

**R&D and Subsidies at the Firm Level:  
An Application of Parametric and Semi-Parametric Two-Step  
Selection Models**

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This paper analyzes the effects of public R&D subsidies on R&D expenditure in the German manufacturing sector. The focus is on the question whether public R&D funding stimulates or crowds out private investment. Cross sectional data at the firm level is used. By applying parametric and semiparametric selection models, it turns out that public funding increases firms' R&D expenditure. Although the magnitude of the treatment effect depends on the assumptions imposed by the particular selection model.