

**INTRODUCTORY
ECONOMETRICS
MODEL EXAM 2011**



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Questions

Question 1

An important assumption underlying the regression model is the zero conditional mean (ZCM) assumption. For the simple regression model $y = \beta_0 + \beta_1 x + u$, the ZCM assumption can be written as $E(u|x) = 0$. In a particular application, the mark on an exam, *mark*, depends on class attendance, *attend*, and unobserved factors that affect exam performance (such as student effort) which are in the error term u ,

$$\text{mark} = \beta_0 + \beta_1 \text{attend} + u$$

- (i) When would this model satisfy the ZCM assumption? (2 marks)
- (ii) In what circumstances would the OLS estimator for the simple regression have positive bias?..... (2 marks)

Question 2

- (i) What are the distinctive features of 'panel data' compared to 'cross sectional data'?
Explain..... (2 marks)

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