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Alternative Functional Forms & Fixed Effects - Quiz

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Consider the following model:

$$\log(Y_i) = \beta_0 + \beta_1 S_i + \beta_2 \log(P_i) + \epsilon_i$$

where Y_i denotes the mean hourly wage for individual i , S_i denotes the number of years of education individual i has completed, and P_i denotes mother's education.

Question 1

0/1 point (graded)

Which of the following statements are true? (Select all that apply)

- ☒ a. β_1 is the elasticity of wage with respect to education.
- ☐ b. Each additional year of education leads to a $(\beta_1 * 100)\%$ change in wages.
- ☒ c. β_2 is the elasticity of wage with respect to mother's education.
- ☐ d. A 1% change in education leads to a $\beta_1\%$ change in wages.

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☒ e. A 1% change in mother's education leads to a β_2 % change in wages.



Explanation

When your outcome is in logs and your regressor is in logs, the coefficients represent elasticities: your coefficients measure the % change in your outcome as a result of a **1% change in your regressor**. If your outcome is in logs, but your regressor is not, the coefficient represents the % in your outcome resulting from a **unit increase in your regressor**. So in this example, since the model includes S_i and $\log(P_i)$ - the correct interpretations of β_1 and β_2 are given by B, C and E. The remaining options are incorrect.

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You have used 2 of 2 attempts

✘ Incorrect (0/1 point)

Discussion

Topic: Module 10 / Alternative Functional Forms & Fixed Effects - Quiz

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Regressions, and Omitted Variable Bias

Practical Issues in Running Regressions

due Dec 5, 2016 05:00 IST



Omitted Variable Bias

due Dec 5, 2016 05:00 IST



Module 10: Homework

due Nov 28, 2016 05:00 IST



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