Fitted Value
Gauss-Markov Assumptions
Heteroskedasticity
Homoskedasticity
Independent Variable
Intercept Parameter
Mean Independent
OLS Regression Line
Ordinary Least Squares (OLS)
Population Regression Function (PRF)
Predicted Variable
Predictor Variable
Regressand
Regression through the Origin
Regressor
Residual
Residual Sum of Squares (SSR)
Response Variable
R-squared
Sample Regression Function (SRF)
Semi-elasticity
Simple Linear Regression Model
Slope Parameter
Standard Error of $\hat{\beta}_1$
Standard Error of the Regression (SER)
Sum of Squared Residuals (SSR)
Total Sum of Squares (SST)
Zero Conditional Mean Assumption

PROBLEMS

2.1 In the simple linear regression model $y = \beta_0 + \beta_1 x + u$, suppose that $E(u) \neq 0$. Letting $\alpha_0 = E(u)$, show that the model can always be rewritten with the same slope, but a new intercept and error, where the new error has a zero expected value.

2.2 The following table contains the *ACT* scores and the *GPA* (grade point average) for eight college students. Grade point average is based on a four-point scale and has been rounded to one digit after the decimal.

In class
HW.

Student	*GPA*	*ACT*
1	2.8	21
2	3.4	24
3	3.0	26
4	3.5	27
5	3.6	29
6	3.0	25
7	2.7	25
8	3.7	30

(i) Estimate the relationship between *GPA* and *ACT* using OLS; that is, obtain the intercept and slope estimates in the equation

$$\widehat{GPA} = \hat{\beta}_0 + \hat{\beta}_1 ACT.$$

Comment on the direction of the relationship. Does the intercept have a useful interpretation here? Explain. How much higher is the *GPA* predicted to be if the *ACT* score is increased by five points?

(ii) Compute the fitted values and residuals for each observation, and verify that the residuals (approximately) sum to zero.