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A Semiparametric Quantile Panel Data Model with An Application to Estimating the Growth Effect of FDI*†‡

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Abstract

This paper estimates the impact of foreign direct investment on economic growth by proposing a new semiparametric quantile panel data model with correlated random effects, in which some of the coefficients are allowed to depend on some smooth economic variables while other coefficients remain constant. A three-stage estimation procedure is proposed to estimate both constant and functional coefficients and their asymptotic properties are investigated. A simple and easily implemented procedure for making inferences is proposed. Monte Carlo simulation is conducted to examine the finite sample performance of the proposed estimators. Finally, using the cross-country panel data, we find a strong empirical evidence of the existence of the absorptive capacity hypothesis, together with another new finding that FDI has much stronger growth effects for countries with fast economic growth than for those with slow economic growth.

Keywords: Correlated Random Effect; Foreign Direct Investment; Panel Data; Quantile Regression Model; Local Quasi-likelihood; Semiparametric Model; Varying Coefficient Model.

JEL: C14; C31

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