

First of all with any assignment it is important that you answer the questions that are asked in the assignment. It sounds very simple but nevertheless there are always students not acquiring the full credits simply because they give incomplete answers.

Let us look at the items:

1. Requires a correct FD representation (1) of the original model and argument that the differenced lag correlates with the differenced disturbances (2): no problem.
2. Requires correct 1<sup>st</sup> stage regression (1): be aware on how to include the x's. Generation of results (2). What is the relevant comment? Ectrics 2: is the instrument strong enough?! How do we measure that? By the appropriate F being bigger than 10 (3) (and not by significance, or lack of it, based on any arbitrary, robustness corrected or not, standard errors). And note that the appropriate F is not the number by default printed on the output of your statistical package (because that usually tests for the significance of the whole coefficient vector of RHS variables).
3. AH is a standard IV/2SLS procedure so what does it require? Instrumental relevance (1) and exogeneity, in this specific case related to absence of autocorrelation (2). Results in table, including main comments (3). On commenting results it is most appropriate to refer to the weakness of instruments (4). Also it were good to give notice of the complete weirdness (> 1) of the coefficient of lagged endogenous variable (5). We are happy with a score of 4 items (1 bonus)
4. Reference to AB moment conditions: by period (1) using additional lags (2), minimizing a distance criterion (3) and the two-step nature (4). (Those who provided the GMM formula almost automatically answered completely).
5. Estimates and comments (1, 2): no problem, given earlier issues.
6. Beta1 (1) and beta1/(1-beta5) (2): no problem. Bonus for computing standard error LR elasticity with delta method.
7. Results, elasticities (1,2,3): no problem for most.
8. Literature: BB outperforms AB (and AH) in case of 1<sup>st</sup> stage coefficient near zero/lagged variable near one. Some reference to this result is appropriate (1). Check of Sargan test (or alternatives) included (2) (showing awareness that this is relevant in evaluating the outcomes).

A few students presented AB/BB results with dummies for all time periods. Be aware that then also the original model equation changes.