
Contents

1	Introduction	1
1.1	Spatial dependence	1
1.2	The spatial autoregressive process	8
1.2.1	Spatial autoregressive data generating process	12
1.3	An illustration of spatial spillovers	16
1.4	The role of spatial econometric models	20
1.5	The plan of the text	22
2	Motivating and Interpreting Spatial Econometric Models	25
2.1	A time-dependence motivation	25
2.2	An omitted variables motivation	27
2.3	A spatial heterogeneity motivation	29
2.4	An externalities-based motivation	30
2.5	A model uncertainty motivation	30
2.6	Spatial autoregressive regression models	32
2.7	Interpreting parameter estimates	33
2.7.1	Direct and indirect impacts in theory	34
2.7.2	Calculating summary measures of impacts	39
2.7.3	Measures of dispersion for the impact estimates	39
2.7.4	Partitioning the impacts by order of neighbors	40
2.7.5	Simplified alternatives to the impact calculations	41
2.8	Chapter summary	42
3	Maximum Likelihood Estimation	45
3.1	Model estimation	46
3.1.1	SAR and SDM model estimation	46
3.1.2	SEM model estimation	50
3.1.3	Estimates for models with two weight matrices	52
3.2	Estimates of dispersion for the parameters	54
3.2.1	A mixed analytical-numerical Hessian calculation	56
3.2.2	A comparison of Hessian calculations	59
3.3	Omitted variables with spatial dependence	60
3.3.1	A Hausman test for OLS and SEM estimates	61
3.3.2	Omitted variables bias of least-squares	63
3.3.3	Omitted variables bias for spatial regressions	67
3.4	An applied example	68
3.4.1	Coefficient estimates	69

3.4.2	Cumulative effects estimates	70
3.4.3	Spatial partitioning of the impact estimates	72
3.4.4	A comparison of impacts from different models	73
3.5	Chapter summary	75
4	Log-determinants and Spatial Weights	77
4.1	Determinants and transformations	77
4.2	Basic determinant computation	81
4.3	Determinants of spatial systems	84
4.3.1	Scalings and similarity transformations	87
4.3.2	Determinant domain	88
4.3.3	Special cases	89
4.4	Monte Carlo approximation of the log-determinant	96
4.4.1	Sensitivity of ρ estimates to approximation	100
4.5	Chebyshev approximation	105
4.6	Extrapolation	108
4.7	Determinant bounds	108
4.8	Inverses and other functions	110
4.9	Expressions for interpretation of spatial models	114
4.10	Closed-form solutions for single parameter spatial models	116
4.11	Forming spatial weights	118
4.12	Chapter summary	120
5	Bayesian Spatial Econometric Models	123
5.1	Bayesian methodology	124
5.2	Conventional Bayesian treatment of the SAR model	127
5.2.1	Analytical approaches to the Bayesian method	127
5.2.2	Analytical solution of the Bayesian spatial model	130
5.3	MCMC estimation of Bayesian spatial models	133
5.3.1	Sampling conditional distributions	133
5.3.2	Sampling for the parameter ρ	136
5.4	The MCMC algorithm	139
5.5	An applied illustration	142
5.6	Uses for Bayesian spatial models	145
5.6.1	Robust heteroscedastic spatial regression	146
5.6.2	Spatial effects estimates	149
5.6.3	Models with multiple weight matrices	150
5.7	Chapter summary	152
6	Model Comparison	155
6.1	Comparison of spatial and non-spatial models	155
6.2	An applied example of model comparison	159
6.2.1	The data sample used	161
6.2.2	Comparing models with different weight matrices	161
6.2.3	A test for dependence in technical knowledge	163

6.2.4	A test of the common factor restriction	164
6.2.5	Spatial effects estimates	165
6.3	Bayesian model comparison	168
6.3.1	Comparing models based on different weights	169
6.3.2	Comparing models based on different variables	173
6.3.3	An applied illustration of model comparison	175
6.3.4	An illustration of MC^3 and model averaging	178
6.4	Chapter summary	184
6.5	Chapter appendix	185
7	Spatiotemporal and Spatial Models	189
7.1	Spatiotemporal partial adjustment model	190
7.2	Relation between spatiotemporal and SAR models	191
7.3	Relation between spatiotemporal and SEM models	196
7.4	Covariance matrices	197
7.4.1	Monte Carlo experiment	200
7.5	Spatial econometric and statistical models	201
7.6	Patterns of temporal and spatial dependence	203
7.7	Chapter summary	207
8	Spatial Econometric Interaction Models	211
8.1	Interregional flows in a spatial regression context	212
8.2	Maximum likelihood and Bayesian estimation	218
8.3	Application of the spatial econometric interaction model	223
8.4	Extending the spatial econometric interaction model	228
8.4.1	Adjusting spatial weights using prior knowledge	229
8.4.2	Adjustments to address the zero flow problem	230
8.4.3	Spatially structured multilateral resistance effects	232
8.4.4	Flows as a rare event	234
8.5	Chapter summary	236
9	Matrix Exponential Spatial Models	237
9.1	The MESS model	237
9.1.1	The matrix exponential	238
9.1.2	Maximum likelihood estimation	239
9.1.3	A closed form solution for the parameters	240
9.1.4	An applied illustration	241
9.2	Spatial error models using MESS	243
9.2.1	Spatial model Monte Carlo experiments	246
9.2.2	An applied illustration	247
9.3	A Bayesian version of the model	250
9.3.1	The posterior for α	250
9.3.2	The posterior for β	252
9.3.3	Applied illustrations	253
9.4	Extensions of the model	255

9.4.1	More flexible weights	255
9.4.2	MCMC estimation	256
9.4.3	MCMC estimation of the model	257
9.4.4	The conditional distributions for β, σ and V	258
9.4.5	Computational considerations	259
9.4.6	An illustration of the extended model	260
9.5	Fractional differencing	265
9.5.1	Empirical illustrations	270
9.5.2	Computational considerations	275
9.6	Chapter summary	277
10	Limited Dependent Variable Spatial Models	279
10.1	Bayesian latent variable treatment	281
10.1.1	The SAR probit model	283
10.1.2	An MCMC sampler for the SAR probit model	284
10.1.3	Gibbs sampling the conditional distribution for y^*	285
10.1.4	Some observations regarding implementation	287
10.1.5	Applied illustrations of the spatial probit model	289
10.1.6	Marginal effects for the spatial probit model	293
10.2	The ordered spatial probit model	297
10.3	Spatial Tobit models	299
10.3.1	An example of the spatial Tobit model	302
10.4	The multinomial spatial probit model	306
10.4.1	The MCMC sampler for the SAR MNP model	307
10.4.2	Sampling for β and ρ	308
10.4.3	Sampling for Σ	308
10.4.4	Sampling for $\tilde{y}^*$	310
10.5	An applied illustration of spatial MNP	312
10.5.1	Effects estimates for the spatial MNP model	314
10.6	Spatially structured effects probit models	316
10.7	Chapter summary	320
	References	323
	Index	337