

SIMON FRASER UNIVERSITY
Department of Economics

Econ 835 – QUANTITATIVE METHODS
Syllabus – Fall 2002

Prof. Kasa
2666 West Mall Complex
email: kkasa@sfu.ca

Office Hours: Wed. 11:00 – 12:00
Thu. 10:30 – 11:30
Phone: 291-5406

COURSE OBJECTIVES AND PREREQUISITES

This course is an introduction to econometrics. The goal is to develop the skills necessary to conduct empirical research in economics. Another important goal is to acquire the necessary background to read and critically evaluate published research in professional journals. At the end of this course you should be able to read and understand most of the empirical papers in journals like the *American Economic Review* and the *Journal of Political Economy*.

The only essential prerequisites are (at least) one course in statistics and (at least) one calculus course. Linear algebra is not required. Of course, since applications will focus primarily on testing economic theories and evaluating economic policies, some knowledge of economic theory is assumed throughout.

COURSE STRUCTURE

The course is divided into three main parts. The first part covers Least Squares Regression with cross-sectional data. This is a convenient starting point, since cross-sectional data (usually) require the least sophisticated statistical methods. The second part of the course focuses on time series regression. Time series data often violate the classical statistical assumptions, and therefore require special attention. Finally, the third part of the course covers a range of special topics, including panel data methods, instrumental variables, limited and qualitative-dependent variable models, and maximum likelihood estimation.

COURSE EVALUATION

	<u>Weight in Grade</u>
Problem Sets	– 40%
Midterm exam (Wednesday, October 23)	– 25%
Final exam (date to be arranged)	– 35%

Learning econometrics is like learning how to ride a bike. You can't do it by just reading a book. You actually have to get out there and try it (and occasionally fall down). Thus, an integral part of the course is a sequence of weekly computer assignments. The data for the assignments are available on the class website. Students can use whatever statistical package they want, although I recommend *EViews*, since it is powerful, easy-to-use, and readily available on the SFU computing network. The problem sets are available as PDF files on the class website.

COURSE MATERIALS

There is one required book for this course:

1. *Introductory Econometrics: A Modern Approach*, by Jeffrey M. Wooldridge (2nd Edition, 2002)

I also highly recommend:

2. *A Guide to Econometrics*, by Peter Kennedy, 4th edition (1998), MIT Press.

Kennedy's book provides an intuitive and conceptual approach to econometrics. As such, it provides a nice complement to the often rather technical material in Wooldridge's textbook. (However, be forewarned that at times Kennedy's book is more advanced than Wooldridge's).

Both books are available at the campus bookstore and on reserve at the library.

COURSE OUTLINE AND READINGS

I. REGRESSION ANALYSIS WITH CROSS-SECTIONAL DATA (13 lectures)

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| Sept. 4 | – | No Class (Econ 798 meets instead) |
| Sept. 6 | – | No Class (Econ 798 meets instead) |
| Sept. 11 | – | Introduction and Course Overview
Wooldridge, Chpt. 1 |
| Sept. 13 | – | Simple Two-Variable Regression/The Mechanics of OLS
Wooldridge, Chpt. 2 (pgs. 21-47) |
| Sept. 18 | – | Simple Two-Variable Regression/The Mean & Variance of OLS Estimators
Wooldridge, Chpt. 2 (pgs. 47-61)
Kennedy, Chpts. 1 and 2 |
| Sept. 20 | – | Multiple Regression/Mechanics and Interpretation
Wooldridge, Chpt. 3 (pgs. 68-84)
Kennedy, Chpt. 3 (pgs. 42-50)
Problem Set 1 due in class |
| Sept. 25 | – | Multiple Regression/The Gauss-Markov Theorem
Wooldridge, Chpt. 3 (pgs. 84-102) |
| Sept. 27 | – | No Class (Make-Up Later If Necessary) |

- Oct. 2 – **Statistics Review/Sampling Distributions and Hypothesis Testing**
 Wooldridge, Appendix C (pgs. 731-740, 745-769)
 Kennedy, Appendix A
 Problem Set 2 due in class
- Oct. 4 – **Statistical Inference/ t -Statistics and Confidence Intervals**
 Wooldridge, Chpt. 4 (pgs. 116-139)
- Oct. 9 – **Statistical Inference/Testing Linear Restrictions**
 Wooldridge, Chpt. 4 (pgs. 139-157)
 Kennedy, Chpt. 4
 Problem Set 3 due in class
- Oct. 11 – **OLS Asymptotics/Probability Limits and Consistency**
 Wooldridge, Chpt. 5, Appendix C (section C.3)
 Kennedy, Appendix C
- Oct. 16 – **Scaling, Functional Forms, and Prediction/Dummy Variables**
 Wooldridge, Chpt. 6, Chpt. 7 (pgs. 218-232)
 Kennedy, Chpt. 14 (pgs. 221-224, 228)
 Problem Set 4 due in class
- Oct. 18 – **More on Dummy Variables/Chow Tests**
 Wooldridge, Chpt. 7 (pgs. 232-249)
 Kennedy, Chpt. 14 (pgs. 225-226, 229-230)
- Oct. 23 – **Midterm Exam (Closed Book)**
- Oct. 25 – **Heteroskedasticity/Weighted Least Squares**
 Wooldridge, Chpt. 8
 Kennedy, Chpt. 8 (pgs. 116-121, 127-129, 134)
 Problem Set 5 due in class
- Oct. 30 – **Specification Analysis/Measurement Error, Proxy Variables, and Outliers**
 Wooldridge, Chpt. 9
 Kennedy, Chpt. 5, Chpt. 6 (pgs. 94-99, 101-107), Chpt. 19 (pgs. 299, 304-305)

II. REGRESSION ANALYSIS WITH TIME SERIES DATA (3 lectures)

- Nov. 1 – **OLS with Time Series Data/Strict Exogeneity**
 Wooldridge, Chpt. 10
 Problem Set 6 due in class

- Nov. 6 – **OLS Asymptotics with Time Series Data/Weak Dependence**
Wooldridge, Chpt. 11 (pgs. 360-372)
- Nov. 8 – **Serial Correlation and Dynamic Specification Analysis**
Wooldridge, Chpt. 12 (pgs. 391-409)
Kennedy, Chpt. 7 (pgs. 121-126, 129-131, 135-136)
Problem Set 7 due in class
- III. SPECIAL TOPICS (6 lectures)**
- Nov. 13 – **Panel Data/Pooling**
Wooldridge, Chpt. 13
- Nov. 15 – **Panel Data/Fixed and Random Effects**
Wooldridge, Chpt. 14 (pgs. 461-473)
Kennedy, Chpt. 14 (pgs. 226-228, 231-232)
Problem Set 8 due in class
- Nov. 20 – **Instrumental Variables/Endogenous Regressors**
Wooldridge, Chpt. 15 (pgs. 484-499)
Kennedy, Chpt. 9 (pgs. 139-140, 151-153)
- Nov. 22 – **Two-Stage Least Squares**
Wooldridge, Chpt. 15 (pgs. 499-514)
Problem Set 9 due in class
- Nov. 27 – **Qualitative Dependent Variables/Logit and Probit Models**
Wooldridge, Chpt. 17 (pgs. 553-565)
Kennedy, Chpt. 15 (pgs. 233-235, 237-240, 243-244)
- Nov. 29 – **Limited Dependent Variables/Tobit and Heckit Models**
Wooldridge, Chpt. 17 (pgs. 565-573, 585-591)
Kennedy, Chpt. 16 (pgs. 249-252)
Problem Set 10 due in class
- Dec. 2-13 – **FINAL EXAM (exact date not yet decided)**