Econ 420: Econometrics

Instructor: Dr. David T. Jacho-Chávez, Rich 331, 727-1381 (Econ. Dept: 727-4639), e-mail: djachocha@emory.edu.

Time and Location: Tuesday 08:30 am – 09:45 am, White Hall 103,
Thursday 08:30 am – 09:45 am, White Hall 103.

Note: Classes being on 01/13/2015 and end on 04/23/2015. Classes do not meet on 03/10/2015 and 03/12/2015.

Office Hours: Wednesday 08:30 am – 10:00 am, Rich 331,
Thursday 10:00 am – 11:30 am, Rich 331.

Note: There will be no office hours on 02/25/2015 and 02/26/2015. Instead, there will be two sets of extra office hours on Wednesdays 02/11/2015 and 03/25/2015, between 10:00 am – 11:30 am.

Teaching Assistants:

• Ms Xiangyu Gong, e-mail: xiangyu.gong@emory.edu. Office Hours: Monday 04:00 pm – 05:30 pm, and Wednesday 04:00 pm – 05:30 pm.

Pre-requisite: Students must have taken Econ 220 – Introduction to Statistical Methods before enrolling in this course.

Course Objective: This course is designed to introduce students to the statistical foundations of Econometrics, and its well-known multivariate linear model. It will equip students with ground understanding of the fundamentals probability theory and mathematical statistics behind most econometric methods. The main concepts of asymptotic theory, and its application to the classical linear regression model are also covered. After taking this course, students should be able to:
1. Manipulate economic data sets.
2. Diagnose certain problems with linear models and data, and know how to remedy them.
3. Have a working knowledge of the classical linear regression model and its applicability.

Textbook:
Required:
Recommended:

Software: Computing tutorials will be held during some lectures. This is designed to help students to understand the practical implications of the theoretical content of the lectures, and familiarize themselves with the use of powerful and widespread econometric software such as STATA. STATA is available on computers in the Econ lab (Rich 301), Woodruff Library, and Cox Hall.
**Blackboard:** All announcements, syllabus, home assignments, lecture notes, data files, and other course-related material will be posted on Blackboard. You should check Blackboard website regularly for updates.

**Grading:** The final grade will be determined by a weighted average of scores in 1st written (closed-book) in-class exam (25% on 02/12/2015, White Hall 103, 08:30 am – 09:45 am), 2nd written (closed-book) in-class exam (25% on 03/26/2015, White Hall 103, 08:30 am – 09:45 am), homework (10% throughout the semester), and a written closed-book comprehensive final exam (40% on 05/06/2015, TBA, 03:00 pm – 05:30 pm).

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**Exams:** Each in-class midterm exam will last exactly 75 minutes and will consist of 3 questions. Question 1 is compulsory, but 1 and only 1 question of the remaining 2 must be answered by all candidates. The final exam will take place on 05/06/2015 between 03:00 pm – 05:30 pm, and it will consist of 4 questions. 3 out of these 4 questions must be answered by all candidates. Material covered in exams is cumulative. Only handheld calculators are allowed.

**Home Assignments:** There will be 5 assignments. They are due in paper form at the beginning of the lecture the day the assignment is due. If you work in teams, please write down the name of each member of the group in your individual personal submission.
Policies

General: Students are expected to adhere to the Emory College Honor Code as well as its Conduct Code, see [http://college.emory.edu/home/academic/policy/conduct_code.html](http://college.emory.edu/home/academic/policy/conduct_code.html). Specifically the honor code is in effect throughout the semester. By taking this course, you affirm that it is a violation of the code to cheat on exams, to plagiarize, to deviate from the teacher’s instructions about collaboration on work that is submitted for grades, to give false information to a faculty member, and to undertake any other form of academic misconduct. You agree that the teacher is entitled to move you to another seat during examinations, without explanation. You also affirm that if you witness others violating the code you have a duty to report them to the honor council.

Special circumstances: Students requiring any type of special classroom/testing accommodation for a disability, religious belief, scheduling conflict, or other impairment that might affect his or her successful completion of this course must personally present the requested remedy or other adjustment in written form (signed and dated) to the instructor, i.e. supporting memorandum of accommodation from the Office of Disabilities Services, [http://www.ods.emory.edu/](http://www.ods.emory.edu/). Requests for accommodations must be received and authorized by the instructor in written form no less than two weeks in advance of need. No accommodation should be assumed unless so authorized. In the event of needs identified later in the course, or for which an adjustment cannot be made on a timely basis, a grade of “I,” Incomplete for the course, will be given to accommodate the unanticipated request.

Exam absences & missed assignments: Emory College of Arts and Sciences does not have an attendance policy and, therefore, does not provide absence excuses. In the event of a catastrophic (and documented) occurrence which necessitates an absence from a scheduled exam or assignment, the student should immediately seek help from the Office of Undergraduate Education (OUE), [http://college.emory.edu/home/administration/office/undergraduate/index.html](http://college.emory.edu/home/administration/office/undergraduate/index.html). The Family Educational Rights and Privacy Act (FERPA) and the Health Insurance Portability and Accountability Act of 1996 (HIPPA) regulations (U.S. Department of Health and Human Services and U.S. Department of Education) dictate that students do not have to provide medical documentation or disclose personal/medical issues with professors. However, the OUE class deans and academic advisers may collect this documentation and could provide verification to professors upon students’ requests. This must be done within 48 hours after missing the exam or assignment deadline. If approval is granted by the instructor, the weight of the student’s scores for the missed exam or assignment will be transferred to the next chronologically scheduled exam or assignment. If a letter (or e-mail) from the OUE is not received by the instructor within 48 hours, or approval is not explicitly obtained from the instructor, after a missed exam or assignment, the missed exam or assignment will receive a score of zero points.

In case, the student obtains a verification letter (or e-mail) from the OUE for chronologically the final exam or last assignment, and the instructor’s approval is also granted, the weight of the student’s scores for the missed final exam or last assignment will be transferred to the previous exam or assignment where the student scored the lowest.
It is understood that any student seeking a verification letter (or e-mail) from the OUE, is also forfeiting all extra points earned throughout the duration of the course, including those from answering correctly pop-quizzes, and questions in class.

⚠️ Regardless of whether a student can obtain a verification letter from the OUE for more than one missed exam (midterm or final), all students will need to have obtained marks in at least two written examinations to obtain a final grade for the course. Students failing to fulfill this minimum requirement will receive an automatic “I” (incomplete) for the course. The instructor will change this “I” to a grade once the student successfully takes all missed written examinations the next time the instructor teaches the course, i.e. Spring 2016.

Dishonesty: Any student who is found to have cheated or to have plagiarized will receive an “F” for the course. The university defines academic misconduct as:

“... Academic misconduct is an offense generally defined as any action or inaction which is offensive to the integrity and honesty of the members of the academic community ...”

For full information about Emory's policy on academic misconduct, please check the following links: http://college.emory.edu/home/academic/policy/honor_code.html (see Articles 4, 5, 6 & 7)

Class attendance: Attendance is mandatory and encouraged. Marks from home assignments, pop-quizzes, class participation, and exams will only be credited if taken and handed-in during the session the student is officially enrolled in. If a student misses a lecture, the student should not expect the instructor to repeat the material at another time (such as the instructor’s office hours).

In/Out of classroom conduct: Students are expected to adhere to the Emory University Code of Conduct, see http://conduct.emory.edu/policies/code/index.html.

- Use of cell/smartphones during lecture time and exams is always prohibited, as is leaving the room to answer or make a call.

⚠️ Students planning to use laptops and/or tablets during lecture time only should seat in the last 3 rows of the classroom.

⚠️ Only scientific handheld calculators are permitted during exams.

- Basic classroom etiquette requires that you be quiet and attentive in class. This means that, except when we are engaged in-group discussion, only one person will be talking in the classroom at any time. Everyone in the room will give respectful attention to the sole speaker. Students creating disruptions in class will be asked to leave the class and will still be responsible for any material missed. Continued disruptions will be dealt with in accordance with university policy.
Any level of ‘chatting’ with friends, sleeping, reading newspapers, leaving early, and/or eating in class are disruptive and rude to your classmates and me. If for some reason you have to leave early or arrive late on a particular day, please sit in the back of the class, leave or arrive quietly, and notify me via e-mail as far in advance as possible. This will be allowed as long as it is of an infrequent nature. Use the time in class wisely, appropriately, and efficiently.

You are welcome to drop by my office during office hours and by appointment only. If you need to send me an e-mail, please remember that e-mail is a means of communication and you should be always respectful in your writings. I reserve the right to either answer your query via e-mail (within 24 hours after receiving it) or in person (by asking you to set up an appointment to meet later on).

Outline

Basic Mathematical Tools (Appendix A)
1) The Summation Operator and Descriptive Statistics (Appendix A.1).
2) Properties of Linear Functions (Appendix A.2).
3) Proportion and Percentages (Appendix A.3).
4) Some Special Functions and their Properties (Appendix A.4).
   i. Quadratic Functions.
   ii. The Natural Logarithm.
   iii. The Exponential Function.
5) Differential Calculus (Appendix A.5).

Fundamentals of Probability (Appendix B)
6) Random Variables and Their Probability Distributions (Appendix B.1).
   i. Discrete Random Variables.
   ii. Continuous Random Variables.
7) Joint Distributions, Conditional Distributions, and Independence (Appendix B.2).
   i. Joint Distributions and Independence.
   ii. Conditional Distributions.
8) Features of Probability Distributions (Appendix B.3).
   i. A Measure of Central Tendency: The Expected Value.
   ii. Properties of Expected Values.
   iii. Another Measure of Central Tendency: The Median.
9) Features of Joint and Conditional Distributions (Appendix B.4).
   i. Measures of Association: Covariance and Correlation Coefficient.
   ii. Variance of Sums of Random Variables.
   iii. Conditional Expectation.
10) The Normal and Related Distributions (Appendix B.5).
    i. The Normal Distribution.
    ii. The Standard Normal Distribution.
    iii. Additional Properties of the Normal Distribution.
    iv. The Chi-Square Distribution.
v. The F Distribution.

**Fundamentals of Mathematical Statistics (Appendix C)**

0) The Summation Operator and Descriptive Statistics (Appendix A.1).
1) Population, Parameters and Random Sampling (Appendix C.1).
2) Finite Sample Properties of Estimators (Appendix C.2).
   i. Estimators and Estimates.
   ii. Unbiasedness.
   iii. The Sampling Variance of Estimators.
   iv. Efficiency
3) Asymptotic or Larger Sample Properties of Estimators (Appendix C.3).
   i. Consistency: Consistency and Law of Large Numbers.
   ii. Asymptotic Normality: Asymptotic Normality and Central Limit Theorem.

**The Nature of Econometrics and Economic Data (Chapter 1)**

1) What Is Econometrics?
2) Steps in Empirical Economic Analysis.
3) The Structure of Economic Data.
   i. Cross-Sectional Data.
   ii. Time Series Data.
   iii. Pooled Cross Sections.
   iv. Panel or Longitudinal Data.
4) Causality and the Notion of Ceteris Paribus in Econometric Analysis.

**The Simple Regression Model (Chapter 2)**

1) Definition of the Simple Regression Model.
2) Deriving the Ordinary Least Squares Estimates.
3) Properties of OLS on Any Sample of Data.
   i. Fitted Values and Residuals.
   ii. Algebraic Properties of OLS Statistics.
   iii. Goodness-of-Fit.
4) Units of Measurement and Functional Form.
   i. The Effects of Changing Units of Measurement on OLS Statistics.
   ii. Incorporating Nonlinearities in Simple Regression.
   iii. The Meaning of “Linear” Regression.
5) Expected Values and Variances of the OLS Estimators.
   i. Unbiasedness of OLS.
   ii. Variances of the OLS Estimators.

**Multiple Regression Analysis: Estimation (Chapter 3)**

1) Motivation for Multiple Regression.
   i. The Model with Two Independent Variables.
   ii. The Model with k Independent Variables.
2) Mechanics and Interpretation of Ordinary Least Squares.
   i. Obtaining the OLS Estimates.
   ii. Interpreting the OLS Regression Equation.
   iii. On the Meaning of “Holding Other Factors Fixed” in Multiple Regression.
Multiple Regression Analysis: Inference (Chapter 4)
1) Sampling Distributions of the OLS Estimators.
2) Testing Hypotheses about a Single Population Parameter: The \( t \) Test.
   i. Testing against One-Sided Alternatives.
   ii. Two-Sided Alternatives.
   iii. Testing Other Hypotheses about \( \beta_j \).
   iv. Computing \( p \)-Values for \( t \) Tests.
   vi. Economic, or Practical, versus Statistical Significance.
3) Confidence Intervals.
4) Testing Hypotheses about a Single Linear Combination of the Parameters.
5) Testing Multiple Linear Restrictions: The \( F \) Test.
   i. Testing Exclusion Restrictions.
   ii. Relationship between \( F \) and \( t \) Statistics.
   iii. The R-Squared Form of the \( F \) Statistic.
   iv. Computing \( p \)-Values for \( F \) Tests.
   v. The \( F \) Statistic for Overall Significance of a Regression.
   vi. Testing General Linear Restrictions.

Multiple Regression Analysis: OLS Asymptotics (Chapter 5)
1) Consistency.
   i. Deriving the Inconsistency in OLS.
2) Asymptotic Normality and Large Sample Inference.
   i. Other Large Sample Tests: The Lagrange Multiplier Statistic.
3) Asymptotic Efficiency of OLS.

Multiple Regression Analysis: Further Issues (Chapter 6)
1) More on Functional Form.
   i. More on Using Logarithmic Functional Forms.
   ii. Models with Quadratics.
   iii. Models with Interaction Terms.
2) More on Goodness-of-Fit and Selection of Regressors.
   i. Adjusted R-Squared.
   ii. Using Adjusted R-Squared to Choose between Nonnested Models.
   iii. Controlling for Too Many Factors in Regression Analysis.
   iv. Adding Regressors to Reduce the Error Variance.
3) Predicting $y$ when $\log(y)$ is the Dependent Variable.

Multiple Regression Analysis with Qualitative Information: Binary (or Dummy) Variables (Chapter 7)
1) Describing Qualitative Information.
2) A Single Dummy Independent Variable.
   i. Interpreting Coefficients on Dummy Explanatory Variables When the Dependent Variable Is $\log(y)$.
3) Using Dummy Variables for Multiple Categories.
   i. Incorporating Ordinal Information by Using Dummy Variables.
4) Interactions Involving Dummy Variables.
   i. Interactions among Dummy Variables.
   ii. Allowing for Different Slopes.
   iii. Testing for Differences in Regression Functions across Groups.
5) A Binary Dependent Variable: The Linear Probability Model.