Development and the effectiveness of social programmes

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Trade, development and policy-making

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- The problem is thus one of estimating a second cross-partial derivative: "bundling" matters

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- But there is an additional problem: differing levels of **aggregation**, which complicates identification

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- We don't have cross-sectional variance in P —there's the rub!
- Finding an intelligent manner of injecting **cross-sectional** variation into P is therefore the name of the game

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- Having a counterfactual is the key

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- Getting the two tribes together is a perfect example of how difficult this is to do

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- But it is **crucial** in terms of policy-relevance

Three sources of bias

Or: you're not even close to having a proper identification strategy

For illustrative purposes, consider a simple linear regression and eschew our second cross-partial derivative for the time being:

$$Y = \alpha + D\beta + \varepsilon$$

There are **three** sources of bias in any piece of empirical work

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- Most methods deal with the first source of bias: much harder to deal with the other two

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  - Doubtful that they will dominate yours

Rajan-Zingales meet the randomistas

- Find a randomization or RDD D_{vt} with a baseline and an endline which straddle a trade policy change

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- Back to injecting cross-sectional variation into P_t
- Construct some measure of household or village exposure to trade (ex: distance to market): call this E_v

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  - Still not enough: can't estimate γ and δ is meaningless since $D_{vt} = 0$ for all observations in baseline

- Back to injecting cross-sectional variation into P_t
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- Essentially a Rajan-Zingales procedure in the midst of an RCT or RDD

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- Might therefore allow the twains to meet