

# ECN 753 Homework 1

Omer Erhan Erbis

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## 1 1.c

In the 2SLS regression, it is clear that there appears a negative correlation between elasticities and prices. Taking it as a source of truth (needs to be verified), the higher the prices are, the more price sensitive behavior individuals demonstrate.

## 2 2.c

The small positive correlation coefficient of elasticities and prices indicates that the previously found negative relation is no more, instead, the higher the prices are, the less price sensitive behavior individuals demonstrate.

This can be due to unobserved taste component of the individuals i.e. the heterogeneous effects around mean utility  $mu_{ijt}$ .