Reply to the anonymous referee 2

We feel indebted to referees 1 and 2 for their helpful comments and suggestions, raising some substantial points that have contributed to improve our manuscript. We are preparing a new version of the paper that has benefited from those suggestions and has incorporated and adapted some of their recommendations.

In what follows, we now submit a reply to the anonymous referee number 2 following the sequence of her/his original report.

General Comments

We agree with her/his comment about the title being too narrow. Accordingly, we suggest the broader one *"Development and Software Piracy"*. Being perhaps too much generic, others alternatives that we are considering are *"Determinants of Software Piracy"* and *"Differences in Software Piracy among Countries"*.

Specific Comments

(1) Most of the variables from the World Economic Forum GCI database are obtained from the *Executive Opinion Survey (see for example the 2017-2018 memo in http://*goo.gl/t2URR4*)*. Being a survey among international experts, their measurements may contain an unavoidable degree of subjectivity. The Likert scale in the Survey and is consistently used across survey waves.

(2) Equation (3) is the updating equation in the IFS algorithm. There, the vector beta and the residuals are updated at each iteration. Thus β_j does not stand for the jth beta parameter, but the whole vector of coefficients at iteration j of the algorithm. To avoid missleadings, we are planning to use vector notation following this proposal of Abadir and Magnus (2002).

(3) We completely agree with the complaint of the referee and apologize. The δ here should be ε. In fact, all the last sentence of this paragraph is missplaced since we do not use a dynamical shrinkage factor. A brief explanation on the choice of fixed or dynamically chosen shrinkage factor should move to a footnote.

(4) Our dependent variable is indeed a generated regressand and this may inflate variances. We opted for using a robust Hubert/White sandwich estimator.

Sincerely,
Francisco Martínez-Sánchez
Andrés Romeu

References:

Abadir, K. and Jan R. Magnus (2002): "Notation in econometrics: a proposal for a standard", Econometrics Journal, **5,** pp. 76–90