Introductory Applied Econometrics
EEP/IAS 118
Spring
Villas-Boas

Daily Assignment Lecture 4

1 Review Lecture Materials so far

Let *price* denote the world price of crude oil, and let *quantity* denote the quantity of oil consumed in a period by the world. A simple model relating quantity to price is:

$$quantity = \beta_0 + \beta_1 price + u$$

where u is the unobserveed error.

1. What kind of factors are contained in u?
2. Give an example of one factor that is positively correlated with *price*, one that is negatively correlated with *price*, and one that is not correlated with *price*.

2 Replication Lecture 4

Feel free to replicate all we did in Lecture 4, by running in R the code Lecture4.R that uses dataLecture4.xlsx.