

What is Econometrics?

EC 320: Introduction to Econometrics

Kyle Raze

Fall 2019

Prologue

Who am I?

Kyle Raze

- Doctoral student in economics
- Applied microeconomist and econometrician
- I study the economics of education and labor (and sometimes politics).

Where can you find me?

- Office: 522 PLC
- Office hours: Tuesday 15:00-16:00, Thursday 10:00-11:00, or by appointment
- Email: raze@uoregon.edu **(use EC 320 in the subject line)**

Motivation

Why study econometrics?

1. Develop **skills that employers value**.
2. Cultivate **healthy skepticism**.
3. Learn about the world using **data**.

Motivation

Why study econometrics?

Provide answers to important questions

- Do minimum wage policies **reduce poverty**?
- Does the death penalty **deter violent crime**?
- Does recreational marijuana **cross state lines**?
- Are recessions **good for your health**?
- How will global warming **affect the economy**?
- Will Donald Trump **win again**?
- What **explains the gender pay gap**?

Econometrics

Most econometric inquiry concerns one of two distinct goals:

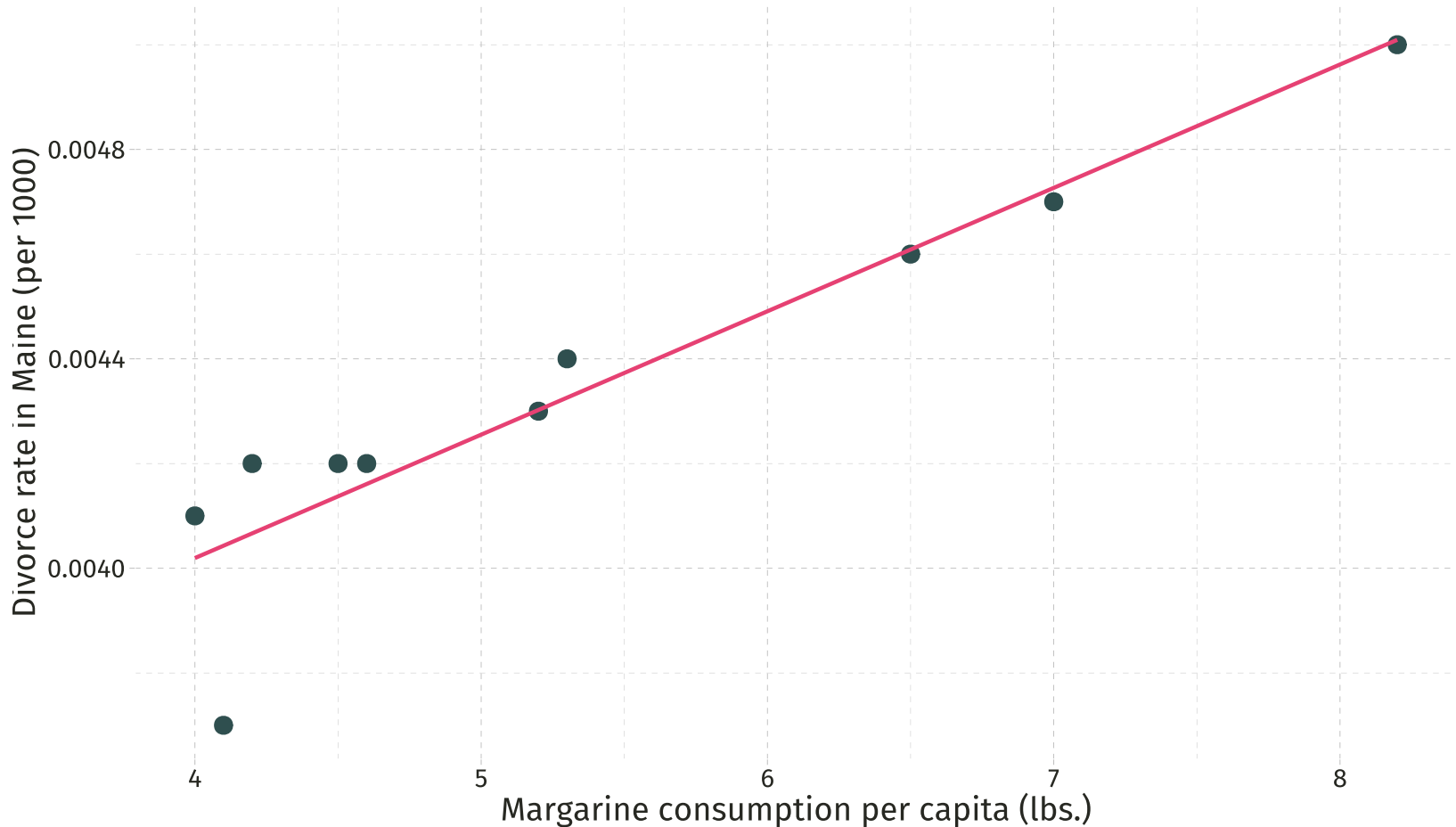
1. **Prediction:** Accurately predict or forecast an outcome given a set of predictors. Given what we know about x , what values do we expect y to take?
2. **Causal identification:** Estimate the effect of an intervention on an outcome. How does y change when we change x ?

The main focus of EC 320 and EC 421 is causal identification.

- But...both rely on a common set of statistical techniques.
- For those interested, Professor Tim Duy teaches forecasting (EC 422) this Winter.

Econometrics

Not all relationships are causal



Econometrics

Correlation vs. Causation

Common refrain: *"Correlation doesn't necessarily imply causation!"*

- **Q:** Why might correlation fail to describe a causal relationship?
- **A:** Omitted-variables bias, selection bias, simultaneity, reverse causality.

Correlation can imply causation.

- Requires strong assumptions.
- **Real life often violates these assumptions!**
- **Solutions:** Conduct an experiment or find a natural experiment.

Example: *Blue Paradox*

Recent study by UO economist Grant McDermott and coauthors.

Question: Do commercial fishers preempt fishing bans by increasing their fishing effort before the bans go into effect?

Motivation

- Recent conservation efforts seek to preserve aquatic habitat and increase fish stocks.
- Policy lever: Restrict fishing activity in marine protected areas.
- Concern: Preemptive behavior could *decrease* fish stocks.

Data

- Vessel-level data on fishing effort/intensity.

Example: *Blue Paradox*

Natural Experiment

Phoenix Islands Protected Area (PIPA)

- First mentioned on 1 September 2014; implemented 1 January 2015.
- *Treatment group*: PIPA.
- *Control group*: Outlying Kiribati islands.

Example: *Blue Paradox*

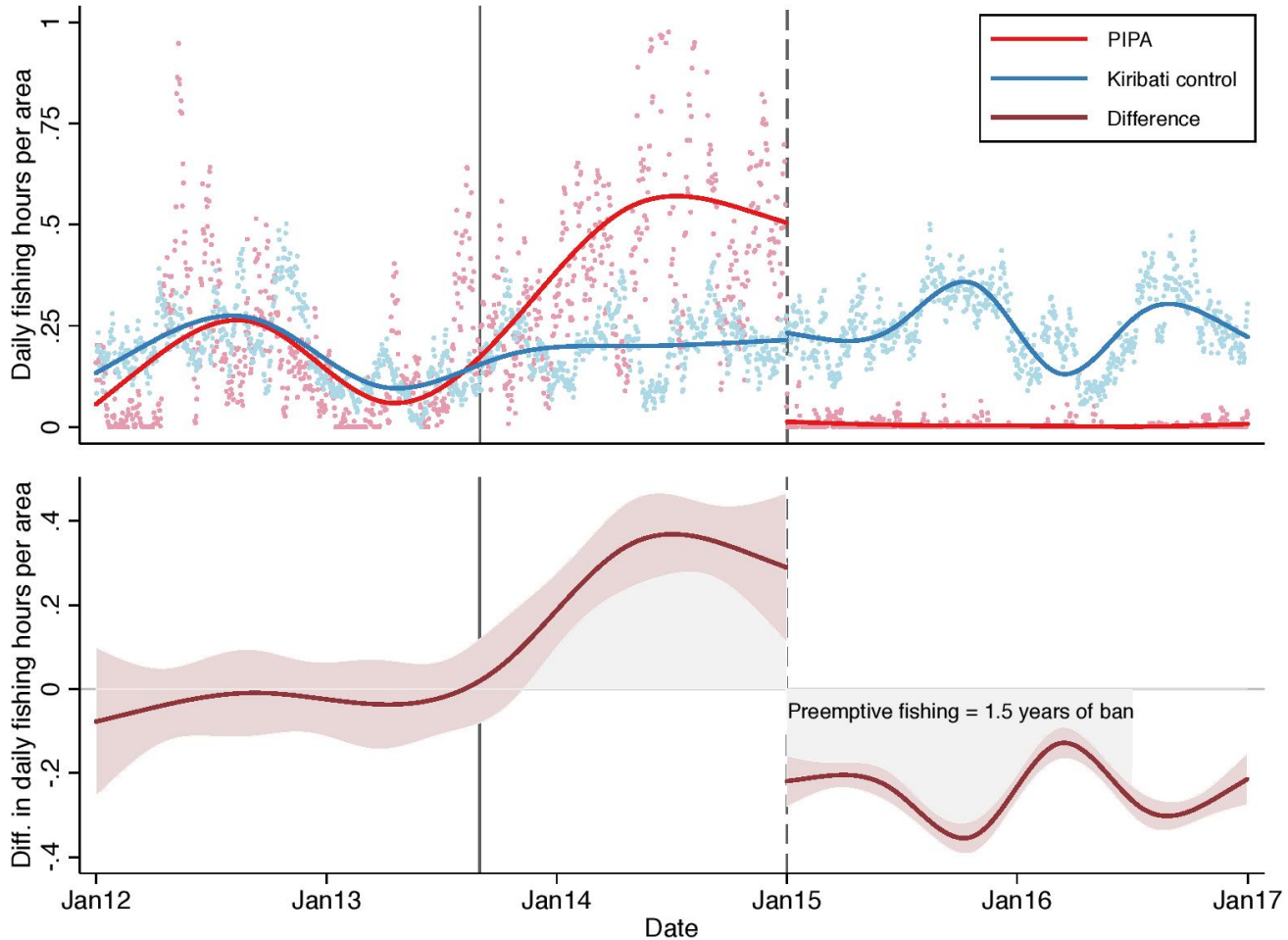
Natural Experiment

Measure the causal effect of the fishing ban by comparing fishing effort in treatment and control regions, before-and-after PIPA.

- A *difference-in-differences* comparison.
- **Assumption:** *Parallel trends*. If we believe this assumption, then the observed change supports a causal interpretation. If not, then the change could reflect other factors and thus fail to isolate the causal effect of the ban.

Example: *Blue Paradox*

Results



Example: *Blue Paradox*

Discussion

Results provide causal evidence that commercial fishers engage in preemptive behavior in response to conservation policy changes.

Results are *consistent* with economic theory, but *cannot prove* that the theory is correct.

- **Science cannot prove anything.**
- Science can **falsify or reject** existing hypotheses or **corroborate** existing evidence.

Also...the causal statement rests on a critical assumption.

- Cannot prove that the assumption is true, but can falsify it.
- Failure to falsify \neq assumption is true.

R

What is R?

According to the [R project website](#),

R is a free software environment for statistical computing and graphics. It compiles and runs on a wide variety of UNIX platforms, Windows and MacOS.

What does that mean?

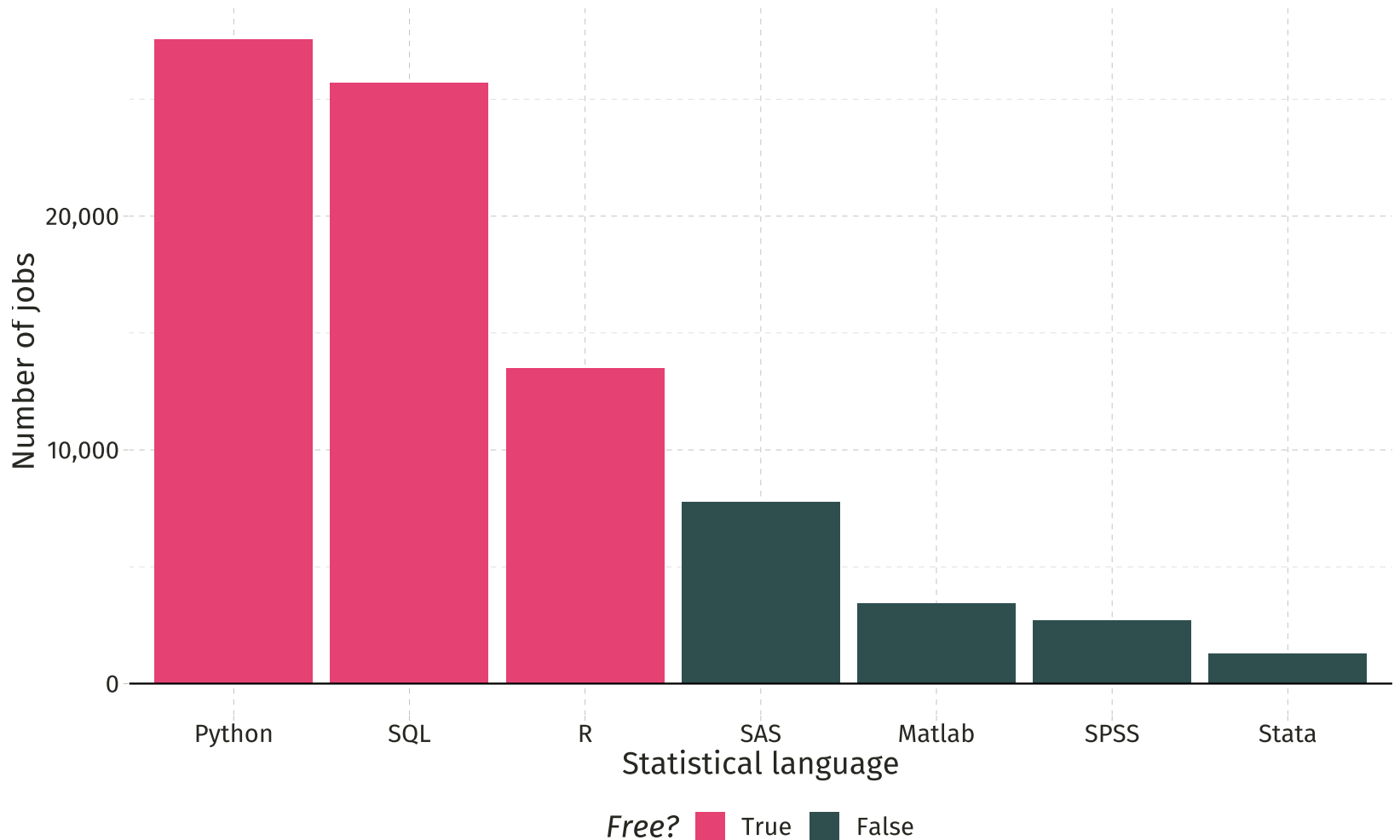
- R is **free** and **open source**.
- R executes a variety of statistical techniques and produces beautiful graphs.
- R has a vibrant, thriving online community (see [stack overflow](#)).

Why are we using R?

1. R is **free**.
2. **R is popular** among economists, political scientists, psychologists, sociologists, geographers, anthropologists, biologists, data scientists, and statisticians.
3. **Employers prefer R** over most competing software environments.
4. R can **adapt to nearly any task**: 'metrics, spatial data analysis, machine learning, web scraping, data cleaning, website building, teaching.

Comparing statistical languages

Number of job postings on Indeed.com, 2019/07/17



R + [Examples]

R + Regression

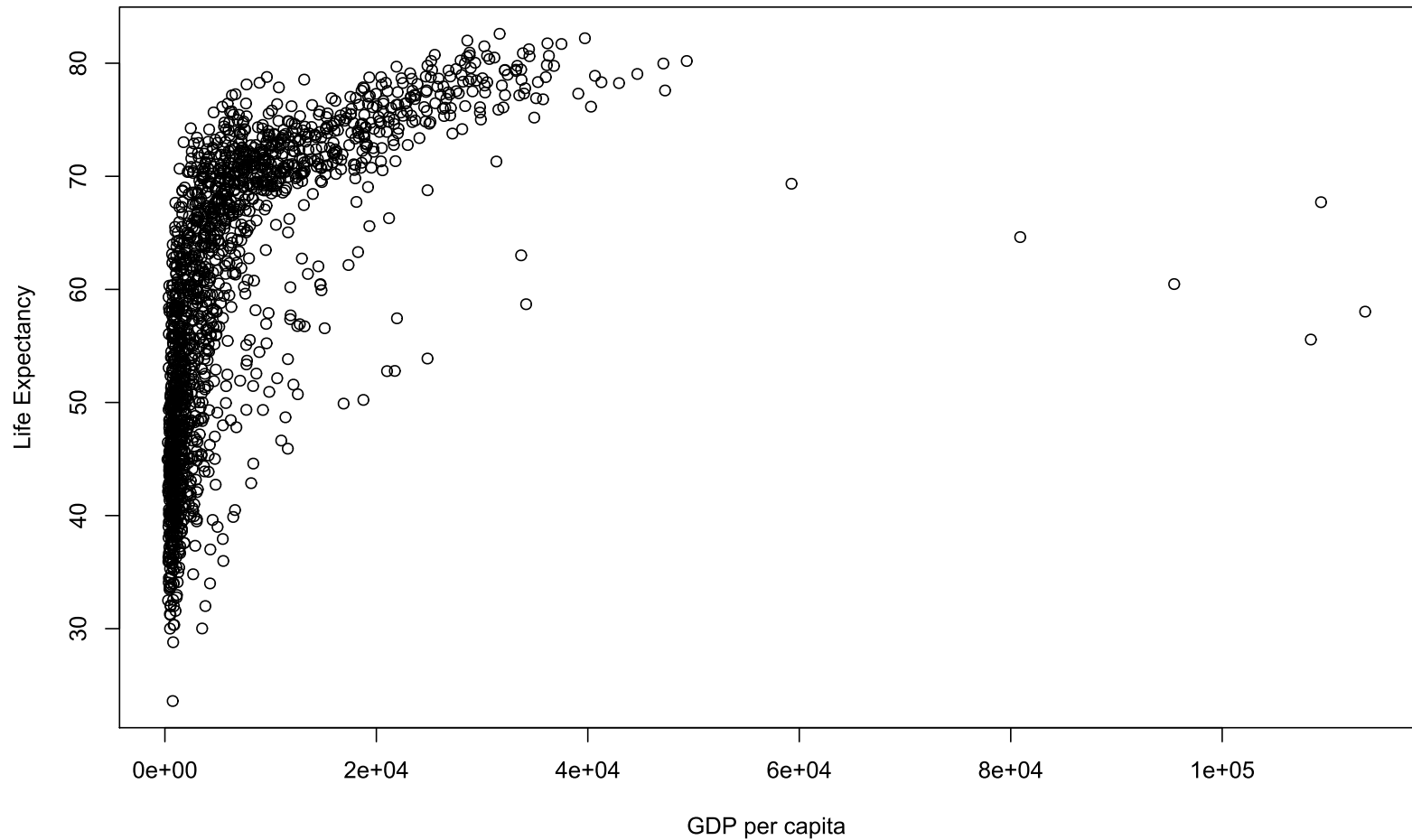
```
# A simple regression  
fit ← lm(mpg ~ 1 + wt, data = mtcars)  
# Show the coefficients  
coef(summary(fit))
```

```
#>               Estimate Std. Error   t value    Pr(>|t|)  
#> (Intercept) 37.285126   1.877627 19.857575 8.241799e-19  
#> wt          -5.344472   0.559101 -9.559044 1.293959e-10
```

```
# A nice, clear table  
library(broom)  
tidy(fit)
```

```
#> # A tibble: 2 x 5  
#>   term          estimate std.error statistic  p.value  
#>   <chr>          <dbl>     <dbl>    <dbl>    <dbl>  
#> 1 (Intercept)   37.3       1.88     19.9 8.24e-19  
#> 2 wt           -5.34       0.559    -9.56 1.29e-10
```

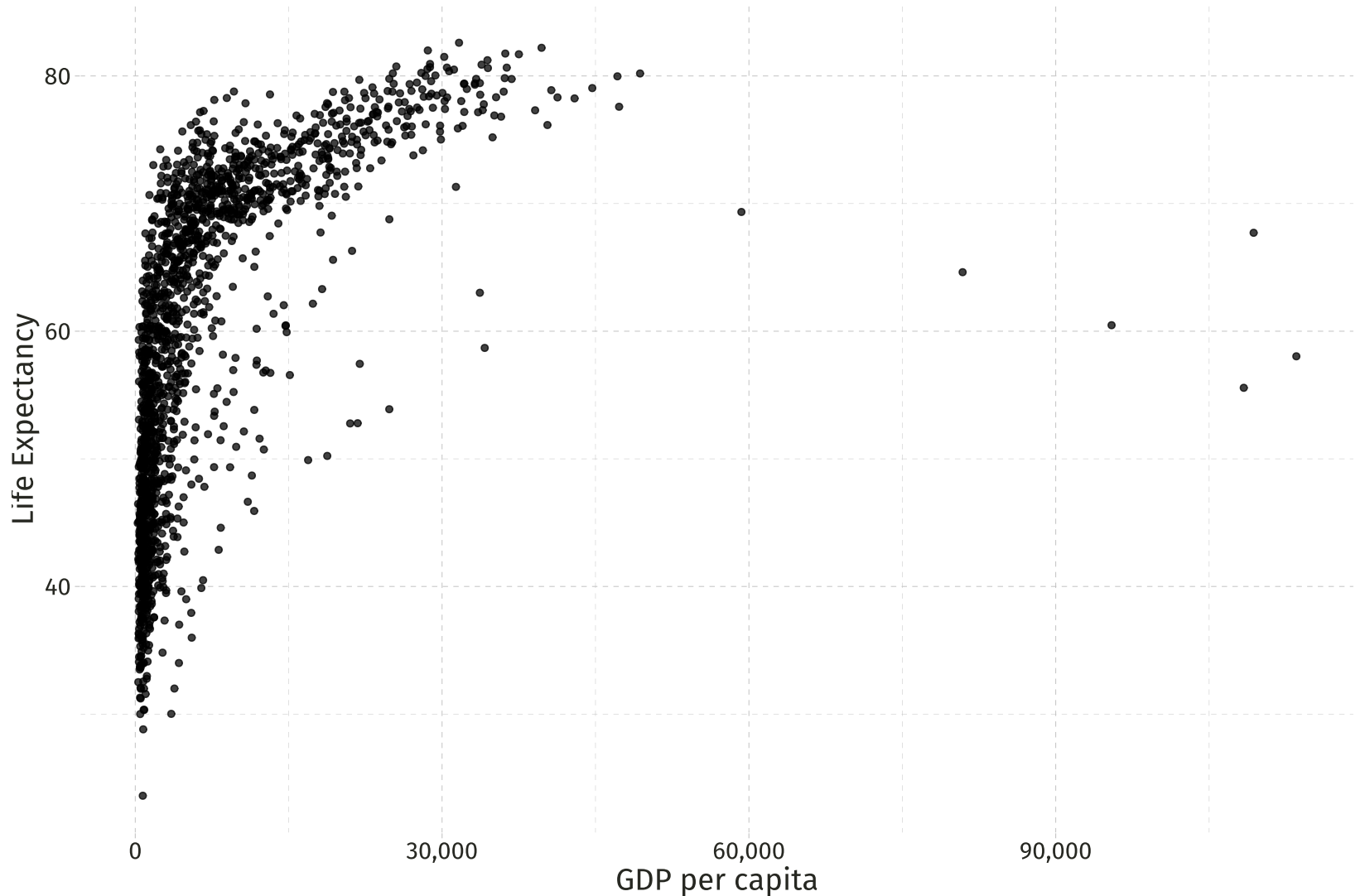
R + Plotting (w/ `plot`)



R + Plotting (w/ plot)

```
# Load packages with dataset  
library(gapminder)  
# Create dataset  
plot(  
  x = gapminder$gdpPercap, y = gapminder$lifeExp,  
  xlab = "GDP per capita", ylab = "Life Expectancy"  
)
```

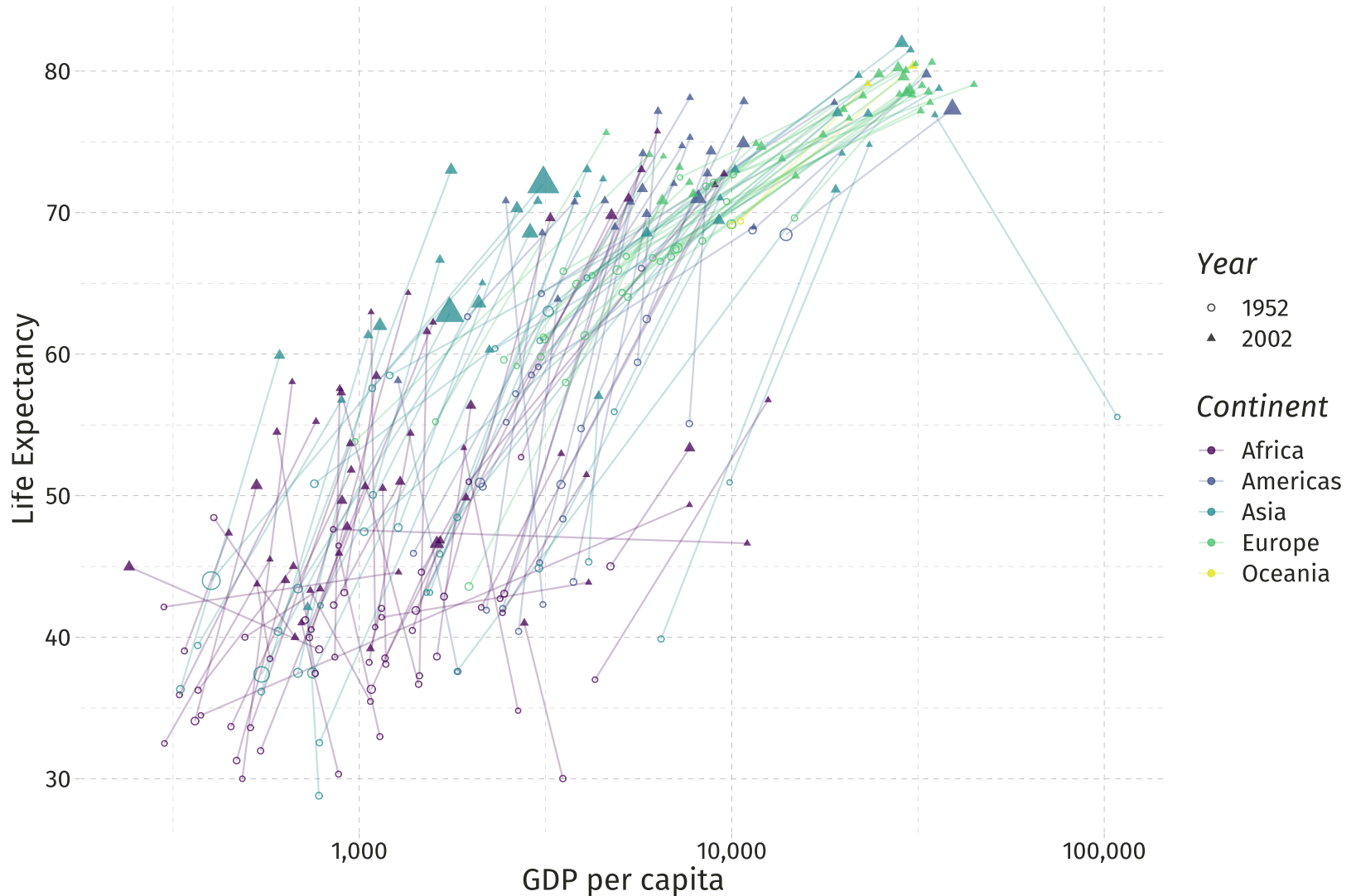
R + Plotting (w/ ggplot2)



R + Plotting (w/ ggplot2)

```
# Load packages  
library(gapminder); library(dplyr)  
# Create dataset  
ggplot(data = gapminder, aes(x = gdpPercap, y = lifeExp)) +  
geom_point(alpha = 0.75) +  
scale_x_continuous("GDP per capita", label = scales::comma) +  
ylab("Life Expectancy") +  
theme_pander(base_size = 17, base_family = "Fira Sans", fc = met_slate)
```

R + More plotting (w/ ggplot2)

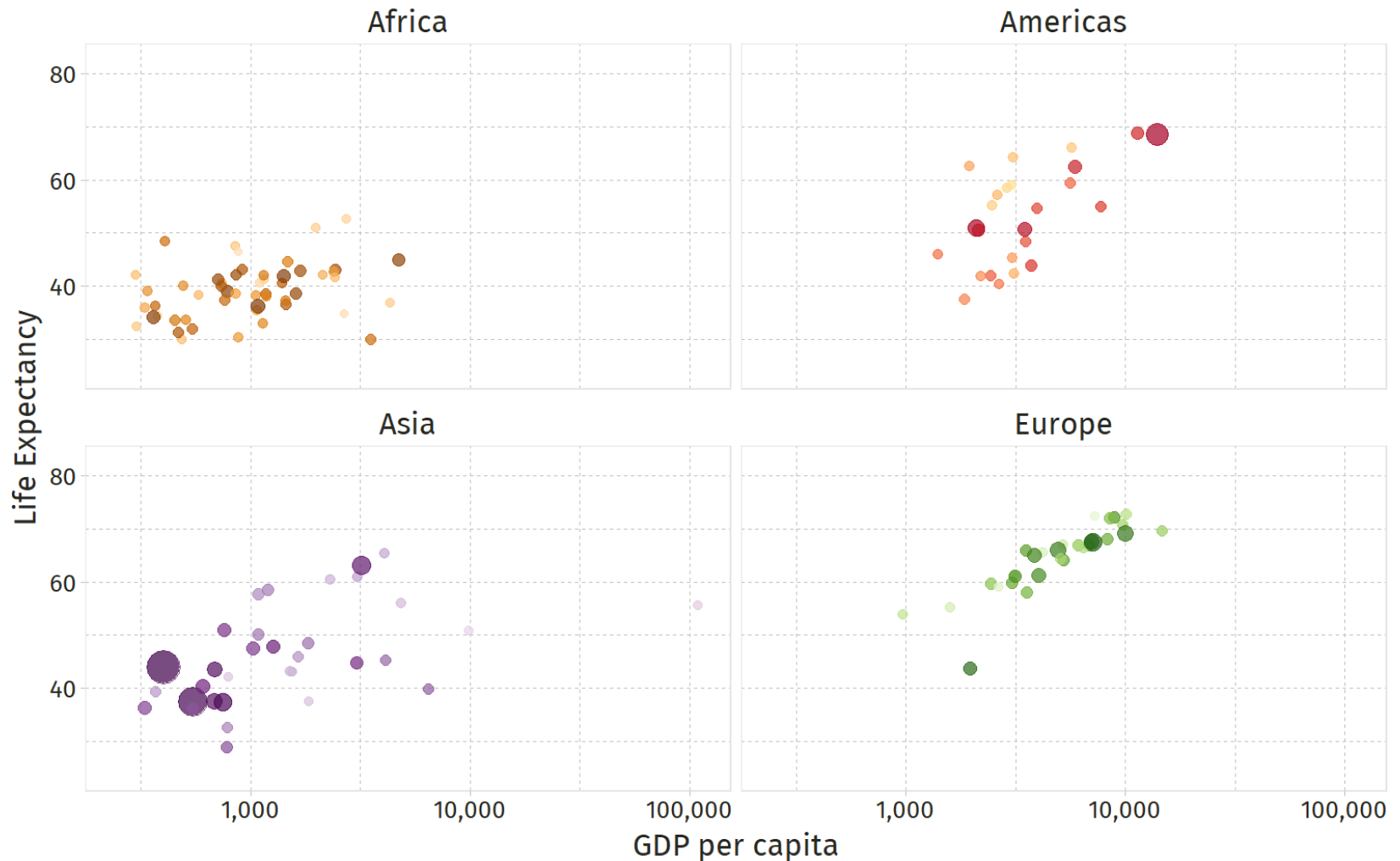


R + More plotting (w/ ggplot2)

```
# Load packages
library(gapminder); library(dplyr)
# Create dataset
ggplot(
  data = filter(gapminder, year %in% c(1952, 2002)),
  aes(x = gdpPercap, y = lifeExp, color = continent, group = country)
) +
geom_path(alpha = 0.25) +
geom_point(aes(shape = as.character(year), size = pop), alpha = 0.75) +
scale_x_log10("GDP per capita", label = scales::comma) +
ylab("Life Expectancy") +
scale_shape_manual("Year", values = c(1, 17)) +
scale_color_viridis("Continent", discrete = T, end = 0.95) +
guides(size = F) +
theme_pander(base_size = 17, base_family = "Fira Sans", fc = met_slate)
```

R + Animated plots (w/ gganimate)

Year: 1952

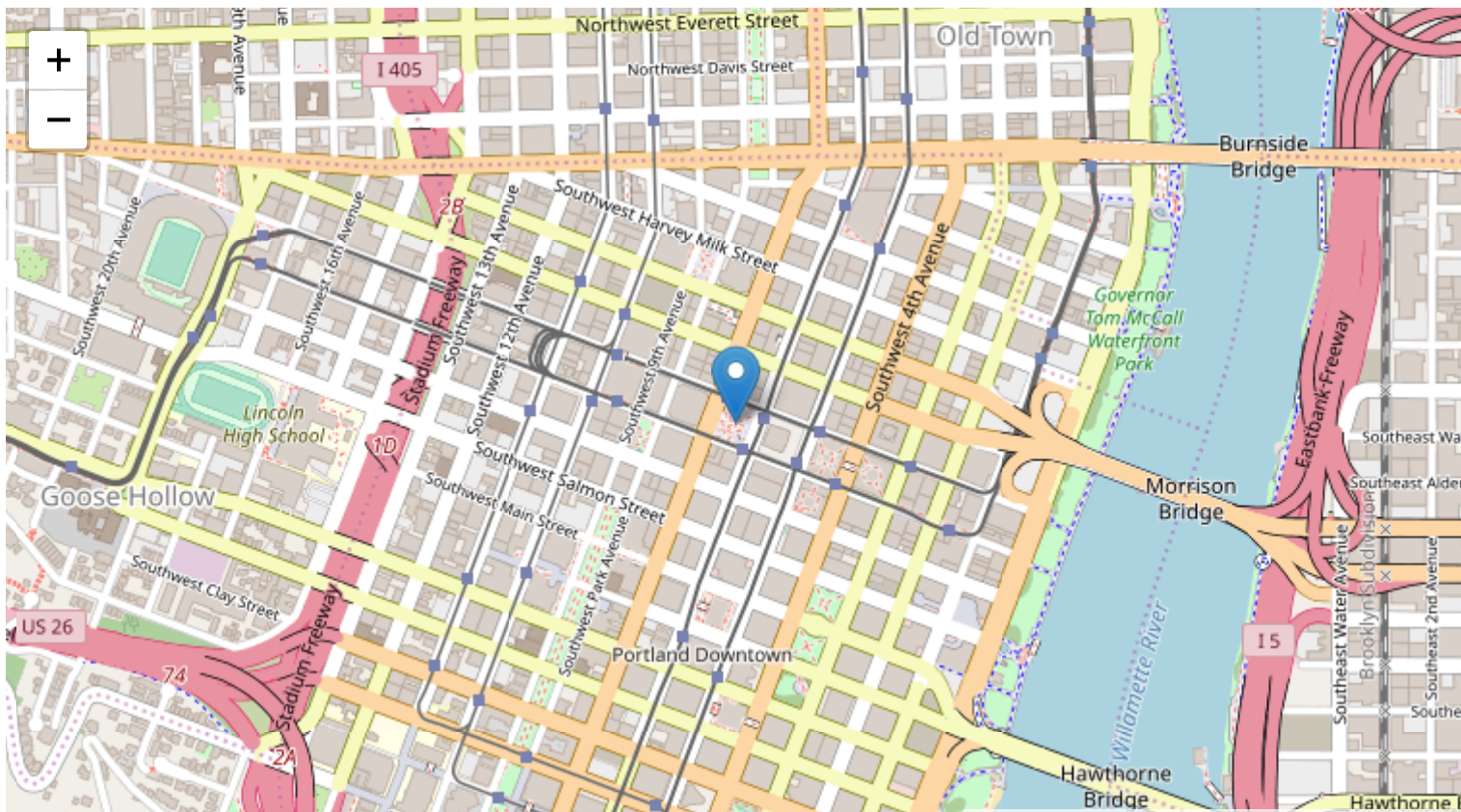


R + Animated plots (w/ gganimate)

```
# The package for animating ggplot2
library(gganimate)
# As before
ggplot(
  data = gapminder %>% filter(continent ≠ "Oceania"),
  aes(gdpPercap, lifeExp, size = pop, color = country)
) +
geom_point(alpha = 0.7, show.legend = FALSE) +
scale_colour_manual(values = country_colors) +
scale_size(range = c(2, 12)) +
scale_x_log10("GDP per capita", label = scales::comma) +
facet_wrap(~continent) +
theme_pander(base_size = 17, base_family = "Fira Sans", fc = met_slate) +
theme(panel.border = element_rect(color = "grey90", fill = NA)) +
# Add gganimate code
labs(title = "Year: {frame_time}") +
ylab("Life Expectancy") +
transition_time(year) +
ease_aes("linear")
```

R + Maps

```
library(leaflet)
leaflet() %>%
  addTiles() %>%
  addMarkers(lng = -122.6793, lat = 45.51887, popup = "Pioneer Courthouse Square")
```



R + Animated maps (w/ gganimate)

Getting Started with R

Starting R

Installation

- Install [R](#).
- Install [RStudio](#).
- **Note:** [All academic workstations at the UO have R](#), but having a copy of R on your computer will prove useful for the econometrics sequence and 400-level elective courses.

Resources

- Google and [StackOverflow](#)
- Time
- Your classmates
- Your GE
- Me

Starting R

R basics

1. Everything is an **object**.
2. Every object has a **name** and **value**.
3. You use **functions** on these objects.
4. Functions come in **libraries** (**packages**).
5. R will try to **help** you.
6. R has its **quirks**.

```
foo
```

```
foo ← 2
```

```
mean(foo)
```

```
library(dplyr)
```

```
?dplyr
```

```
NA; error; warning
```