

Lessons 5 and 6

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Introduction to Applied Econometrics

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Ordinal Variables

- Example 1: Effect of physical attractiveness on wage
- Example 2: Computer use and productivity (Krueger, 1993)

Dependent Variable: 0, 1 (Binary)

- Example 1: Participation in the labor force

More on Specification and Data Problems

- Functional Form Specification;
- Unobserved explanatory variables;
- Lagged Dependent Variable;
- Measurement error in the dependent variable
- Measurement error in explanatory variables (Attenuation bias)
- Outliers (Extremes)

Problem examples

- Example (Attenuation Bias): Average grade as a function of family income
- Example (Extremes): Washington DC and infant mortality rates

Estimation Examples

- Example 1: How spending per student affects math score.
- Example 2: TV Hours and parents education.