

Abstract.

This paper develops a test for cross-sectional correlation in panel data models within the large N and large T framework. This test is robust to heteroskedasticity of unspecified and unknown form. While the theoretical results appear to be sound and the test shows acceptable size properties, the power of the test is rather low and does not go to unity quickly enough to recommend the test for immediate implementation. However, the paper reopens the conversation about cross-sectional correlation in panel data, and hopefully instigates a discussion in the literature