Indirect Inference for Linear Panel Data Models with Predetermined Variables

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Abstract

This paper propose the indirect inference estimator to the linear panel data models with lagged dependent variables and other predetermined variables as regressors. We show the consistency and asymptotic normality of the II estimator for the current model. Through Monte Carlo simulations, we found that the new II estimator outperforms the GMM estimators in terms of finite sample bias and of efficiency. The simulation also shows the robustness of II estimator against the misspecification of individual effects and disturbances.