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11.6.1 Problems

11.1 Our aim is to estimate the parameters of the simultaneous equations model

$$y_1 = \alpha_1 y_2 + e_1$$

$$y_2 = \alpha_2 y_1 + \beta_1 x_1 + \beta_2 x_2 + e_2$$

We assume that x_1 and x_2 are exogenous and uncorrelated with the error terms e_1 and e_2.

a. Solve the two structural equations for the reduced-form equation for y_2, that is, $y_2 = \pi_1 x_1 + \pi_2 x_2 + v_2$. Express the reduced-form parameters in terms of the **structural parameters** and the reduced-form error in terms of the structural parameters and e_1 and e_2. Show that y_2 is correlated with e_1.

b. Which equation parameters are consistently estimated using OLS? Explain.

c. Which parameters are "identified," in the simultaneous equations sense? Explain your reasoning.

a、 外生變數 x_1, x_2

$$y_2 = \alpha_2(\alpha_1 y_2 + e_1) + \beta_1 x_1 + \beta_2 x_2 + e_2$$

$$y_2 = \alpha_2\alpha_1 y_2 + \alpha_2 e_1 + \beta_1 x_1 + \beta_2 x_2 + e_2$$

$$(1-\alpha_2\alpha_1) y_2 = \alpha_2 e_1 + \beta_1 x_1 + \beta_2 x_2 + e_2$$

$$y_2 = \frac{\alpha_2 e_1}{1-\alpha_2\alpha_1} + \frac{\beta_1}{1-\alpha_2\alpha_1} x_1 + \frac{\beta_2}{1-\alpha_2\alpha_1} x_2 + \frac{e_2}{1-\alpha_2\alpha_1}$$

$$y_2 = \pi_1 x_1 + \pi_2 x_2 + v_2$$

$$\pi_1 = \frac{\beta_1}{1-\alpha_2\alpha_1}, \quad \pi_2 = \frac{\beta_2}{1-\alpha_2\alpha_1}, \quad v_2 = \frac{\alpha_2}{1-\alpha_2\alpha_1} e_1 + \frac{1}{1-\alpha_2\alpha_1} e_2 \quad \#$$

y_2 和 e_1 相關，∵ v_2 中有 e_1

b、 兩個方程式都不能用 OLS 估計 因為有內生性問題

c、 $M=2$, $M-1=1$，要少掉一個外生變數

$y_1 = \alpha_1 y_2 + e_1$，少了 2 個外生變數，可識別

$y_2 = \alpha_2 y_1 + \beta_1 x_1 + \beta_2 x_2 + e_2$，無法識別.

d. To estimate the parameters of the reduced-form equation for y_2 using the method of moments (MOM), which was introduced in Section 10.3, the two moment equations are

$$N^{-1}\sum x_{i1}\left(y_2 - \pi_1 x_{i1} - \pi_2 x_{i2}\right) = 0$$

$$N^{-1}\sum x_{i2}\left(y_2 - \pi_1 x_{i1} - \pi_2 x_{i2}\right) = 0$$

Explain why these two moment conditions are a valid basis for obtaining consistent estimators of the reduced-form parameters.

e. Are the MOM estimators in part (d) the same as the OLS estimators? Form the sum of squared errors function for $y_2 = \pi_1 x_1 + \pi_2 x_2 + v_2$ and find the first derivatives. Set these to zero and show that they are equivalent to the two equations in part (d).

f. Using $\sum x_{i1}^2 = 1$, $\sum x_{i2}^2 = 1$, $\sum x_{i1}x_{i2} = 0$, $\sum x_{i1}y_{1i} = 2$, $\sum x_{i1}y_{2i} = 3$, $\sum x_{i2}y_{1i} = 3$, $\sum x_{i2}y_{2i} = 4$, and the two moment conditions in part (d) show that the MOM/OLS estimates of π_1 and π_2 are $\hat{\pi}_1 = 3$ and $\hat{\pi}_2 = 4$.

g. The fitted value $\hat{y}_2 = \hat{\pi}_1 x_1 + \hat{\pi}_2 x_2$. Explain why we can use the moment condition $\sum \hat{y}_{i2}\left(y_{i1} - \alpha_1 y_{i2}\right) = 0$ as a valid basis for consistently estimating α_1. Obtain the IV estimate of α_1.

h. Find the 2SLS estimate of α_1 by applying OLS to $y_1 = \alpha_1 \hat{y}_2 + e_1^*$. Compare your answer to that in part (g).

d. 為何可以透過兩個矩條件來估計 reduced-form 的係數.

reduced-form: $y_2 = \frac{\beta_1}{1-\alpha_1\alpha_2}x_1 + \frac{\beta_2}{1-\alpha_1\alpha_2}x_2 + \frac{e_2+\alpha_2 e_1}{1-\alpha_1\alpha_2} \Rightarrow y_2 = \pi_1 x_1 + \pi_2 x_2 + v_2$

因為假設 x_1, x_2 是外生變數, 和誤差 e_1, e_2 不相關. 所以也和 v_2 不相關.

$E[x_k v_2 \mid x] = 0 \Rightarrow E[x_k(y_2 - \pi_1 x_1 - \pi_2 x_2)] = 0$

e. MOM 和 OLS 結果是否相同?

OLS 最小化的誤差平方和函數: $S(\pi_1, \pi_2) = \sum(y_2 - \pi_1 x_1 - \pi_2 x_2)^2$

$$\frac{dS}{\pi_1} = 2\sum(y_2 - \pi_1 x_1 - \pi_2 x_2)x_1 = 0$$

$$\frac{dS}{\pi_2} = 2\sum(y_2 - \pi_1 x_1 - \pi_2 x_2)x_2 = 0$$

同除 2 $\Rightarrow \sum(y_2 - \pi_1 x_1 - \pi_2 x_2)x_1 = 0$

$$\sum(y_2 - \pi_1 x_1 - \pi_2 x_2)x_2 = 0$$

f. $\frac{1}{N}\sum x_{i1}(y_2 - \pi_1 x_{i1} - \pi_2 x_{i2}) = 0$

$\frac{1}{N}\sum x_{i2}(y_2 - \pi_1 x_{i1} - \pi_2 x_{i2}) = 0$

$\sum x_{i1}^2 = 1$, $\sum x_{i2}^2 = 1$, $\sum x_{i1}x_{i2} = 0$

$\sum x_{i1}y_{1i} = 2$, $\sum x_{i1}y_{2i} = 3$, $\sum x_{i2}y_{1i} = 3$ $\sum x_{i2}y_{2i} = 4$

$$\sum x_{i1}y_2 - \pi_1 \sum x_{i1}^2 - \pi_2 \sum x_{i1}x_{i2} = 0$$

$$3 - \pi_1 \cdot 1 - \pi_2 \cdot 0 = 0$$

$$\hat{\pi}_1 = 3 \quad \#$$

$$\sum x_{i2}y_2 - \pi_1 \sum x_{i2}x_{i1} - \pi_2 \sum x_{i2}^2 = 0$$

$$4 - \pi_1 \cdot 0 - \pi_2 \cdot 1 = 0$$

$$\hat{\pi}_2 = 4 \quad \#$$

g. $y_1 = \alpha_1 y_2 + e_1$

工具變數 $\hat{y}_2 = \hat{\pi}_1 x_1 + \hat{\pi}_2 x_2$ 和 e_1 也就是 $y_1 - \alpha_1 y_2$ 無相關.

$$E[(\pi_1 x_{1i} + \pi_2 x_{2i})(y_1 - \alpha_1 y_2) \mid x] = 0$$

$$\frac{1}{N}\sum(\hat{\pi}_1 x_{1i} + \hat{\pi}_2 x_{2i})(y_{1i} - \alpha_1 y_{2i}) = 0$$

$$\exists \sum(\hat{y}_2)(y_1 - \alpha_1 y_2) = 0$$

$$\sum \hat{y}_2 y_1 - \alpha_1 \sum \hat{y}_2 y_2 = 0$$

$$\hat{\alpha}_1 = \frac{\sum \hat{y}_2 y_1}{\sum \hat{y}_2 y_2}$$

$$= \frac{\sum y_1(\hat{\pi}_1 x_1 + \hat{\pi}_2 x_2)}{\sum y_2(\hat{\pi}_1 x_1 + \hat{\pi}_2 x_2)} = \frac{\hat{\pi}_1 \sum y_1 x_1 + \hat{\pi}_2 \sum y_1 x_2}{\hat{\pi}_1 \sum y_2 x_1 + \hat{\pi}_2 \sum y_2 x_2}$$

$$= \frac{3 \times 2 + 4 \times 3}{3 \times 3 + 4 \times 4} = \frac{18}{25}$$

h、 證明兩者相同

g小題結果

$$\hat{\alpha}_1 = \frac{\sum \hat{y}_2 y_1}{\sum \hat{y}_2 y_2} = \frac{\sum \hat{y}_2 y_1}{\sum \hat{y}_2^2}$$

工具變數 moment condition 推導　　　2SLS 第二階段用 OLS 回歸所得的估計式.

$$\hat{y}_2 = y_2 - v_2 \Rightarrow y_2 = \hat{y}_2 + v_2$$

$$\sum \hat{y}_2 y_2 = \sum \hat{y}_2(\hat{y}_2 + v_2) = \sum \hat{y}_2^2 + \sum \hat{y}_2 v_2$$

$\because$ $\hat{y}_2$ 和 v_2 不相關，$\therefore \sum \hat{y}_2 v_2 = 0$

$$\Rightarrow \sum \hat{y}_2^2 + \sum \hat{y}_2 v_2 = \sum \hat{y}_2^2 + 0$$

因此得證.

11.16 Consider the following supply and demand model

$$\text{Demand: } Q_i = \alpha_1 + \alpha_2 P_i + e_{di}, \quad \text{Supply: } Q_i = \beta_1 + \beta_2 P_i + \beta_3 W_i + e_{si}$$

where Q is the quantity, P is the price, and W is the wage rate, which is assumed exogenous. Data on these variables are in Table 11.7.

TABLE 11.7 Data for Exercise 11.16

Q	P	W
4	2	2
6	4	3
9	3	1
3	5	1
8	8	3

a. Derive the algebraic form of the reduced-form equations, $Q = \theta_1 + \theta_2 W + v_2$ and $P = \pi_1 + \pi_2 W + v_1$, expressing the reduced-form parameters in terms of the structural parameters.

b. Which structural parameters can you solve for from the results in part (a)? Which equation is "identified"?

c. The estimated reduced-form equations are $\hat{Q} = 5 + 0.5W$ and $\hat{P} = 2.4 + 1W$. Solve for the identified structural parameters. This is the method of **indirect least squares**.

d. Obtain the fitted values from the reduced-form equation for P, and apply 2SLS to obtain estimates of the demand equation.

a. 求出 reduced-form

demand: $Q_i = \alpha_1 + \alpha_2 P_i + e_{di}$

supply: $Q_i = \beta_1 + \beta_2 P_i + \beta_3 W_i + e_{si}$

$\alpha_1 + \alpha_2 P_i + e_{di} = \beta_1 + \beta_2 P_i + \beta_3 W_i + e_{si}$

$(\alpha_2 - \beta_2) P_i = \beta_1 - \alpha_1 + \beta_3 W_i + e_{si} - e_{di}$

$$P_i = \frac{\beta_1 - \alpha_1}{\alpha_2 - \beta_2} + \frac{\beta_3}{\alpha_2 - \beta_2} W_i + \frac{e_{si} - e_{di}}{\alpha_2 - \beta_2}$$

$P_i = \pi_1 + \pi_2 W + v_1$

$$\pi_1 = \frac{\beta_1 - \alpha_1}{\alpha_2 - \beta_2}, \quad \pi_2 = \frac{\beta_3}{\alpha_2 - \beta_2}, \quad v_1 = \frac{e_{si} - e_{di}}{\alpha_2 - \beta_2}$$

$Q_i = \alpha_1 + \alpha_2(\pi_1 + \pi_2 W + v_1) + e_{di}$

$= (\alpha_1 + \alpha_2 \pi_1) + \alpha_2 \pi_2 W + (\alpha_2 v_1 + e_{di})$

$= \theta_1 + \theta_2 W + v_2$

$\theta_1 = \alpha_1 + \alpha_2 \pi_1, \quad \theta_2 = \alpha_2 \pi_2,$

$v_2 = \alpha_2 v_1 + e_{di}$

b. $M=2$, $M-1=1$ 所以 Demand $Q_i = \alpha_1 + \alpha_2 P_i + e_{di}$ 是可識別的

a. $\pi_1 = 2.4$ $\quad \theta_1 = 5 = \alpha_1 + \alpha_2 \pi_1$

$\pi_2 = 1$ $\quad \theta_2 = 0.5 = \alpha_2 \pi_2$

$5 = \alpha_1 + \alpha_2 \cdot 2.4$

$0.5 = \alpha_2 \cdot 1$

$\alpha_2 = 0.5$

$\alpha_1 = 3.8$

Demand: $3.8 + 0.5 P_i + e_{di}$

d. $\hat{p} = 2.4 + w$ 做為工具變數

$w = [2, 3, 1, 1, 3]$

$\hat{p} = [4.4, 5.4, 3.4, 3.4, 5.4]$

用OLS 回歸 $Q = \alpha_1 \hat{p}_i + e_i$

$Q = [4, 6, 9, 3, 8]$

$\hat{p} = [4.4, 5.4, 3.4, 3.4, 5.4]$

得 $Q = 3.8 + 0.5 \hat{p}$ (2SLS 結果)

11.17 Example 11.3 introduces Klein's Model I.

a. Do we have an adequate number of IVs to estimate each equation? Check the necessary condition for the identification of each equation. The necessary condition for identification is that in a system of M equations at least $M-1$ variables must be omitted from each equation.

b. An equivalent identification condition is that the number of excluded exogenous variables from the equation must be at least as large as the number of included right-hand side endogenous variables. Check that this condition is satisfied for each equation.

c. Write down in econometric notation the first-stage equation, the reduced form, for W_{1t}, wages of workers earned in the private sector. Call the parameters $\pi_1, \pi_2, \ldots$

d. Describe the two regression steps of 2SLS estimation of the consumption function. This is not a question about a computer software command.

e. Does following the steps in part (d) produce regression results that are identical to the 2SLS estimates provided by software specifically designed for 2SLS estimation? In particular, will the t-values be the same?

a. $M=8$, $M-1=7$，所以至少要排掉7個變數才能識別。

consumption equation 排除10個

investment equation 排除11個

private sector wage equation 排除11個.

b. 每個方程排除的外生變數數量要大於or等於右邊內生變數的數量 −1

consumption equation : $5 > 2$

investment equation : $5 > 1$

private sector wage equation : $5 > 1$

reduced-form

c. $W_{1t} = \pi_1 + \pi_2 G_t + \pi_3 W_{2t} + \pi_4 TX_t + \pi_5 TIME_t + \pi_6 P_{t-1} + \pi_7 K_{t-1} + \pi_8 E_{t-1} + v_t$

d. 2SLS:

① 用 reduced-form 去估計出 $\hat{W}_{1t}$, $\hat{P}_t$, $W_t^* = \hat{W}_{1t} + W_{2t}$

② $C_t = \beta_1 W_t^* + \beta_2 \hat{P}_t + \beta_3 P_{t-1} + u_t$

e. 係數估計值是一樣的. t值會不同，因為是分兩步手動估計.
要使用 ivreg() 才會估計出正確的標準誤.