

Econ 270B: Analytics of Economic Development
Problem Set 2 (Due Thursday April 22, 2004)

1. Implementing Economic Reforms [4 points]

Briefly summarize the arguments made in Fernandez and Rodrik (1992), Parente and Prescott (1999), and Lau, Qian, and Roland (2000) regarding constraints to economic reform in less developed countries. Explain their assumptions regarding governments' ability to compensate reform "losers". In your opinion, is reform without losers realistic in most real-world contexts? What role do you think multilateral lending institutions should play in facilitating the reform process?

2. Child Health and Education: Non-parametric regressions [6 points]

For this problem, download the STATA dataset "PSET2.DTA" from the course page (http://emlab.berkeley.edu/users/webfac/emiguel/e270b_s04/e270b.shtml). The data are from a joint project with Michael Kremer and Rebecca Thornton in rural Kenya. Please include all regression output and graphs, as well as do-files, with your solutions.

This problem examines the relationship between merit awards and academic performance, as measured by school exams, among Kenyan schoolchildren. In early 2001, Grade 6 girls in a random subset of "treatment" schools (variable name "treat") were offered a large cash award if they scored in the top 15% of all treatment school girls. The dataset contains test score information from late 2000, the year before the program, and late 2001, the first year of the program. The test score outcomes ("test00", "test01") were normalized such that the test distribution in the comparison schools is mean zero with a standard deviation of one (for all students in that grade, not just those in this sample – thus the mean need not equal one).

The goal of this exercise is to estimate overall program treatment effects using various parametric and non-parametric methods. Another important issue for the analysis is whether girls at the bottom of the baseline test score distribution were harmed by the program – perhaps due to demoralization or diversion of teacher attention to high-achieving classmates.

a) Present summary statistics for the three variables in the dataset. Do baseline 2000 test scores differ on average across the treatment and comparison students? Do 2001 test scores differ on average across treatment groups? [HINT: Use the STATA commands **summarize**, **detail** and **ttest**.]

b) Plot the kernel density of 2000 test scores in the following ways:

- (i) Epanechnikov kernel with the optimal bandwidth
- (ii) Epanechnikov kernel with bandwidth equal to 0.05
- (iii) Gaussian kernel with optimal bandwidth

Characterize the distribution of 2000 test scores. Does kernel density estimation appear to be more sensitive to the bandwidth or to the kernel? [HINT: Use **kdensity** and **graph twoway**.]

c) Plot the kernel density of 2000 test scores with Epanechnikov kernel and optimal bandwidth separately for treatment and comparison students, and place them in one figure.

Do the same for 2001 scores. Describe any shifts in the distributions through time.

d) Determine the relationship between the 2001 test score (dependent variable) and the 2000 test score using OLS, and present the regression results.

Plot the predicted quadratic relationship between the 2001 test score and the 2000 test scores, as well as 95 percent confidence bounds.

Plot the predicted quadratic relationship between 2001 and 2000 test scores separately for treatment and comparison students, and place them in one figure.

[HINT: Use the commands **regress** and **graph**, or **qfit / qfitci**.]

e) Perform the following non-parametric Lowess regressions of 2001 test score (dependent variable) on 2000 test score:

- (i) All students, bandwidth equal to 0.5
- (ii) All students, bandwidth equal to 0.05
- (iii) Treatment students, bandwidth equal to 0.5
- (iv) Comparison students, bandwidth equal to 0.5

Characterize the non-parametric relationship between test scores and infection status. Does the relationship appear to differ for treatment versus comparison students? Are there important patterns that were not apparent from the linear or quadratic fits in part (d)?

[HINT: Use the commands **lowess** and **graph twoway**]

f) Perform the Fan locally-weighted non-parametric regression, using a quartic kernel with bandwidth equal to 0.5. Include 95 percent confidence bounds in all plots, bootstrapping the standard errors.¹ “Trim” extreme values from the distribution, only considering the 2000 test score interval of [-1.3, 1.8], for simplicity.

- (i) Treatment pupils, regress the 2001 test (dependent variable) on the 2000 test.
- (ii) Comparison pupils, regress the 2001 test (dependent variable) on the 2000 test.
- (iii) Take the difference between these two non-parametric plots, and bootstrap the standard errors of this difference, for various points throughout the 2000 test score distribution.

Is the difference between treatment and comparison students significantly different than zero (at over 95 percent confidence) anywhere in the 2000 test score distribution?

g) What are the implications of these results for our understanding of the relationship between merit awards, child effort, and learning in rural Kenya? Are most test score gains at the “top” of the distribution, in the “middle”, or at the “bottom”? Is there any conclusive evidence of negative externalities for low-achieving students?

¹ Refer to *The Analysis of Household Surveys* by Angus Deaton for the STATA code on Fan regressions and bootstrapping. These are also online at www.worldbank.org/LSMS/tools/deaton. Be aware that there are a few errors in the published Fan regression code that you will need to spot.