Two Stage Least Squares - Quiz

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Question 1

1/1 point (graded)

As Prof. Duflo explained, two stage least squares (2SLS) is a two step procedure. What is the regressor in the second stage?

- a. The “fitted” values of the regressor of interest from the first stage.
- b. The estimated effect of your instrument on the regressor of interest in the first stage.
- c. The “fitted” values of the outcome variable in the first stage. ✔
- d. The instrumented for variable
- e. The outcome of interest

Explanation

In the 2SLS procedure, in the first stage: you estimate your first stage equation, in which you regress your instrumented variable on the instrument (same first stage as the Wald estimate). The key difference is that in 2SLS you regress your outcome variable on the saved fitted values from the first stage, rather than the variable itself. The fitted values capture the variation in the instrumented for variable that are a result of variation in the instrument.

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✔ Correct (1/1 point)

Question 2

1/1 point (graded)

What is one advantage of two stage least squares relative to a Wald estimate?

a. You do not need to satisfy the exclusion restriction

b. You do not need to ensure random assignment

c. The instrument (and the variable that it is instrumented for) does not need to be a dummy ✔

Explanation

Since a regression is used rather than a ratio, the instrument does not need to be a dummy. You still need to satisfy the restrictions of instrumental variables.

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