

## Home assignment 1

Deadline: 2024-09-16, 21:00.

1. Each day Elon Musk solves econometrics problems and creates posts in X. Let  $y_i$  be the number of solved problems and  $x_i$  be the number of posts in X. You have 3 observations:  $x_1 = 2, y_1 = 5, x_2 = 1, y_2 = 10, x_3 = 3, y_3 = 4$ .

- (a) Find  $\hat{\beta}$  if fitted values are given by  $y_i = \hat{\beta}x_i$ .
- (b) Find  $\hat{\beta}_0$  and  $\hat{\beta}_1$  if fitted values are given by  $y_i = \hat{\beta}_0 + \hat{\beta}_1x_i$ .
- (c) Find  $\hat{\beta}_0, \hat{\beta}_1$  and  $\hat{\beta}_2$  if fitted values are given by  $y_i = \hat{\beta}_0 + \hat{\beta}_1x_i + \hat{\beta}_2x_i^2$ .

Note: you can use any programming language to calculate the  $3 \times 3$  matrix inverse but you should provide the code :)

2. Simplify as much as possible the following expressions:

$$A = \sum_{i=1}^n (x_i - \bar{x})\bar{x}, \quad B = \sum_{i=1}^n (x_i - \bar{x})\bar{y}, \quad C = \sum_{i=1}^n (x_i - \bar{x})^2 + n\bar{x}^2.$$

3. Consider simple regression model with  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1x_i$ . You have  $n$  observations  $(x_1, y_1), \dots, (x_n, y_n)$  and you estimate  $\hat{\beta}_0$  and  $\hat{\beta}_1$  using OLS.

What will happen with  $\hat{\beta}_0$  and  $\hat{\beta}_1$  in each of the following cases?

- (a) You copy every observation from the original dataset twice.
- (b) You add one new observation  $(y_{n+1} = \bar{y}, x_{n+1} = \bar{x})$  to the original dataset.
- (c) You add  $n$  more observations given by  $(x_{n+i} = -x_i, y_{n+i} = y_i)$  for  $i = 1, 2, \dots, n$  to the original dataset.

Hint: you may start by guessing the answer with an experiment, but the proof is required :)

## Home assignment 2

Deadline: 2024-09-23, 21:00.

1. Each day Elon Musk solves econometrics problems and creates posts in X. Let  $y_i$  be the number of solved problems and  $x_i$  be the number of posts in X. You have 3 observations:  $x_1 = 2, y_1 = 5, x_2 = 1, y_2 = 10, x_3 = 3, y_3 = 4$ .

- (a) Calculate  $SST, SSE, SSR$  and  $R^2$  if we regress  $y$  on  $x$  with constant, ie  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1x_i$ .
- (b) Calculate  $SST, SSE, SSR$  and  $R^2$  if we regress  $x$  on  $y$  with constant, ie  $\hat{x}_i = \hat{\gamma}_0 + \hat{\gamma}_1y_i$ .
- (c) Calculate the hat-matrix  $H$  if we regress  $y$  on  $x$  with constant.

Note: this exercises uses toy dataset from the previous HA, you may reuse old results provided that you state them explicitly.

2. Kamala Harris removes one observation from the initial set of  $n$  observations and reestimates the model  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i$  using OLS.

- Prove that the total sum of squares  $SST$  can't increase.
- Provide an example of a dataset where explained sum of squares  $SSE$  will decrease and a second example where it will increase.

3. Consider the dataset of diamond prices,

<https://github.com/vincentarelbundock/Rdatasets/raw/master/csv/ggplot2/diamonds.csv>.

Here `price` is the price of diamond in \$ and `carat` is the weight of a diamond in carats. Let  $y_i$  be the log of diamond price in 1000\$ and  $x_i$  be the log of diamond weight in carats.

- Estimate the model  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i + \hat{\beta}_2 x_i^2$  using `LinearRegression` from `sklearn.linear_model`.
- Estimate the model  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i + \hat{\beta}_2 x_i^2$  using `ols` from `statsmodels.formula.api`.
- What is your point forecast of a price of a diamond with 2 carats weight?

Note: the first approach is faster and more stable while the second one gives you much more statistical information.

## Home assignment 3

Deadline: 2024-09-30, 21:00.

1. Consider the framework of simple regression model,  $y_i = \beta_0 + \beta_1 x_i + u_i$ ,  $\mathbb{E}(u_i | x) = 0$ , independent observations,  $\text{Var}(u_i | x) = \sigma^2$ ,  $\text{Cov}(u_i, u_j | x) = 0$  for  $i \neq j$ . We estimate regression  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i$ .

We have  $n = 3$  observations with  $x_i = i$ .

- Find  $\mathbb{E}(2\hat{\beta}_0 + 3\hat{\beta}_1 | x)$ ,  $\text{Var}(2\hat{\beta}_0 + 3\hat{\beta}_1 | x)$ .
- Find  $\mathbb{E}(\hat{y}_1 | x)$ ,  $\text{Var}(\hat{y}_1 | x)$ ,  $\mathbb{E}(\hat{u}_1 | x)$ ,  $\text{Var}(\hat{u}_1 | x)$ .

2. Consider the framework of simple regression model,  $y_i = \beta_0 + \beta_1 x_i + u_i$ ,  $\mathbb{E}(u_i | x) = 0$ , independent observations,  $\text{Var}(u_i | x) = \sigma^2$ ,  $\text{Cov}(u_i, u_j | x) = 0$  for  $i \neq j$ . We estimate regression  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i$ .

We have  $n$  observations with  $\sum (x_i - \bar{x})^2 > 0$ .

- Find  $\mathbb{E}(y_i - \bar{y} | x)$ ,  $\mathbb{E}((y_i - \bar{y})^2 | x)$ .
- It possible find the value of  $\gamma$  such that the estimator  $s^2 = \gamma \sum_{i=1}^n (y_i - \bar{y})^2$  for  $\sigma^2$  is unbiased conditional on  $x$ .

3. Consider the framework of simple regression model,  $y_i = \beta_0 + u_i$ ,  $\beta_0 = 2$ ,  $\mathbb{E}(u_i | x) = 0$ , independent observations,  $\text{Var}(u_i | x) = \sigma^2 = 4$ ,  $\text{Cov}(u_i, u_j | x) = 0$  for  $i \neq j$ . Random error is conditionally normally distributed,  $(u_i | x) \sim \mathcal{N}(0; 4)$ . We estimate regression  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i$ . This setup means that we wrongly believe that  $y_i$  depends on  $x_i$ .

We have  $n = 10$  observations with  $x_i \sim \mathcal{N}(0; 1)$ .

- (a) Generate the dataset and estimate the misspecified regression  $B = 10000$  times. Draw the histogram of  $\hat{\beta}_0$ , the histogram of  $\hat{\beta}_1$ . Compare these histograms with true values of  $\beta_0$  and  $\beta_1$ . What can you conclude based on two histogram?
- (b) Draw the histogram of  $R^2$  for simulations in point (a). Now repeat  $B = 10000$  simulations for regression  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i + \hat{\beta}_2 x_i^2 + \hat{\beta}_3 x_i^3$ . Draw the new histogram of  $R^2$ . Describe how this new histogram for  $R^2$  is different from the first histogram for  $R^2$ . Can you say that the quality of your new regression is higher?

## Home assignment 4

Deadline: 2024-10-07, 23:59.

1. Consider the simple regression model  $y_i = \beta_0 + \beta_1 x_i + u_i$  with fitted values given by  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i$  and  $\hat{u}_i = y_i - \hat{y}_i$ . We have  $n = 3$  observations,  $x_i = i$ , all Gauss-Markov assumptions are satisfied, We use ordinary least squares.
  - (a) Write  $\hat{\beta}_1$  explicitly as a linear function of  $(y_i)$ ,  $\hat{\beta}_1 = w_1 y_1 + w_2 y_2 + w_3 y_3$ .
  - (b) Propose different coefficients  $w'_1, w'_2, w'_3$  such that the estimator  $\hat{\beta}'_1 = w'_1 y_1 + w'_2 y_2 + w'_3 y_3$  is unbiased for  $\beta_1$ .
  - (c) Check that the variance of alternative estimator  $\hat{\beta}'_1$  is larger than the variance of OLS-estimator  $\hat{\beta}_1$ .
  - (d) Find all the diagonal elements of the hat-matrix  $H_{ii}$ . Which actual value  $y_i$  has more influence on the forecasted value  $\hat{y}_i$ ?
2. Consider the multivariate regression model in a matrix form,  $y = X\beta + u$  with fitted values given by  $\hat{y} = X\hat{\beta}$  and  $\hat{u} = y - \hat{y}$ . We have  $n$  observations, all Gauss-Markov assumptions are satisfied, We use ordinary least squares.
  - (a) Find  $\mathbb{E}(\hat{u} | X)$ ,  $\mathbb{E}(\hat{y} | X)$ .
  - (b) Find  $\text{Var}(\hat{u} | X)$ ,  $\text{Cov}(\hat{y}, \hat{\beta} | X)$ ,  $\text{Cov}(\hat{u}, \hat{\beta} | X)$ .
3. Consider the simple regression model  $y_i = \beta_0 + \beta_1 x_i + u_i$  with fitted values given by  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i$  and  $\hat{u}_i = y_i - \hat{y}_i$ . We have  $n$  observations, all Gauss-Markov assumptions are satisfied. Yusuf Dikeç copies every observation twice and estimates regression using OLS for  $2n$  observations.
  - (a) Which Gauss-Markov assumptions are violated for the doubled dataset of  $2n$  observations?
  - (b) Find the true variance of  $\hat{\beta}_1$  in the regression on  $2n$  observations assuming Gauss-Markov assumptions for the original dataset.
  - (c) Find the variance of  $\hat{\beta}_1$  in the regression on  $2n$  observations wrongly assuming Gauss-Markov assumptions for the doubled dataset.

## Home assignment 5

Deadline: No deadline.

If you wish to upload something somewhere then you are free to submit econometrics memes to the chat.

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## Home assignment 6

Deadline: 2024-10-21, 23:59.

1. Consider the model  $y_i = \beta_x x_i + \beta_w w_i + u_i$  with

$$\begin{pmatrix} x_i \\ w_i \\ u_i \end{pmatrix} \sim \mathcal{N} \left( \begin{pmatrix} 0 \\ 0 \\ 0 \end{pmatrix}; \begin{pmatrix} 5 & 3 & 0 \\ 3 & 10 & 0 \\ 0 & 0 & 1 \end{pmatrix} \right).$$

Observations are independent.

- (a) Find the probability limit of  $\hat{\gamma}_x$  in regression  $\hat{y}_i = \hat{\gamma}_x x_i$ .

- (b) Is  $\hat{\gamma}_x$  consistent estimator of  $\beta_x$ ?

- (c) Find the conditional expected value  $\mathbb{E}(y_i | x_i)$ .

Hint: it should be of the form  $\alpha x_i$ , where  $\alpha$  is a function of  $\beta_x$  and  $\beta_w$ .

- (d) Is  $\hat{\gamma}_x$  consistent estimator of  $\alpha$ ?

2. Consider the simple regression model  $y_i = \beta_0 + \beta_1 x_i + u_i$ . We do not observe  $x_i$ . Instead we observe two independent measurements of  $x_i$ :  $x'_i$  and  $x''_i$ . Here  $x'_i = x_i + v_i$  and  $x''_i = x_i + w_i$ , where  $v_i$  and  $w_i$  are measurement errors.

Observations are independent, random variables  $x_i$ ,  $u_i$ ,  $v_i$  and  $w_i$  are independent. Let's denote their variance by  $\text{Var}(x_i) = \sigma_x^2$ ,  $\text{Var}(u_i) = \sigma_u^2$ ,  $\text{Var}(v_i) = \sigma_v^2$ ,  $\text{Var}(w_i) = \sigma_w^2$ .

- (a) Check whether the estimator  $\hat{\beta}_1^A$  is consistent for  $\beta_1$ :

$$\hat{\beta}_1^A = \frac{\sum (y_i - \bar{y})(x'_i - \bar{x}')}{\sum (x'_i - \bar{x}')(x''_i - \bar{x}'')}.$$

- (b) Check whether the estimator  $\hat{\beta}_1^B$  is consistent for  $\beta_1$ :

$$\hat{\beta}_1^B = \frac{\sum (y_i - \bar{y})(x'_i - \bar{x}')}{\sum (x''_i - \bar{x}'')^2}.$$

3. Consider again the dataset of diamond prices,

<https://github.com/vincentarelbundock/Rdatasets/raw/master/csv/ggplot2/diamonds.csv>.

Here `price` is the price of diamond in \$ and `carat` is the weight of a diamond in carats. Let  $y_i$  be the log of diamond price in 1000\$ and  $x_i$  be the log of diamond weight in carats.

- (a) Reestimate the model  $\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i + \hat{\beta}_2 x_i^2$  using `ols` from `statsmodels.formula.api`.

Let's believe in Gauss – Markov assumptions for this case.

- (b) Extract  $SSRes$ ,  $SST$ ,  $SSE_{expl}$ ,  $R^2$  and  $\hat{\sigma}^2$ .

- (c) Write down true  $\text{Var}(\hat{\beta} | X)$  matrix.

Hint: your matrix should contain unknown  $\sigma^2$ .

- (d) Write down the estimate of  $\text{Var}(\hat{\beta} \mid X)$  matrix.

Hint: no unknown parameters here.

- (e) Calculate all diagonal entries  $H_{ii}$  and select the most influential observation with highest  $\partial \hat{y}_i / \partial y_i$ .

Hint: the whole matrix  $H$  is really HUGE here, please do not try to calculate it, you need only diagonal elements.

- (f) Draw the scatterplot of  $|\hat{u}_i|$  against  $x_i$ .

Does this plot suggests that Gauss – Markov assumptions are satisfied?

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