Econ 3040 - Assignment 5: Instrumental Variables

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Due date: none (this assignment is for exam practice).

Use the Fulton fish market dataset from class.

```
fish <- read.csv("https://rtgodwin.com/data/fish.csv")
```

See the table in the notes for a description of the variables.

1. Plot the quantity/price data. Does it look like a demand curve?

2. Estimate the demand curve using LS. Add the estimated line to the plot. What is the problem with using LS to estimate the demand curve?

3. Add the estimated LS line to the plot.

4. In class, we used the `ivreg()` function in order to perform instrumental variables regression to estimate the elasticity of the demand curve in the Fulton fish market. We used measures of wave heights as the instruments. Reproduce the results of the `ivreg()` function from class, using *only* the two-stage least squares method.