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Testing for cross-sectional dependence in panel-data models

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Abstract. This article describes a new Stata routine, `xtcsd`, to test for the presence of cross-sectional dependence in panels with many cross-sectional units and few time-series observations. The command executes three different testing procedures—namely, Friedman's (*Journal of the American Statistical Association* 32: 675–701) (FR) test statistic, the statistic proposed by Frees (*Journal of Econometrics* 69: 393–414), and the cross-sectional dependence (CD) test of Pesaran (*General diagnostic tests for cross-section dependence in panels* [University of Cambridge, Faculty of Economics, Cambridge Working Papers in Economics, Paper No. 0435]). We illustrate the command with an empirical example.

Keywords: st0113, xtcsd, panel data, cross-sectional dependence

