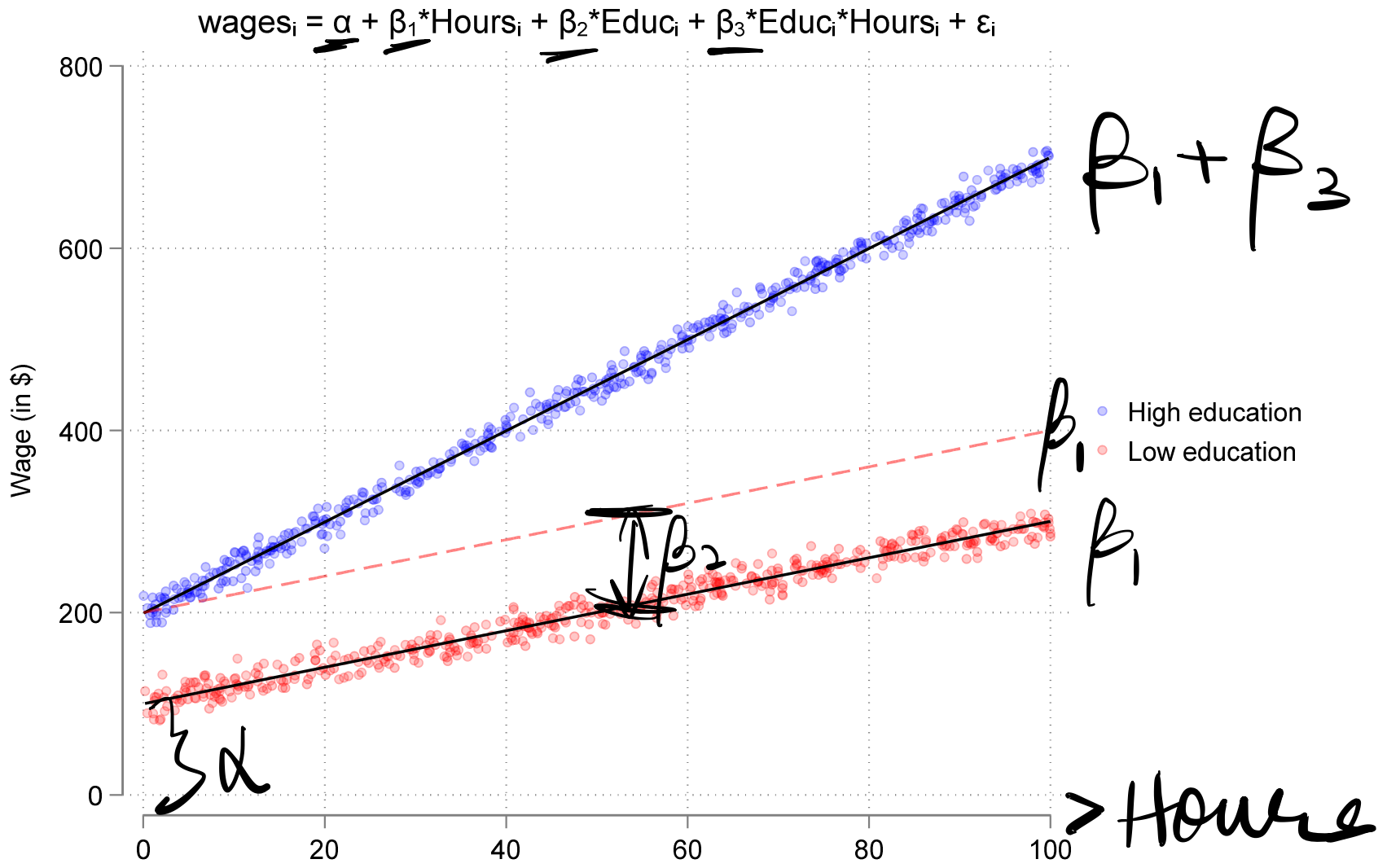
EC203 – Applied Econometrics

Term 2, Week 6

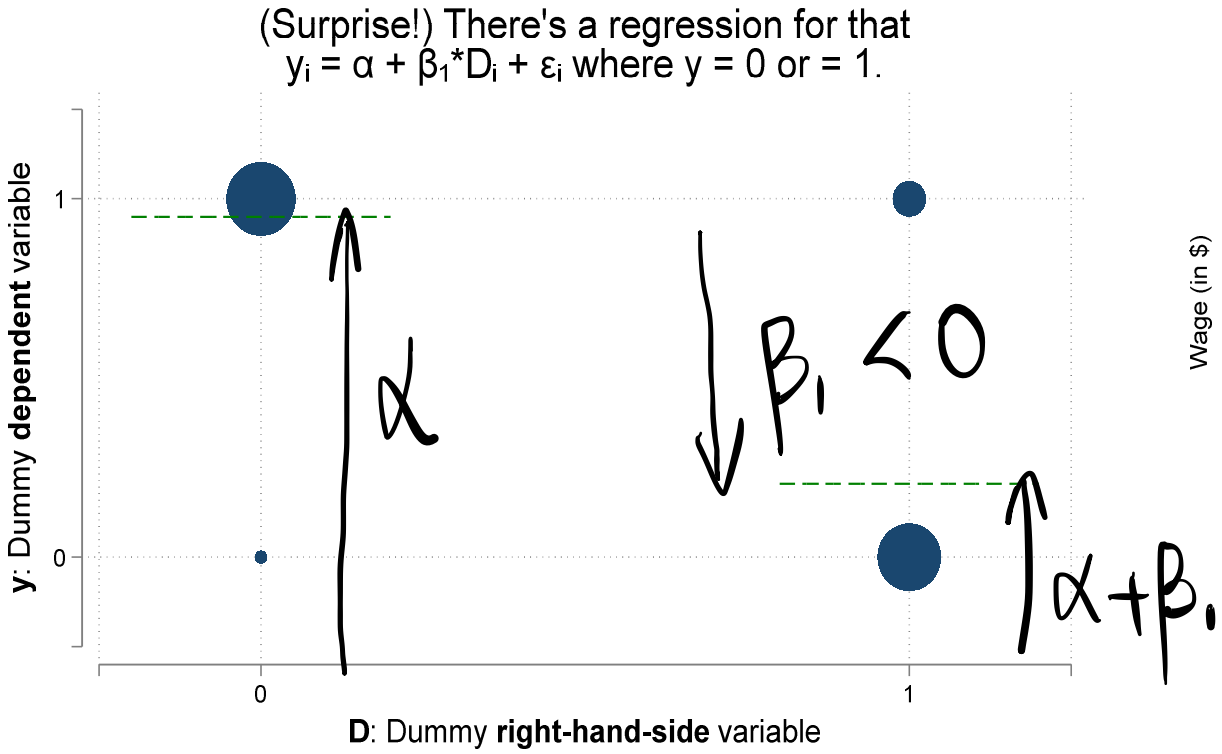
Sushil Mathew

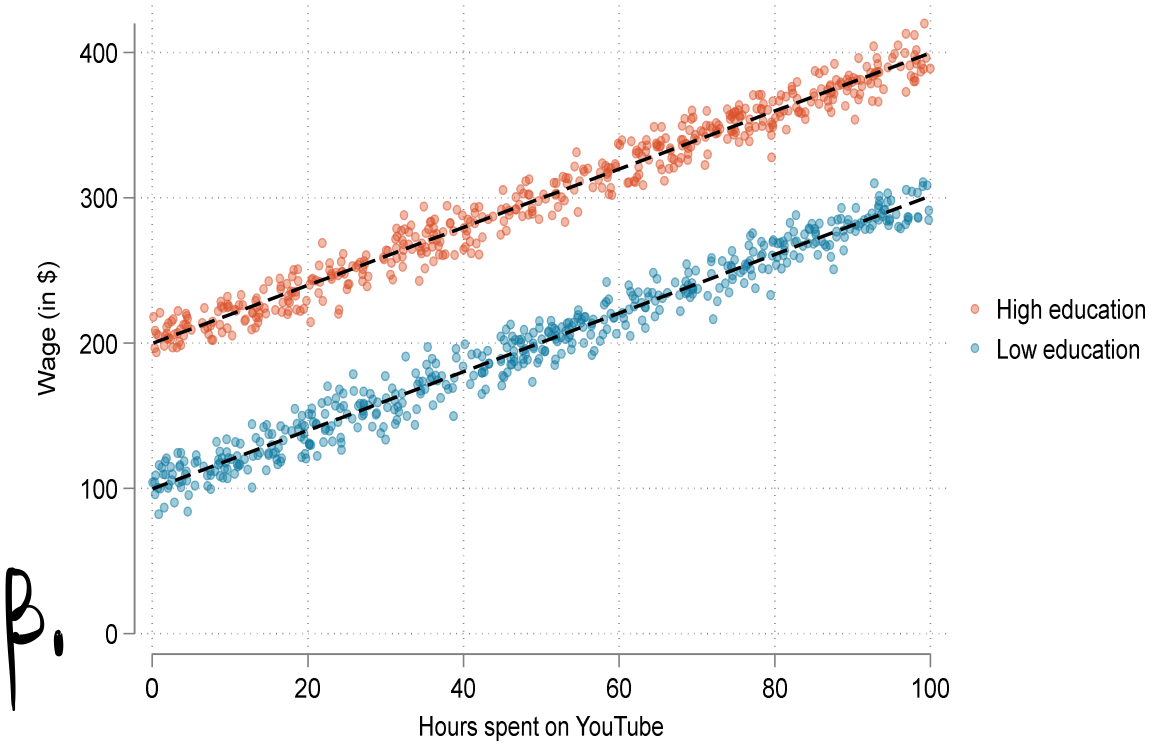
So far…

Visual interpretation of coefficients

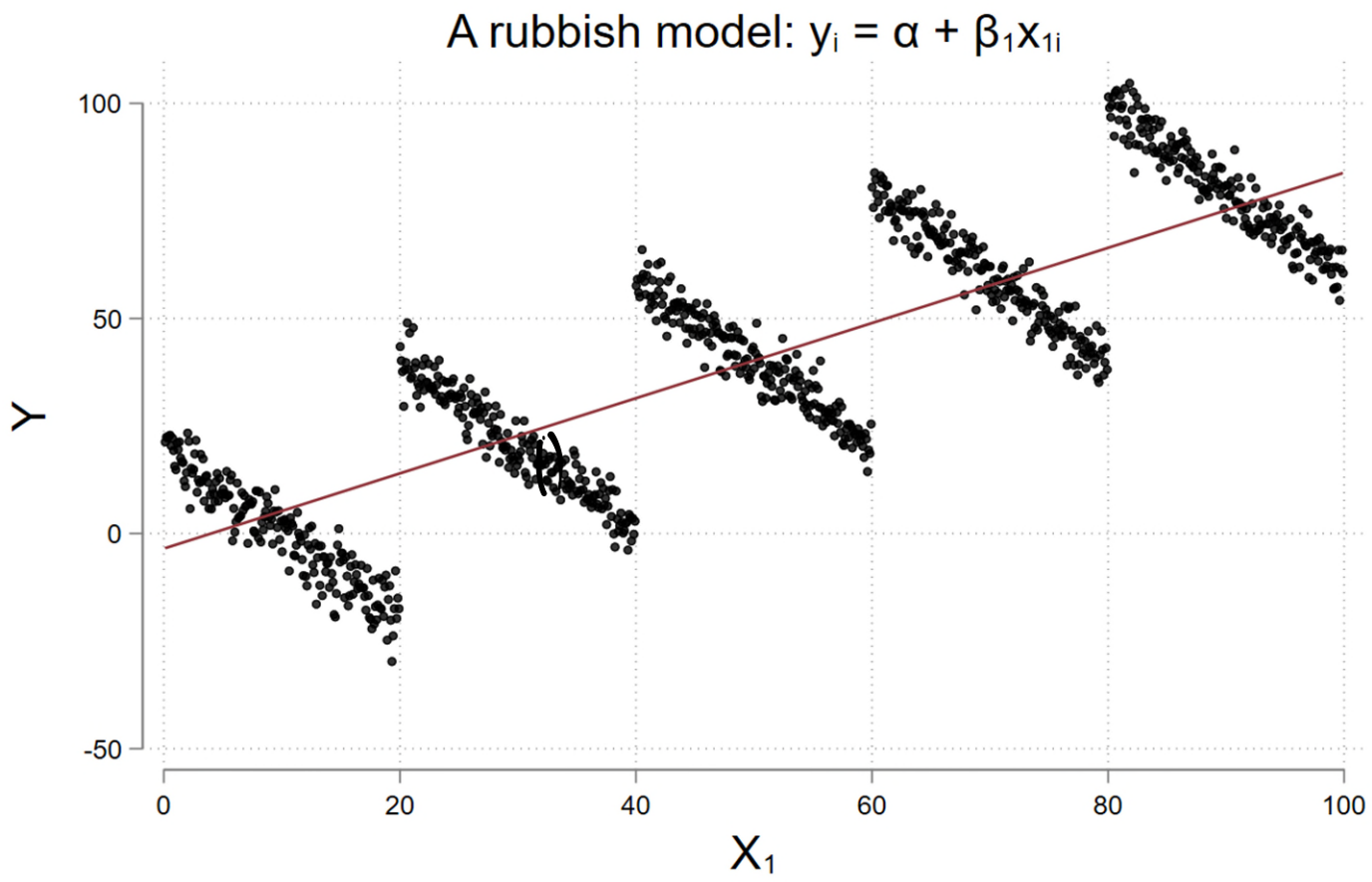


Regressions are not always a line





Adding variables to a regression is good



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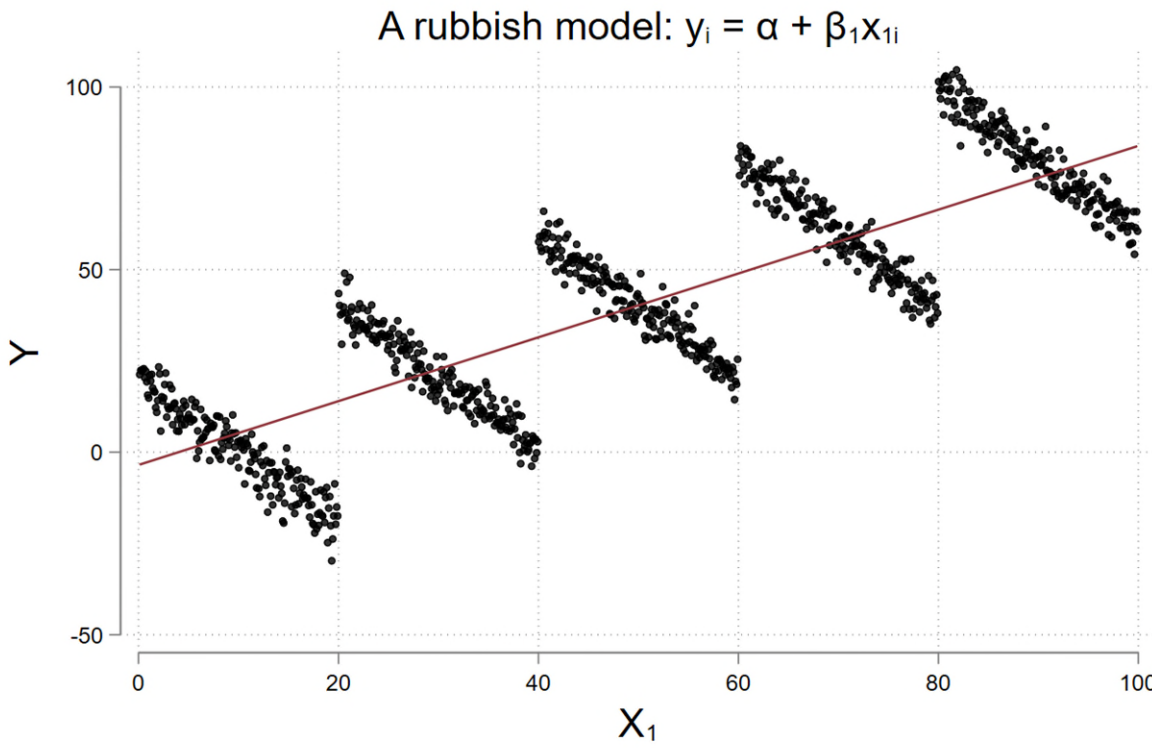

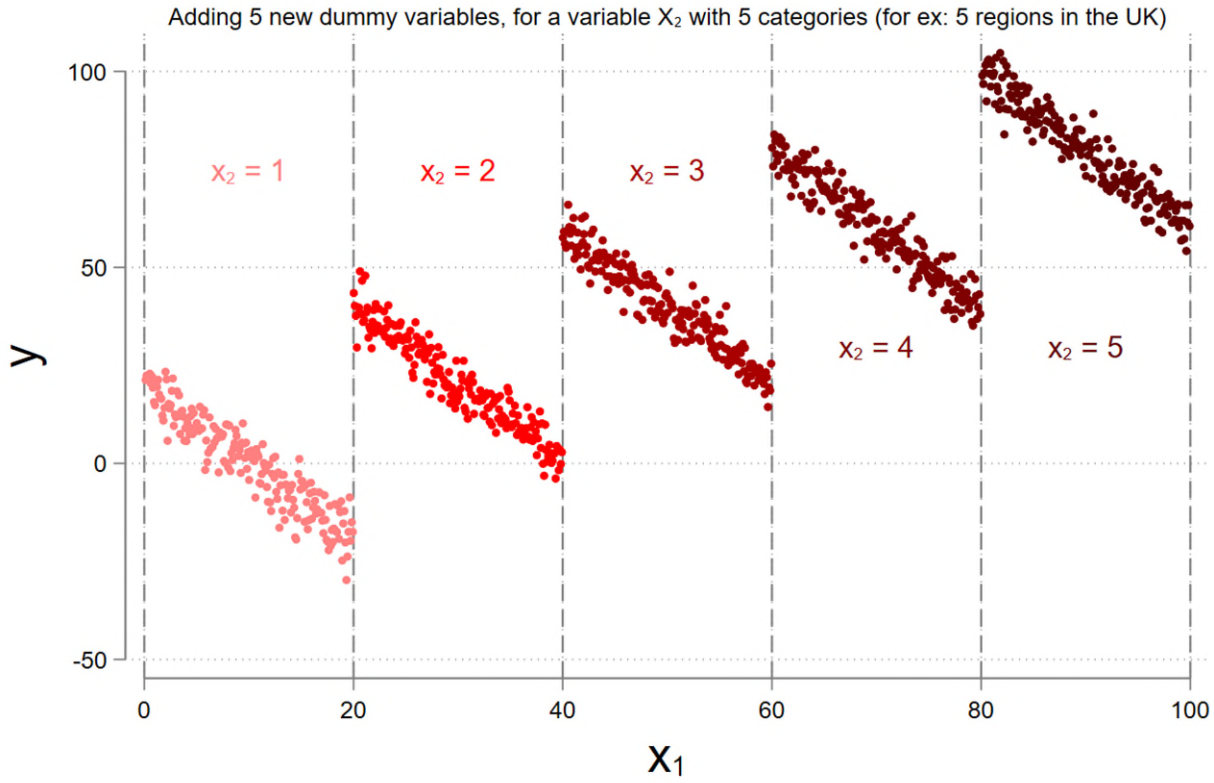

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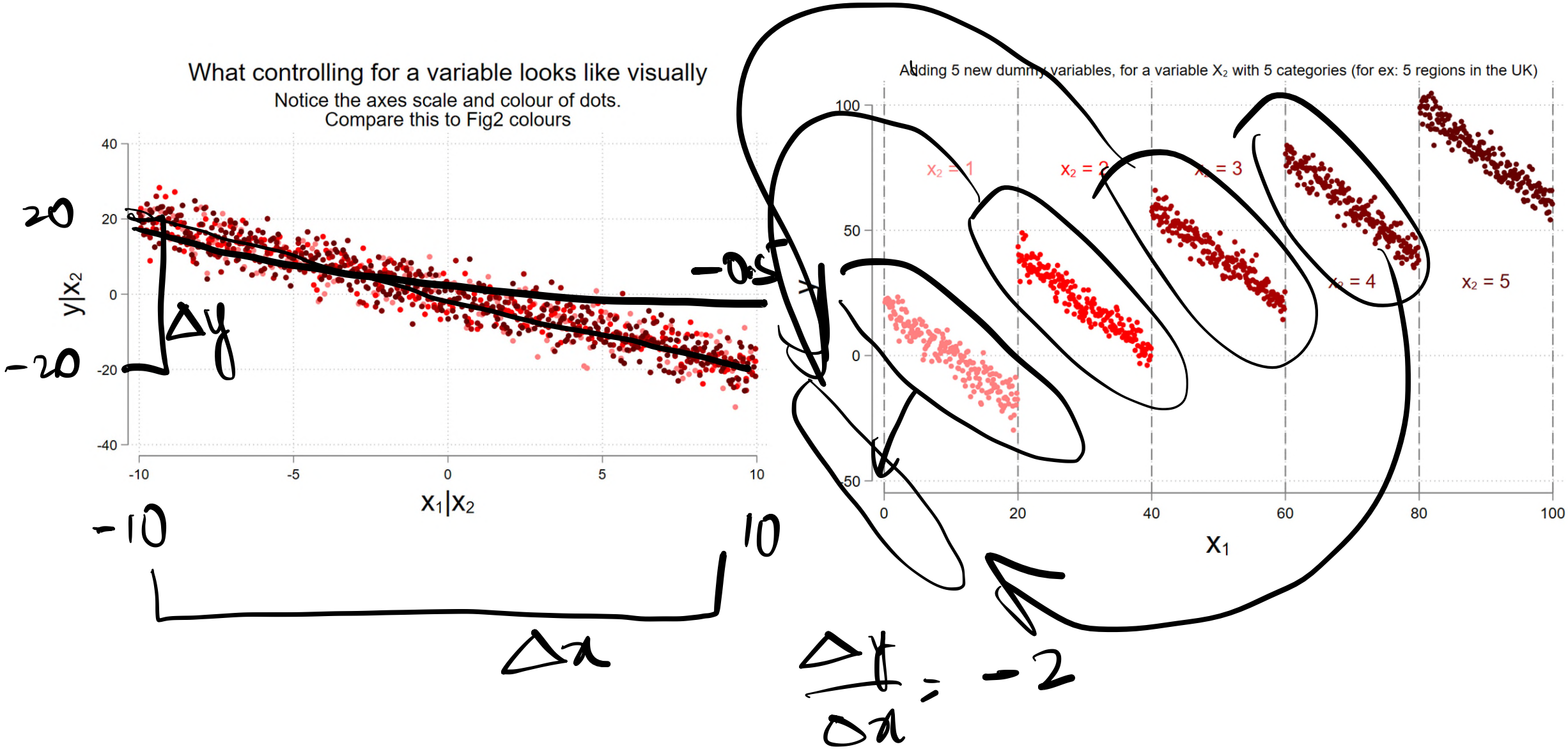
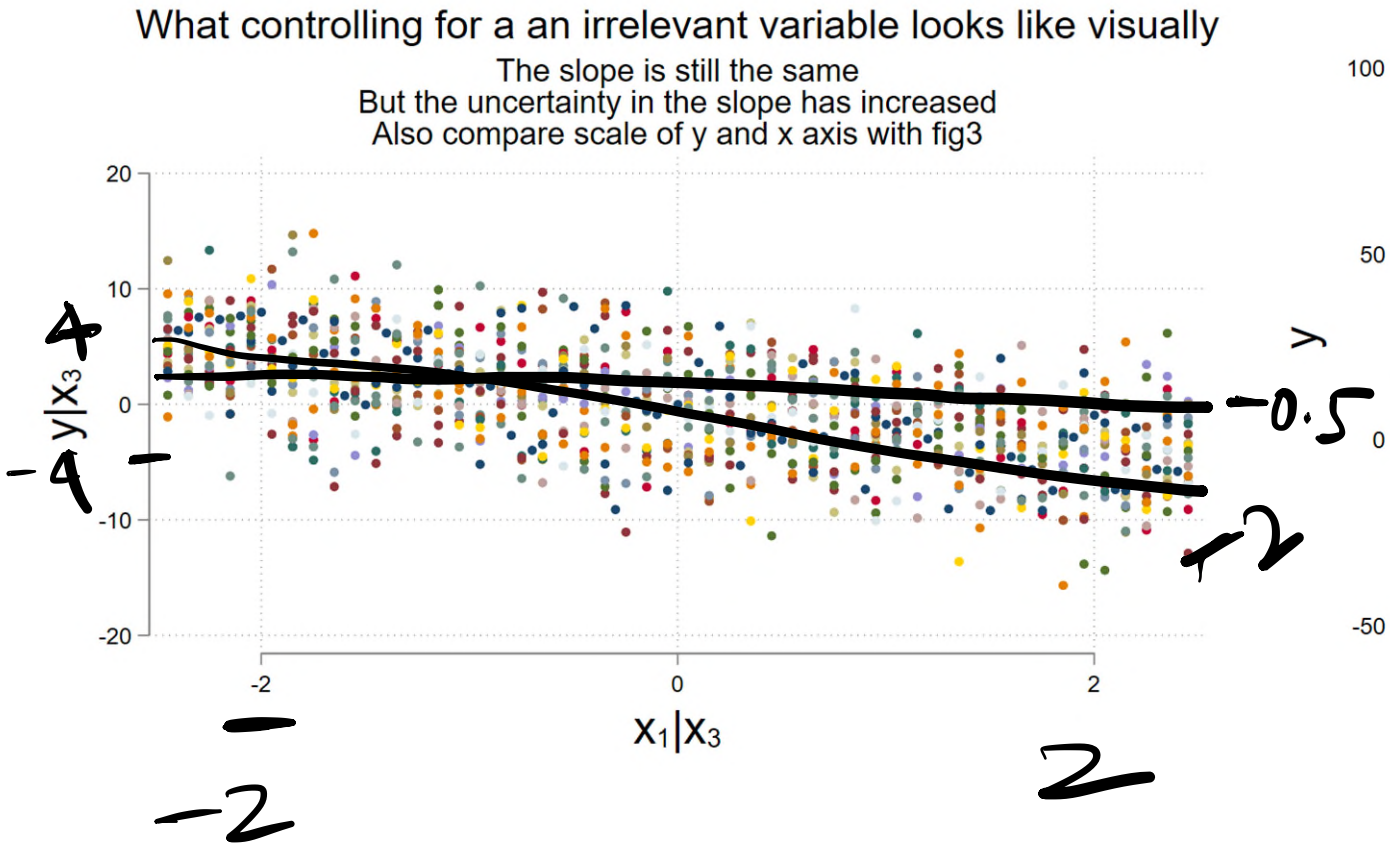
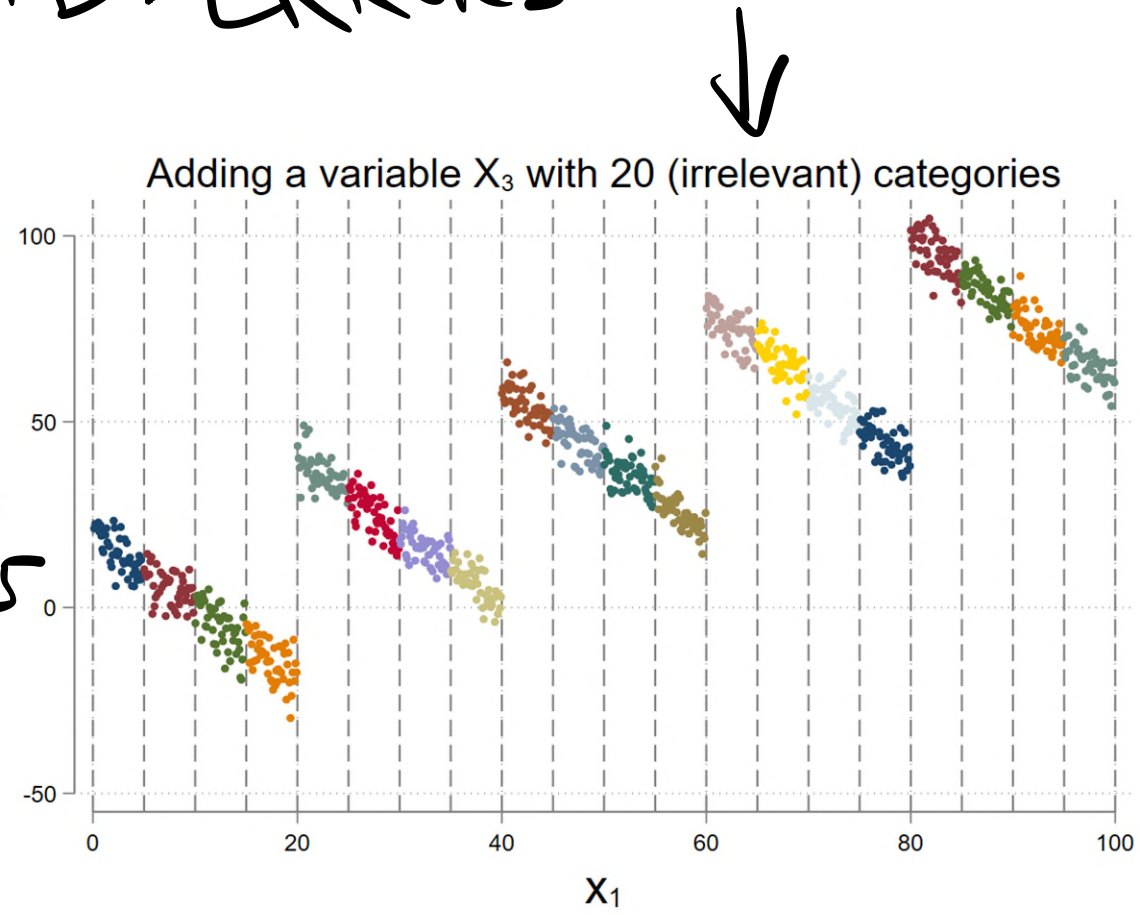


Well….not always

↑ STD. ERRORS





From a causal inference perspective

- Single linear regression models are generally bad **(omitted relevant variables or omitted variable bias)**
- Multiple linear regressions are better (fixes omitted variable bias)
- Multiple linear regressions are also bad (addition of irrelevant variables)
- You can't randomize education to study the effect of education on wage.

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Fortunately, we live in a strange world