Lab -Week 5

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Endogeneity

Reproduce the model done in class and carry out the three tests from scratch and using the automatic testing component.

1) Load mroz from POE5Rdata, which is 1975 PSID data

2) Isolate only those who worked in 1975

3) Carry out the preliminary assessment of the following:

$$log(WAGE) = \beta_0 + \beta_1 EDUC + \beta_2 EXPER + \beta_3 EXPER^2 + e$$

4) Now, use father's education as an instrument. Do it using both the two stage method and the inbuilt IV method. Produce the diagnostics. Notice any similarities?

5) Test it using the Weak Instrument test

6) What are the results of the Hausman test

7) WHat about the Sargan test? Did you get a result? Interpret.