

Model with Discrete Dependent Variables

Probit & Logit Model

The Model

$$I_i = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \beta_3 x_{3i} + \beta_4 x_{4i} + \beta_5 x_{5i} + \varepsilon_i$$

$$P(y_i = 1|X) = G(I_i)$$

Where $Y_i = 1$ for the firm that paid dividend and $Y_i = 0$ otherwise

x_{1i} = Retained earning to total equity

x_{2i} = Total equity to total asset

x_{3i} = Return on asset

x_{4i} = Ratio of change in revenue last year to last year total revenue

x_{5i} = Percentile of firm in full distribution of market cap in each year

MLE Estimation

```
. logit y x1 x2 x3 x4 x5
```

```
Iteration 0:   log likelihood = -1291.7938
Iteration 1:   log likelihood = -1081.5633
Iteration 2:   log likelihood = -1050.3539
Iteration 3:   log likelihood = -825.33434
Iteration 4:   log likelihood = -758.05835
Iteration 5:   log likelihood = -757.50042
Iteration 6:   log likelihood = -757.49946
Iteration 7:   log likelihood = -757.49946
```

```
Logistic regression               Number of obs   =       1888
                                LR chi2(5)           =      1068.59
                                Prob > chi2           =       0.0000
                                Pseudo R2             =       0.4136

Log likelihood = -757.49946
```

	y	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
x1		5.621999	.3310812	16.98	0.000	4.973092	6.270907
x2		1.251322	.3039485	4.12	0.000	.6555939	1.84705
x3		4.945624	1.12468	4.40	0.000	2.741291	7.149957
x4		.3587824	.1571327	2.28	0.022	.0508079	.666757
x5		.7966562	.239171	3.33	0.001	.3278896	1.265423
_cons		-1.796861	.2263828	-7.94	0.000	-2.240563	-1.353159

Note: 69 failures and 0 successes completely determined.

```
. logit y, nolog
```

```
Logistic regression               Number of obs   =       1888
                                LR chi2(0)           =       -0.00
                                Prob > chi2           =       .
                                Pseudo R2             =      -0.0000

Log likelihood = -1291.7938
```

	y	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
_cons		.2685516	.0464443	5.78	0.000	.1775224	.3595808

Marginal Effects

```
. logit y x1 x2 x3 x4 x5, nolog
```

```
Logistic regression
```

```
Number of obs   =    1888
LR chi2(5)       =   1068.59
Prob > chi2      =    0.0000
Pseudo R2       =    0.4136
```

```
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```
Note: 69 failures and 0 successes completely determined.
```

```
. mfx
```

```
Marginal effects after logit
```

```
y = Pr(y) (predict)
= .01656286
```

variable	dy/dx	Std. Err.	z	P> z	[95% C.I.]		x
x1	.0915741	.01924	4.76	0.000	.053867	.129281	-.638752
x2	.0203822	.00739	2.76	0.006	.005895	.034869	.468602
x3	.080557	.02952	2.73	0.006	.02269	.138424	.050715
x4	.005844	.00292	2.00	0.046	.000112	.011576	.140109
x5	.0129764	.00516	2.52	0.012	.002869	.023083	.522908

```
. mfx, at(median)
```

```
Marginal effects after logit
```

```
y = Pr(y) (predict)
= .62470056
```

variable	dy/dx	Std. Err.	z	P> z	[95% C.I.]		x
x1	1.318076	.07849	16.79	0.000	1.16424	1.47191	.19165
x2	.2933722	.07218	4.06	0.000	.151902	.434842	.45625
x3	1.1595	.26399	4.39	0.000	.642097	1.6769	.044221
x4	.0841165	.03706	2.27	0.023	.01148	.156753	.06545
x5	.1867759	.05599	3.34	0.001	.077031	.29652	.522

```
. mfx, predict(xb)
```

```
Marginal effects after logit
```

```
y = Linear prediction (predict, xb)
= -4.0838907
```

variable	dy/dx	Std. Err.	z	P> z	[95% C.I.]		x
x1	5.621999	.33108	16.98	0.000	4.97309	6.27091	-.638752
x2	1.251322	.30395	4.12	0.000	.655594	1.84705	.468602
x3	4.945624	1.12468	4.40	0.000	2.74129	7.14996	.050715
x4	.3587824	.15713	2.28	0.022	.050808	.666757	.140109
x5	.7966562	.23917	3.33	0.001	.32789	1.26542	.522908

```
. prchange
```

```
logit: Changes in Probabilities for y
```

	min->max	0->1	+1/2	+sd/2	MargEfct
x1	0.9938	0.6149	0.2178	1.0000	0.0916
x2	0.0214	0.0224	0.0216	0.0049	0.0204
x3	0.1218	0.6352	0.1650	0.0068	0.0806
x4	0.9297	0.0067	0.0059	0.0042	0.0058
x5	0.0130	0.0131	0.0133	0.0037	0.0130

Pr(y|x) 0.9834 0.0166

	x1	x2	x3	x4	x5
x=	-.638752	.468602	.050715	.140109	.522908
sd(x)=	10.7594	.238494	.084263	.713799	.288292

Statistical Indices

. fitstat

Measures of Fit for logit of y

Log-Lik Intercept Only:	-1291.794	Log-Lik Full Model:	-757.499
D(1882):	1514.999	LR(5):	1068.589
		Prob > LR:	0.000
McFadden's R2:	0.414	McFadden's Adj R2:	0.409
ML (Cox-Snell) R2:	0.432	Cragg-Uhler(Nagelkerke) R2:	0.580
McKelvey & Zavoina's R2:	0.999	Efron's R2:	0.490
Variance of y*:	3675.508	Variance of error:	3.290
Count R2:	0.827	Adj Count R2:	0.600
AIC:	0.809	AIC*n:	1526.999
BIC:	-12681.442	BIC':	-1030.872
BIC used by Stata:	1560.259	AIC used by Stata:	1526.999

(Indices saved in matrix fs_m1)

. predict pr

(option pr assumed; Pr(y))

. g yhat=0 if pr<=0.5

(1185 missing values generated)

. replace yhat=1 if pr>0.5

(1185 real changes made)

. tabulate y yhat

	yhat		
y	0	1	Total
0	597	221	818
1	106	964	1,070
Total	703	1,185	1,888

. estat clas

Logistic model for y

	True		
Classified	D	~D	Total
+	964	221	1185
-	106	597	703
Total	1070	818	1888

Classified + if predicted Pr(D) >= .5

True D defined as y != 0

Sensitivity	Pr(+ D)	90.09%
Specificity	Pr(- ~D)	72.98%
Positive predictive value	Pr(D +)	81.35%
Negative predictive value	Pr(~D -)	84.92%
False + rate for true ~D	Pr(+ ~D)	27.02%
False - rate for true D	Pr(- D)	9.91%
False + rate for classified +	Pr(~D +)	18.65%
False - rate for classified -	Pr(D -)	15.08%
Correctly classified		82.68%

Probit Model

```
. probit y x1 x2 x3 x4 x5, nolog
```

```
Probit regression
```

Number of obs	=	1888
LR chi2(5)	=	1042.01
Prob > chi2	=	0.0000
Pseudo R2	=	0.4033

Log likelihood = -770.78852

y	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
x1	2.991683	.1628704	18.37	0.000	2.672462	3.310903
x2	.6882851	.1742238	3.95	0.000	.3468128	1.029757
x3	2.600306	.5990625	4.34	0.000	1.426165	3.774446
x4	.1802702	.0649368	2.78	0.006	.0529964	.307544
x5	.4506521	.1374255	3.28	0.001	.1813031	.7200011
_cons	-.9700784	.1261652	-7.69	0.000	-1.217358	-.7227991

Note: 95 failures and 0 successes completely determined.

```
. mfx
Marginal effects after probit
y = Pr(y) (predict)
= .0151667
```

variable	dy/dx	Std. Err.	z	P> z	[95% C.I.]		x
x1	.1143775	.02894	3.95	0.000	.057651	.171104	-.638752
x2	.0263144	.01081	2.43	0.015	.005118	.047511	.468602
x3	.0994144	.04073	2.44	0.015	.019592	.179236	.050715
x4	.0068921	.00313	2.21	0.027	.000766	.013018	.140109
x5	.0172292	.00746	2.31	0.021	.002605	.031854	.522908

```
. fitstat
```

```
Measures of Fit for probit of y
Log-Lik Intercept Only: -1291.794 Log-Lik Full Model: -770.789
D(1882): 1541.577 LR(5): 1042.011
Prob > LR: 0.000
McFadden's R2: 0.403 McFadden's Adj R2: 0.399
ML (Cox-Snell) R2: 0.424 Cragg-Uhler(Nagelkerke) R2: 0.569
McKelvey & Zavoina's R2: 0.999 Efron's R2: 0.483
Variance of y*: 1040.916 Variance of error: 1.000
Count R2: 0.826 Adj Count R2: 0.598
AIC: 0.823 AIC*n: 1553.577
BIC: -12654.863 BIC': -1004.294
BIC used by Stata: 1586.837 AIC used by Stata: 1553.577
```

```
. lstat
```

```
Probit model for y
```

Classified	True		Total
	D	~D	
+	963	222	1185
-	107	596	703
Total	1070	818	1888

```
Classified + if predicted Pr(D) >= .5
True D defined as y != 0
```

Sensitivity	Pr(+ D)	90.00%
Specificity	Pr(- ~D)	72.86%
Positive predictive value	Pr(D +)	81.27%
Negative predictive value	Pr(~D -)	84.78%
False + rate for true ~D	Pr(+ ~D)	27.14%
False - rate for true D	Pr(- D)	10.00%
False + rate for classified +	Pr(~D +)	18.73%
False - rate for classified -	Pr(D -)	15.22%
Correctly classified		82.57%

