Problem Set 7

ECON 6343: Econometrics III
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Due: October 18, 9:00 AM

Directions: Answer all questions. Each student must turn in their own copy, but you may work in groups. Clearly label all answers. Show all of your code. Turn in jl-file(s), output files and writeup via GitHub. Your writeup may simply consist of comments in jl-file(s). If applicable, put the names of all group members at the top of your writeup or jl-file.

You may need to install and load the following package:

```
SMM
```

You will need to load the following previously installed packages:

```
Optim

HTTP

GLM

LinearAlgebra

Random

Statistics

DataFrames

DataFramesMeta

CSV
```

In this problem set, we will practice estimating models by Generalized Method of Moments (GMM) and Simulated Method of Moments (SMM).

1. Estimate the linear regression model from Question 2 of Problem Set 2 by GMM. Write down the moment function as in slide #8 of the Lecture 9 slide deck and use `Optim` for estimation. Use the $N \times N$ Identity matrix as your weighting matrix. Check your answer using the closed-form matrix formula for the OLS estimator.

2. Estimate the multinomial logit model from Question 5 of Problem Set 2 by the following means:

    (a) Maximum likelihood (i.e. re-run your code [or mine] from Question 5 of Problem Set 2)

    (b) GMM with the MLE estimates as starting values. Your g object should be a vector of dimension $N \times J$ where N is the number of rows of the X matrix and J is the dimension of the choice set. Each element, g should equal $d - P$, where d and P are "stacked" vectors of dimension $N \times J$

    (c) GMM with random starting values

    Compare your estimates from part (b) and (c). Is the objective function globally concave?

3. Simulate a data set from a multinomial logit model, and then estimate its parameter values and verify that the estimates are close to the parameter values you set. That is, for a given sample size N, choice set dimension J and parameter vector β, write a function that outputs data X and Y. I will let you choose N, J, β and the number of covariates in X (K), but J should be larger than 2 and K should be larger than 1. If you haven't done this before, you may want to follow these steps:

    (a) Generate X using a random number generator—`rand()` or `randn()`.

    (b) Set values for β such that conformability with X and J is satisfied

    (c) Generate the $N \times J$ matrix of choice probabilities P

    (d) Draw the preference shocks ε as a $N \times 1$ vector of $U[0,1]$ random numbers

    (e) Generate Y as follows:

        - Initialize Y as an $N \times 1$ vector of 0s
        - Update $Y_i = \sum_{j=1}^{J} 1\left[\left\{\sum_{k=j}^{J} P_{ik}\right\} > \varepsilon_i\right]$

    (f) An alternative way to generate choices would be to draw a $N \times J$ matrix of ε's from a T1EV distribution. This distribution is already defined in the `Distributions` package. Then $Y_i = \arg\max_j X_i\beta_j + \varepsilon_{ij}$. I'll show you an example of how to do that in the solutions code for this problem set.

4. Use `SMM.jl` to run the example code on slide #21 of the Lecture 9 slide deck.

5. Use your code from Question 3 to estimate the multinomial logit model from Question 2 using SMM and the code example from slide #18 of the Lecture 9 slide deck.