

```
-----
name: <unnamed>
log: C:\Users\User\Desktop\EE 426 stata\assignment 5.log
log type: text
opened on: 25 Feb 2021, 09:51:42
```

```
. use "C:\Users\User\Desktop\EE 426 stata\assign5-1.dta", clear
```

```
. tsset time
      time variable: time, 1 to 1335
              delta: 1 unit
```

```
. gen dr=f.r-r
(1 missing value generated)
```

a)

```
. gmm (dr-{alpha}-{beta}*r) ((dr-{alpha}-{beta}*r)*r)
      ((dr-{alpha}-{beta}*r)^2-{sigma2}*r^(2*{gamma}))
      (((dr-{alpha}-{beta}*r)^2-{sigma2}*
> r^(2*{gamma}))*r) winitial(identity)
note: 1 missing value returned for equation 1 at initial values
note: 1 missing value returned for equation 2 at initial values
note: 1 missing value returned for equation 3 at initial values
note: 1 missing value returned for equation 4 at initial values
```

Step 1

numerical derivatives are approximate

flat or discontinuous region encountered

```
Iteration 0: GMM criterion Q(b) = .00001173
Iteration 1: GMM criterion Q(b) = 8.321e-06 (backed up)
Iteration 2: GMM criterion Q(b) = 6.043e-06 (not concave)
Iteration 3: GMM criterion Q(b) = 1.604e-06
Iteration 4: GMM criterion Q(b) = 1.662e-09
Iteration 5: GMM criterion Q(b) = 1.344e-13
```

Step 2

```
Iteration 0: GMM criterion Q(b) = 3.899e-10
Iteration 1: GMM criterion Q(b) = 4.098e-18
```

note: model is exactly identified

GMM estimation

```
Number of parameters = 4
Number of moments    = 4
Initial weight matrix: Identity
GMM weight matrix:   Robust

Number of obs = 1,334
```

```
-----
|                               Robust
```

	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
/alpha	-.0023725	.0011574	-2.05	0.040	-.0046409	-.0001041
/beta	.0004291	.0002873	1.49	0.135	-.000134	.0009922
/sigma2	.0005043	.000324	1.56	0.120	-.0001307	.0011393
/gamma	.0985177	.1823933	0.54	0.589	-.2589666	.456002

Instruments for equation 1: _cons
Instruments for equation 2: _cons
Instruments for equation 3: _cons
Instruments for equation 4: _cons

. est store unrestricted

. gmm (dr-{alpha}) ((dr-{alpha})*r) ((dr-{alpha})^2-{sigma2})
(((dr-{alpha})^2-{sigma2})*r) winitial(identity)
note: 1 missing value returned for equation 1 at initial values
note: 1 missing value returned for equation 2 at initial values
note: 1 missing value returned for equation 3 at initial values
note: 1 missing value returned for equation 4 at initial values

Step 1

Iteration 0: GMM criterion Q(b) = .00001173
Iteration 1: GMM criterion Q(b) = 4.045e-08
Iteration 2: GMM criterion Q(b) = 4.044e-08

Step 2

Iteration 0: GMM criterion Q(b) = .00798141
Iteration 1: GMM criterion Q(b) = .00552368
Iteration 2: GMM criterion Q(b) = .00552368

GMM estimation

Number of parameters = 2
Number of moments = 4
Initial weight matrix: Identity Number of obs = 1,334
GMM weight matrix: Robust

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/alpha	-.0008137	.0006821	-1.19	0.233	-.0021507	.0005232
/sigma2	.0004277	.0002902	1.47	0.141	-.0001412	.0009965

Instruments for equation 1: _cons
Instruments for equation 2: _cons
Instruments for equation 3: _cons
Instruments for equation 4: _cons

```
. gmm (dr-{alpha}) ((dr-{alpha})*r) ((dr-{alpha})^2-{sigma2})
(((dr-{alpha})^2-{sigma2})*r) winitial(identity)
note: 1 missing value returned for equation 1 at initial values
note: 1 missing value returned for equation 2 at initial values
note: 1 missing value returned for equation 3 at initial values
note: 1 missing value returned for equation 4 at initial values
```

Step 1

```
Iteration 0: GMM criterion Q(b) = .00001173
Iteration 1: GMM criterion Q(b) = 4.045e-08
Iteration 2: GMM criterion Q(b) = 4.044e-08
```

Step 2

```
Iteration 0: GMM criterion Q(b) = .00798141
Iteration 1: GMM criterion Q(b) = .00552368
Iteration 2: GMM criterion Q(b) = .00552368
```

GMM estimation

```
Number of parameters = 2
Number of moments = 4
Initial weight matrix: Identity
GMM weight matrix: Robust
Number of obs = 1,334
```

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/alpha	-.0008137	.0006821	-1.19	0.233	-.0021507	.0005232
/sigma2	.0004277	.0002902	1.47	0.141	-.0001412	.0009965

```
Instruments for equation 1: _cons
Instruments for equation 2: _cons
Instruments for equation 3: _cons
Instruments for equation 4: _cons
```

. estat overid

Test of overidentifying restriction:

Hansen's J $\chi^2(2) = 7.36859$ ($p = 0.0251$) $< \alpha = 0.05$

H₀ Rejected
Merton is not appropriate

. est store merton

```
. gmm (dr-{alpha}-{beta}*r) ((dr-{alpha}-{beta}*r)*r)
((dr-{alpha}-{beta}*r)^2-{sigma2}) (((dr-{alpha}-{beta}*r)^2-{sigma2})*r)
winitial(i
> dentity)
note: 1 missing value returned for equation 1 at initial values
note: 1 missing value returned for equation 2 at initial values
```

note: 1 missing value returned for equation 3 at initial values
 note: 1 missing value returned for equation 4 at initial values

Step 1

Iteration 0: GMM criterion Q(b) = .00001173
 Iteration 1: GMM criterion Q(b) = 3.336e-10
 Iteration 2: GMM criterion Q(b) = 3.273e-10

Step 2

Iteration 0: GMM criterion Q(b) = .00063051
 Iteration 1: GMM criterion Q(b) = .00020488
 Iteration 2: GMM criterion Q(b) = .00020488

GMM estimation

Number of parameters = 3
 Number of moments = 4
 Initial weight matrix: Identity
 GMM weight matrix: Robust
 Number of obs = 1,334

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/alpha	-.0026994	.0009734	-2.77	0.006	-.0046072	-.0007915
/beta	.0005368	.0001999	2.69	0.007	.000145	.0009286
/sigma2	.0005887	.0002977	1.98	0.048	5.20e-06	.0011722

Instruments for equation 1: _cons
 Instruments for equation 2: _cons
 Instruments for equation 3: _cons
 Instruments for equation 4: _cons

. estat overid

Test of overidentifying restriction:

Hansen's J chi2(1) = .273315 (p = 0.6011) > $\alpha = 0.05$
H₀ is not rejected

. est store vasicek
Vasicek is appropriate

```
. gmm (dr-{alpha}-{beta}*r) ((dr-{alpha}-{beta}*r)*r)
((dr-{alpha}-{beta}*r)^2-{sigma2}*r) (((dr-{alpha}-{beta}*r)^2-{sigma2}*r)*r)
winit
> al(identity)
```

note: 1 missing value returned for equation 1 at initial values
 note: 1 missing value returned for equation 2 at initial values
 note: 1 missing value returned for equation 3 at initial values
 note: 1 missing value returned for equation 4 at initial values

Step 1

Iteration 0: GMM criterion $Q(b) = .00001173$
Iteration 1: GMM criterion $Q(b) = 3.349e-09$
Iteration 2: GMM criterion $Q(b) = 3.343e-09$

Step 2

Iteration 0: GMM criterion $Q(b) = .00651703$
Iteration 1: GMM criterion $Q(b) = .00164197$
Iteration 2: GMM criterion $Q(b) = .00164196$

GMM estimation

Number of parameters = 3

Number of moments = 4

Initial weight matrix: Identity

Number of obs = 1,334

GMM weight matrix: Robust

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/alpha	-.0010252	.0007112	-1.44	0.149	-.0024191	.0003686
/beta	.0002288	.0002532	0.90	0.366	-.0002675	.000725
/sigma2	.0000917	.0000646	1.42	0.156	-.000035	.0002183

Instruments for equation 1: _cons

Instruments for equation 2: _cons

Instruments for equation 3: _cons

Instruments for equation 4: _cons

. estat overid

Test of overidentifying restriction:

Hansen's J $\chi^2(1) = 2.19038$ ($p = 0.1389$) $> \alpha = 0.05$

H₀ is not rejected. This method is appropriate

. est store CIR_SR

. gmm (dr) ((dr)*r) ((dr)^2-{sigma2}*r^2) (((dr)^2-{sigma2}*r^2)*r)

winitial(identity)

note: no parameters in equation 1

note: no parameters in equation 2

note: 1 missing value returned for equation 1 at initial values

note: 1 missing value returned for equation 2 at initial values

note: 1 missing value returned for equation 3 at initial values

note: 1 missing value returned for equation 4 at initial values

Step 1

Iteration 0: GMM criterion $Q(b) = .00001173$

Iteration 1: GMM criterion $Q(b) = 5.688e-06$

Iteration 2: GMM criterion $Q(b) = 5.688e-06$

Step 2

Iteration 0: GMM criterion $Q(b) = .00932249$

Iteration 1: GMM criterion $Q(b) = .00344401$

Iteration 2: GMM criterion $Q(b) = .00344401$

GMM estimation

Number of parameters = 1

Number of moments = 4

Initial weight matrix: Identity

Number of obs = 1,334

GMM weight matrix: Robust

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/sigma2	.0000162	7.20e-06	2.25	0.025	2.08e-06	.0000303

Instruments for equation 1: _cons

Instruments for equation 2: _cons

Instruments for equation 3: _cons

Instruments for equation 4: _cons

. estat overid

Test of overidentifying restriction:

Hansen's J $\chi^2(3) = 4.59432$ (p = 0.2040) > or = 0.05

H0 is not rejected. This method is appropriate

. est store dothan

. gmm (dr-{beta}*r) ((dr-{beta}*r)*r) ((dr-{beta}*r)^2-{sigma2}*r^2)

((dr-{beta}*r)^2-{sigma2}*r^2)*r) winitial(identity)

note: 1 missing value returned for equation 1 at initial values

note: 1 missing value returned for equation 2 at initial values

note: 1 missing value returned for equation 3 at initial values

note: 1 missing value returned for equation 4 at initial values

Step 1

Iteration 0: GMM criterion $Q(b) = .00001173$

Iteration 1: GMM criterion $Q(b) = 8.547e-08$

Iteration 2: GMM criterion $Q(b) = 8.547e-08$

Step 2

Iteration 0: GMM criterion $Q(b) = .0082543$

Iteration 1: GMM criterion $Q(b) = .00342544$

Iteration 2: GMM criterion $Q(b) = .00342542$

GMM estimation

Number of parameters = 2

Number of moments = 4

Initial weight matrix: Identity

Number of obs = 1,334

GMM weight matrix: Robust

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/beta	.0000248	.0001265	0.20	0.844	-.000223	.0002727
/sigma2	.0000154	8.33e-06	1.84	0.065	-9.60e-07	.0000317

Instruments for equation 1: _cons

Instruments for equation 2: _cons

Instruments for equation 3: _cons

Instruments for equation 4: _cons

. estat overid

Test of overidentifying restriction:

Hansen's J $\chi^2(2) = 4.56951$ (p = 0.1018) $> \alpha = 0.05$

H₀ is not rejected

. est store GBM

This method is appropriate

. gmm (dr-{alpha}-{beta}*r) ((dr-{alpha}-{beta}*r)*r)

((dr-{alpha}-{beta}*r)^2-{sigma2}*r^(2))

((dr-{alpha}-{beta}*r)^2-{sigma2}*r^(2))*r

>) winitial(identity)

note: 1 missing value returned for equation 1 at initial values

note: 1 missing value returned for equation 2 at initial values

note: 1 missing value returned for equation 3 at initial values

note: 1 missing value returned for equation 4 at initial values

Step 1

Iteration 0: GMM criterion Q(b) = .00001173

Iteration 1: GMM criterion Q(b) = 1.062e-08

Iteration 2: GMM criterion Q(b) = 1.061e-08

Step 2

Iteration 0: GMM criterion Q(b) = .0202404

Iteration 1: GMM criterion Q(b) = .00259237

Iteration 2: GMM criterion Q(b) = .00259234

GMM estimation

Number of parameters = 3

Number of moments = 4

Initial weight matrix: Identity
GMM weight matrix: Robust

Number of obs = 1,334

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/alpha	-.0008979	.0008413	-1.07	0.286	-.0025469	.000751
/beta	.0002882	.0002774	1.04	0.299	-.0002555	.0008319
/sigma2	8.91e-06	.0000103	0.87	0.387	-.0000113	.0000291

Instruments for equation 1: _cons
Instruments for equation 2: _cons
Instruments for equation 3: _cons
Instruments for equation 4: _cons

. estat overid

Test of overidentifying restriction:

Hansen's J $\chi^2(1) = 3.45819$ (p = 0.0629) $> \alpha = 0.05$

H₀ is not rejected

. est store brennan

This method is appropriate

. gmm (dr) ((dr)*r) ((dr)^2-{sigma2}*r^(2*1.5)) (((dr)^2-{sigma2}*r^(2*1.5))*r)
winitial(identity)

note: no parameters in equation 1

note: no parameters in equation 2

note: 1 missing value returned for equation 1 at initial values

note: 1 missing value returned for equation 2 at initial values

note: 1 missing value returned for equation 3 at initial values

note: 1 missing value returned for equation 4 at initial values

Step 1

Iteration 0: GMM criterion Q(b) = .00001173

Iteration 1: GMM criterion Q(b) = 5.694e-06

Iteration 2: GMM criterion Q(b) = 5.694e-06

Step 2

Iteration 0: GMM criterion Q(b) = .01561186

Iteration 1: GMM criterion Q(b) = .0038055

Iteration 2: GMM criterion Q(b) = .0038055

GMM estimation

Number of parameters = 1

Number of moments = 4

Initial weight matrix: Identity

GMM weight matrix: Robust

Number of obs = 1,334

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/sigma2	2.70e-06	1.26e-06	2.15	0.032	2.35e-07	5.16e-06

Instruments for equation 1: _cons
Instruments for equation 2: _cons
Instruments for equation 3: _cons
Instruments for equation 4: _cons

. estat overid

Test of overidentifying restriction:

Hansen's J chi2(3) = 5.07654 (p = 0.1663) *> 0.05*

H0 is not rejected

. est store CIR_VR

This method is appropriate

. gmm (dr-{beta}*r) ((dr-{beta}*r)*r) ((dr-{beta}*r)^2-{sigma2}*r^(2*{gamma}))
(((dr-{beta}*r)^2-{sigma2}*r^(2*{gamma}))*r) winitial(ident
> ity)

note: 1 missing value returned for equation 1 at initial values

note: 1 missing value returned for equation 2 at initial values

note: 1 missing value returned for equation 3 at initial values

note: 1 missing value returned for equation 4 at initial values

Step 1

numerical derivatives are approximate

flat or discontinuous region encountered

Iteration 0: GMM criterion Q(b) = .00001173

Iteration 1: GMM criterion Q(b) = 8.627e-06 (backed up)

Iteration 2: GMM criterion Q(b) = 6.127e-06 (not concave)

Iteration 3: GMM criterion Q(b) = 5.400e-06 (backed up)

Iteration 4: GMM criterion Q(b) = 5.310e-06

Step 2

Iteration 0: GMM criterion Q(b) = .01236133

Iteration 1: GMM criterion Q(b) = .01075751

Iteration 2: GMM criterion Q(b) = .00760436

Iteration 3: GMM criterion Q(b) = .00678694

Iteration 4: GMM criterion Q(b) = .00326882

Iteration 5: GMM criterion Q(b) = .00316225

Iteration 6: GMM criterion Q(b) = .00313882

Iteration 7: GMM criterion Q(b) = .0031388

GMM estimation

Number of parameters = 3

Number of moments = 4

Initial weight matrix: Identity
 GMM weight matrix: Robust

Number of obs = 1,334

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/beta	-.0000453	.0001702	-0.27	0.790	-.0003789	.0002883
/sigma2	.0000881	.0001436	0.61	0.539	-.0001933	.0003696
/gamma	.5717551	.3668112	1.56	0.119	-.1471817	1.290692

Instruments for equation 1: _cons
 Instruments for equation 2: _cons
 Instruments for equation 3: _cons
 Instruments for equation 4: _cons

. estat overid

Test of overidentifying restriction:

Hansen's J chi2(1) = 4.18715 (p = 0.0407)

α = 0.05
H₀ is rejected
This method is not appropriate

. est store CEV

. est table unrestricted merton vasicek CIR_SR dothan GBM brennan CIR_VR CEV,
 star(0.1 0.05 0.01)

Variable	unrestricted GBM	merton brennan	vasicek	CIR_SR
dothan				
alpha				
_cons	-.00237253**	-.00081372 -.00089794	-.00269937***	-.00102525
beta				
_cons	.00042912 .00002483	.0002882	.00053681***	.00022877
sigma2				
_cons	.00050427 .00001618**	.00042766 8.909e-06	.00058872**	.00009168
gamma				
_cons	.09851773			

 legend: * p<.1; ** p<.05; *** p<.01

Variable	CIR_VR	CEV
alpha		
_cons		
beta		
_cons		-.00004534
sigma2		
_cons	2.698e-06**	.00008815
gamma		
_cons		.57175507

 legend: * p<.1; ** p<.05; *** p<.01

```
. gmm (dr-{alpha}-{beta}*r) ((dr-{alpha}-{beta}*r)*r)
((dr-{alpha}-{beta}*r)^2-{sigma2}*r^(2*{gamma}))
(((dr-{alpha}-{beta}*r)^2-{sigma2}*
> r^(2*{gamma}))*r) winitial(identity)
note: 1 missing value returned for equation 1 at initial values
note: 1 missing value returned for equation 2 at initial values
note: 1 missing value returned for equation 3 at initial values
note: 1 missing value returned for equation 4 at initial values
```

Step 1

numerical derivatives are approximate

flat or discontinuous region encountered

```
Iteration 0: GMM criterion Q(b) = .00001173
Iteration 1: GMM criterion Q(b) = 8.321e-06 (backed up)
Iteration 2: GMM criterion Q(b) = 6.043e-06 (not concave)
Iteration 3: GMM criterion Q(b) = 1.604e-06
Iteration 4: GMM criterion Q(b) = 1.662e-09
Iteration 5: GMM criterion Q(b) = 1.344e-13
```

Step 2

```
Iteration 0: GMM criterion Q(b) = 3.899e-10
Iteration 1: GMM criterion Q(b) = 4.098e-18
```

note: model is exactly identified

GMM estimation

Number of parameters = 4

Number of moments = 4

Initial weight matrix: Identity

Number of obs = 1,334

GMM weight matrix: Robust

	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
/alpha	-.0023725	.0011574	-2.05	0.040	-.0046409	-.0001041
/beta	.0004291	.0002873	1.49	0.135	-.000134	.0009922
/sigma2	.0005043	.000324	1.56	0.120	-.0001307	.0011393
/gamma	.0985177	.1823933	0.54	0.589	-.2589666	.456002

Instruments for equation 1: _cons

Instruments for equation 2: _cons

Instruments for equation 3: _cons

Instruments for equation 4: _cons

B) . *test unrestricted vs Merton
. test (_b[/beta]=0) (_b[/gamma]=0)

(1) [beta]_cons = 0

(2) [gamma]_cons = 0

chi2(2) = 7.92
Prob > chi2 = 0.0191

. *test unrestricted vs vasicek

. test (_b[/gamma]=0)

(1) [gamma]_cons = 0

chi2(1) = 0.29
Prob > chi2 = 0.5891

. *test unrestricted vs CIR SR

. test (_b[/gamma]=0.5)

(1) [gamma]_cons = .5

chi2(1) = 4.85
Prob > chi2 = 0.0277

. *test unrestricted vs dothan

∴ From Wald's test, vasicek is the only model that wasn't rejected at 5% level, therefore, vasicek is the most appropriate model according to moment condition.

```

. test (_b[/alpha]=0) (_b[/beta]=0) (_b[/gamma]=1)

( 1) [alpha]_cons = 0
( 2) [beta]_cons = 0
( 3) [gamma]_cons = 1

      chi2( 3) =    34.04
    Prob > chi2 =    0.0000

. *test unrestricted vs GBM

. test (_b[/alpha]=0) (_b[/gamma]=1)

( 1) [alpha]_cons = 0
( 2) [gamma]_cons = 1

      chi2( 2) =    27.48
    Prob > chi2 =    0.0000

. *test unrestricted vs brennan

. test (_b[/gamma]=1)

( 1) [gamma]_cons = 1

      chi2( 1) =    24.43
    Prob > chi2 =    0.0000

. *test unrestricted vs CIR VR

. test (_b[/alpha]=0) (_b[/beta]=0) (_b[/gamma]=1.5)

( 1) [alpha]_cons = 0
( 2) [beta]_cons = 0
( 3) [gamma]_cons = 1.5

      chi2( 3) =    95.71
    Prob > chi2 =    0.0000

. *test unrestricted vs CEV

. test (_b[/alpha]=0)

( 1) [alpha]_cons = 0

      chi2( 1) =     4.20
    Prob > chi2 =    0.0404

. save "C:\Users\User\Desktop\EE 426 stata\assign5-1.dta", replace
file C:\Users\User\Desktop\EE 426 stata\assign5-1.dta saved

```

Part II

```
. use "C:\Users\User\Desktop\EE 426 stata\assign5-2.dta", clear
```

```
. drop u
```

```
. tsset t
```

```
time variable: t, 1 to 500
delta: 1 unit
```

a) . reg y x

Source	SS	df	MS	Number of obs	=	500
Model	132481.702	1	132481.702	F(1, 498)	=	449.66
Residual	146722.774	498	294.624043	Prob > F	=	0.0000
				R-squared	=	0.4745
				Adj R-squared	=	0.4734
Total	279204.475	499	559.528007	Root MSE	=	17.165

	y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
x		5.431333	.2561312	21.21	0.000	4.928102 5.934564
_cons		-33.31333	2.673868	-12.46	0.000	-38.56678 -28.05988

```
. predict u, resid
```

```
. corr
(obs=500)
```

	t	y	x	z1	z2	z3	z4
u							
t	1.0000						
y	0.0681	1.0000					
x	0.0517	0.6888	1.0000				
z1	0.0661	0.2002	0.7215	1.0000			
z2	0.0062	0.1203	0.2352	0.1937	1.0000		
z3	0.0387	0.9214	0.5487	0.0918	0.0933	1.0000	
z4	0.0143	0.1887	0.6954	0.4738	0.1607	0.0828	1.0000
u	0.0447	0.7249	-0.0000	-0.4095	-0.0575	0.7496	-0.4006

```
. ivregress gmm y (x=z1 z2 z3 z4)
```

```
Instrumental variables (GMM) regression
```

```
Number of obs = 500
Wald chi2(1) = 415.07
Prob > chi2 = 0.0000
```

GMM weight matrix: Robust

R-squared = 0.4710
Root MSE = 17.187

y	Coef.	Robust Std. Err.	z	P> z	[95% Conf. Interval]	
x	5.262505	.2583042	20.37	0.000	4.756238	5.768772
_cons	-30.33032	2.737777	-11.08	0.000	-35.69627	-24.96438

Instrumented: x

Instruments: z1 z2 z3 z4

. estat overid

Test of overidentifying restriction:

rejected H_0 . GMM is not appropriate

Hansen's J $\chi^2(3) = 163.488$ ($p = 0.0000$) *> $\alpha = 0.05$*

. save "C:\Users\User\Desktop\EE 426 stata\assign5-2.dta", replace
file C:\Users\User\Desktop\EE 426 stata\assign5-2.dta saved

. log close

name: <unnamed>

log: C:\Users\User\Desktop\EE 426 stata\assignment 5.log

log type: text

closed on: 25 Feb 2021, 09:54:42

b) All of instrumental variable have correlate with u which is not satisfy for good IV.
The best set of IV is not exist.

c) OLS is more appropriate due to $E(xu) = 0$,
the result is unbiased unlike GMM