Course Overview

In this course, we are going to build on the foundations in statistical theory covered in the first semester to explore in detail the statistics associated with estimating relationships between variables. The primary focus of this course is on the use of regression analysis, a statistical technique for quantifying and making inferences about relationships between variables. Regression analysis is increasingly used to evaluate and provide quantitative assessments of existing public policies and programs. For example, these empirical techniques have been employed to assess the effects of head start on the long term socioeconomic outcomes of children, to test whether lenders racial discriminate against African-Americans seeking mortgages, and to assess the effect of the prison incarceration rate on crime. As policy analysts, you will need to understand these research methods, how to apply them, and how to assess the validity of social scientific research based on these empirical techniques.

While the principal objective of the course is to introduce the statistical models used to measure association between random variables (specifically, linear and non-linear regression analysis), an important sub-theme that will be salient in most of our discussions this semester concerns the issue of actually determining causality. In a nutshell, regression analysis uses data samples to estimate the relationship between dependent and explanatory variables. An important point that should always be kept in mind is that for most empirical studies in the social sciences correlation does not imply causation no matter how fine the correlation is measured. When analyzing observational or non-experimental data, there are a number of factors that may lead one to conclude that a given variable causally affects another variable, when in fact, there is no effect. For example, the explanatory variable of interest may not have an effect but may be highly correlated with variables that do. Alternatively, the direction of causation may run in the opposite direction of that which is being hypothesized. Throughout the course, we will be highlighting such problems and presenting statistical techniques designed to address these issues.

This course has several goals. The first is to familiarize you with the vocabulary, methods, and results of econometric theory. We will be mainly concerned with using, rather than proving, the theory. Over the course of the semester, we will study how to address the most important issues that arise when doing an econometric study. These issues include (1) endogeneity of regressors due to omitted variables, simultaneity, or selection, (2) functional form, (3) choice of control variables, (4) measurement error in regressors and handling of outliers, (5) efficient estimation in the presence of heteroskedasticity, (6) appropriate estimation of standard errors and test statistics, and (7) presentation of results.

Second, you should strive to become an educated/critical consumer of empirical research. We will read and critique a number of empirical papers and program evaluations. The usual approach will be to discuss 1) the economic, political, and policy issues that motivate the application, 2) the econometric techniques and issues related to the application (e.g., data, specification, estimation techniques), and 3) the results of the empirical analysis and what we can learn from them.

Your work in this course will be multi-faceted. You will be assigned 5 (depending on how quickly we move through the material) “hands on” applied problem sets. These frequently will involve replicating some results from published work. Replicating what others have done is a
good way to understand the choices involved in applied work. We will use STATA, the leading computer program for statistical analysis in the social sciences, and by the end of the course you should have acquired a variety of skills that will be useful for doing public policy research. To gain skill as an “educated/critical consumer” you will be required to write a summary and critique of an applied policy research paper. Detailed guidelines on this writing assignment will be given to you early in the semester. There will be three exams.

Meeting Times

The first class section will meet Mondays and Wednesdays from 8:30 to 10:00 am, and the second class section from 10:15am to 11:45am. In addition, there are discussion sections on Fridays where material presented during the week will be reviewed.

Grades

Grades will be based on 3 exams (25 percent each), 5 problems sets (worth a cumulative 15 percent) and a writing assignment (10 percent). Problem sets will be handed out in class and are due a week later (we will then distribute answer keys). Late problem sets are docked 20 percentage points per day.

The writing assignment (on an assigned topic yet to be determined) will involve use of data and regression analysis to write a short (5 pages) summary and critique of an applied policy research paper. You are to identify the general premise of the article, the hypothesis being tested, the data used, the econometric methods employed, and the sources of variation/identification that are employed to estimate parameters. Close attention should be paid to how the parameter estimates are/can be interpreted. Lastly, you should briefly discuss how believable you find the estimates.

Readings

The required textbook for this class is *Introductory Econometrics*, Jeffrey M. Wooldridge (Southwestern, 4th edition, 2008). More than others, this text has lots of examples and is written for students who are or will be doing applied work. The textbook is available at the campus bookstore. There is also a reader for this course. The reader will be available at Vic’s Copies, 2843 Hearst Avenue, Berkeley. The reader is a collection of scholarly articles that we will be reading throughout the semester.

STATA

STATA version 11.0 is available in the computer lab. However, you can buy a one-year license to use STATA at home if you wish, through the STATA website (at [http://www.stata.com/order/new/edu/gradplans/gp2-order.html](http://www.stata.com/order/new/edu/gradplans/gp2-order.html)). The student rate is $49 for “small” STATA (a scaled-back version) and $98 for the standard Intercooled STATA. We will distribute a STATA tutorial guide. (If you prefer SPSS or SAS that is fine too).

Office Hours

Johnson’s office is on the third floor of the new building, room #347. His office hours for this course are Tuesdays, 2-4. Johnson can also be reached by phone at 643-0169 and Email at: ruckerj@berkeley.edu
Week 1: Introduction

W January 19

**TOPIC:** Course Intro • Review of Syllabus • Overview of Quantitative Program Evaluation • Inferring Causality: experimental vs. non-experimental data analysis

**READING:**
* Wooldridge Ch 1

Week 2: Review of Statistical Inference & Introduction to Linear Regression Analysis

M January 24

**TOPIC:** Review of Probability & Distribution (expectation and moments) • Review of Statistical Inference (Point and Interval Estimation—confidence intervals; Hypothesis Testing—testing for differences in means; sampling distributions and inference; approximate asymptotic distribution of the sample mean)

**READING:**
* W Appendices A, B
* W Appendix C
* (mathematics, probability, and statistics review for refreshing memories)

**ASSIGNMENT:** Hand out first problem set (due Feb. 4th)

W January 26

**TOPIC:** Introduction to Regression Analysis—Why & How? (Bivariate Regression)

Week 3: Introduction to Linear Regression Analysis & the Two-Variable Model

M January 31

**TOPIC:** Introduction to Regression Analysis—Why & How? (Bivariate Regression—Structure of data; Mechanics of OLS, Assumptions required for Unbiasedness, Relationship to Correlation)

**READING:**
* W Ch 2

W February 2

**TOPIC:** The Two Variable Regression Model (cont’d)—Sampling Distribution of Regression Estimates; Residuals, Fitted Values & Goodness of Fit; Hypothesis Tests; Confidence Intervals

**READING:**
* W Ch 2

F February 4

**ASSIGNMENT DUE:** First Problem set due
Week 4: Multiple Regression Analysis: Estimation

M February 7  
**TOPIC:** Motivation for Multiple Regression Analysis • Interpretation of Coefficients • Omitted Variable Bias  
**READING:**  
• W Ch 3  

*  **ASSIGNMENT:** Hand out second problem set (due Feb. 16th)

W February 9  
**TOPIC:** Multiple Regression Analysis—Inference & Hypothesis Tests: t-Test, p-value, confidence intervals  
**READING:**  
• W Ch 3, Sections 4.1-4.3  

Week 5: Multiple Regression Analysis: Inference & Hypothesis Testing

M February 14  
**TOPIC:** Multiple Regression Analysis—Inference & Hypothesis Testing (cont’d) • Multicollinearity  
**READING:**  
• W Ch 3, Sections 4.1-4.3  
• W Ch 3 (p.97-100)  

W February 16  
**TOPIC:** Model Specification—Dummy Variables, Interaction terms, & Quadratics • Tests of Joint Hypotheses—Goodness of Fit Measures, Tests involving more than 1 regression coefficient  
**READING:**  
• W Ch 7.1-7.4, 7.6  
• W Sections 4.4-4.6

** ASSIGNMENT DUE: Second problem set due

Week 6: First Midterm

M February 21  
NO CLASS – Presidents’ Day

W February 23  
Review for Midterm

F February 25  
MIDTERM DURING SECTION
### Week 7: Application of Multiple Regression Models: Decomposing Group Differences, Specification Choices

**M February 28**

**Application#1:** The Black/White Wealth Gap  

**Application#2:** Racial Disparities in Federal Sentencing  

**W March 2**

**TOPIC:** Model Specification—Functional Form and Variable Selection  
**READING:**  
- W Ch 6.1-6.3 (Also p.685-691)  

* **ASSIGNMENT:** Hand out third problem set (due March 9th)

### Week 8: “Real World” Issues—Violation of the Basic Assumptions

**M March 7**

**TOPIC:** Heteroscedasticity  
**READING:**  
- W, Ch 8.1-8.4

**W March 9**

**TOPIC:** Measurement Error, Missing Data, and Sensitivity of Results to Particular Observations  
**READING:**  
- W Sections 9.3,9.4  

**ASSIGNMENT DUE:** Third Problem Set Due

**Handout fourth problem set (due March 16th)**

### Week 9: Study Designs to Distinguish Correlation from Causality—Accounting for Omitted Variable Bias

**M March 14**

**TOPIC:** Using Proxy Variables for Unobserved Explanatory Variables to address Omitted Variable Bias  
**TOPIC:** Adding Controls to Account for Omitted Variable Bias  
**READING:**  
- W Section 9.2

**W March 16**

**Application:** Explaining Black-White Wage Differences  

**REVIEW FOR MIDTERM**

* **ASSIGNMENT:** Fourth problem set due
F March 18  ☀ MIDTERM EXAM DURING SECTION

M March 21  NO CLASS: Spring Recess
W March 23  NO CLASS: Spring Recess

**Week 10: Panel Data Techniques**

**M March 28**  
**TOPIC:** Introduction to Panel Data Techniques (Sources of variation/identification, Difference Estimators)  
**READING:**  
• W Ch 13.3-13.5  
**TEXT READING:** W Ch 13.3-13.5, 14.3  
**Application#1:** The Effects of Teenage Pregnancy on Socioeconomic Outcomes  

**W March 30**  
**Application#2:** The Effects of Head Start on Socioeconomic Outcomes  

**Week 11: Evaluation of Michigan Merit Curriculum, Promise Scholarship case study—special visitor Governor Jennifer Granholm (coordination with Econ/IPA):** Note changes in class times, **10am-noon on T/W in GSPP rm.250**  
Panel Data Applications and Natural Experiments  
**T April 5**  
**Related Application Readings:**  
• High School Reform and Student Success in Michigan, study from Center for Local, State, & Urban Policy, Univ of Michigan, interim evaluation of these state reforms:  

* **ASSIGNMENT:** Hand out writing assignment (due April 18th)
W April 6

Continue Discussion—special visitor Governor Jennifer Granholm (10am-noon in rm250)

**TOPIC:** Natural/quasi Experimental Designs: pre-/post-intervention observation with a comparison group (Difference-in-Difference Estimators)

**TEXT READING:** W Ch 13.1-13.2

**Application:** The Effect of the Minimum Wage


---


M April 11

**TOPIC:** Empirical Methods for Program Evaluation

**Application #1:** The effects of school quality on adult attainments

**READING:** Johnson, Rucker (2010). “Long-run Impacts of School Desegregation & School Quality on Adult Attainments” NBER working paper #16664. [LINK]

**Application #2:** Evaluating the Effect of Tuition and Financial Aid Policies


W April 13

**TOPIC:** Advantage & Disadvantages of Experiments

**Application #1:** Effect of Price of Health Care on Health Care Utilization


**Application #2:** Neighborhood Effects


**Application #3:** Labor Market Discrimination

**READING:**

M April 18

* **ASSIGNMENT DUE:** Writing assignment
Week 13: Randomized Experiments and Instrumental Variables Approaches

M April 18  
**TOPIC:** Instrumental Variables Approach/ 2 Stage Least Squares for Omitted-Vars Prob
**TEXT READING:** W Ch 15

**Application#1:** Effect of Class Size on Achievement


**Application#2:** Effect of School Vouchers on Achievement


W April 20  
**TOPIC:** Endogeneity, Instrumental Variables Approach/ 2 Stage Least Squares for Omitted-Variables Problem

**READING:**
- W Ch 15

**IV/2SLS Examples:**

**Application:** ADHD Diagnosis & (Mis)Treatment among School-age Children


**Application:** Effect of Incarceration on Crime


Week 14: Randomized Experiments and Instrumental Variables Approaches (cont’d) & Instrumental Variables Continued and Introduction to Binary Dependent Variables

M April 25  
**TOPIC:** Binary Dependent Variables—Logit and Probit Model

**READING:** W Sections 7.5, 8.5, 17.1

**ASSIGNMENT:** Hand out fifth problem set (due May 4th)

W April 27  
**TOPIC:** Binary Dependent Variables—Logit and Probit Model

**READING:** W Sections 7.5, 8.5, 17.1

**Application:** Racial discrimination in the markets for mortgage capital and insurance


*(Last day of formal class instruction)*
<table>
<thead>
<tr>
<th>Week 15: <em>RRR Week</em></th>
<th>Models with Categorical Dependent Variables: Binary Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>M May 2</td>
<td>REVIEW FOR THE FINAL</td>
</tr>
<tr>
<td>W May 4</td>
<td>REVIEW FOR THE FINAL (Last day of class instruction), ASSIGNMENT DUE: Fifth problem set due</td>
</tr>
</tbody>
</table>

**EXAM WEEK** (exam day may change based on classroom availability, any changes will be published during 1st weeks of class)

| M May 9        | REVIEW FOR THE FINAL |
| W May 11       | FINAL EXAM           |