Problem set 2

PPHA 31102 Statistics for Data Analysis II: Regressions

Jay Ballesteros

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1 Health Spending and Life Expectancy

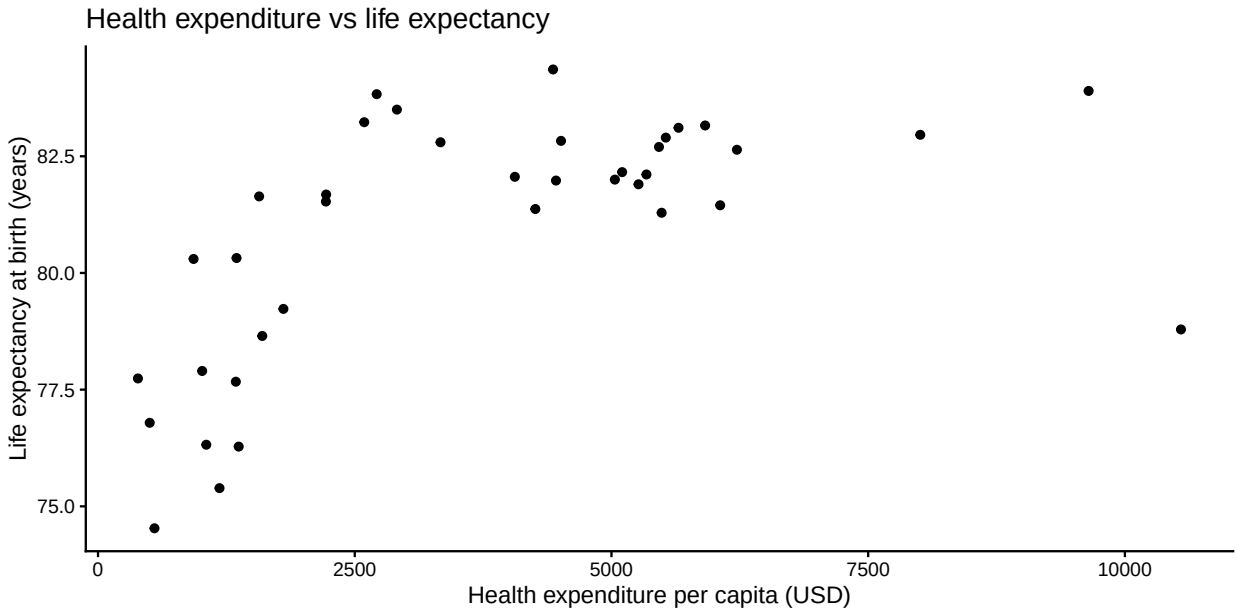
Many countries allocate a substantial portion of their national budgets to healthcare expenditures. Are these expenditures justified by improved health outcomes? In this question, you will work with cross-country data on health spending and life expectancy.

Data: Refer to the datafile `health.csv` available on Canvas, which reports data for 2019. This dataset has the following variables:

Variable	Description
country	Country name
life_exp	Life expectancy at birth (years)
health_exp	Health expenditure per capita (USD)
gdp_pc	GDP per capita (USD)

Q1

Create a scatter plot between health expenditure per capita and life expectancy. Please put health expenditure per capita as the X axis and life expectancy as the Y axis.



Q2

Estimate the effect of `health_exp` on `life_exp` using OLS.

$$life\_exp = \beta_0 + \beta_1 \cdot health\_exp + u$$

Interpret $\hat{\beta}_0$ and $\hat{\beta}_1$. Your answer should also reference the statistical significance of these estimates.

```
##
## Call:
## lm(formula = life_exp ~ health_exp, data = health)
##
## Residuals:
##     Min      1Q  Median      3Q     Max
## -6.1589 -0.9122  0.3145  1.1012  3.5682
##
## Coefficients:
##              Estimate Std. Error t value Pr(>|t|)
## (Intercept) 7.864e+01  6.343e-01 123.982  < 2e-16 ***
## health_exp  5.984e-04  1.413e-04   4.235 0.000151 ***
```

```
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 2.179 on 36 degrees of freedom
## Multiple R-squared:  0.3326, Adjusted R-squared:  0.314
## F-statistic: 17.94 on 1 and 36 DF,  p-value: 0.0001509
```

In the case of $\hat{\beta}_0$ (intercept) the result indicates that the life expectancy predicted when health expenditure per capita is \$0 USD is approximately 78.64 years. Given the p-value being close to 0 ($<$ 2e-16), the result is statistically significant.

In the case of $\hat{\beta}_1$, the result indicates that for each additional \$1 USD increase in health expenditure per capita, life expectancy increases by approximately 0.0005984 years (which is approximately 0.22 days or 5.28 hours). Given the p-value of 0.000151, the result is statistically significant as well.

Q3

Calculate the predicted values of life expectancy for a country with health expenditure per capita of \$3,000 and \$6,000, respectively. You can calculate the predicted values by hand (show your work) or using RStudio (show your code and output).

Considering the estimated regression equation from Q2:

```
life_exp_3000 <- 78.64 + 0.0005984 * 3000
life_exp_6000 <- 78.64 + 0.0005984 * 6000
```

For the country with health expenditure per capita of \$3,000, the predicted life expectancy is approximately

```
life_exp_3000
```

```
## [1] 80.4352
```

While for the country with health expenditure per capita of \$6,000, the predicted life expectancy is

```
life_exp_6000
```

```
## [1] 82.2304
```

Q4

Do you think this regression analysis is suitable for estimating the causal effect of health spending on life expectancy? Please explain your reasoning.

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Q5

GDP per capita is often cited as a major determinant of both health spending and health outcomes.

Add GDP per capita (`gdp_pc`) to the model in (2) and reestimate the following regression:

$$life\_exp = \beta_0 + \beta_1 \cdot health\_exp + \beta_2 \cdot gdp\_pc + \epsilon$$

Report the estimated coefficient and intercept. Interpret the coefficient on `health_exp` (including the statistical significance).

Does the estimated equation suggest that health spending improves life expectancy after controlling for GDP? Based on your answers for (2), discuss whether the data support that health spending causes longer life expectancy.

```
# Tu código aquí
```

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Q6

Compare the model fit in (2) and (5) using adjusted R squared. How did the model fit change from (2)? Discuss.

```
# Tu código aquí
```

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Q7

Construct a 95 percent confidence interval for the effect of a $1,000 increase in health expenditure per capita on life expectancy. Based on the confidence intervals, discuss whether you can reject a large positive effect.

```
# Tu código aquí
```

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2 Short Answer

Briefly discuss whether each of the following statements is correct or incorrect and why. If the expression is correct only under certain conditions, state those conditions.

2.1.

You run a regression of Y on X and calculate residuals. You check that residuals are uncorrelated with X. You conclude that the regression is unbiased and identifies the causal effect of X on Y.

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2.2.

$\hat{\beta}$ will be the same if you regress X on Y, or vice versa regress Y on X, because the covariance between Y and X is the same either way.

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3.3.

You are interested in measuring the causal effects of education. You have the choice between two samples: (1) a random sample of 1,000 individuals whose education range uniformly from 0 years to 18 years, or (2) another random sample of 1,000 individuals whose education ranges uniformly from 8-16 years. The first sample will yield more precise estimates since there is more variability in the underlying data.

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