Assumption University
Department of Business Economics
Class Time: Thu 18.30-21.30
Class Room: D44

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Class Web: www.deefred.net/Dee

ECO 6201: ECONOMETRICS I **SECOND TERM 2012**
MASTERS

Course Objectives

The goal of this course is to introduce you to the methods economists use to empirically test economic theories in the real world, i.e. applying statistical methods to the analysis of economics data. Such techniques have increasingly been used in corporate, government, and academic settings to analyze markets, to create forecasts, to evaluate public policies, and to test economic theories.

In this course, we will particularly focus on regression analysis (uncovering and quantifying relationships among various variables) with the emphasis on both the theory underlying such analysis and the actual application of the theory to analyze real world problems.

(Note that because of time limits, throughout most of the course we will assume that the data we have are "well-behaved" or in an "ideal conditions." Nor will we spend much time on time series regression analysis although it is an important area in econometrics.)

Course Prerequisites

It is assumed that you are familiar with basic concepts of probability and statistics (by having taken at least one probability and statistics course) as well as calculus and basic algebra. No knowledge of matrix algebra is required.

Software

To help you gain a hands-on experience in applying the theories you learn in class to real world problems, you are required to use STATA (one of the most popular econometric software on the market) for problem sets and a term project for this course. (I will test your knowledge of the software in the exams.) Although I provide a supplementary note that helps you familiarize with STATA and you can use Google to read more on most, if not all, STATA commands, you may not feel that it is enough. If so, I recommend that you obtain or read the following (any of the earlier version is fine as well).

- Christopher F. Baum, *An Introduction to Modern Econometrics Using Stata*, Stata Press, 2006 – This book discusses most of what you need for an empirical analysis with STATA.
- STATA Base Document Set, STATA Press, 2011 – This is a set of reference documents that cover all STATA commands (except someone else's own ado programs, no matter how popular they are).

Textbooks

There is no required textbook for this course. My detailed class notes and required readings are sufficient to do well in this course. However, I recommend that you obtain or read one of the suggested textbooks listed below (any of the earlier version is fine as well).

- Jeffrey M. Wooldridge, *Introductory Econometrics: A Modern Approach*, Fourth Edition (Thomson South-Western, 2008) – The notation and mathematical proofs in this book are very different from my class notes. So, it is best not to read the math stuffs in the book. However, this book contains a great number of examples that show you how we can apply what we learn in class to actual real world problems. More importantly, the book discusses most, if not all, issues (both consequence and correction) that you will need to know when doing econometric analysis. So, grab this book if you think you need a reference book for most econometric analysis that you will have to do after you are done with this course. You just need to read the text, not the math stuffs.

- Michael P. Murray*, Econometrics: A Modern Introduction*, First Edition (Addison Wesley, 2005) – This book has a very good treatment of basic econometric theories by providing clear explanations and intuitions behind the theoretical concepts. The notation and mathematical proofs in this book are slightly different from what I use, but not as confusing as Wooldridge. The book also discusses common issues (both consequence and correction) that you will need to know when doing econometric analysis. The only problem with this book is that it provides very few, if not none, empirical examples of how we can apply the concepts to real world data. So, get this book if you are more mathematically/theory inclined.

- Damodar N. Gujarati (and Dawn C. Porter), *Basic Econometrics*, Fifth Edition (McGraw-Hill/Irwin, 2008). This book is less advanced than Wooldrige's and Murray's books. Not surprisingly, the book covers less econometric techniques than the other two books. In addition, the theoretical presentation of the concepts in this book is a bit cumbersome, and the notation in this book is slightly different from what I use. But, this book is very easy to read, and has quite a bit of real world examples, though not as much as Wooldrige's book. So, get this book if you do not like my class notes (which tend to be a bit dry) and want to read someone else's book instead.

Students may also find the following textbooks useful. (All these books offer a great discussion on regression analysis but not on probability theory.)

- Damodar N. Gujarati (and Dawn C. Porter), *Essentials of Econometrics*, Fourth Edition (McGraw-Hill/Irwin, 2009) – Less advanced than *Basic Econometrics*.

- Robert S. Pindyck and Daniel L. Rubinfeld, *Econometric Models and Economic Forecasts*, Fourth Edition (McGraw-Hill, 2000) – Slightly more advanced than Wooldridge's book.

- Jack Johnston and John DiNardo, *Econometric Methods*, Fourth Edition (McGraw-Hill, 1996) – A nice classic book that efficiently discusses the concepts (but more technical), read Chapters 1 and 2 only (the Chapters beyond Chapter 2 are too advanced for this course).

Language of Instruction

English is the only language of instruction for this course. This means you must communicate in English with the instructor both in and outside of classroom (such as writing the exam or seeking help during office hours). You must also speak to your classmate in English during class. (This policy is imposed to maintain the quality, and more importantly the fairness of my teaching.)

Course Requirements

Your course grade will be based on (1) a midterm, (2) a term project, and (3) the final. The midterm is on Thursday January 3, and the final is on Monday March 4. The final is cumulative. These exams will consist of T/F, problem-solving (theory), empirical questions and STATA programming questions.

In addition to the two exams, you are required to complete a term project (there may be questions about it in the final). Deadline for the term project and how to submit it are discussed on the following page. Instructions for the term project will be posted on the Class Web by November 26. I will be happy to provide some assistance for the project during my office hours. Also, if you hand in your project draft at least 2 weeks before the deadline, I will give you suggestions that may help increase your grade for the project.

Class Notes, Readings and Problem Sets

Class notes, readings and problem sets (with solutions) will be posted on the Class Web. Use them at your own risk. I have tried to eliminate typing errors when preparing these materials. However, it is very likely that there are still (a few) errors in the notes and the solutions. You must use your own judgment when utilizing these materials. (I would appreciate it if you could let me know where the errors are so that the future generation of students can benefit from better class materials.)

This course requires a lot of work. Some of the materials we cover may seem insurmountable for you at first. But, I believe that my learning-by-doing teaching style will help you master even the most complex concepts that we will cover. Although the problem sets will not be counted towards your grade, it is in your best interest to familiarize yourself with the concepts given in class by solving the problems. (It is very crucial that you do the problem sets on your own instead of just reading the provided solutions.) The project will help you see a bigger picture of how you can apply what you learn in class to an actual real world problem. The required readings will also be helpful in understanding course materials and answering questions in the exams. Here is the list of readings. The required readings are marked as ● and the optional readings are listed as ○. (See class schedule for when we will cover each reading.)

- *STATA Base Document Set*, STATA Press, 2011.
- Christopher F. Baum, *An Introduction to Modern Econometrics Using Stata*, Stata Press, 2006.
- Dhanoos Sutthiphisal, "Learning-by-producing and the Geographic Links between Invention and Production: Evidence from the Second Industrial Revolution," *Journal of Economic History* (Dec. 2006)

- Daniel S. Hamermesh and Jeff E. Biddle, "Beauty and the Labor Market," *The American Economic Review*, Vol. 84, No. 5. (Dec., 1994), pp. 1174-1194.
- Mariko Sakakibara and Lee Branstetter, "Do Stronger Patents Induce More Innovation? Evidence from the 1998 Japanese Patent Law Reforms," *RAND Journal of Economics*, Vol. 32, No. 1 (Spring 2001), pp. 77-100.
- Gregory C. Chow. "Tests of Equality Between Sets of Coefficients in Two Linear Regressions," *Econometrica*, Vol. 28, No. 3. (Jul., 1960), pp. 591-605.
- Javier Escobal and Sonia Laszlo, "As Time Goes By: Measurement Error in Access to Market Data. Evidence from Peru," *Mimeo*, McGill University, 2004.
- Daron Acemoglu, Simon Johnson and James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *The American Economic Review* Vol. 91 (Dec. 2001), pp. 1369-1401.
- John C. Brown and Timothy W. Guinnane, "Regions and Time in the European Fertility Transition: Problems in the Princeton Project's Statistical Methodology," *Mimeo*, Yale University, 2004.

Office Hours and Review

Regular office hours are listed on the first page. For each exam, I will schedule extra office hours which will be announced in class a week before the exam. However, you should not let questions accumulate until the week before an exam. It is not healthy to panic at the last minute and it is difficult to work things out under pressure. More importantly, the course materials are highly cumulative. Therefore, there will be a snowballing effect if you do not keep up with the materials. It will be very hard to catch up.

For students with a legitimate time conflict with the office hours, you can make an appointment with me by email when you need help. In addition, I will give review sessions on Saturday December 22 for the midterm, and on Thursday February 28 for the final.

Communication Policies

In addition to office hours, please feel free to ask me questions via the Internet. I encourage you to use the forum function in the Learning Management System (LMS) to ask me questions since they may also benefit your classmates. Should you need to contact me via email, please use the email address stated on the first page. I will not respond to any of your emails unless the following criteria are satisfied.

- Have proper subject heading. That is, Eco 6201: Econometrics. – I have more than one course to teach each semester.
- Sent to d.sutthiphisal@gmail.com - I do not check other email addresses (e.g. au one) regularly.
- Address me as Professor/Professor Dee, Dr. Dee, (or just simply Dee). Never ever use the words Teacher nor Ms/Mrs to address me. – For some, these are considered insulting terms.
- No mixing of English with Thai (or any other languages) words, e.g. no Ka/Krub, no Ajarn – such a conduct is deemed unprofessional, and hence it is impolite to write so to an instructor.

For the night before each exam, I will answer your e-mails if and only if I receive them BEFORE 10 PM.

If there is an important announcement (e.g. extra office hours), I will make it on LMS News and Announcements forum. To be able to receive my announcements, you need to be enrolled in the class LMS. Also, make sure your LMS profile has your current email address.

Exam Policies

The midterm scores and grades will be posted on the Class Web. You are not allowed to keep your exams. If you would like to review your exams, please see me during my office hours or make an appointment.

Grade Appeals

If you are not satisfied with how your exam term/project is graded, you may submit a grade appeal in writing. If you choose to do so, your entire exam/term project will be reviewed. There will not be a partial re-grading, and you may receive a lower grade after the appeal.

Grade Assignment

You will receive a percent grade for each exam, the term project and class participation. The percent grade for each exam is a converted grade of your raw score based on a class distribution, whereas your grade for the term project and participation is based on your own performance. The grade you receive for this course will be from the scheme below that yields the highest grade.

Scheme 1			Numeric	Course %
Term Project	25%	Letter Grade	Grade	Lower Bound
Midterm	25%	A	4.00	85
Final	50%	A-	3.75	80
		B+	3.25	75
Scheme 2		B	3.00	70
Term Project	25%	B-	2.75	65
Midterm	0%	C+	2.25	60
Final	75%	C	2.00	50
		C-	1.75	45
		D	1.00	40
		F	0.00	0

For example, suppose you receive 65 (B-) for the term project, 50 (C for the midterm), and 85 (A). Scheme 2 is obviously better than Scheme 1 and will give you: 65 x 0.25 + 85 x 0.75 = 80 (A-). Hence, your course grade would be an A-.

Term Project Deadline and Late Penalties

Extensions for submission of term project will only be given in cases of illness, where a medical certificate is provided. You need to submit a hard copy of the term project to me (for grading purpose) as well as an electronic version to TurnItIn.com (to verify

authenticity). (Using TurnItIn.com will help me focus my grading on your ideas rather than putting an effort to check the authenticity of your work. Hence, I can give you the mark fairly and promptly.) By 9am (Bangkok time) of Thursday February 28, you must submit an electronic version to TurnItIn.com. Exclude tables, figures and appendix from your electronic submission. The hard copy can be submitted after 9am but must be before 5pm of the due date (February 28). You must also submit your STATA log files and/or do files either by including them in the hard copy or by emailing them to me electronically on the project due date. No need to edit the files, I will just use them to confirm the authenticity of your work. It is virtually impossible for the two groups to have similar files.

Only one submission is needed for a group. However, you need to list the names of the team members as well as their student IDs clearly. Also, if you encounter a problem with your TurnItIn submission on the due date, send me an email with your work file(s) as attachment. I will use the electronic time stamp as an evidence that you submit your work on time and we will settle the TurnItIn submission later.

A project submitted late (electronically) will lose three letter grades a day (each 24-hour period from the deadline) including during the weekend. For example, suppose you earn an 80 (A-) for the project that was 1 day late. Your project grade will be 65 (B-) instead of an A-. (Your project will be first assigned points without considering whether you are late or not. Then, the mark down will be applied.) No project will be accepted after 9.30am of the 5th day after the due date. (Except in cases where a medical note has been supplied AND you have made arrangements with me in advance.)

Failure to use TurnItIn.com to submit the work will result in a mark of zero for the term project.

Academic Integrity

The instructor and Assumption University value and enforce academic integrity. All students must understand the meaning and consequences of cheating, plagiarism and other academic offences.

> Plagiarism is defined in dictionaries as the "wrongful appropriation," "close imitation," or "purloining and publication" of another author's "language, thoughts, ideas, or expressions," and the representation of them as one's own original work. - Wikipedia

Any work submitted that is deemed plagiarized work (e.g. without citing the origin of the idea or writing) will receive a zero for that submission. More importantly, your action is subject to the university committee for academic integrity. The punishment, if found guilty, is the same as what you will receive when you are found cheating in an exam. That is, you will receive an F for the course. See the required Supplementary Note 1: Academic Integrity for more information.

Course Schedule

Dates for topics to be covered are tentative and subject to changes. You are expected to read all readings marked as ● in the reading list. The readings listed as ○ are optional. LN = Lecture Note. SN = Supplementary Note.

Class No	Date	Topics	Remarks	Readings
1	Thu Nov 8	Introduction and Math Review	• What is econometrics? • How do economists conduct an empirical analysis? • Examples for questions of interest • Data types • Review: sum operators and calculus	• LN1: Introduction • SN1: Academic Integrity ○ SN2: Math Review ○ SN3: How to Read an Empirical Paper
1	Thu Nov 8	Statistic Review	• Random variables • Probability distributions • Expectation • Variance	• LN2: Statistic Review
2	Thu Nov 15		• Joint distributions • Conditional distribution • Conditional expectation • Independence • Covariance • Correlation coefficient • Some useful probability distributions (normal, chi-square, t and F)	• LN2: Statistic Review
3	Thu Nov 22	Introduction to Estimation	• Sample vs. population • Asymptotic theories (plim, LLN, CLT) • Properties of estimators: unbiasedness, efficiency, MSE • Examples: Math and Monte Carlo simulations • Properties of estimators: consistency, asymptotic normality • Examples: Math and Monte Carlo simulations	• LN3: Introduction to Estimation ○ SN4: Asymptotic Theories

Class No	Date	Topics	Remarks	Readings
4	Sat Nov 24 (9-12, D42)	Introduction to Statistical Inference	• Confidence interval with known variance • Hypothesis testing with known-variance (z-test, chi-square-test, p-value) • Type I and Type II errors • Confidence interval with unknown variance • Hypothesis testing with unknown-variance (t-test, F-test) • ANOVA • Example: Learning-by-producing • Example: STATA • Moving away from simple statistical inference to OLS	• LN4: Introduction to Statistical Inference ○ Sutthiphisal (2006)
Lab	Thu Nov 29	Introduction to STATA	• General information • Log files • Summary statistics • General syntax • Manipulating data • Constructing tables • Merging data sets	• SN5: Introduction to STATA ○ Baum (2006) ○ STATA Base Document Set
D1	Thu Dec 6	No Class	• Replaced by Sat Nov 24 class	

Class No	Date	Topics	Remarks	Readings
5	Thu Dec 13	OLS Estimation	• Introduction to regression analysis • Parameter estimations for two-variable model • Algebraic properties of OLS estimators • Goodness of fit • Application: Rescaling data • Caveat in interpreting LS coefficients (e.g. causality) • Example: Learning-by-producing	• LN5: OLS Estimation ○ Sutthiphisal (2006)
6	Thu Dec 20		• Multiple regression model (coefficient interpretation and estimation) • Partitioned (step-wise) regressions • Empirical application (data rescaling – revisit, demeaning, detrending, and omitted variable bias) • Example: STATA • Midterm Review	• LN5: OLS Estimation
7	Sat Dec 22 (9-12, D42)	Midterm Review		
D2	Thu Dec 27	No Class	• Replaced by Sat Dec 22 class	

Class No	Date	Topics	Remarks	Readings
D3	Thu Jan 3	No Class	• Becomes a midterm	
X1	Thu Jan 3	Midterm Exam	• Materials from class 1-7 and STATA • Students will be given STATA commands, and then asked to explain what the commands do	• LN1: Introduction • LN2: Statistic Review • LN3: Introduction to Estimation • LN4: Introduction to Statistical Inference • LN5: OLS Estimation • SN5: Introduction to STATA
8	Thu Jan 17	OLS Assumptions	• CR assumptions • The meaning of OLS coefficient: A revisit • Finite sample properties of OLS estimators (mean, variance, covariance, distribution) • Finite sample properties of OLS estimators (Gauss-Markov Theorem, variance estimation) • Large sample properties of OLS estimators • NeoCR model Example: Math	• LN6: OLS Assumptions ○ SN3: Asymptotic Theories

Class No	Date	Topics	Remarks	Readings
9	Thu Jan 24	OLS Specification	• Meaning of OLS coefficient: A review • Linearity of regression function (quadratic, interaction, semi-log, log-log, standardized coefficients) • Constancy of parameters (dummy variable: intercept, slope)	• LN7: OLS Specification
10	Thu Jan 31		• Perfect collinearity and multicollinearity • Example: Beauty and the labor market • Example: Japanese Patent Reforms	• LN7: OLS Specification • Hamermesh and Biddle (1994) • Sakakibara and Branstetter (2001)
11	Thu Feb 7	OLS Inference	• The error terms • CNR model • Distribution of OLS estimators • Confidence interval • Single hypothesis testing	• LN8: OLS Inference
12	Sat Feb 16 (14.00-17.00 at D42)		• Joint hypothesis testing • Interpreting STATA outputs • Some caveats on testing (e.g. limitation of significance test)	• LN8: OLS Inference ○ Chow (1960)
D4	Thu Feb 14	No class	• Replaced by Sat Feb 16 class	
13	Thu Feb 21	OLS Validity: A Brief Introduction	• Consequence, detection and remedy of each CR assumption violation (specification errors, heteroscedasticity, correlated errors, measurement errors, endogeneity, non-normal errors • Logit and Probit models	○ LN9: OLS Validity ○ Escobal and Laszlo (2004) ○ Acemoglu, Johnson and Robinson (2001) ○ Brown and Guinane (2004)

Class No	Date	Topics	Remarks	Readings
14	Sat Mar 2 (9-12, D42)	Final Review		
D5	Thu Feb 28	No class	• Replaced by Sat Mar 2 class	
X2	Thu Mar 7	Final Exam	• Materials from class 1-14 and STATA • Students will be required to write a set of STATA commands to generate a particular set of output, based on the term project • Questions on required articles	• LN3: Introduction to Estimation • LN4: Introduction to Statistical Inference • LN5: OLS Estimation • LN6: OLS Assumptions • LN7: OLS Specification • LN8: OLS Inference • SN5: Introduction to STATA • Hamermesh and Biddle (1994) • Sakakibara and Branstetter (2001)