

- Our resulting model is then:

$$x_i = \pi_0 + \pi_1 z_i + v_i \quad \text{(first stage)}$$

$$y_i = \beta_0 + \beta_1 x_i + u_i \quad \text{(structural equation)}$$

- Another eq. of interest is the relationship of y_i with z_i .

$$y_i = \gamma_0 + \gamma_1 z_i + \epsilon_i \quad \text{(reduced form)}$$