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1. Let  $kids$  denote the number of children ever born to a woman, and let  $educ$  denote years of education for the woman. A simple model relating fertility to years of education is

$$kids = \beta_0 + \beta_1 educ + u,$$

where  $u$  is the unobserved error.

- i. What kinds of factors are contained in  $u$ ? Are these likely to be correlated with level of education?
- ii. Will a simple regression analysis uncover the ceteris paribus effect of education on fertility? Explain.

i)  $u$  is the error terms of the observation, let's say that age are contained in  $u$  and correlated with education. so, this equation cannot be BLUE as violating SLUR  $E(u_i|x_i) = 0$  which is not be true in this equation.

ii) ceteris paribus is holding other things constant, only education cannot explain well about the fertility.

4. The data set BWGHT contains data on births to women in the United States. Two variables of interest are the dependent variable, infant birth weight in ounces ( $bwght$ ), and an explanatory variable, average number of cigarettes the mother smoked per day during pregnancy ( $cigs$ ). The following simple regression was estimated using data on  $n = 1,388$  births:

$$\widehat{bwght} = 119.77 - 0.514 cigs$$

- i. What is the predicted birth weight when  $cigs = 0$ ? What about when  $cigs = 20$  (one pack per day)? Comment on the difference.
- ii. Does this simple regression necessarily capture a causal relationship between the child's birth weight and the mother's smoking habits? Explain.
- iii. To predict a birth weight of 125 ounces, what would  $cigs$  have to be? Comment.
- iv. The proportion of women in the sample who do not smoke while pregnant is about .85. Does this help reconcile your finding from part (iii)?

i)  $\widehat{bwght} = 119.77 - 0.514(0) = 119.77$

$$bwght = 119.77 - 0.514(20) = 109.49$$

the effect of smoking on additional 20 cigarettes will cause an estimated  $(119.77 - 109.49)$  decrease in the birth weight.

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ii) As the amount of cigarettes is independent variable and the infant weight is dependent, it implies that there is a causal effect. However, there are other factors to be considered as well like genetics. Smoking habits can partially explain a baby's weight,

$$\text{iii) } m_5 = 119.77 - 0.514 C_{75}$$

$C_{75} = -19.178$ , which is not possible, the highest possible weight according to the model would be its  $\beta_0$  which is 119.77 inches.

## Chapter 3

Q1) i) Yes, it does make sense  $\checkmark$  if you are top of the class, the 'hspere' will be low, and for class usually set high 'colspa'. hence, the coefficient is negative.

$$\text{ii) } \text{'colspa'} = 1.392 - 0.0775(20) + 0.0144(1000)$$

$$= 2.696$$

$$\text{iii) } \text{'colspa'} = 1.392 - 0.0775 \text{ hspere} + 0.0144 \text{ sat}$$

→ Thus, increasing in sat score for 1 mark will reduce the value of  $q$

(d)  $\widehat{\text{change}}$  for 0.00194

$$\Rightarrow \frac{\partial \widehat{\text{change}}}{\partial \text{sat}} = 0.0144$$

i.v)  $\text{sat} = 37.8374$

Q2) i) yes, the higher the number of year, the lower the year schooling.

this is b/c the budget constraint,

$$\Rightarrow 1 = -0.94 s_{13}$$

$$\Rightarrow s_{13} = 1.0634 \text{ to reduce yrs education}$$

ii) If mother's yrs of schooling  $\uparrow$  by 1, the predicted years of school would increase by .13%

iii) Man A predicted yrs of edu.

$$= 10.76 - 0.094(0) + .171(2) + .210(12)$$

$$= 10.76 + 1.572 + 2.52 = 14.852$$

Man B predicted yrs of edu.

$$= 10.76 - 0.094(0) + .13(16) + .210(16)$$

$$= 15.416$$

$\therefore$  predicted difference is 1.364

