

Econometrics

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Econ 570
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- Purpose** The goal of this course is to have a lot of fun while learning something about econometrics.
- What is Econometrics?** Think about your other courses in economics. We can summarize the course content as follows: Two lines intersect at a point. The intersection moves around as you shift the lines.
- Have you noticed anything missing? Where are those lines in the real world? Econometrics is the science (or art) of trying to figure out where the lines in an economic diagram are by using **real data**. This an immensely practical goal (at least relative to other things you have studied).
- For example, econometrics attempts to determine how much sales will increase in numerical terms if you cut the price a specific amount. In other words, we will seek a numerical estimate of the slope of the demand curve, which is the first step in actually maximizing profits.
- Textbook** We will be using *Introduction to Econometrics* by Christopher Dougherty, Fourth Edition. A study guide and data are available online.
- Web Sites** You will find our course web site at <http://parke.econ-courses.com>. I also post useful information at <http://www.easymetrics.net>.
- Stata** We will be doing exercises using the Stata statistical package. This is available for purchase, it is on computer lab machines, and it is available via high-speed Internet from the UNC Virtual Computing Laboratory <http://vlc.unc.edu>.
- How much math do I need to take this course?** You need the same amount of math you need to be a reasonably well educated graduate of UNC. You should be comfortable with college algebra. That means you should be able to work with symbols to solve problems. You should know what calculus is, but you do not need to actually do any calculus.
- How are the grades awarded?** We will have an assortment of exercises using both pencil and paper and Stata, two research projects (term papers), two midterms, and a final exam. I will keep my copy of everything you do this semester, and I will evaluate your portfolio after the Final

Exam. All these course elements are required. Students who do not complete all the course elements will not receive credit for the course regardless of their exam scores.

Outline

We will cover the following topics. The references beginning with “D-“ refer to chapters and pages in the textbook.

A. Introduction

B. Probability & Statistics D-R

Random Variables & Moments
aX+b Rules
t Tests
Confidence Intervals

C. Simple Regression (2var) D-1,2

Why is the estimated slope stochastic?
Assumptions
Distribution of beta-hat
t Tests

D. Multiple Regression (3var) D-3,6

Controlling For
Specification Analysis
F Tests D-180,274
How do you pick the best model?

E. Categorical Explanatory Variables D-5

Dummy Variables
F Tests Revisited
Chow Tests
Subsamples & Controlling For

F. Categorical Dependent Variables D-10

Logit/Probit

G. Nonlinearity D-4

Functional Form
Logarithms & the Exponential Function
The Cobb-Douglas Production Function

H. Problems with the Errors

Serial Correlation D-12
Heteroskedasticity D-7

I. Simultaneity D-8,9

Supply and Demand
Instrumental Variables
Identification

J. Time Series Data D-11,13

Distributed Lags and Lagged Dependent Variable
Forecasting
Panel Data D-14

Research Papers

During the term you will complete two research projects. Both will produce written papers.

The Income Project will use data from the U.S. Current Population Survey from the Bureau of Labor Statistics (<http://www.bls.gov>). I will supply about 200,000 observations from each of three years in the form of Stata datasets. You will propose a research question that can be addressed using this data and turn in a written paper that shows your results.

The Term Paper will use data that you draw from a source that you determine. You will propose a research question that can be addressed using this data and turn in a written paper that shows your results.

To complete these two research projects you will meet with me in my office (not in the classroom) to discuss the following five progress reports.

1. **Income Project Topic.** You will provide a short statement of the research topic you will be investigating. There is a form for this progress report. I will approve your topic or tell you to come back with a revised or different topic.
2. **Income Project Empirical Results.** We will review your empirical results before you write your final paper. Please bring in your preliminary results.
3. **Term Paper Topic.** You will provide a short statement of the research topic you will be investigating. There is a form for this progress report. You will also show me where you will be obtaining your data. Evidence that you have actually obtained your data is best. I will approve your topic or tell you to come back with a revised or different topic.
4. **Term Paper Empirical Results.** We will review our empirical results before you write your final paper. Please bring in your preliminary results.
5. **Term Paper Rough Draft.** We will review a draft of your paper.

As a capstone activity, you will read and review two papers written by other students. Your reviews have nothing to do with my grading process for the papers you review. The reviews are intended to give you additional perspective on how people approach empirical econometrics.