

UNIVERSITY OF ESWATINI

FIRST SEMESTER MAIN EXAMINATION PAPER, NOVEMBER 2019

FACULTY OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

COURSE CODE: ECO307

TITLE OF PAPER: INTRODUCTION TO ECONOMETRICS

TIME ALLOWED: 2 HOURS

Instructions

1. This paper consists of Section (A) and (B)
2. Section A is compulsory.
3. Answer two questions from Section B.

Special Requirements

- Scientific calculator
- Figures to be rounded to three (3) decimal places.

Additional Material (s)

1. Statistical Tables

Candidates may complete the front cover of their answer book when instructed by the Chief Invigilator and sign their examination attendance cards but must NOT write anything else until the start of the examination period is announced.

No electronic devices capable of storing and retrieving text, including electronic dictionaries and any form of foreign material may be used while in the examination room.

DO NOT turn examination paper over until instructed to do so.

SECTION A (COMPULSORY)

QUESTION 1

[40 MARKS]

- a) Differentiate between a sample regression function (SRF) and population regression function (PRF). [6 Marks]
- b) Outline five (5) assumptions that are necessary for estimating the Ordinary Least Squares estimates. [5 Marks]
- c) From the following model: $\hat{y}_i = \hat{\beta}_1 + \hat{\beta}_2 x_i + \hat{u}_i$, using Ordinary Least Squares (OLS) method, derive functions that will enable you to obtain the OLS estimates. [10 Marks]
- d) The table below shows sample data of monthly wages (y) in Emalangeni and the education level (x) in years completed:

Education	12	18	14	12	11	16	10	18	15	12
Wage	3845	4040	4125	3250	2810	7000	3000	5405	5770	5000

- i) Use the data to fit a regression line.(Using the information already derived in part (c) above) [10 Marks]
- ii) Interpret the slope coefficient of the regression. [6 Marks]
- iii) If the calculated coefficient of determination (R^2) for the above data is 0.3948, interpret what it means. [3 Marks]

SECTION B (ANSWER ANY TWO QUESTIONS FROM THE FOLLOWING QUESTIONS)

QUESTION 2

Consider an estimated model that is used to study the effects of missing lectures on the Grade Point Average (GPA) of the student. *HsAgr* is High school grade 12 average grade, and *Skip* is the average number of lectures missed per week.

$$\widehat{GPA} = 1.39 + 0.412 HsAgr - 0.083 Skip$$

(0.33) (0.094) (0.026)

$n = 141,$ $R^2 = 0.234$

Note that the values in brackets are standard errors.

- a) Interpret the slope coefficients in the model. [6 Marks]
- b) Briefly explain whether the signs of the coefficients make sense. [5 Marks]
- c) Using the standard normal table approximation, find the 95% confidence interval for β_{HsAgr} . [8 Marks]
- d) Are you able to reject the null hypothesis $H_0 : \beta_{HsAgr} = 0.45$ at the 5% level of significance? [5 Marks]
- e) What is the *p* – value that can be attached on coefficient of the average number of lectures missed per week (β_{Skip}). [6 Marks]

QUESTION 3

- a) Briefly explain why in some models it is necessary to include an interaction of the independent variables. [6 Marks]
- b) Consider the following model whereby the returns to education depend upon the amount of work experience.

$$\log(wage) = \beta_0 + \beta_1 educ + \beta_2 exper + \beta_3 educ * exper + u$$

Where wage – monthly wage, educ – education in years, exper – years of work experience

- i) If experience is held constant, what is the effect of education? [6 Marks]
- ii) State the null hypothesis that the return to education does not depend on the level of

experience. State and **justify** an appropriate alternative hypothesis. [6 Marks]

c) If the model in (b) above is estimated as :

$$\log(\widehat{wage}) = 5.9494 + 0.044 \text{ educ} - 0.0215 \text{ exper} + 0.0032 \text{ educ} * \text{exper}$$

$$(0.2408) \quad (0.0174) \quad (0.020) \quad (0.0015)$$

$$n = 935, \quad R^2 = 0.1349$$

i) Test the hypotheses you stated in (b) above. [7 Marks]

ii) Is it necessary to include the interaction term (*educ * exper*) in the model?

[5 Marks]

QUESTION 4

The following partial output was obtained from running a model of the following form in Stata :

$$y_i = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + u_i$$

Source	SS	df	MS	Number of Obs =	526
Model	1927.877	3		F(3, 522) =	64.11
Residual	5232.538	522		Prob > F =	0.0000
Total	7160.414	525		R - Squared =	
				Root MSE =	3.1661

wage	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]
Log(educ)	0.595343	0.053025		0.000	0.491174 0.6995118
exper	0.268287	0.036897		0.000	0.195802 0.3407717
expersq	-0.00461	0.000822		0.000	-0.00623 -0.002998
Constant	-3.96489	0.752153		0.000	-5.44251 -2.487272

Where : *wage* – hourly wage, *educ* – education level in years, *exper* – experience level, and *expersq* – experience square.

a) Briefly explain why a quadratic term may be included in a regression model. [3 Marks]

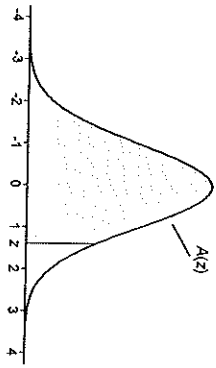
b) State the fitted regression line. [3 Marks]

- c) Interpret the coefficient $\beta_{\text{Log}(educ)}$ [5 Marks]
- d) Reproduce the tables above and fill in all the missing blanks. [4 Marks]
- e) Calculate the Goodness of Fit measure (R^2) and interpret it. [4 Marks]
- f) Test the hypothesis that $\beta_{\text{Constant}} = 0$ against $\beta_{\text{Constant}} \neq 0$ at the 1% level of significance [5 Marks]
- g) Does the data provide evidence that *expersq* contributes useful information in the prediction of wages? [6 Marks]

STATISTICAL TABLES

TABLE A.1

Cumulative Standardized Normal Distribution



$A(z)$ is the integral of the standardized normal distribution from $-\infty$ to z (in other words, the area under the curve to the left of z). It gives the probability of a normal random variable not being more than z standard deviations above its mean. Values of z of particular importance:

z	$A(z)$
1.645	0.9500
1.960	0.9750
2.326	0.9900
2.576	0.9950
3.090	0.9990
3.291	0.9995

z	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
0.0	0.5000	0.5040	0.5080	0.5120	0.5160	0.5199	0.5239	0.5279	0.5319	0.5359
0.1	0.5398	0.5438	0.5478	0.5517	0.5557	0.5596	0.5636	0.5675	0.5714	0.5753
0.2	0.5793	0.5832	0.5871	0.5910	0.5948	0.5987	0.6026	0.6064	0.6103	0.6141
0.3	0.6179	0.6217	0.6255	0.6293	0.6331	0.6368	0.6406	0.6443	0.6480	0.6517
0.4	0.6554	0.6591	0.6628	0.6664	0.6700	0.6736	0.6772	0.6808	0.6844	0.6879
0.5	0.6915	0.6950	0.6985	0.7019	0.7054	0.7088	0.7123	0.7157	0.7191	0.7224
0.6	0.7257	0.7291	0.7324	0.7357	0.7389	0.7422	0.7454	0.7486	0.7517	0.7549
0.7	0.7580	0.7611	0.7642	0.7673	0.7704	0.7734	0.7764	0.7794	0.7823	0.7852
0.8	0.7881	0.7910	0.7939	0.7967	0.7995	0.8023	0.8051	0.8078	0.8105	0.8133
0.9	0.8159	0.8188	0.8212	0.8238	0.8264	0.8289	0.8315	0.8340	0.8365	0.8389
1.0	0.8413	0.8438	0.8461	0.8485	0.8508	0.8531	0.8554	0.8577	0.8599	0.8621
1.1	0.8644	0.8665	0.8686	0.8708	0.8729	0.8749	0.8770	0.8790	0.8810	0.8830
1.2	0.8849	0.8869	0.8888	0.8907	0.8927	0.8944	0.8962	0.8980	0.8997	0.9015
1.3	0.9032	0.9049	0.9066	0.9082	0.9099	0.9115	0.9131	0.9147	0.9162	0.9177
1.4	0.9192	0.9207	0.9222	0.9236	0.9251	0.9265	0.9279	0.9292	0.9306	0.9319
1.5	0.9332	0.9345	0.9357	0.9370	0.9382	0.9394	0.9406	0.9418	0.9429	0.9441
1.6	0.9452	0.9463	0.9474	0.9484	0.9495	0.9505	0.9515	0.9525	0.9535	0.9545
1.7	0.9554	0.9564	0.9573	0.9582	0.9591	0.9599	0.9608	0.9616	0.9625	0.9633
1.8	0.9641	0.9649	0.9656	0.9664	0.9671	0.9678	0.9685	0.9693	0.9699	0.9706
1.9	0.9713	0.9719	0.9725	0.9732	0.9738	0.9744	0.9750	0.9756	0.9761	0.9767
2.0	0.9772	0.9778	0.9783	0.9788	0.9793	0.9798	0.9803	0.9808	0.9812	0.9817
2.1	0.9821	0.9826	0.9830	0.9834	0.9838	0.9842	0.9846	0.9850	0.9854	0.9857
2.2	0.9861	0.9864	0.9868	0.9871	0.9874	0.9878	0.9881	0.9884	0.9887	0.9890
2.3	0.9893	0.9896	0.9898	0.9901	0.9903	0.9906	0.9909	0.9911	0.9913	0.9916
2.4	0.9918	0.9920	0.9922	0.9925	0.9927	0.9929	0.9931	0.9932	0.9934	0.9936
2.5	0.9938	0.9940	0.9941	0.9943	0.9945	0.9946	0.9948	0.9949	0.9950	0.9952
2.6	0.9953	0.9955	0.9956	0.9957	0.9959	0.9960	0.9961	0.9962	0.9963	0.9964
2.7	0.9965	0.9966	0.9967	0.9968	0.9969	0.9970	0.9971	0.9972	0.9973	0.9974
2.8	0.9974	0.9975	0.9976	0.9977	0.9977	0.9978	0.9979	0.9979	0.9980	0.9981
2.9	0.9981	0.9982	0.9982	0.9983	0.9984	0.9984	0.9985	0.9985	0.9986	0.9986
3.0	0.9987	0.9987	0.9987	0.9988	0.9988	0.9989	0.9989	0.9989	0.9990	0.9990
3.1	0.9990	0.9991	0.9991	0.9991	0.9992	0.9992	0.9992	0.9993	0.9993	0.9993
3.2	0.9993	0.9994	0.9994	0.9994	0.9995	0.9995	0.9995	0.9996	0.9996	0.9996
3.3	0.9997	0.9997	0.9997	0.9997	0.9997	0.9997	0.9997	0.9997	0.9997	0.9998
3.4	0.9998	0.9998	0.9998	0.9998	0.9998	0.9998	0.9998	0.9998	0.9998	0.9998
3.5	0.9998	0.9998	0.9999	0.9999	0.9999	0.9999	0.9999	0.9999	0.9999	0.9999
3.6	0.9998	0.9998	0.9999	0.9999	0.9999	0.9999	0.9999	0.9999	0.9999	0.9999

STATISTICAL TABLES

TABLE A.2

t Distribution: Critical Values of t

Degrees of freedom	Two-tailed test:		Significance level			
	10%	5%	2%	1%	0.5%	0.1%
1	6.314	12.706	31.821	63.657	318.309	656.619
2	2.920	4.303	6.965	9.925	22.327	31.599
3	2.353	3.182	4.541	5.841	10.215	12.924
4	2.132	2.776	3.747	4.604	7.173	8.610
5	2.015	2.571	3.365	4.032	5.893	6.869
6	1.945	2.447	3.143	3.707	5.208	5.959
7	1.894	2.365	2.998	3.499	4.785	5.408
8	1.860	2.306	2.896	3.355	4.501	5.041
9	1.833	2.262	2.821	3.250	4.297	4.781
10	1.812	2.228	2.764	3.169	4.144	4.587
11	1.796	2.201	2.718	3.106	4.025	4.437
12	1.782	2.179	2.681	3.055	3.930	4.318
13	1.771	2.160	2.650	3.012	3.852	4.221
14	1.761	2.145	2.624	2.977	3.787	4.140
15	1.753	2.131	2.602	2.947	3.735	4.075
16	1.746	2.120	2.583	2.921	3.686	4.015
17	1.740	2.110	2.567	2.898	3.646	3.965
18	1.734	2.101	2.552	2.878	3.610	3.922
19	1.729	2.095	2.539	2.861	3.579	3.883
20	1.725	2.086	2.528	2.845	3.552	3.850
21	1.721	2.080	2.518	2.831	3.527	3.819
22	1.717	2.074	2.510	2.819	3.505	3.792
23	1.714	2.069	2.500	2.807	3.485	3.768
24	1.711	2.064	2.492	2.797	3.467	3.745
25	1.708	2.060	2.485	2.787	3.450	3.723
26	1.706	2.056	2.479	2.779	3.435	3.707
27	1.703	2.052	2.475	2.771	3.421	3.690
28	1.701	2.048	2.467	2.765	3.408	3.674
29	1.699	2.045	2.462	2.756	3.396	3.659
30	1.697	2.042	2.457	2.750	3.385	3.646
32	1.694	2.037	2.449	2.738	3.365	3.622
34	1.691	2.032	2.441	2.728	3.348	3.601
36	1.688	2.028	2.434	2.719	3.333	3.582
38	1.686	2.024	2.429	2.712	3.319	3.566
40	1.684	2.021	2.423	2.704	3.307	3.551
42	1.682	2.018	2.418	2.698	3.296	3.538
44	1.680	2.015	2.414	2.692	3.286	3.526
46	1.679	2.013	2.410	2.687	3.277	3.515
48	1.677	2.011	2.407	2.682	3.269	3.505
50	1.676	2.009	2.403	2.678	3.261	3.496
60	1.671	2.000	2.390	2.660	3.232	3.460
70	1.667	1.994	2.381	2.648	3.211	3.435
80	1.664	1.990	2.374	2.639	3.195	3.416
90	1.662	1.987	2.368	2.632	3.183	3.402
100	1.660	1.984	2.364	2.626	3.174	3.380
120	1.658	1.980	2.358	2.617	3.160	3.373
150	1.655	1.976	2.351	2.609	3.151	3.357
200	1.653	1.972	2.345	2.601	3.131	3.340
300	1.650	1.968	2.339	2.592	3.118	3.325
400	1.649	1.966	2.336	2.588	3.111	3.315
500	1.648	1.965	2.334	2.586	3.107	3.310
600	1.647	1.964	2.333	2.584	3.104	3.307
∞	1.645	1.960	2.326	2.576	3.090	3.291

