



PROBLEM SET 5
Due on Friday, Apr 29.

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Instructions:

- Make sure you are working on your problem set as each problem set is different.
- The answers to the questions of this problem set are to be given exclusively in the answer sheet
- The answers sheet **MUST** be printed and not photocopied. Photocopies will not be accepted.
- Questions marked with the symbol ♣ admit more than one correct answer
- Please fill the boxes in the answer sheet completely using a **black pen** as follows

Question 1:  ☐ B ☐ C ☐ D ☐ E

- The answer sheet must not be creased or folded otherwise your problem set won't be graded.
- You can hand back your problem set at the **END** of class on **Friday, April 29th**.



With a sample of 706 observations, we estimate the following model:

$$\ln(hwage_i) = \beta_0 + \beta_1 age_i + \beta_2 age_i^2 + \beta_3 educ_i + \beta_4 yngkid_i + u_i$$

and obtain these results:

$$\ln(hwage_i) = \underset{0.41175}{-1.00179} + \underset{0.01941}{0.07121}age_i - \underset{0.00024}{0.00076}age_i^2 + \underset{0.01116}{0.07131}educ_i + \underset{0.07006}{0.09439}yngkid_i$$

where $lh wage$ is the logarithm of the hourly wage in euro, age is measured in years, $educ$ is years of education and $yngkid$ is a variable equal to 1 in case the person has a child younger than three years.

Question 1 What is the interpretation of β_4 ?

- ☐ A If a person has small kids (< 3 years old), he/she earns about 0.095 euros more per hour with respect to someone who does not have small kids, ceteris paribus.
- ☐ B If a person has one small kid more, he/she earns about 0.095 more per hour with respect to someone who does not have small kids, ceteris paribus.
- ☐ C If a person has small kids (< 3 years old), he/she earns about 9.5% more per hour with respect to someone who does not have small kids, ceteris paribus.
- ☐ D If a person has one small kid more, he/she earns about 9.5% more per hour with respect to someone who does not have small kids, ceteris paribus.

Question 2 What is the interpretation of β_2 ?

- ☐ A Increasing the square of age by one year, the hourly wage decreases by 0.077% on average, ceteris paribus.
- ☐ B Increasing the square of age by one year, the hourly wage decreases by 0.00077 euros on average, ceteris paribus.
- ☐ C By itself does not have a proper interpretation.
- ☐ D Increasing age by one year, the hourly wage decreases by 0.077% on average, ceteris paribus.

Question 3 Is β_1 statistically significant?

- ☐ A It is not at 1% level
- ☐ B It is at 10% level.
- ☐ C It is not at 5% level.
- ☐ D We cannot check for this, it makes no sense.

Question 4 ♣ Is β_4 statistically significant?

- ☐ A It is not at 2.5% level.
- ☐ B It is at 5% level.
- ☐ C It is at 1% level.
- ☐ D It is not at 10% level.
- ☐ E None of these answers are correct.



Question 5 Using a subset of the variables in the previous model, we would like to write a new one such that we obtain the elasticity of the hourly wage to education, and that, given an increase of one year in age, it returns a change in hourly wage in percent points. Choose the correct model among these:

- ☐ A $\ln(hwage_i) = \beta_0 + \beta_1 age_i + \beta_2 \ln(educ_i) + u_i$
- ☐ B $\ln(hwage_i) = \beta_0 + \beta_1 age + \ln(\beta_2 educ_i) + u_i$
- ☐ C $hwage_i = \beta_0 + \beta_1 age_i + \beta_2 \ln(educ_i) + u_i$
- ☐ D $hwage_i = \beta_0 + \beta_1 \ln(age_i) + \beta_2 educ_i + u_i$
- ☐ E $\ln(hwage_i) = \beta_0 + \beta_1 \ln(age_i) + \beta_2 educ_i + u_i$

Question 6 Keeping other variables fixed, at what age the logarithm of hourly wage is maximized?

- ☐ A At about 0, but this makes no sense.
- ☐ B At about 93.3 years.
- ☐ C At about 46.7 years.
- ☐ D At about 56.3 years.

Let us define with Y the amount of cholesterol in mlg in the blood and with Med a dummy variable which takes the value of 1 for medication B and 0 for medication A, where A and B are two different medications that lower cholesterol. Female is a dummy variable which takes the value of 1 for females and 0 otherwise.

Consider the following regression:

$$Y = \beta_0 + \beta_1 \times med + \beta_2 \times female + \beta_3 \times med \times female + u$$

Question 7 What is the average cholesterol value for women using medication B?

- ☐ A $\beta_2 + \beta_3$
- ☐ B $\beta_0 + \beta_1 + \beta_2 + \beta_3$
- ☐ C β_3
- ☐ D β_2
- ☐ E None of the above.

Question 8 What is the effect of using medication B with respect to no medication for men?

- ☐ A $\beta_1 - \beta_0$
- ☐ B None of the others.
- ☐ C β_0
- ☐ D $\beta_0 + \beta_1$
- ☐ E β_1



These data are taken from the Medical Expenditure Panel Survey survey conducted in 1996. These data were provided by Professor Harvey Rosen of Princeton University and were used in his paper with Craig Perry "The Self-Employed Are Less Likely Than Wage-Earners to Have Health Insurance. So What?" in Douglas Holtz-Eakin and Harvey S. Rosen, eds., *Entrepreneurship and Public Policy*, MIT Press 2004.

Among the variables in the dataset, **ins** is a dummy equal to one if the interviewee has the insurance; **selfemp** is equal to one if the interviewee is a self-employed workers; **gender** is equal to one if the individual is a male; **married** is one if the individual is married; **health** is one if the individual reports to be in good health; **educ** is 0 if the person has no education, 1 if he/she achieved middle school diploma, 2 for the high school diploma, 3 for the bachelor degree, 4 for the master degree and 5 for the PhD; **age** is in years and **age2** is the square of age.

We estimate two models:

$$\begin{aligned} Pr(ins = 1|X) = & \beta_0 + \beta_1 \times selfemp + \beta_2 \times married + \beta_3 \times gender + \beta_4 \times health \\ & + \beta_5 \times gender * health + \beta_6 \times educ + \beta_7 \times age + \beta_8 \times age^2 \end{aligned}$$

Coefficients:

| | Estimate | Std. Error | t value | Pr(> t) |
|---------------|------------|------------|---------|-----------|
| (Intercept) | 0.2974634 | 0.0580248 | 5.13 | 0.0000003 |
| selfemp | -0.1742361 | 0.0141740 | -12.29 | < 2e-16 |
| married | 0.1181062 | 0.0094187 | 12.54 | < 2e-16 |
| gender | -0.0232270 | 0.0343575 | -0.68 | 0.49903 |
| health | 0.0744310 | 0.0247243 | 3.01 | 0.00262 |
| genderxhealth | -0.0206248 | 0.0353131 | -0.58 | 0.55920 |
| educ | 0.0529807 | 0.0029210 | 18.14 | < 2e-16 |
| age | 0.0105315 | 0.0027482 | 3.83 | 0.00013 |
| age2 | -0.0000788 | 0.0000333 | -2.37 | 0.01796 |

Heteroskedasticity robust standard errors used

$$\begin{aligned} Pr(ins = 1|X) = & \Phi(\beta_0 + \beta_1 \times selfemp + \beta_2 \times married + \beta_3 \times gender + \beta_4 \times health \\ & + \beta_5 \times gender * health + \beta_6 \times educ + \beta_7 \times age + \beta_8 \times age^2) \quad (II) \end{aligned}$$

Coefficients:

| | Estimate | Std. Error | z value | Pr(> z) |
|---------------|-----------|------------|---------|----------|
| (Intercept) | -0.844932 | 0.195991 | -4.31 | 0.000016 |
| selfemp | -0.651923 | 0.046842 | -13.92 | < 2e-16 |
| married | 0.455241 | 0.034845 | 13.06 | < 2e-16 |
| gender | -0.040238 | 0.111653 | -0.36 | 0.71856 |
| health | 0.300503 | 0.082988 | 3.62 | 0.00029 |
| genderxhealth | -0.124880 | 0.116613 | -1.07 | 0.28422 |
| education | 0.226139 | 0.012852 | 17.60 | < 2e-16 |
| age | 0.029150 | 0.009899 | 2.94 | 0.00323 |
| age2 | -0.000162 | 0.000126 | -1.29 | 0.19821 |

Question 9 Is being married significantly linked to having an insurance under model (II)?

- ☐ A No, since the coefficient β_2 is not significant.
- ☐ B It depends on the values of all other covariates.
- ☐ C Yes, since the coefficient β_2 is significant.
- ☐ D Yes, since the model includes the variable "married".



Question 10 What is the interpretation of β_2 in model (I)?

- ☐ A It does not have a proper interpretation.
- ☐ B On average, married individuals are 11.8% less likely than others to have an insurance, controlling for all other factors.
- ☐ C On average, married individuals are 11.8% more likely than others to have an insurance, controlling for all other factors.
- ☐ D On average, increasing married by one increases the probability to have an insurance of 11.8%, *ceteris paribus*.



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 - Please fill the boxes below completely using a **black pen**.
 - Do not crease or fold.
 - You can hand back your problem set by putting it into my mailbox on the fifth floor of the viale Romania campus by noon of Friday, March 25 at noon.
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Question 1: ☐ A ☐ B ☐ C ☐ D

Question 2: ☐ A ☐ B ☐ C ☐ D

Question 3: ☐ A ☐ B ☐ C ☐ D

Question 4: ☐ A ☐ B ☐ C ☐ D ☐ E

Question 5: ☐ A ☐ B ☐ C ☐ D ☐ E

Question 6: ☐ A ☐ B ☐ C ☐ D

Question 7: ☐ A ☐ B ☐ C ☐ D ☐ E

Question 8: ☐ A ☐ B ☐ C ☐ D ☐ E

Question 9: ☐ A ☐ B ☐ C ☐ D

Question 10: ☐ A ☐ B ☐ C ☐ D