

Problem Set-3

Due by October 22, Thursday

1) Prove that the estimate of β_1 in a simple regression will be biased (or inconsistent) when $E(u_i|X_i) = 0$ does not hold.

Answer the following exercises from Stock and Watson

2) 6.1, page 212.

3) 6.2, page 212.

4) 6.3, page 212.

5) 6.5, page 213-214.

6) 6.6, page 214.

7) 6.9, page 215.

8) On my website (faculty.unlv.edu/oeren), you will find a subset of the original data file College Distance from Stock and Watson (same data that you have used for PS-1 & PS-2). Use that data set to answer the empirical exercise E.6.2. (You can not use the original data set, which is available at www.aw-bc.com/stock_watson, since you have Small STATA and the original data contains more than 1,000 observations). A detailed description is given in [CollegeDistance_Description](#), also on my website.