Kinks Know More: Policy Evaluation Beyond Bunching with an Application to Solar Subsidies

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Abstract : This paper shows that kinks or discontinuities in economic incentive schemes, such as taxes or subsidies, simultaneously identify agents' intensive and participation margin responses. The proposed semi-nonparametric estimator enables the evaluation of such schemes when existing kink and discontinuity methods are inapplicable due to the presence of both margins. The paper applies the estimator to evaluate the German subsidy for rooftop solar panels, a cornerstone of global climate policies. Due to sizeable responses at both margins, nonlinearities in the programme only modestly increase its cost-effectiveness. The results highlight the importance of simultaneously estimating both margins for optimal policy design.