\[ c_t = d + a_y Y_t + z Z_t + \epsilon_t \]

\[ y_t = c_t + \eta_t \]

1) Regress \( y_t \) on \( c_{ty} \), \( x_t \), and \( Z_t \)

2) Regress \( c_t \) on \( c_{ty} \), \( x_t \), and \( Z_t \)

\( \eta_t \) affects \( y_t \) but is uncorrelated with \( \epsilon_t \)