12.9

Friday, February 19, 2021 7:02 PM

1) $\{x_t, y_t : t = 1, 2, \ldots, T\}$
   - ↳ covariance stationary
   - ↳ weakly dependent
2) $E(y_t | x_t) = \beta x_t \quad \forall t$
   - ↳ No spec error
   - ↳ $E(r_t | x_t) = 0$
   - -Prediction $E(r_t | x_t) = 0$
   - -Causation by def of PRF
   - $x \perp \tilde{r} = 0$
   - -For causation, need omitted causes uncorrelated with x
     - ↳ Huge Assumption
3) No Perfect Collinearity
4) Homoskedasticity OR Heteroskedasticity robust
5) one of these is true
   1) No serial corr in original model
   2) formulated a dynamically complete transformation
   3) Using serial corr robust std-err (Newey-West)
   4) Explicitly modelled form of serial corr and corrected results