BUEC 333 D200, Spring 2012, Final
April 14, 2012, 15:30-18:30, WMC3520

- This final consists of 14 questions.
- Statistical tables can be found right after the questions.
- You should be able to answer all (sub)questions in less than 8 lines on your answer sheet. There is no penalty for longer answers, but *do not waste your time*! There are *14 questions*!
- Non-graphical calculators are allowed. That, this exam, an answer sheet, and pen/pencil/eraser should be the only things on your desk.

1. Using the population regression equation *or* the estimated regression equation, write down *precisely* what the OLS estimator minimizes.
2. What is the difference between an estimator and an estimate?
3. What's wrong with the following kind of thinking: "I understand that R^2 is not a perfect measure of the quality of a regression equation because it always increases when a variable is added to the equation. Once we adjust for degrees of freedom by using $\bar{R}^2$, though, it seems to me that the higher the $\bar{R}^2$, the better the equation."
4. Explain why Classical Assumption II ("The error term has a zero population mean") always holds when you include a constant tem. In other words, why is it true that the existence of the constant term forces the mean of the error term to be zero?
5. If Classical Assumptions I-VI hold, the OLS estimator for the population regression coefficients is BLUE by the Gauss-Markov theorem. If you add assumption VII ("The error term is normally distributed"), what stronger conclusion can you draw about the OLS estimator?

6. You have estimated a model that explains how house prices are affected by having a beach frontage. You estimate the parameters in the regression equation

$$\text{PRICE}_i = \beta_0 + \beta_1 \text{LOT}_i + \beta_2 \text{AGE}_i + \beta_3 \text{BED}_i + \beta_4 \text{FIRE}_i + \beta_5 \text{BEACH}_i + \epsilon_i,$$

where:

Variable	Description
PRICE	price of the ith house (in thousands of dollars)
LOT	size of the lot of the ith house (in thousands of square feet)
AGE	age of the ith house in years
BED	number of bedrooms in the ith house
FIRE	a dummy variable that is 1 if the ith house has a fireplace, 0 otherwise
BEACH	a dummy for having beach frontage (1 = yes for the ith house)

You use EViews to estimate this model, and it returns the following information:

	Estimate	Standard error
$\hat{\beta}_1$	35.0	5.0
$\hat{\beta}_2$	-2.0	1.0
$\hat{\beta}_3$	10.0	10.0
$\hat{\beta}_4$	-4.0	4.0
$\hat{\beta}_5$	100	10
N	30	
$\bar{R}^2$	0.63	

Please answer the following questions:

(a) You expect the variables BED and BEACH to have positive coefficients. Create and test the appropriate hypotheses to evaluate these expectations at the 5-percent level.

(b) You expect AGE to have a negative coefficient. Create and test the appropriate hypothesis to evaluate this expectation at the 10-percent level.

(c) For FIRE, you are unsure whether it is going to be positive or negative. Perform a two-sided t-test around zero at the 5-percent level.

(d) Do you have any unexpected signs? If so, pick one variable for which you have an unexpected sign and: (i) explain why the sign is unexpected; (ii) discuss and explanation or solution for this situation.

7. This question is about specification. Explain why relying on a t-test to choose your explanatory variables can cause a bias.

8. Omitting a relevant variable has what consequences for the OLS estimator? Assume that the omitted variable is positive correlated with the explanatory variables in the model.

   (a) Causes bias

   (b) Increases variance

   (c) Both

9. Consider the following model that attempts to explain smoking behavior

$$\mathrm{C}_i = \beta_0 + \beta_1 \mathrm{E}_i + \beta_2 \mathrm{I}_i + \beta_3 \mathrm{T}_i + \beta_4 \mathrm{V}_i + \beta_5 \mathrm{R}_i + \epsilon_i,$$

where:

Variable	Description
C	number of cigarettes consumed per day per person in state i
E	the average years of education for persons over 21 in state i
I	average income in state i in thousands of dollars
T	tax per package of cigarettes in state i in cents
V	number of video ads against smoking in state i
R	number of radio ads against smoking in state i

Your EViews output tells you the following:

	Estimate	Standard error
$\hat{\beta}_1$	-9.0	3.0
$\hat{\beta}_2$	1.0	1.0
$\hat{\beta}_3$	-0.04	0.04
$\hat{\beta}_4$	-3.0	1.0
$\hat{\beta}_5$	1.5	0.5
N	50	
$\bar{R}^2$	0.40	

Answer the following questions:

(a) Do you appear to have any irrelevant variables? Explain your answer.

(b) Do you appear to have any omitted variables? Explain your answer.

(c) What is your conclusion about the effect of antismoking advertising on cigarette consumption?

(d) An alternative specification assumes that tax rates are irrelevant, and is otherwise identical:

$$\mathrm{C}_i = \beta_0 + \beta_1 \mathrm{E}_i + \beta_2 \mathrm{I}_i + \beta_3 \mathrm{V}_i + \beta_4 \mathrm{R}_i + \epsilon_i,$$

The output for this regression is:

	Estimate	Standard error
$\hat{\beta}_1$	-9.1	3.0
$\hat{\beta}_2$	1.0	0.9
$\hat{\beta}_3$	-3.5	1.0
$\hat{\beta}_4$	1.6	0.5
N	50	
$\bar{R}^2$	0.40	

Using the four specification criteria to decide on whether to include a variable or not (theory/common sense; t-test; $\bar{R}^2$; bias), to decide whether the tax rate T should be in the model. Explain your answer carefully, involving all four criteria.

10. This question is about perfect and imperfect multicollinearity.

(a) Describe the Classical Assumption that perfect multicollinearity violates.

(b) Does imperfect multicollinearity violate this assumption, too?

(c) If you answered "yes" at (b): describe the difference in consequences for the OLS estimator of perfect vs. imperfect multicollinearity. If you answered "no" at (b): Explain why you care about imperfect multicollinearity if none of the classical assumptions are violated?

11. Name three statistics that you can use to detect multicollinearity. Hint: one of them is the combination of a high R^2 with low t-values.

12. Consider two models of Soviet defense spending before the breakup of the Soviet Union. Soviet defense spending is believed to be a function of U.S. Defense spending and Soviet GNP. It may be a function of the ratio of US to Soviet warheads, too. The dependent variable is log(SDH)t) (Soviet defense expenditure in year t in billions of Rubles), and possible explanatory variables are:

    - USD_t: U.S. defense expenditures in year t (billions of U.S. dollars)
    - SY_t: Soviet GNP in year t (billions of Rubles)
    - SP_t: ratio of the number of USSR to U.S nuclear warheads in year t

    The two models are:

$$\log(SDH_t) = \beta_0 + \beta_1 \log(USD_t) + \beta_2 \log(SY_t) + \beta_3 \log(SP_t) + \epsilon_t, \tag{1}$$

$$\log(SDH_t) = \beta_0 + \beta_1 \log(USD_t) + \beta_2 \log(SY_t) + \epsilon_t. \tag{2}$$

    You estimate both models using EViews, giving you the following estimates and standard errors (SE):

	Model (1)		Model (2)	
	Estimate	SE	Estimate	SE
$\hat{\beta}_1$	0.056	0.074	0.105	0.073
$\hat{\beta}_2$	0.969	0.065	1.066	0.038
$\hat{\beta}_3$	0.057	0.032		
N	25		25	
$\bar{R}^2$	0.979		0.977	
DW	0.49		0.43	

Answer the following question:

(a) Use the four specification criteria to determine whether SP is an irrelevant variable. Explain your reasoning.

(b) Test both equations for positive first-order serial correlation. Use a test at the 5-percent level.

(c) Did the answers at (b) make you change your mind about your answer at (a)? Explain.

(d) The results in the table above were generated using EViews, which uses OLS to compute the estimates and standard errors. If you ask EViews to use GLS to estimate model (2), what do you expect to happen to the standard errors? Explain.

13. Serial correlation leads to unreliable hypothesis testing. Explain why this is true. Include the words "t-ratio" and "SE($\hat{\beta}$)" in your explanation.

14. Say that Z_i is random variable with a Normal distribution. Explain why $\sigma_i^2 = \sigma^2 Z_i$ is not a good model for heteroskedasticity. Can you propose two models for heteroskedasticity that do not have this problem?

Statistical tables start on the next page.

TABLE B-1 CRITICAL VALUES OF THE t-DISTRIBUTION

Degrees of Freedom	Level of Significance One Sided: 10% Two Sided: 20%	5% 10%	2.5% 5%	1% 2%	0.5% 1%
1	3.078	6.314	12.706	31.821	63.657
2	1.886	2.920	4.303	6.965	9.925
3	1.638	2.353	3.182	4.541	5.841
4	1.533	2.132	2.776	3.747	4.604
5	1.476	2.015	2.571	3.365	4.032
6	1.440	1.943	2.447	3.143	3.707
7	1.415	1.895	2.365	2.998	3.499
8	1.397	1.860	2.306	2.896	3.355
9	1.383	1.833	2.262	2.821	3.250
10	1.372	1.812	2.228	2.764	3.169
11	1.363	1.796	2.201	2.718	3.106
12	1.356	1.782	2.179	2.681	3.055
13	1.350	1.771	2.160	2.650	3.012
14	1.345	1.761	2.145	2.624	2.977
15	1.341	1.753	2.131	2.602	2.947
16	1.337	1.746	2.120	2.583	2.921
17	1.333	1.740	2.110	2.567	2.898
18	1.330	1.734	2.101	2.552	2.878
19	1.328	1.729	2.093	2.539	2.861
20	1.325	1.725	2.086	2.528	2.845
21	1.323	1.721	2.080	2.518	2.831
22	1.321	1.717	2.074	2.508	2.819
23	1.319	1.714	2.069	2.500	2.807
24	1.318	1.711	2.064	2.492	2.797
25	1.316	1.708	2.060	2.485	2.787
26	1.315	1.706	2.056	2.479	2.779
27	1.314	1.703	2.052	2.473	2.771
28	1.313	1.701	2.048	2.467	2.763
29	1.311	1.699	2.045	2.462	2.756
30	1.310	1.697	2.042	2.457	2.750
40	1.303	1.684	2.021	2.423	2.704
60	1.296	1.671	2.000	2.390	2.660
120	1.289	1.658	1.980	2.358	2.617
(Normal) ∞	1.282	1.645	1.960	2.326	2.576

Source: Reprinted from Table IV in Sir Ronald A. Fisher, *Statistical Methods for Research Workers*, 14th ed. (copyright © 1970, University of Adelaide) with permission of Hafner, a Division of the Macmillan Publishing Company, Inc.

TABLE B-2 CRITICAL VALUES OF THE F-STATISTIC: 5 PERCENT LEVEL OF SIGNIFICANCE

v_2 = Degrees of Freedom for Denominator	v_1 = Degrees of Freedom for Numerator											
	1	2	3	4	5	6	7	8	10	12	20	∞
1	161	200	216	225	230	234	237	239	242	244	248	254
2	18.5	19.0	19.2	19.2	19.3	19.3	19.4	19.4	19.4	19.4	19.4	19.5
3	10.1	9.55	9.28	9.12	9.01	8.94	8.89	8.85	8.79	8.74	8.66	8.53
4	7.71	6.94	6.59	6.39	6.26	6.16	6.09	6.04	5.96	5.91	5.80	5.63
5	6.61	5.79	5.41	5.19	5.05	4.95	4.88	4.82	4.74	4.68	4.56	4.36
6	5.99	5.14	4.76	4.53	4.39	4.28	4.21	4.15	4.06	4.00	3.87	3.67
7	5.59	4.74	4.35	4.12	3.97	3.87	3.79	3.73	3.64	3.57	3.44	3.23
8	5.32	4.46	4.07	3.84	3.69	3.58	3.50	3.44	3.35	3.28	3.15	2.93
9	5.12	4.26	3.86	3.63	3.48	3.37	3.29	3.23	3.14	3.07	2.94	2.71
10	4.96	4.10	3.71	3.48	3.33	3.22	3.14	3.07	2.98	2.91	2.77	2.54
11	4.84	3.98	3.59	3.36	3.20	3.09	3.01	2.95	2.85	2.79	2.65	2.40
12	4.75	3.89	3.49	3.26	3.11	3.00	2.91	2.85	2.75	2.69	2.54	2.30
13	4.67	3.81	3.41	3.18	3.03	2.92	2.83	2.77	2.67	2.60	2.46	2.21
14	4.60	3.74	3.34	3.11	2.96	2.85	2.76	2.70	2.60	2.53	2.39	2.13
15	4.54	3.68	3.29	3.06	2.90	2.79	2.71	2.64	2.54	2.48	2.33	2.07
16	4.49	3.63	3.24	3.01	2.85	2.74	2.66	2.59	2.49	2.42	2.28	2.01
17	4.45	3.59	3.20	2.96	2.81	2.70	2.61	2.55	2.45	2.38	2.23	1.96
18	4.41	3.55	3.16	2.93	2.77	2.66	2.58	2.51	2.41	2.34	2.19	1.92
19	4.38	3.52	3.13	2.90	2.74	2.63	2.54	2.48	2.38	2.31	2.16	1.88
20	4.35	3.49	3.10	2.87	2.71	2.60	2.51	2.45	2.35	2.28	2.12	1.84
21	4.32	3.47	3.07	2.84	2.68	2.57	2.49	2.42	2.32	2.25	2.10	1.81
22	4.30	3.44	3.05	2.82	2.66	2.55	2.46	2.40	2.30	2.23	2.07	1.78
23	4.28	3.42	3.03	2.80	2.64	2.53	2.44	2.37	2.27	2.20	2.05	1.76
24	4.26	3.40	3.01	2.78	2.62	2.51	2.42	2.36	2.25	2.18	2.03	1.73
25	4.24	3.39	2.99	2.76	2.60	2.49	2.40	2.34	2.24	2.16	2.01	1.71
30	4.17	3.32	2.92	2.69	2.53	2.42	2.33	2.27	2.16	2.09	1.93	1.62
40	4.08	3.23	2.84	2.61	2.45	2.34	2.25	2.18	2.08	2.00	1.84	1.51
60	4.00	3.15	2.76	2.53	2.37	2.25	2.17	2.10	1.99	1.92	1.75	1.39
120	3.92	3.07	2.68	2.45	2.29	2.18	2.09	2.02	1.91	1.83	1.66	1.25
∞	3.84	3.00	2.60	2.37	2.21	2.10	2.01	1.94	1.83	1.75	1.57	1.00

Source: Abridged from M. Merrington and C. M. Thompson, "Tables of percentage points of the inverted beta (F) distribution," *Biometrika,* Vol. 33, 1943, p. 73. By permission of the *Biometrika* trustees.

TABLE B-3 CRITICAL VALUES OF THE F-STATISTIC: 1 PERCENT LEVEL OF SIGNIFICANCE

v_2 = Degrees of Freedom for Denominator	v_1 = Degrees of Freedom for Numerator											
	1	2	3	4	5	6	7	8	10	12	20	∞
1	4052	5000	5403	5625	5764	5859	5928	5982	6056	6106	6209	6366
2	98.5	99.0	99.2	99.2	99.3	99.3	99.4	99.4	99.4	99.4	99.4	99.5
3	34.1	30.8	29.5	28.7	28.2	27.9	27.7	27.5	27.2	27.1	26.7	26.1
4	21.2	18.0	16.7	16.0	15.5	15.2	15.0	14.8	14.5	14.4	14.0	13.5
5	16.3	13.3	12.1	11.4	11.0	10.7	10.5	10.3	10.1	9.89	9.55	9.02
6	13.7	10.9	9.78	9.15	8.75	8.47	8.26	8.10	7.87	7.72	7.40	6.88
7	12.2	9.55	8.45	7.85	7.46	7.19	6.99	6.84	6.62	6.47	6.16	5.65
8	11.3	8.65	7.59	7.01	6.63	6.37	6.18	6.03	5.81	5.67	5.36	4.86
9	10.6	8.02	6.99	6.42	6.06	5.80	5.61	5.47	5.26	5.11	4.81	4.31
10	10.0	7.56	6.55	5.99	5.64	5.39	5.20	5.06	4.85	4.71	4.41	3.91
11	9.65	7.21	6.22	5.67	5.32	5.07	4.89	4.74	4.54	4.40	4.10	3.60
12	9.33	6.93	5.95	5.41	5.06	4.82	4.64	4.50	4.30	4.16	3.86	3.36
13	9.07	6.70	5.74	5.21	4.86	4.62	4.44	4.30	4.10	3.96	3.66	3.17
14	8.86	6.51	5.56	5.04	4.70	4.46	4.28	4.14	3.94	3.80	3.51	3.00
15	8.68	6.36	5.42	4.89	4.56	4.32	4.14	4.00	3.80	3.67	3.37	2.87
16	8.53	6.23	5.29	4.77	4.44	4.20	4.03	3.89	3.69	3.55	3.26	2.75
17	8.40	6.11	5.19	4.67	4.34	4.10	3.93	3.79	3.59	3.46	3.16	2.65
18	8.29	6.01	5.09	4.58	4.25	4.01	3.84	3.71	3.51	3.37	3.08	2.57
19	8.19	5.93	5.01	4.50	4.17	3.94	3.77	3.63	3.43	3.30	3.00	2.49
20	8.10	5.85	4.94	4.43	4.10	3.87	3.70	3.56	3.37	3.23	2.94	2.42
21	8.02	5.78	4.87	4.37	4.04	3.81	3.64	3.51	3.31	3.17	2.88	2.36
22	7.95	5.72	4.82	4.31	3.99	3.76	3.59	3.45	3.26	3.12	2.83	2.31
23	7.88	5.66	4.76	4.26	3.94	3.71	3.54	3.41	3.21	3.07	2.78	2.26
24	7.82	5.61	4.72	4.22	3.90	3.67	3.50	3.36	3.17	3.03	2.74	2.21
25	7.77	5.57	4.68	4.18	3.86	3.63	3.46	3.32	3.13	2.99	2.70	2.17
30	7.56	5.39	4.51	4.02	3.70	3.47	3.30	3.17	2.98	2.84	2.55	2.01
40	7.31	5.18	4.31	3.83	3.51	3.29	3.12	2.99	2.80	2.66	2.37	1.80
60	7.08	4.98	4.13	3.65	3.34	3.12	2.95	2.82	2.63	2.50	2.20	1.60
120	6.85	4.79	3.95	3.48	3.17	2.96	2.79	2.66	2.47	2.34	2.03	1.38
∞	6.63	4.61	3.78	3.32	3.02	2.80	2.64	2.51	2.32	2.18	1.88	1.00

Source: Abridged from M. Merrington and C. M. Thompson, "Tables of percentage points of the inverted beta (F) distribution," *Biometrika*, Vol. 3, 1943, p. 73. By permission of the *Biometrika* trustees.

TABLE B-4 CRITICAL VALUES OF THE DURBIN–WATSON TEST STATISTICS D_L AND D_U: 5 PERCENT ONE-SIDED LEVEL OF SIGNIFICANCE (10 PERCENT TWO-SIDED LEVEL OF SIGNIFICANCE)

n	k′ = 1		k′ = 2		k′ = 3		k′ = 4		k′ = 5		k′ = 6		k′ = 7	
	d_L	d_U	d_L	d_U	d_L	d_U	d_L	d_U	d_L	d_U	d_L	d_U	d_L	d_U
15	1.08	1.36	0.95	1.54	0.81	1.75	0.69	1.97	0.56	2.21	0.45	2.47	0.34	2.73
16	1.11	1.37	0.98	1.54	0.86	1.73	0.73	1.93	0.62	2.15	0.50	2.39	0.40	2.62
17	1.13	1.38	1.02	1.54	0.90	1.71	0.78	1.90	0.66	2.10	0.55	2.32	0.45	2.54
18	1.16	1.39	1.05	1.53	0.93	1.69	0.82	1.87	0.71	2.06	0.60	2.26	0.50	2.46
19	1.18	1.40	1.07	1.53	0.97	1.68	0.86	1.85	0.75	2.02	0.65	2.21	0.55	2.40
20	1.20	1.41	1.10	1.54	1.00	1.68	0.89	1.83	0.79	1.99	0.69	2.16	0.60	2.34
21	1.22	1.42	1.13	1.54	1.03	1.67	0.93	1.81	0.83	1.96	0.73	2.12	0.64	2.29
22	1.24	1.43	1.15	1.54	1.05	1.66	0.96	1.80	0.86	1.94	0.77	2.09	0.68	2.25
23	1.26	1.44	1.17	1.54	1.08	1.66	0.99	1.79	0.90	1.92	0.80	2.06	0.72	2.21
24	1.27	1.45	1.19	1.55	1.10	1.66	1.01	1.78	0.93	1.90	0.84	2.04	0.75	2.17
25	1.29	1.45	1.21	1.55	1.12	1.66	1.04	1.77	0.95	1.89	0.87	2.01	0.78	2.14
26	1.30	1.46	1.22	1.55	1.14	1.65	1.06	1.76	0.98	1.88	0.90	1.99	0.82	2.12
27	1.32	1.47	1.24	1.56	1.16	1.65	1.08	1.76	1.00	1.86	0.93	1.97	0.85	2.09
28	1.33	1.48	1.26	1.56	1.18	1.65	1.10	1.75	1.03	1.85	0.95	1.96	0.87	2.07
29	1.34	1.48	1.27	1.56	1.20	1.65	1.12	1.74	1.05	1.84	0.98	1.94	0.90	2.05
30	1.35	1.49	1.28	1.57	1.21	1.65	1.14	1.74	1.07	1.83	1.00	1.93	0.93	2.03
31	1.36	1.50	1.30	1.57	1.23	1.65	1.16	1.74	1.09	1.83	1.02	1.92	0.95	2.02
32	1.37	1.50	1.31	1.57	1.24	1.65	1.18	1.73	1.11	1.82	1.04	1.91	0.97	2.00
33	1.38	1.51	1.32	1.58	1.26	1.65	1.19	1.73	1.13	1.81	1.06	1.90	0.99	1.99
34	1.39	1.51	1.33	1.58	1.27	1.65	1.21	1.73	1.14	1.81	1.08	1.89	1.02	1.98
35	1.40	1.52	1.34	1.58	1.28	1.65	1.22	1.73	1.16	1.80	1.10	1.88	1.03	1.97
36	1.41	1.52	1.35	1.59	1.30	1.65	1.24	1.73	1.18	1.80	1.11	1.88	1.05	1.96
37	1.42	1.53	1.36	1.59	1.31	1.66	1.25	1.72	1.19	1.80	1.13	1.87	1.07	1.95
38	1.43	1.54	1.37	1.59	1.32	1.66	1.26	1.72	1.20	1.79	1.15	1.86	1.09	1.94
39	1.43	1.54	1.38	1.60	1.33	1.66	1.27	1.72	1.22	1.79	1.16	1.86	1.10	1.93
40	1.44	1.54	1.39	1.60	1.34	1.66	1.29	1.72	1.23	1.79	1.18	1.85	1.12	1.93
45	1.48	1.57	1.43	1.62	1.38	1.67	1.34	1.72	1.29	1.78	1.24	1.84	1.19	1.90
50	1.50	1.59	1.46	1.63	1.42	1.67	1.38	1.72	1.34	1.77	1.29	1.82	1.25	1.88
55	1.53	1.60	1.49	1.64	1.45	1.68	1.41	1.72	1.37	1.77	1.33	1.81	1.29	1.86
60	1.55	1.62	1.51	1.65	1.48	1.69	1.44	1.73	1.41	1.77	1.37	1.81	1.34	1.85
65	1.57	1.63	1.54	1.66	1.50	1.70	1.47	1.73	1.44	1.77	1.40	1.81	1.37	1.84
70	1.58	1.64	1.55	1.67	1.53	1.70	1.49	1.74	1.46	1.77	1.43	1.80	1.40	1.84
75	1.60	1.65	1.57	1.68	1.54	1.71	1.52	1.74	1.49	1.77	1.46	1.80	1.43	1.83
80	1.61	1.66	1.59	1.69	1.56	1.72	1.53	1.74	1.51	1.77	1.48	1.80	1.45	1.83
85	1.62	1.67	1.60	1.70	1.58	1.72	1.55	1.75	1.53	1.77	1.50	1.80	1.47	1.83
90	1.63	1.68	1.61	1.70	1.59	1.73	1.57	1.75	1.54	1.78	1.52	1.80	1.49	1.83
95	1.64	1.69	1.62	1.71	1.60	1.73	1.58	1.75	1.56	1.78	1.54	1.80	1.51	1.83
100	1.65	1.69	1.63	1.72	1.61	1.74	1.59	1.76	1.57	1.78	1.55	1.80	1.53	1.83

Source: N. E. Savin and Kenneth J. White. "The Durbin–Watson Test for Serial Correlation with Extreme Sample Sizes or Many Regressors," *Econometrica,* November 1977, p. 1994. Reprinted with permission.

Note: n = number of observations, k′ = number of explanatory variables excluding the constant term. We assume the equation contains a constant term and no lagged dependent variables (if so see Table B-7).

TABLE B-5 CRITICAL VALUES OF THE DURBIN–WATSON TEST STATISTICS OF D_L AND D_U: 2.5 PERCENT ONE-SIDED LEVEL OF SIGNIFICANCE (5 PERCENT TWO-SIDED LEVEL OF SIGNIFICANCE)

n	k' = 1		k' = 2		k' = 3		k' = 4		k' = 5	
	d_L	d_U	d_L	d_U	d_L	d_U	d_L	d_U	d_L	d_U
15	0.95	1.23	0.83	1.40	0.71	1.61	0.59	1.84	0.48	2.09
16	0.98	1.24	0.86	1.40	0.75	1.59	0.64	1.80	0.53	2.03
17	1.01	1.25	0.90	1.40	0.79	1.58	0.68	1.77	0.57	1.98
18	1.03	1.26	0.93	1.40	0.82	1.56	0.72	1.74	0.62	1.93
19	1.06	1.28	0.96	1.41	0.86	1.55	0.76	1.72	0.66	1.90
20	1.08	1.28	0.99	1.41	0.89	1.55	0.79	1.70	0.70	1.87
21	1.10	1.30	1.01	1.41	0.92	1.54	0.83	1.69	0.73	1.84
22	1.12	1.31	1.04	1.42	0.95	1.54	0.86	1.68	0.77	1.82
23	1.14	1.32	1.06	1.42	0.97	1.54	0.89	1.67	0.80	1.80
24	1.16	1.33	1.08	1.43	1.00	1.54	0.91	1.66	0.83	1.79
25	1.18	1.34	1.10	1.43	1.02	1.54	0.94	1.65	0.86	1.77
26	1.19	1.35	1.12	1.44	1.04	1.54	0.96	1.65	0.88	1.76
27	1.21	1.36	1.13	1.44	1.06	1.54	0.99	1.64	0.91	1.75
28	1.22	1.37	1.15	1.45	1.08	1.54	1.01	1.64	0.93	1.74
29	1.24	1.38	1.17	1.45	1.10	1.54	1.03	1.63	0.96	1.73
30	1.25	1.38	1.18	1.46	1.12	1.54	1.05	1.63	0.98	1.73
31	1.26	1.39	1.20	1.47	1.13	1.55	1.07	1.63	1.00	1.72
32	1.27	1.40	1.21	1.47	1.15	1.55	1.08	1.63	1.02	1.71
33	1.28	1.41	1.22	1.48	1.16	1.55	1.10	1.63	1.04	1.71
34	1.29	1.41	1.24	1.48	1.17	1.55	1.12	1.63	1.06	1.70
35	1.30	1.42	1.25	1.48	1.19	1.55	1.13	1.63	1.07	1.70
36	1.31	1.43	1.26	1.49	1.20	1.56	1.15	1.63	1.09	1.70
37	1.32	1.43	1.27	1.49	1.21	1.56	1.16	1.62	1.10	1.70
38	1.33	1.44	1.28	1.50	1.23	1.56	1.17	1.62	1.12	1.70
39	1.34	1.44	1.29	1.50	1.24	1.56	1.19	1.63	1.13	1.69
40	1.35	1.45	1.30	1.51	1.25	1.57	1.20	1.63	1.15	1.69
45	1.39	1.48	1.34	1.53	1.30	1.58	1.25	1.63	1.21	1.69
50	1.42	1.50	1.38	1.54	1.34	1.59	1.30	1.64	1.26	1.69
55	1.45	1.52	1.41	1.56	1.37	1.60	1.33	1.64	1.30	1.69
60	1.47	1.54	1.44	1.57	1.40	1.61	1.37	1.65	1.33	1.69
65	1.49	1.55	1.46	1.59	1.43	1.62	1.40	1.66	1.36	1.69
70	1.51	1.57	1.48	1.60	1.45	1.63	1.42	1.66	1.39	1.70
75	1.53	1.58	1.50	1.61	1.47	1.64	1.45	1.67	1.42	1.70
80	1.54	1.59	1.52	1.62	1.49	1.65	1.47	1.67	1.44	1.70
85	1.56	1.60	1.53	1.63	1.51	1.65	1.49	1.68	1.46	1.71
90	1.57	1.61	1.55	1.64	1.53	1.66	1.50	1.69	1.48	1.71
95	1.58	1.62	1.56	1.65	1.54	1.67	1.52	1.69	1.50	1.71
100	1.59	1.63	1.57	1.65	1.55	1.67	1.53	1.70	1.51	1.72

Source: J. Durbin and G. S. Watson, "Testing for Serial Correlation in Least Squares Regression," *Biometrika*, Vol. 38, 1951, pp. 159–171. Reprinted with permission of the *Biometrika* trustees.
Note: n = number of observations, k' = number of explanatory variables excluding the constant term. *It is assumed that the equation contains a constant term and no lagged dependent variables (if* [illegible] see Table B-7).