

## Accepted Manuscript

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PII: S0304-4076(17)30156-2

DOI: <http://dx.doi.org/10.1016/j.jeconom.2017.08.006>

Reference: ECONOM 4412

To appear in: *Journal of Econometrics*



Please cite this article as: Bonhomme, S., Jochmans, K., Robin, J., Nonparametric estimation of non-exchangeable latent-variable models. *Journal of Econometrics* (2017), <http://dx.doi.org/10.1016/j.jeconom.2017.08.006>

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# Nonparametric estimation of non-exchangeable latent-variable models\*

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June 29, 2016

## Abstract

We propose a two-step method to nonparametrically estimate multivariate models in which the observed outcomes are independent conditional on a discrete latent variable. Applications include microeconomic models with unobserved types of agents, regime-switching models, and models with misclassification error. In the first step, we estimate weights that transform moments of the marginal distribution of the data into moments of the conditional distribution of the data for given values of the latent variable. In the second step, these conditional moments are estimated as weighted sample averages. We illustrate the method by estimating a model of wages with unobserved heterogeneity on PSID data.

*JEL codes:* C14, C33, C38, J31

*Keywords:* Latent variable models, unobserved heterogeneity, finite mixtures, hidden Markov models, nonparametric estimation, panel data, wage dynamics

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\*We are grateful to the guest editors and two anonymous referees for comments that helped improve the paper. Robin acknowledges financial support from the Economic and Social Research Council through the ESRC Centre for Microdata Methods and Practice grant RES-589-28-0001, and from the European Research Council (ERC) grant ERC-2010-AdG-269693-WASP.

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