

## Chapter 5. Democracy, Foreign Direct Investment, and Outliers

### Abstract

Chapter 5 reevaluates and compares two foreign direct investment models built by Li and Resnick (2003) and Jensen (2003), respectively. It notes that the presence of outliers and influential cases can dramatically change the magnitude of regression coefficients, standard errors, and even coefficient signs (i.e., positive or negative). When researchers fail to account for abnormal observations, the empirical results they report are often misleading. Unfortunately, this fact remains underappreciated in political science generally and in studies of foreign direct investment specifically. Expounding upon the outlier issue, chapter 5 presents a simple simulated example and a replication of two empirical studies that use very similar statistical techniques but come to contradictory conclusions regarding the effect of democracy on FDI inflows. In doing so, the chapter illustrates how outliers can drastically affect the substantive results of regression analysis. With a proper data analysis, this chapter concludes that democratic countries foster more FDI than do authoritarian countries.