

Instructions

- (1) Please read the instruction carefully. Also take this habit with you into the exam room.
- (2) Please read each question carefully and answer the questions straightforwardly. Always provide economic reasons at least a paragraph for your analysis, or a graph when necessary, even when the question does not indicate so.
- (3) Handing and submitting assignments are only available via BE Moodle.

Answering the questions and preparing answer sheets

- (1) Answers are to be handwritten, in either digital or analog form, in a blank canvas or any clean paper. Make sure that your handwriting is clearly visible and readable.
- (2) There is no need to rewrite the question. Just indicate the question number clearly for each of the answer, such as 1.a).
- (3) Default decimal point is 4.
- (4) Choose precise wordings, especially when you want to interpret the meaning of a test, confidence interval, or coefficients.
- (5) When done, for the digital case, collage all the pages into a single PDF file. For those who write on sheets of paper, take photo of all pages then convert all of them into a single PDF file as well.
- (6) Name your PDF file as StudentID_YourNickname, such as 640123456_Bo.

Submitting your answers

- (1) Make sure your file does not exceed 10MB. This is the maximum file size for BE Moodle upload.
- (2) Login to BE Moodle, head into the course, then the assignment topic.
- (3) Choose your file to submit. Done. There will be timestamp for your upload date and time, so please make sure to not submit later than that.

1. (15 points) Given this information,

$n = 46$	$\sum_{i=1}^n X_i = 3,959.80$	$\sum_{i=1}^n Y_i = 3,180.80$
$\bar{X} = 86.0826$	$\bar{Y} = 69.1478$	
$\sum_{i=1}^n (X_i)^2 = 364,023.30$		$\sum_{i=1}^n X_i Y_i = 319,943.18$
$\sum_{i=1}^n (X_i - \bar{X})^2 = 23,153.3861$		$\sum_{i=1}^n (Y_i - \bar{Y})^2 = 94,525.1748$
$\sum_{i=1}^n (X_i - \bar{X})(Y_i - \bar{Y}) = 46,131.6183$		$\sum_{i=1}^n \hat{u}_i^2 = 2,610.9211$

answer the following questions. Show your work.

- (4 points) From regression model: $Y_i = \beta_1 + \beta_2 X_i + u_i$, $u_i \sim NIID(0, \sigma^2)$, find the estimators of β_1 and β_2 with OLS method and explain the meaning of the model.
- (2 points) Find R^2 and explain its meaning.
- (1 points) If $X_i = 60$, estimate the value of \hat{Y}_i and explain its meaning.
- (3 points) Find the estimators of $\text{var}(u_i)$, $\text{var}(\hat{\beta}_1)$ and $\text{var}(\hat{\beta}_2)$
- (2.5 points) What are the 95-percent confident intervals for β_2 ? Interpret the meaning.
- (2.5 points) Test the hypothesis whether coefficients (both β_1 and β_2) are different from zero at 0.05 level of significance.

$$1. a) \hat{\beta}_1 = \bar{Y} - \hat{\beta}_2 \bar{X}, \quad \hat{\beta}_2 = \frac{\sum (x_i - \bar{x})(Y_i - \bar{Y})}{\sum (x_i - \bar{x})^2} = \frac{\sum x_i (Y_i - \bar{Y})}{\sum x_i (x_i - \bar{x})}$$

$$\begin{array}{l|l} \hat{\beta}_2 = \frac{\sum (x_i - \bar{x})(Y_i - \bar{Y})}{\sum (x_i - \bar{x})^2} & \hat{\beta}_1 = \bar{Y} - \hat{\beta}_2 \bar{X} \\ = \frac{46,131 \cdot 6183}{23,153 \cdot 3861} & = 69.1478 - (1.9924)(86.0826) \\ = 1.9924 & = 69.1478 - 171.5110 \\ & = -102.3632 \end{array}$$

$$\begin{aligned} \therefore Y_i &= \hat{\beta}_1 + \hat{\beta}_2 x_i \\ &= -102.3632 + 1.9924 x_i \\ -102.3632 \text{ or } \hat{\beta}_1 &\text{ is autonomous or intercept } 1.9924 \text{ or } \hat{\beta}_2 \text{ is slope of SRF,} \\ &\text{when } x_i \text{ increase by } 1, Y \text{ increase by } 1.9924 // \end{aligned}$$

$$b) R^2 = \frac{ESS}{TSS} = 1 - \frac{RSS}{TSS} = 1 - \frac{\sum \hat{u}_i^2}{\sum (Y_i - \bar{Y})^2} = 1 - \frac{\sum (Y_i - \hat{Y})^2}{\sum (Y_i - \bar{Y})^2}$$

$$\begin{aligned} R^2 &= 1 - \frac{\sum u^2}{\sum (Y - \bar{Y})^2} \\ &= 1 - \frac{(2,610 \cdot 9211)}{94,525 \cdot 1798} \end{aligned}$$

$$\therefore R^2 = 0.9724$$

the SRF fit to the data as R^2 close to 1

$$\begin{aligned} &= 1 - (0.0276) \\ &= 0.9724 \end{aligned}$$

$$\begin{aligned} c) \hat{Y}_i &= -102.3632 + 1.9924(x_i) \\ &= -102.3632 + 1.9924(60) \\ &= 17.18 \end{aligned}$$

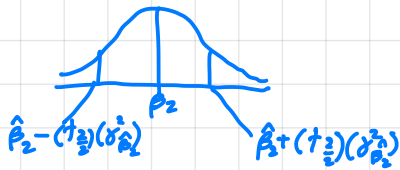
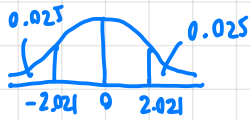
$$\therefore \text{when } x_i = 60, \hat{Y}_i = 17.18$$

$$\begin{aligned} d) \text{var}(u_i) &= \sigma^2 \\ &= \frac{\sum \hat{u}^2}{n-k} \\ &= \frac{2610 \cdot 9211}{46-2} \\ &= 59.3391 // \end{aligned}$$

$$\begin{aligned} \text{var}(\hat{\beta}_1) &= \frac{\sum x^2}{n \sum (x_i - \bar{x})^2} (\sigma^2) \\ &= \frac{364,023 \cdot 30}{46(23153.3861)} \cdot (59.3391) \\ &= 20.2814 // \end{aligned}$$

$$\begin{aligned} \text{var}(\hat{\beta}_2) &= \frac{\sigma^2}{\sum (x_i - \bar{x})^2} \\ &= \frac{59.3391}{23,153 \cdot 3816} \\ &= 0.0026 // \end{aligned}$$

e) $\alpha = 0.05$, $t = \frac{\hat{\beta}_2 - \beta_2}{\sigma_{\hat{\beta}_2}}$



$$P\left[-t_{\frac{\alpha}{2}} < \frac{\hat{\beta}_2 - \beta_2}{\sigma_{\hat{\beta}_2}} < t_{\frac{\alpha}{2}}\right] = 1 - \alpha$$

$$P\left[\hat{\beta}_2 - (t_{\frac{\alpha}{2}})(\sigma_{\hat{\beta}_2}) < \beta_2 < \hat{\beta}_2 + (t_{\frac{\alpha}{2}})(\sigma_{\hat{\beta}_2})\right] = 95\%$$

$$P\left[(1.9924) - (9.1016) < (1.9924) + (9.1016)\right] = 95\%$$

$$P[-7.1092 < \beta_2 < 11.094] = 95\%$$

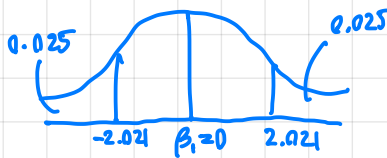
$\therefore \beta_2$ can be in the interval of -7.1092 to 11.094 as in 95% of observations, β_2 fall in this interval

f) Hypothesis

- $H_0: \beta_1 = 0$
- $H_a: \beta_1 \neq 0$ null

$$- t_{cal} = \frac{\hat{\beta}_1 - \beta_1}{\sigma_{\hat{\beta}_1}} = \frac{-102.3632 - 0}{4.5035} = -22.73$$

- lower bound = $t_{\frac{\alpha}{2}} = -2.021$
- upper bound = $t_{\frac{\alpha}{2}} = 2.021$

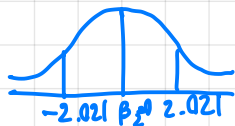


\therefore when t_{cal} fall into the rejection area, reject null hypothesis that $\beta_1 = 0$ //

- $H_0: \beta_2 = 0$ null
- $H_a: \beta_2 \neq 0$

$$- t_{cal} = \frac{\hat{\beta}_2 - 0}{\sigma_{\hat{\beta}_2}} = \frac{1.9924}{0.05099} = 39.0743$$

- lower bound = $t_{\frac{\alpha}{2}} = -2.021$
- upper bound = $t_{\frac{\alpha}{2}} = 2.021$



\therefore when t_{cal} fall into the rejection area, reject null hypothesis that $\beta_2 = 0$ //

2. (8 points) Answer the following question without any mathematical proof. A 3-6-line paragraph for a question is sufficient.

- (2 points) If we have only one data point, can we create a sample regression function? Why?
- (2 points) Does a significant β_2 sufficient for us to believe that X and Y are causally related? Provide an example to support your answer.
- (2 points) When we test a hypothesis and find that β_2 is significantly different from zero, what does the result actually suggest? Answer with specific wording from statistical perspective.
- (2 points) What is (are) (an) advantage(s) of an interval estimation over point estimate?

3. (7 points) Given that the dependent variable is natural log of wage (lwage) in Thai Baht and the independent variable is hours worked per week (main_hr), the result of estimation is shown in the table below here.

Source	SS	df	MS	Number of obs	=	308
Model	50.060869	1	50.060869	F(1, 306)	=	92.20
Residual	166.152715	306	.542982728	Prob > F	=	0.0000
				R-squared	=	0.2315
				Adj R-squared	=	0.2290
Total	216.213584	307	.704278775	Root MSE	=	.73687

lwage	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
main_hr	.0318017	.003312	9.60	0.000	.0252844 .0383189
_cons	7.658082	.1256392	60.95	0.000	7.410856 7.905308

Answer the following questions. Show your work.

- (2 points) On average, how much is the nominal wage for a person who works 0 hour a week? (Note that this is a point estimation, not a prediction)
- (2 points) If a person works an hour more, how much, on average, wage change do we expect?
- (3 points) If you want to change the reading of unit from hours worked to days worked, what values in the main_hr row will differ? Calculate the changes to all the values in that row, **disregarding the constant row**. You might want to impose an assumption here. State that clearly before calculation.

- 2.
- a) We cannot create a sample regression function as SRF is a linear function, which need 2 points.
 - b) β_2 tell that x and Y are related as β_2 is a slope of PRF
 if $\beta_2 = 0$, the PRF will be a horizontal line
 if $\beta_2 = a$, when x increase by 1, Y increase by a
 - c) If $\beta \neq 0$, it can be claimed that x is related to Y
 - d) When we try to find the estimator, if the point came up in single numbers, there will be an error as the group of data can be vary. But if we estimate them in the interval, the data interval can cover the range of data that can occur.

3. a) $\hat{\beta}_1 = 7.658082$

b) The wage will be increased by 3.18017 %

c) hr: $\ln \hat{wage} = 7.658082 + 0.0318017 (hr)$
 $se = (0.1256392)(0.003312)$ \rightarrow if work 0 hr, worker get 7.658082 \$
 if work 1 more hr, worker get 3.18017% more

day: $\ln \hat{wage} = 7.658082 + (0.0318017)(24)(day)$
 $se = (0.1256392)(0.003312)(24)$ \rightarrow if work 0 day, worker get 7.658082 \$
 if work 1 more day, worker get 76.3240% more