PROBLEM SET 5 Due back by Tuesday May 2.

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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.
- ullet Questions marked with the symbol ullet 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 May 2.



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:

$$ln(hwage_i) = -1.00179 + 0.07121age_i - 0.00076age_i^2 + 0.07131educ_i + 0.09439yngkid_i - 0.00024 + 0.001116 + 0.000064 + 0.00064 + 0.000$$

where *lhwage* 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_2 ?

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

Question 2 What is the interpretation of β_3 ?

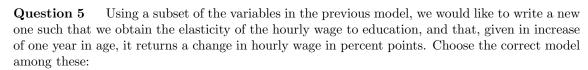
- An increase of 1% in education is associated with a change of about 0.07 euros in hourly wage, on average, ceteris paribus.
- B One year more of education is associated with a change of about 0.07 euros in hourly wage, on average, ceteris paribus.
- C One year more of education is associated with a change of about 0.0007 in hourly wage, on average, ceteris paribus.
- D One year more of education is associated with a change of about 7% in hourly wage, on average, ceteris paribus.
- E One year more of education is associated with a change of about 0.07% in hourly wage, on average, ceteris paribus.
- F An increase of 1% in education is associated with a change of about 7% euros in hourly wage, on average, ceteris paribus.

Question 3 \clubsuit Is β_4 statistically significant?

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

Question 4 \clubsuit Is β_3 statistically higher than 0.05 at 5%?

- A Yes, it is, since the t-value is smaller than 1.64.
- B No, it is not, since the t-value is smaller than 1.96.
- C Yes, it is, since the t-value is larger than 1.64.
- D No, it is not since the t-value is larger than 1.96.
- E None of these answers are correct.



$$\boxed{A} ln(hwage_i) = \beta_0 + \beta_1 age_i + \beta_2 ln(educ_i) + u_i$$

$$\boxed{\mathbf{B}} \ ln(hwage_i) = \beta_0 + \beta_1 age + ln(\beta_2 educ_i) + u_i$$

$$\boxed{C}$$
 $hwage_i = \beta_0 + \beta_1 age_i + \beta_2 ln(educ_i) + u_i$

$$\boxed{E} ln(hwage_i) = \beta_0 + \beta_1 ln(age_i) + \beta_2 educ_i + u_i$$

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

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

 $\mathbf{2}$

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:

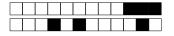
$$Y = \beta_0 + \beta_1 \times med + \beta_2 \times female + \beta_3 \times med \times female + u.$$

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

- A β_2
- $\boxed{\mathbf{B}} \ \beta_0 + \beta_1 + \beta_2 + \beta_3$
- C $\beta_2 + \beta_3$
- D None of the above.
- $\boxed{\mathrm{E}} \beta_3$

Question 8 What is the effect of using medication B with respect to medication A for men?

- $A \beta_1 \beta_0$
- B None of the others.
- C $\beta_0 + \beta_1$
- $D \beta_0$
- $\boxed{\mathrm{E}} \beta_1$



Question 3

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., Entrepeneurship and Public Po licy, 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:

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

Coefficients:

	Estimate S	td. 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

Heteroskadasticity robust standard errors used

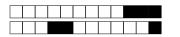
$$Pr(ins = 1|X) = \Phi(\beta_0 + \beta_1 \times selfemp + \beta_2 \times married + \beta_3 \times gender + \beta_4 \times health + \beta_5 \times gender * health + \beta_6 \times educ + \beta_7 \times age + \beta_8 \times age^2)$$
 (II)

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 Yes, since the model includes the variable "married".
- $\boxed{\mathrm{B}}$ No, since the coefficient β_2 is not significant.
- C Yes, since the coefficient β_2 is significant.
- D It depends on the values of all other covariates.



Question 10

Under model (I), what is the effect of being in good health on the probability of having an insurance, for men and women respectively?

- A 7.44% for women, 5.38% for men.
- $\boxed{\mathrm{B}}$ 7.44% for men, -2,06% for women.
- [C] 7.44% for men, 5.38% for women.
- \boxed{D} 7.44% for women, -2,06% for men.

Question 11 Does increasing level of education have a significant impact on the probability to buy an insurance at 5% level under model (II)?

- A It depends on the values of all other covariates.
- B No, since the coefficient β_6 is not significant.
- C Yes, since the model includes the variable "educ".
- $\boxed{\mathrm{D}}$ Yes, since the coefficient β_6 is significant.

Question 12 Does increasing level of education have a positive impact on the probability to buy an insurance at 5% level under model (II)?

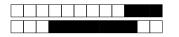
- \boxed{A} Yes, since the t-test on the coefficient β_6 is higher than 1.64.
- B Yes, since the model includes the variable "educ".
- $\boxed{\mathbf{C}}$ No, since the coefficient β_6 is not significant.
- D It depends on the values of all other covariates.

Question 13 . Under model (II), which of the following statements are true?

- A We cannot interpret directly the estimated coefficients in terms of magnitude.
- B On average, self employment has a negative effect on the probability of having an insurance, ceteris paribus.
- The probability of having an insurance for a married person is, on average, 45.5% higher than for other people, *ceteris paribus*.
- D We cannot possibly know whether education level has an effect on the probability of having an insurance.
- E None of these answers are correct.

Question 14 \clubsuit Under model (I), which of the following statements are true?

- A Statistically speaking, having a good health has the same impact on the probability of having an insurance for male and female, holding other factors constant.
- B A higher education is associated, on average, with an higher probability of having an insurance, *ceteris paribus*.
- C We cannot interpret the estimated coefficients in terms of magnitude.
- \square If the person is a female, the effect of good health on the probability to have an insurance is $\beta_4 + \beta_5$.
- E None of these answers are correct.



Question 15 Under model (I), at which age is the probability of having an insurance maximized?

- A It is maximized at the highest possible value of age in our sample.
- B We cannot say: we need more data.
- C When the person is 133.6 years old, but this is unreasonable.
- D When the person is 66.82 years old.

Question 16 What is the estimated probability that a 24 years old non-educated non-self-employed single female who is not in good health and with middle school diploma will buy insurance coverage?

- A More than 95%.
- B Less than 5%.
- C Approximately 0.5.
- D I cannot say because the model is nonlinear.



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- Please fill the boxes below completely using a black pen.
- Do not crease or fold.
- Due back: Tuesday, May 2 (right after class)

Question 1: A B C D

Question 2: A B C D E F

Question 3: A B C D E

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

Question 11: A B C D

Question 12: A B C D

Question 13: A B C D E

Question 14: A B C D E

Question 15: A B C D

Question 16: A B C D