

Waseda University

School of Political Science and Economics

Homework 2

Daniel Fabio Groth

Econometrics, Fall 2024

Table of contents

| | |
|---|----------|
| Problem 1 | 3 |
| Excercise 1: Show the following equalities hold: | 3 |
| Excersice 1 cont: Showing that the second equality holds: | 4 |
| Excercise 3 | 6 |
| Excercise 5 | 6 |
| Problem 2 | 7 |
| Problem 3 | 8 |
| Usage of AI | 9 |
| Copilot | 9 |
| ChatGPT | 9 |

Problem 1

Solve exercise 1,3 and 5 in Problem set 2.

Exercise 1: Show the following equalities hold:

$$\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)^2 = \frac{1}{n} \sum_{i=1}^n X_i (X_i - \bar{X}_n) \quad (1)$$

Let's start by looking at the left side of the equation:

$$\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)^2 \rightarrow (X_i - \hat{X}_n)^2 \quad (1.1)$$

Then we can expand the equation:

$$(X_i - \bar{X}_n)^2 = X_i^2 - 2X_i\bar{X}_n + \bar{X}_n^2 \quad (1.2)$$

thus, we can rewrite the equation as:

$$\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)^2 = \frac{1}{n} \sum_{i=1}^n X_i^2 - 2X_i\bar{X}_n + \bar{X}_n^2 \quad (1.3)$$

Then we separate the terms:

$$\frac{1}{n} \sum_{i=1}^n X_i^2 - \frac{2\bar{X}_n}{n} \sum_{i=1}^n X_i + \frac{\bar{X}_n^2}{n} \sum_{i=1}^n 1 \quad (1.4)$$

Then since $\sum_{i=1}^n X_i = n\bar{X}_n$, and $\sum_{i=1}^n 1 = n$, this just becomes:

$$\frac{1}{n} \sum_{i=1}^n X_i^2 - 2\bar{X}_n\bar{X}_n + \bar{X}_n^2 = \frac{1}{n} \sum_{i=1}^n X_i^2 - \bar{X}_n^2 \quad (1.5)$$

Now we can look at the right side of the equation:

$$\frac{1}{n} \sum_{i=1}^n X_i (X_i - \bar{X}_n) \rightarrow X_i (X_i - \bar{X}_n) \quad (1.6)$$

Then we can expand the equation:

$$X_i (X_i - \bar{X}_n) = X_i^2 - X_i\bar{X}_n \quad (1.7)$$

thus, we can rewrite the equation as:

$$\frac{1}{n} \sum_{i=1}^n X_i(X_i - \bar{X}_n) = \frac{1}{n} \sum_{i=1}^n X_i^2 - \frac{\bar{X}_n}{n} \sum_{i=1}^n X_i \quad (1.8)$$

Then we can use the same logic as before:

$$\frac{1}{n} \sum_{i=1}^n X_i^2 - \bar{X}_n \bar{X}_n = \frac{1}{n} \sum_{i=1}^n X_i^2 - \bar{X}_n^2 \quad (1.9)$$

Thus, we have shown that the left side of the equation is equal to the right side of the equation.

$$\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)^2 = \frac{1}{n} \sum_{i=1}^n X_i(X_i - \bar{X}_n) \quad (1)$$

Excercise 1 cont: Showing that the second equality holds:

$$\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)(Y_i - \bar{Y}_n) = \frac{1}{n} \sum_{i=1}^n X_i(Y_i - \bar{Y}_n) = \frac{1}{n} \sum_{i=1}^n Y_i(X_i - \bar{X}_n) \quad (2)$$

Let's start by looking at the left side of the equation:

$$\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)(Y_i - \bar{Y}_n) \rightarrow (X_i - \bar{X}_n)(Y_i - \bar{Y}_n) \quad (2.1)$$

Then we can expand the equation:

$$(X_i - \bar{X}_n)(Y_i - \bar{Y}_n) = X_i Y_i - X_i \bar{Y}_n - \bar{X}_n Y_i + \bar{X}_n \bar{Y}_n \quad (2.2)$$

thus, we can rewrite the equation as:

$$\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)(Y_i - \bar{Y}_n) = \frac{1}{n} \sum_{i=1}^n X_i Y_i - \frac{1}{n} \sum_{i=1}^n X_i \bar{Y}_n - \frac{1}{n} \sum_{i=1}^n \bar{X}_n Y_i + \frac{1}{n} \sum_{i=1}^n \bar{X}_n \bar{Y}_n \quad (2.3)$$

Then we separate the terms:

$$\frac{1}{n} \sum_{i=1}^n X_i Y_i - \frac{1}{n} \bar{Y}_n \sum_{i=1}^n X_i - \frac{1}{n} \bar{X}_n \sum_{i=1}^n Y_i + \frac{1}{n} \bar{X}_n \bar{Y}_n \sum_{i=1}^n 1 \quad (2.4)$$

Then since $\sum_{i=1}^n X_i = n\bar{X}_n$, $\sum_{i=1}^n Y_i = n\bar{Y}_n$, and $\sum_{i=1}^n 1 = n$, this just becomes:

$$\frac{1}{n} \sum_{i=1}^n X_i Y_i - \bar{Y}_n \bar{X}_n - \bar{X}_n \bar{Y}_n + \bar{X}_n \bar{Y}_n = \frac{1}{n} \sum_{i=1}^n X_i Y_i - \bar{X}_n \bar{Y}_n \quad (2.5)$$

Let's now look at the middle term of the equation:

$$\frac{1}{n} \sum_{i=1}^n X_i(Y_i - \bar{Y}_n) \rightarrow X_i(Y_i - \bar{Y}_n) \quad (2.6)$$

Then we can expand the equation:

$$X_i(Y_i - \bar{Y}_n) = X_i Y_i - X_i \bar{Y}_n \quad (2.7)$$

thus, we can rewrite the equation as:

$$\frac{1}{n} \sum_{i=1}^n X_i(Y_i - \bar{Y}_n) = \frac{1}{n} \sum_{i=1}^n X_i Y_i - \frac{\bar{Y}_n}{n} \sum_{i=1}^n X_i \quad (2.8)$$

Then we can use the same logic as before:

$$\frac{1}{n} \sum_{i=1}^n X_i Y_i - \frac{\bar{Y}_n}{n} \sum_{i=1}^n X_i = \frac{1}{n} \sum_{i=1}^n X_i Y_i - \bar{X}_n \bar{Y}_n \quad (2.9)$$

Finally looking at the right side of the equation:

$$\frac{1}{n} \sum_{i=1}^n Y_i(X_i - \bar{X}_n) \rightarrow Y_i(X_i - \bar{X}_n) \quad (2.10)$$

Then we can expand the equation:

$$Y_i(X_i - \bar{X}_n) = X_i Y_i - Y_i \bar{X}_n \quad (2.11)$$

thus, we can rewrite the equation as:

$$\frac{1}{n} \sum_{i=1}^n Y_i(X_i - \bar{X}_n) = \frac{1}{n} \sum_{i=1}^n X_i Y_i - \frac{\bar{X}_n}{n} \sum_{i=1}^n Y_i \quad (2.12)$$

Then using same logic and substituting:

$$\frac{1}{n} \sum_{i=1}^n X_i Y_i - \frac{\bar{X}_n}{n} \sum_{i=1}^n Y_i = \frac{1}{n} \sum_{i=1}^n X_i Y_i - \bar{X}_n \bar{Y}_n \quad (2.13)$$

Finally, we can add the three equations together and see that they all equal the same thing:

$$\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)(Y_i - \bar{Y}_n) + \frac{1}{n} \sum_{i=1}^n X_i(Y_i - \bar{Y}_n) + \frac{1}{n} \sum_{i=1}^n Y_i(X_i - \bar{X}_n) = 3 \frac{1}{n} \sum_{i=1}^n X_i Y_i - 3 \bar{X}_n \bar{Y}_n \quad (2.14)$$

Exercise 3

Consider a regression model that has no intercept term:

$$Y_i = X_i\beta_1 + \epsilon_i, i = 1, \dots, n.$$

Derive the least squares estimator for β_1 .

Exercise 5

Let $(\hat{\beta}_0, \hat{\beta}_1)$ be the ordinary least squares estimator of

$$Y_i = \beta_0 + X_i\beta_1 + \epsilon_i, i = 1, \dots, n.$$

The prediction error (i.e, residual) for each i is given by $\hat{e}_i = Y_i - \hat{\beta}_0 - X_i\hat{\beta}_1$. Show that the sum of the residuals is zero, i.e, $\sum_{i=1}^n \hat{e}_i = 0$.

Problem 2

Show that under Assumptions 1-3 in the L.6 slides, the variance of $\hat{\beta}_{n1}$ is given by X_1, \dots, X_n is given by:

$$\frac{\sigma^2}{n} = \frac{1}{\frac{1}{n} \sum_{i=1}^n (X_i - \bar{X}_n)^2}$$

Proof:

Problem 3

In this problem, you calculate the OLS estimators using R. Please obtain your own data by using the following code:

```
set.seed(34)

data <- as.data.frame(state.x77)
data <- data[sample(1:50, 40),]
```

where you need to input the last two digits of your student number for A. Here we use the information of the life expectancy as Y and the illiteracy rate as X. Then answer the following problems.

- 1) We consider the following two models.

Model 1: $Y_i = \beta_0 + X_i\beta_1 + \epsilon_i$

Model 2: $Y_i = X_i\beta_1 + \epsilon_i$

Obtain the OLS estimators for these two models **without using the `lm()` function** and compare the results with those given by the `lm` function.

- 2) For the two models, visually compare the distribution of the data and the lines obtained by OLS as we did in p.16 in the Lecture 6 slides. Discuss which results look more reasonable
- 3) Based on the “more reasonable” model you chose, explain what the estimated value of β_1 implies about the relationship between the illiteracy rate and the life expectancy.

Usage of AI

Copilot

As I am writing this document in Rstudio, there is an integration of copilot which sometimes automatically suggests code snippets. Sometimes it works great and my latex math gets written perfectly, and other times it just gives me a bunch of random irrelevant latex math or code.

Here is a [Link to copilot](#).

ChatGPT

Here is the link to the conversation where I asked questions: