

ECON 318 Guide to Reading

Aghion, Bloom, Blundell, Griffith, and Howitt (2005) Inverted U article

1. Read Section I.
2. Read Section II. Note the first paragraph encapsulates the Schumpeter/Arrow issues we talked about in class.
3. You could find a publicly-traded firm in a real-world technology industry and calculate li_{it} . (You would use the income statement for sales and operating profit (or “operating income”) and the balance sheet for total assets. As in footnote 7, you would multiply total assets by 0.085 to find the “financial cost.”) If you had data on all the firms (or at least enough to approximate, you could then calculate c_{jt} .
4. You might want to go back to your ECON 300 textbook or other sources to remind yourself how the Poisson distribution works.
5. If you write down the natural log of equation (4) you’ll see that you could almost run a regression on it. But not quite because you don’t know the form of the $g(c)$ function.
6. Now suppose $g(c) = \alpha_1 c + \alpha_2 c^2$. This is what the authors do, although their terminology makes it a little unclear.
7. Think about why instrumental variables are necessary, and then admire column (4) of Table I.
8. Skim Sections III and IV.