

Exercise 4

Decomposition methods, Johannes Giesecke and Ben Jann
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Nonlinear decomposition

Extend the example analysis from the slides ([4-nonlinear.pdf](#)) by X variables “locus of control” (LoC) and “willingness to take risk” (**risk**). Compute the aggregate and detailed decomposition using the Fairlie, Yun and LPM decomposition for non-linear models and interpret the results.