. 323
10.1 Gradient Method Results ................................ 339
10.2 Computational Difficulties: A Partial Checklist .......... 350
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.1</td>
<td>Bootstrap Statistical Inference on a Slope Coefficient: Example</td>
</tr>
<tr>
<td>11.2</td>
<td>Bootstrap Theory Notation</td>
</tr>
<tr>
<td>12.1</td>
<td>Monte Carlo Integration: Example for a Standard Normal</td>
</tr>
<tr>
<td>12.2</td>
<td>Maximum Simulated Likelihood Estimation: Example</td>
</tr>
<tr>
<td>12.3</td>
<td>Method of Simulated Moments Estimation: Example</td>
</tr>
<tr>
<td>13.1</td>
<td>Bayesian Analysis: Essential Components</td>
</tr>
<tr>
<td>13.2</td>
<td>Conjugate Families: Leading Examples</td>
</tr>
<tr>
<td>13.3</td>
<td>Gibbs Sampling: Seemingly Unrelated Regressions Example</td>
</tr>
<tr>
<td>13.4</td>
<td>Interpretation of Bayes Factors</td>
</tr>
<tr>
<td>14.1</td>
<td>Fishing Mode Choice: Data Summary</td>
</tr>
<tr>
<td>14.2</td>
<td>Fishing Mode Choice: Logit and Probit Estimates</td>
</tr>
<tr>
<td>14.3</td>
<td>Binary Outcome Data: Commonly Used Models</td>
</tr>
<tr>
<td>15.1</td>
<td>Fishing Mode Multinomial Choice: Data Summary</td>
</tr>
<tr>
<td>15.2</td>
<td>Fishing Mode Multinomial Choice: Logit Estimates</td>
</tr>
<tr>
<td>15.3</td>
<td>Fishing Mode Choice: Marginal Effects for Conditional Logit Model</td>
</tr>
<tr>
<td>16.1</td>
<td>Health Expenditure Data: Two-Part and Selection Models</td>
</tr>
<tr>
<td>17.1</td>
<td>Survival Analysis: Definitions of Key Concepts</td>
</tr>
<tr>
<td>17.2</td>
<td>Hazard Rate and Survivor Function Computation: Example</td>
</tr>
<tr>
<td>17.3</td>
<td>Strike Duration: Kaplan–Meier Survivor Function Estimates</td>
</tr>
<tr>
<td>17.4</td>
<td>Exponential and Weibull Distributions: pdf, cdf, Survivor Function, Hazard, Cumulative Hazard, Mean, and Variance</td>
</tr>
<tr>
<td>17.5</td>
<td>Standard Parametric Models and Their Hazard and Survivor Functions</td>
</tr>
<tr>
<td>17.6</td>
<td>Unemployment Duration: Description of Variables</td>
</tr>
<tr>
<td>17.7</td>
<td>Unemployment Duration: Kaplan–Meier Survival and Nelson–Aalen Cumulated Hazard Functions</td>
</tr>
<tr>
<td>17.8</td>
<td>Unemployment Duration: Estimated Parameters from Four Parametric Models</td>
</tr>
<tr>
<td>17.9</td>
<td>Unemployment Duration: Estimated Hazard Ratios from Four Parametric Models</td>
</tr>
<tr>
<td>18.1</td>
<td>Unemployment Duration: Exponential Model with Gamma and IG Heterogeneity</td>
</tr>
<tr>
<td>18.2</td>
<td>Unemployment Duration: Weibull Model with and without Heterogeneity</td>
</tr>
<tr>
<td>19.1</td>
<td>Some Standard Copula Functions</td>
</tr>
<tr>
<td>19.2</td>
<td>Unemployment Duration: Competing and Independent Risk Estimates of Exponential Model with and without IG Frailty</td>
</tr>
<tr>
<td>19.3</td>
<td>Unemployment Duration: Competing and Independent Risk Estimates of Weibull Model with and without IG Frailty</td>
</tr>
<tr>
<td>20.1</td>
<td>Proportion of Zero Counts in Selected Empirical Studies</td>
</tr>
<tr>
<td>20.2</td>
<td>Summary of Data Sets Used in Recent Patent–R&amp;D Studies</td>
</tr>
<tr>
<td>20.3</td>
<td>Contacts with Medical Doctor: Frequency Distribution</td>
</tr>
<tr>
<td>20.4</td>
<td>Contacts with Medical Doctor: Variable Descriptions</td>
</tr>
<tr>
<td>20.5</td>
<td>Contacts with Medical Doctor: Count Model Estimates</td>
</tr>
<tr>
<td>20.6</td>
<td>Contacts with Medical Doctor: Observed and Fitted Frequencies</td>
</tr>
<tr>
<td>List of Tables</td>
<td>Page</td>
</tr>
<tr>
<td>----------------</td>
<td>------</td>
</tr>
<tr>
<td>21.1 Linear Panel Model: Common Estimators and Models</td>
<td>699</td>
</tr>
<tr>
<td>21.2 Hours and Wages: Standard Linear Panel Model Estimators</td>
<td>710</td>
</tr>
<tr>
<td>21.3 Hours and Wages: Autocorrelations of Pooled OLS Residuals</td>
<td>714</td>
</tr>
<tr>
<td>21.4 Hours and Wages: Autocorrelations of Within Regression Residuals</td>
<td>715</td>
</tr>
<tr>
<td>21.5 Pooled Least-Squares Estimators and Their Asymptotic Variances</td>
<td>721</td>
</tr>
<tr>
<td>21.6 Variances of Pooled OLS Estimator with Equicorrelated Errors</td>
<td>724</td>
</tr>
<tr>
<td>21.7 Hours and Wages: Pooled OLS and GLS Estimates</td>
<td>725</td>
</tr>
<tr>
<td>22.1 Panel Exogeneity Assumptions and Resulting Instruments</td>
<td>752</td>
</tr>
<tr>
<td>22.2 Panel Exogeneity Assumptions and Resulting Instruments</td>
<td>755</td>
</tr>
<tr>
<td>23.1 Patents and R&amp;D Spending: Nonlinear Panel Model Estimators</td>
<td>794</td>
</tr>
<tr>
<td>24.1 Stratification Schemes with Random Sampling within Strata</td>
<td>823</td>
</tr>
<tr>
<td>24.2 Properties of Estimators for Different Clustering Models</td>
<td>832</td>
</tr>
<tr>
<td>24.3 Vietnam Health Care Use: Data Description</td>
<td>850</td>
</tr>
<tr>
<td>24.4 Vietnam Health Care Use: FE and RE Models for Positive Expenditure</td>
<td>851</td>
</tr>
<tr>
<td>24.5 Vietnam Health Care Use: Frequencies for Pharmacy Visits</td>
<td>852</td>
</tr>
<tr>
<td>24.6 Vietnam Health Care Use: RE and FE Models for Pharmacy Visits</td>
<td>852</td>
</tr>
<tr>
<td>25.1 Treatment Effects Framework</td>
<td>865</td>
</tr>
<tr>
<td>25.2 Treatment Effects Measures: ATE and ATET</td>
<td>868</td>
</tr>
<tr>
<td>25.3 Training Impact: Sample Means in Treated and Control Samples</td>
<td>890</td>
</tr>
<tr>
<td>25.4 Training Impact: Various Estimates of Treatment Effect</td>
<td>891</td>
</tr>
<tr>
<td>25.5 Training Impact: Distribution of Propensity Score for Treated and Control Units Using DW (1999) Specification</td>
<td>894</td>
</tr>
<tr>
<td>25.6 Training Impact: Estimates of ATET</td>
<td>895</td>
</tr>
<tr>
<td>26.1 Attenuation Bias in a Logit Regression with Measurement Error</td>
<td>919</td>
</tr>
<tr>
<td>26.2 Attenuation Bias in a Nonlinear Regression with Additive Measurement Error</td>
<td>920</td>
</tr>
<tr>
<td>27.1 Relative Efficiency of Multiple Imputation</td>
<td>935</td>
</tr>
<tr>
<td>27.2 Missing Data Imputation: Linear Regression Estimates with 10% Missing Data and High Correlation Using MCMC Algorithm</td>
<td>936</td>
</tr>
<tr>
<td>27.3 Missing Data Imputation: Linear Regression Estimates with 25% Missing Data and High Correlation Using MCMC Algorithm</td>
<td>937</td>
</tr>
<tr>
<td>27.4 Missing Data Imputation: Linear Regression Estimates with 10% Missing Data and Low Correlation Using MCMC Algorithm</td>
<td>937</td>
</tr>
<tr>
<td>27.5 Missing Data Imputation: Logistic Regression Estimates with 10% Missing Data and High Correlation Using MCMC Algorithm</td>
<td>938</td>
</tr>
<tr>
<td>27.6 Missing Data Imputation: Logistic Regression Estimates with 25% Missing Data and Low Correlation Using MCMC Algorithm</td>
<td>939</td>
</tr>
<tr>
<td>A.1 Asymptotic Theory: Definitions and Theorems</td>
<td>944</td>
</tr>
<tr>
<td>B.1 Continuous Random Variable Densities and Moments</td>
<td>957</td>
</tr>
<tr>
<td>B.2 Continuous Random Variable Generators</td>
<td>958</td>
</tr>
<tr>
<td>B.3 Discrete Random Variable Probability Mass Functions and Moments</td>
<td>959</td>
</tr>
<tr>
<td>B.4 Discrete Random Variable Generators</td>
<td>959</td>
</tr>
</tbody>
</table>
This book provides a detailed treatment of microeconometric analysis, the analysis of individual-level data on the economic behavior of individuals or firms. This type of analysis usually entails applying regression methods to cross-section and panel data.

The book aims at providing the practitioner with a comprehensive coverage of statistical methods and their application in modern applied microeconometrics research. These methods include nonlinear modeling, inference under minimal distributional assumptions, identifying and measuring causation rather than mere association, and correcting departures from simple random sampling. Many of these features are of relevance to individual-level data analysis throughout the social sciences.

The ambitious agenda has determined the characteristics of this book. First, although oriented to the practitioner, the book is relatively advanced in places. A cookbook approach is inadequate because when two or more complications occur simultaneously – a common situation – the practitioner must know enough to be able to adapt available methods. Second, the book provides considerable coverage of practical data problems (see especially the last three chapters). Third, the book includes substantial empirical examples in many chapters to illustrate some of the methods covered. Finally, the book is unusually long. Despite this length we have been space-constrained. We had intended to include even more empirical examples, and abbreviated presentations will at times fail to recognize the accomplishments of researchers who have made substantive contributions.

The book assumes a good understanding of the linear regression model with matrix algebra. It is written at the mathematical level of the first-year economics Ph.D. sequence, comparable to Greene (2003). We have two types of readers in mind. First, the book can be used as a course text for a microeconometrics course, typically taught in the second year of the Ph.D., or for data-oriented microeconomics field courses such as labor economics, public economics, and industrial organization. Second, the book can be used as a reference work for graduate students and applied researchers who despite training in microeconometrics will inevitably have gaps that they wish to fill.

For instructors using this book as an econometrics course text it is best to introduce the basic nonlinear cross-section and linear panel data models as early as possible,
initially skipping many of the methods chapters. The key methods chapter (Chapter 5) covers maximum-likelihood and nonlinear least-squares estimation. Knowledge of maximum likelihood and nonlinear least-squares estimators provides adequate background for the most commonly used nonlinear cross-section models (Chapters 14–17 and 20), basic linear panel data models (Chapter 21), and treatment evaluation methods (Chapter 25). Generalized method of moments estimation (Chapter 6) is needed especially for advanced linear panel data methods (Chapter 22).

For readers using this book as a reference work, the chapters have been written to be as self-contained as possible. The notable exception is that some command of general estimation results in Chapter 5, and occasionally Chapter 6, will be necessary. Most chapters on models are structured to begin with a discussion and example that is accessible to a wide audience.

The Web site www.econ.ucdavis.edu/faculty/cameron provides all the data and computer programs used in this book and related materials useful for instructional purposes.

This project has been long and arduous, and at times seemingly without an end. Its completion has been greatly aided by our colleagues, friends, and graduate students. We thank especially the following for reading and commenting on specific chapters: Bijan Borah, Kurt Brännäs, Pian Chen, Tim Cogley, Partha Deb, Massimiliano De Santis, David Drukker, Jeff Gill, Tue Gorgens, Shiferaw Gurmu, Lu Ji, Oscar Jordà, Roger Koenker, Chenghui Li, Tong Li, Doug Miller, Murat Munkin, Jim Prieger, Ahmed Rahmen, Sunil Sapra, Haruki Seítani, Yacheng Sun, Xiaooyong Zheng, and David Zimmer. Pian Chen gave detailed comments on most of the book. We thank Rajeev Dehejia, Bronwyn Hall, Cathy Kling, Jeffrey Kling, Will Manning, Brian McCall, and Jim Ziliak for making their data available for empirical illustrations. We thank our respective departments for facilitating our collaboration and for the production and distribution of the draft manuscript at various stages. We benefited from the comments of two anonymous reviewers. Guidance, advice, and encouragement from our Cambridge editor, Scott Parris, have been invaluable.

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xxii