SHORT CONTENTS

	Preface	xiii
	Acknowledgments	xvii
	A personal message from the author	XX
	List of tables	xxii
	List of figures	xxix
Par	t I: Basics of linear regression	
1	The linear regression model: an overview	2
2	Functional forms of regression models	28
3	Qualitative explanatory variables regression models	53
Par	t II : Regression diagnostics	
4	Regression diagnostic I: multicollinearity	80
5	Regression diagnostic II: heteroscedasticity	96
6	Regression diagnostic III: autocorrelation	113
7	Regression diagnostic IV: model specification errors	131
Par	t III : Topics in cross-section data	
8	The logit and probit models	170
9	Multinomial regression models	190
10	Ordinal regression models	206
11	Limited dependent variable regression models	219
12	Modeling count data: the Poisson and negative binomial regression models	236
Par	t IV : Time series econometrics	
13	Stationary and nonstationary time series	250
14	Cointegration and error correction models	269
15	Asset price volatility: the ARCH and GARCH models	283
16	Economic forecasting	296
Par	t V: Selected topics in econometrics	
17	Panel data regression models	326
18	Survival analysis	344
19	Stochastic regressors and the method of instrumental variables	358
20	Beyond OLS: quantile regression	390

21	Multivariate regression models	407
Аp	ppendices	
1	Data sets used in the text	425
2	Statistical appendix	436
Inc	dex	460

CONTENTS

	Prefac	re	xiii	
	Ackno	owledgments	xvii	
	A pers	sonal message from the author	xx	
	List of	ftables	xxii	
	List of	ffigures	xxix	
Par	t I: Ba	sics of linear regression		
1	The li	near regression model: an overview	2	
	1.1	The linear regression model	2	
	1.2	The nature and sources of data	5	
	1.3	Estimation of the linear regression model	6	
	1.4	The classical linear regression model (CLRM)	8	
	1.5	Variances and standard errors of OLS estimators	10	
	1.6	Testing hypotheses about the true or population regression coefficients	11	
	1.7	R^2 : a measure of goodness of fit of the estimated regression	13	
	1.8	An illustrative example: the determinants of hourly wages	14	
	1.9	Forecasting	19	
	1.10	The road ahead	19	
		Exercises	22	
		Appendix: The method of maximum likelihood (ML)	25	
2	Functional forms of regression models			
	2.1	Log-linear, double log or constant elasticity models	28	
	2.2	Testing validity of linear restrictions	32	
	2.3	Log-lin or growth models	33	
	2.4	Lin-log models	36	
	2.5	Reciprocal models	38	
	2.6	Polynomial regression models	40	
	2.7	Choice of the functional form	42	
	2.8	Comparing linear and log-linear models	43	
	2.9	Regression on standardized variables	44	
	2.10	Regression through the origin: the zero-intercept model	46	
	2.11	Measures of goodness of fit	49	
	2.12	Summary and conclusions	50	

		Exercises	51
3	Quali 3.1 3.2 3.3 3.4 3.5 3.6 3.7 3.8 3.9	Wage function revisited Refinement of the wage function Another refinement of the wage function Functional form of the wage regression Use of dummy variables in structural change Use of dummy variables in seasonal data Expanded sales function Piecewise linear regression Summary and conclusions Exercises	53 53 55 56 59 61 64 66 69 73 74
Par	t II: F	Regression diagnostics	
4	Regre 4.1 4.2 4.3 4.4 4.5 4.6	Consequences of imperfect collinearity An example: married women's hours of work in the labor market Detection of multicollinearity Remedial measures The method of principal components (PC) Summary and conclusions Exercises	80 81 84 85 87 89 92 93
5	Regre 5.1 5.2 5.3 5.4 5.5	Consequences of heteroscedasticity Abortion rates in the USA Detection of heteroscedasticity Remedial measures Summary and conclusions Exercises	96 96 97 100 103 110 110
6	Regro 6.1 6.2 6.3 6.4 6.5	ession diagnostic III: autocorrelation US consumption function, 1947–2000 Tests of autocorrelation Remedial measures Model evaluation Summary and conclusions Exercises	113 113 115 121 126 129 129
7	Regr 7.1 7.2 7.3 7.4 7.5 7.6 7.7	ession diagnostic IV: model specification errors Omission of relevant variables Tests of omitted variables Inclusion of irrelevant or unnecessary variables Misspecification of the functional form of a regression model Errors of measurement Outliers, leverage and influence data Probability distribution of the error term Random or stochastic regressors	131 135 138 139 141 142 145

	7.9	The simultaneity problem	147		
	7.10	Dynamic regression models	153		
	7.11	Summary and conclusions	162		
		Exercises	163		
		Appendix: Inconsistency of the OLS estimators of the			
		consumption function	167		
Par	t III: T	Topics in cross-section data			
8	The lo	ogit and probit models	170		
	8.1	An illustrative example: to smoke or not to smoke	170		
	8.2	The linear probability model (LPM)	171		
	8.3	The logit model	172		
	8.4	The language of the odds ratio (OR)	180		
	8.5	The probit model	181		
	8.6	Summary and conclusions	184		
		Exercises	185		
9	Multi	Multinomial regression models			
	9.1	The nature of multinomial regression models	190		
	9.2	Multinomial logit model (MLM): school choice	192		
	9.3	Conditional logit model (CLM)	198		
	9.4	Mixed logit (MXL)	201		
	9.5	Summary and conclusions	201		
		Exercises	203		
10	Ordir	nal regression models	206		
	10.1	Ordered multinomial models (OMM)	207		
	10.2	Estimation of ordered logit model (OLM)	207		
	10.3	An illustrative example: attitudes toward working mothers	209		
	10.4	Limitation of the proportional odds model	212		
	10.5	Summary and conclusions	215		
		Exercises	216		
		Appendix: Derivation of Eq. (10.4)	218		
11	Limited dependent variable regression models				
	11.1	Censored regression models	220		
	11.2	Maximum likelihood (ML) estimation of the censored regression			
		model: the Tobit model	223		
	11.3	Truncated sample regression models	227		
	11.4	A concluding example	229		
	11.5	Summary and conclusions	232		
		Exercises	233		
		Appendix: Heckman's (Heckit) selection-bias model	234		
12		eling count data: the Poisson and negative binomial regression models	236		
	12.1	An illustrative example	236		
	12.2	The Poisson regression model (PRM)	238		
	12.3	Limitation of the Poisson regression model	242		
	12.4	The Negative Binomial Regression Model (NBRM)	244		



ITENTS			
	12.5	Summary and conclusions Exercises	244 245
Par	t IV: T	Time series econometrics	
13	Statio	onary and nonstationary time series	250
	13.1	Are exchange rates stationary?	250
	13.2	The importance of stationary time series	251
	13.3	Tests of stationarity	251 255
	13.4	The unit root test of stationarity	258
		Trend stationary vs. difference stationary time series The random walk model (RWM)	262
	13.6	Summary and conclusions	266
	13.7	Exercises	267
14	Coint	tegration and error correction models	269
	14.1	The phenomenon of spurious regression	269
	14.2	Simulation of spurious regression	270
	14.3	Is the regression of consumption expenditure on disposable income	0=1
		spurious?	271
	14.4	When a spurious regression may not be spurious	274 275
		Tests of cointegration	275 276
		Cointegration and error correction mechanism (ECM) Are 3-month and 6-month Treasury Bill rates cointegrated?	278
	$14.7 \\ 14.8$	Summary and conclusions	280
	14.0	Exercises	281
15	Asset	t price volatility: the ARCH and GARCH models	283
	15.1	The ARCH model	284
	15.2	The GARCH model	290
	15.3	Further extensions of the ARCH model	292
	15.4	Summary and conclusions	294
		Exercises	295
16		omic forecasting	296
	16.1	Forecasting with regression models	296
	16.2	The Box–Jenkins methodology: ARIMA modeling	302
	16.3	An ARMA model of IBM daily closing prices, 3 January 2000 to	304
	164	31 October 2002	310
	16.4	Vector autoregression (VAR)	315
	16.5	Testing causality using VAR: the Granger causality test	319
	16.6	Summary and conclusions Exercises	320
		Appendix: Measures of forecast accuracy	323
Pa	rt V: S	Selected topics in econometrics	
17	Pane	el data regression models	326
17	17.1	The importance of panel data	326
	17.2	An illustrative example: charitable giving	327

327

	17.3	Pooled OLS regression of charity function	328
	17.4	The fixed effects least squares dummy variable (LSDV) model	330
	17.5	Limitations of the fixed effects LSDV model	332
	17.6	The fixed effect within group (WG) estimator	333
	17.7	The random effects model (REM) or error components model (ECM)	335
	17.8	Fixed effects model vs. random effects model	336
	17.9	Properties of various estimators	339
		Panel data regressions: some concluding comments	339
		Summary and conclusions	340
	17.11	Exercises	341
10	C i -		344
18		val analysis	344
	18.1	An illustrative example: modeling recidivism duration	345
	18.2	Terminology of survival analysis	
	18.3	Modeling recidivism duration	348
	18.4	Exponential probability distribution	348
	18.5	Weibull probability distribution	351
	18.6	The proportional hazard model	353
	18.7	Summary and conclusions	355
		Exercises	356
19	Stoch	astic regressors and the method of instrumental variables	358
	19.1	The problem of endogeneity	359
	19.2	The problem with stochastic regressors	360
	19.3	Reasons for correlation between regressors and the error term	363
	19.4	The method of instrumental variables	367
	19.5	Monte Carlo simulation of IV	369
	19.6	Some illustrative examples	370
	19.7	A numerical example: earnings and educational attainment of	
		youth in the USA	373
	19.8	Hypothesis testing under IV estimation	378
	19.9	Test of endogeneity of a regressor	379
	19.10	How to find whether an instrument is weak or strong	381
	19.11	The case of multiple instruments	381
	19.12	Regression involving more than one endogenous regressor	384
	19.13	Summary and conclusions	385
		Exercises	387
20	Bevor	nd OLS: quantile regression	390
	20.1	Quantiles	391
	20.2	The quantile regression model (QRM)	392
	20.3	The quantile wage regression model	392
	20.4	Median wage regression	396
	20.5	Wage regressions for 25%, 50% and 75% quantiles	397
	20.6	Test of coefficient equality of different quantiles	400
	20.7	Summary of OLS and 25th, 50th (median) and 75th quantile	
		regressions	401
	20.8	Quantile regressions in <i>Eviews</i> 8	402
	20.9	Summary and conclusions	403

		Exercises	404
		Appendix: The mechanics of quantile regression	405
21	Multivariate regression models		
	21.1	Some examples of MRMs	407
	21.2	Advantages of joint estimation	408
	21.3	An illustrative example of MRM estimation with the same	
		explanatory variables	409
	21.4	Estimation of MRM	410
	21.5	Other advantages of MRM	413
	21.6	Some technical aspects of MRM	414
	21.7	Seemingly Unrelated Regression Equations (SURE)	417
	21.8	Summary and conclusions	419
		Exercises	422
		Appendix	424
Ap	pendi	ces	
1	Data :	sets used in the text	425
2	Statis	tical appendix	436
	A.1	Summation notation	436
	A.2	Experiments	437
	A.3	Empirical definition of probability	438
	A.4	Probabilities: properties, rules, and definitions	439
	A.5	Probability distributions of random variables	439
	A.6	Expected value and variance	442
	A. 7	Covariance and correlation coefficient	444
	A.8	Normal distribution	445
	A.9	Student's t distribution	446
	A.10	Chi-square (χ^2) distribution	447
	A.11	F distribution	447
	A.12	Statistical inference	448
		Exercises	451
		Exponential and logarithmic functions	455
Inc	dex		460