Econometrics II - Assignment 2

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When we do not account for ability in the model specification, returns to one year of education are higher, as expected. Higher ability students tend to get more education, thus, they tend to get higher earnings.

From now on we are going to include the ability variable in all model specifications.

Table 1:

	Dependent variable:	
	EARNINGS	
	(1)	(2)
S	0.070***	0.048***
	(0.001)	(0.001)
ASVABC		0.011***
		(0.0003)
Constant	−0.079	−0.386***
	(0.051)	(0.051)
Observations	40,043	40,043
Adjusted R^2	0.292	0.313
Note:	*p<0.1; **p<0.05; ***p<0.01	

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As we can see, there is a statistically significant difference between returns to education by ethnicity. Black workers tend to get higher returns.

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Table 2:

	(1)	(2)	(3)
	Dependent variable:		
	EARNINGS		
S	0.046***	0.046***	0.061***
	(0.001)	(0.001)	(0.003)
S:ETHBLACK	0.016***		
	(0.003)		
Constant	−0.370***	−0.437***	0.038
	(0.051)	(0.054)	(0.140)
Observations	40,043	35,223	4,820
Adjusted R^2	0.313	0.299	0.314
Note:		*p<0.1; **p<0.05; ***p<0.01	

Table 3:

	(1)	(2)	(3)
	Dependent variable:		
	EARNINGS		
S	0.051***	0.049***	0.052***
	(0.002)	(0.002)	(0.006)
ASVABC	0.011***	0.011***	0.016***
	(0.001)	(0.001)	(0.002)
S:ETHBLACK	−0.004		
	(0.006)		
Constant	−0.452***	−0.467***	−0.223*
	(0.048)	(0.050)	(0.122)
Observations	40,043	35,223	4,820
Adjusted R^2	0.366	0.371	0.322
Note:		*p<0.1; **p<0.05; ***p<0.01	