
Contents

Preface	xiii
Chapter 1. Introduction	1
1.1. Advantages of panel data	1
1.2. Issues involved in utilizing panel data	5
1.2.1. Heterogeneity bias	5
1.2.2. Selectivity bias	7
1.3. Outline of the monograph	9
Chapter 2. Analysis of covariance	11
2.1. Introduction	11
2.2. Analysis of covariance	12
2.3. An example	18
Chapter 3. Simple regression with variable intercepts	25
3.1. Introduction	25
3.2. Fixed-effects models: least-squares dummy-variable approach	29
3.3. Random-effects models: estimation of variance-components models	32
3.3.1. Covariance estimation	34
3.3.2. Generalized-least-squares estimation	34
3.3.3. Maximum-likelihood estimation	38
3.4. Fixed effects or random effects	41
3.4.1. An example	41
3.4.2. Conditional inference or unconditional (marginal) inference	41
3.4.2.a. Mundlak's formulation	43

3.4.2.b. Conditional and unconditional inferences in the presence or absence of correlation between individual effects and attributes	45
3.5. Tests for misspecification	48
3.6. Models with specific variables and both individual- and time-specific effects	50
3.6.1. Estimation of models with individual-specific variables	50
3.6.2. Estimation of models with both individual and time effects	52
3.7. Models with serially correlated errors	55
3.8. Models with arbitrary error structure	57
3.9. Errors of measurement	63
Appendix 3A. Consistency and asymptotic normality of the minimum-distance estimator	66
Appendix 3B. Characteristic vectors and the inverse of the variance-covariance matrix of a three-component model	68
 Chapter 4. Dynamic models with variable intercepts	 71
4.1. Introduction	71
4.2. Fixed-effects models	73
4.3. Random-effects models	76
4.3.1. Bias in the OLS estimator	76
4.3.2. Model formulation	78
4.3.3. Estimation of random-effects models	81
4.3.3.a. Maximum-likelihood estimator	81
4.3.3.b. Generalized-least-squares estimator	88
4.3.3.c. Instrumental-variable estimator	89
4.3.4. Testing some maintained hypotheses on initial conditions	90
4.3.5. Simulation evidence	91
4.4. An example	93
4.5. Estimation of dynamic models with arbitrary correlations in the residuals	95
 Chapter 5. Simultaneous-equations models	 97
5.1. Introduction	97
5.2. Joint generalized-least-squares estimation technique	100
5.3. Estimation of structural equations	104
5.3.1. Estimation of a single equation in the structural model	104

5.3.2. Estimation of the complete structural system	109
5.4. Triangular system	112
5.4.1. Identification	113
5.4.2. Estimation	115
5.4.2.a. Instrumental-variable method	116
5.4.2.b. Maximum-likelihood method	119
5.4.3. An example	123
Appendix	125
Chapter 6. Variable-coefficient models	128
6.1. Introduction	128
6.2. Coefficients that vary over cross-sectional units	130
6.2.1. Fixed-coefficient model	131
6.2.2. Random-coefficient model	131
6.2.2.a. The model	131
6.2.2.b. Estimation	132
6.2.2.c. Predicting individual coefficients	134
6.2.2.d. Testing for coefficient variation	134
6.2.2.e. Fixed or random coefficients	136
6.2.2.f. An example	136
6.3. Coefficients that vary over time and cross-sectional units	138
6.3.1. The model	138
6.3.2. Fixed-coefficient model	140
6.3.3. Random-coefficient model	140
6.4. Coefficients that evolve over time	144
6.4.1. The model	144
6.4.2. Predicting β_t by the Kalman filter	145
6.4.3. Maximum-likelihood estimation	148
6.4.4. Tests for parameter constancy	149
6.5. Coefficients that are functions of other exogenous variables	151
Chapter 7. Discrete data	154
7.1. Introduction	154
7.2. Some discrete-response models	154
7.3. Static models with heterogeneity	158
7.3.1. Fixed-effects models	159
7.3.1.a. Maximum-likelihood estimator	159
7.3.1.b. Conditions for the existence of a consistent estimator	161
7.3.1.c. Some Monte Carlo evidence	164

7.3.2. Random-effects models	164
7.4. Dynamic models	167
7.4.1. The general model	167
7.4.2. Initial conditions	169
7.4.3. State dependence versus heterogeneity	172
7.4.4. An example	175
 Chapter 8. Incomplete panel data	 181
8.1. Estimating distributed lags in short panels	181
8.1.1. Introduction	181
8.1.2. Common assumptions	183
8.1.3. Identification using prior structure on the process of the exogenous variable	185
8.1.4. Identification using prior structure on the lag coefficients	189
8.1.5. Estimation and testing	191
8.2. Rotating or randomly missing data	193
8.3. Nonrandomly missing data	197
8.3.1. Introduction	197
8.3.2. A probability model of attrition and selection bias	198
8.3.3. An example: attrition in the Gary income- maintenance experiment	202
8.4. Pooling of a single cross-section and a single time series	206
8.4.1. Introduction	206
8.4.2. The likelihood approach to pooling cross- sectional and time-series data	208
8.4.3. An example	210
 Chapter 9. A summary view	 213
9.1. Introduction	213
9.2. Benefits and limitations of panel data	213
9.2.1. Identification and discrimination between com- peting hypotheses	213
9.2.2. Reducing estimation bias	215
9.2.3. Lessening the problem of multicollinearity	218
9.3. Efficiency of the estimates	218
 Notes	 220
References	230