

Instrumental variables estimation

Slide 60:

Reduced equation:

$$y_2 = \pi_0 + \pi_1 z_1 + \pi_2 z_2 + \pi_3 z_3 + \pi_4 z_4 + V$$

exogenous variables from the original equation (pointing to z_1 and z_2)
 instruments (pointing to z_3 and z_4)

The term $\pi_0 + \pi_1 z_1 + \pi_2 z_2 + \pi_3 z_3 + \pi_4 z_4$ is bracketed and labeled:

 exogenous part of y_2 (for sure)

 The term V is circled and labeled:

 potentially "problematic" (endogenous) part of y_2