FINM3123 Introduction to Econometrics

Chapter 09

Class exercises

Multiple Choice Questions

1. A regression model suffers from functional form misspecification if _____.
   a. a key variable is binary.
   b. the dependent variable is binary.
   c. an interaction term is omitted.
   d. the coefficient of a key variable is zero.

2. A measurement error occurs in a regression model when _____.
   a. the observed value of a variable used in the model differs from its actual value
   b. the dependent variable is binary
   c. the partial effect of an independent variable depends on unobserved factors
   d. the model includes more than two independent variables

3. The classical errors-in-variables (CEV) assumption is that _____.
   a. the error term in a regression model is correlated with all observed explanatory variables
   b. the error term in a regression model is uncorrelated with all observed explanatory variables
   c. the measurement error is correlated with the unobserved explanatory variable
   d. the measurement error is uncorrelated with the unobserved explanatory variable

4. Sample selection based on the dependent variable is called _____.
   a. random sample selection
   b. endogenous sample selection
   c. exogenous sample selection
   d. stratified sample selection

5. Which of the following is true of measurement error?
   a. If measurement error in a dependent variable has zero mean, the ordinary least squares estimators for the intercept are biased and inconsistent.
   b. If measurement error in an independent variable is uncorrelated with the variable, the ordinary least squares estimators are unbiased.

c. If measurement error in an independent variable is uncorrelated with other independent variables, all estimators are biased.
d. If measurement error in a dependent variable is correlated with the independent variables, the ordinary least squares estimators are unbiased.