

UNIVERSITY OF RICHMOND

ROBINS SCHOOL OF BUSINESS



ECON 270
Introductory Econometrics, 1 unit

Fall 2022

SYLLABUS

Instructor: Thomas Zylkin
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Office Hours: Wednesdays, 9am - 10am & 4:30pm - 5:30pm, & by appt.
Required Book: Wooldridge, Jeffery, INTRODUCTORY ECONOMETRICS: A MODERN APPROACH.
(I will be using the 7th edition but you are more than welcome to obtain used copies and older versions you wish.)

Course Description: Econometrics is the use of data and statistical methods to infer economic relationships. As such, it is a vibrant sub-branch of statistics primarily concerned with:

1. Causal relationships - does increasing exercise make people happier or is it simply that happier people are more likely to exercise?
2. Economic interpretation - do higher earnings by college graduates mainly reflect the value of what they learned in college or is a college degree primarily a “signalling” device for demonstrating one’s inherent aptitude for certain professions?
3. Devising estimation approaches suitable for economic data and economic models.

An important point about the practice of Econometrics is that it is equal parts *art* and *science*. It is part *art* because it draws substantially on one’s economic intuition and understanding of how to think about how different variables relate to one another in the world that we observe. For example, in ECON 101, you will have learned that the observed quantity sold and price of a good are determined in equilibrium by the intersection of Supply and Demand. Therefore, a trained econometrician understands that tracking changes in prices and quantities for a particular product over time cannot tell us anything about either the Supply curve or the

Demand curve for that product without more information. Instead, econometricians use their intuition to isolate variation in the data that is specific to one side of the market or the other.

At the same time, the techniques used in Econometrics require a significant amount of *science*. The mathematical process of inferring relationships from data is called “estimation”, and the “estimates” this process produces are often misunderstood or misinterpreted, may not be representative of the population the researcher is interested in, and otherwise may be biased or misleading due to researcher error.

In this class, we will study the artistic and scientific fine points of two standard estimation methods (or “estimators”) commonly used in empirical Economics research: the difference-in-differences estimator (which we will study as a simple application of differences in means from your statistics classes) and ordinary least squares, a.k.a. classical linear regression. For each of these estimators, we will establish the assumptions they use to “identify” relationships in the data, the implications of relaxing these assumptions, and how to use economic intuition to guide their application. In doing so, we will provide you with a fundamental grounding to do your own independent empirical research.

Learning Objectives: This course fulfills the following objectives as part of the Economics Department’s learning goals:

- Learning goal 1: Our graduates will be able to analyze and think critically to solve complex economic problems.
 - Objective 1.1: Students will produce solutions to economic problems using appropriate quantitative and qualitative techniques.
 - Objective 1.2: Students will identify core issues and evaluate and apply evidence in support of a coherent position or recommendation.
- Learning goal 4: Our graduates will demonstrate economic knowledge.

My own, more specific learning goals include developing the following abilities:

- the ability to identify good research questions that reflect one’s own interests,
- the ability to think critically about the applicability of data and statistical methods to a given problem or question,
- the ability to perform basic data analysis tasks using R, and
- the ability to conduct and interpret one’s own econometric analysis.

In addition, I aim for students to acquire a foundational knowledge of econometric techniques, practices, and thought processes.

COURSE REQUIREMENTS AND POLICIES

EXPECTATIONS. You should be prepared to work hard, ask questions, and learn new things. You should also expect the class to have significant theoretical, practical, and discursive elements. At times, you will need to learn some math in order to understand a new concept. At other times, you will be expected to implement the technical material you have learned by writing basic code in R, a popular statistical programming language. In addition, I will ask you to explain why it is that a method should be expected (or should not be expected) to be applicable to a particular research question, how to interpret the estimates it produces both statistically and economically, and what recourses could a researcher use to improve the credibility of their estimates.

That said, this is neither a math class nor a programming class. I expect no prior experience with coding. In terms of math preparation, it will be useful to be comfortable with two-dimensional graphing, basic algebra, and some standard concepts from calculus (finding the minimum of a function). We will not make use of linear algebra, though students with a prior course in linear algebra may be interested to know it plays an important role in more advanced treatments of the subject.

On a day-to-day basis, I expect you to attend all class meetings and to have completed all assigned work and read all assigned readings before class. To be successful, you should be prepared to devote no less than 10 to 14 hours each week, including time spent in class. If you are having trouble with material from previous classes or with completing assignments, please do not hesitate to come to me for help.

EXAMS. There will be two in-class midterms and a take-home final exam. In line with the overall aims of the course, the format of these exams will combine questions that will test your ability to apply concepts in practice as well as your understanding of the underlying theory. A portion of the final exam will require you to first propose a compelling research question and obtain relevant data that can be used to analyze it. These steps will be incorporated into the class as assignments during the semester.

HOMEWORK ASSIGNMENTS. You can expect there to be regular homework assignments throughout the course. Because the type of learning we will be doing is varied, the assignments, too, will be varied. Broadly speaking, you can expect these assignments to be divided into two types: shorter and longer. In shorter assignments, you can expect to solve shorter math-based problems with pen-and-paper and answer short answer questions that test your conceptual knowledge. In longer assignments, you can expect to have to work with data on a computer using R, generate statistical estimates by writing your own code, and/or interpret the output produced by an estimation routine.

DAILY CREDIT. Most class meetings will have some sort of assessment and feedback component that will encourage active listening and participation. Examples include filling out a worksheet alongside your notes, explaining in writing something we just covered, and giving your opinion on something I would like your input on. Your daily credit grade will also reflect your overall participation and engagement in class, including attendance.

GRADING POLICY. The grade that you get in the class will be the grade that you have earned. The only time that I will be willing to change a grade is when I have made a mistake and it has been brought to my attention before the end of the semester. Your final grade will be determined as follows:

| | |
|-----------------|-------|
| Daily credit | (10%) |
| Homework | (20%) |
| Midterm I | (15%) |
| Midterm II | (20%) |
| Take-home Final | (35%) |

For assigning letter grades, I prefer **5 point increments**. 95-100 is an A, 90-94 is an A-, 85-89 is a B+, and so on (B: 80-84: B. B-: 75-79. C+: 70-74. C: 65-69. C-: 60-64. D: 50-59. F: <50). The highest grade on the final exam in each section automatically receives an A for the course.

NOTE. Your grade on written work for this class will not be merely based on content. I will expect you to express your thoughts in a smooth, clear, and logical sequence, using the concepts we have established in class in an appropriate manner

A WORD ON INTEGRITY. Violations of the Honor Code Statute in this class will not be tolerated and may result in severe academic sanctions. In order to familiarize yourself with the University of Richmond's Honor Code as well as the policies in place regarding academic misconduct and dishonesty, you may refer to the following web site:

<http://studentdevelopment.richmond.edu/student-handbook/honor/the-honor-code.html>.

If you have any doubts or questions, please, consult with me.

UNIVERSITY OF RICHMOND POLICIES

Americans with Disabilities Act: Students with documented disabilities who need course accommodations, have emergency medical information or require special arrangements for building evacuation should submit an application to Disability Services and inform the instructor as quickly as possible so we may take steps to accommodate your needs. For further information, visit: <http://disability.richmond.edu/students/process/index.html>.

Course evaluation: Your feedback about the course and instructor is the only way instructors and academic units can improve the quality of a course and its content. Your honest feedback is greatly appreciated and will benefit students taking this course in the future.

Minimum attendance requirement: Students who are absent without a valid excuse for more than 25% of all scheduled classes will receive a grade of "V" (failure due to excessive absences) and no credit for the course.

COVID-19 guidelines: In the classroom, students will be expected to adhere to any and all guidelines set by the university with respect to COVID-19. In addition, all of us are called on to make an effort to be flexible and to make decisions in the best interest of the community, including staying home when sick. Students who are sick should not attend class, will not be required to provide formal documentation from a health care provider, and will not be penalized for absences. I will still expect you to notify me in advance if possible, keep up with classwork to the best of your ability, and stay in close communication so I know what is happening with you. It should go without saying, but falsely reporting a reason for an absence will be considered an honor code violation. That said, in the past few years especially, I have learned to have great trust in the honesty and conscientiousness of our students.

Religious observance: The University is a secular institution that values diversity of religious expression. The observance of religious holidays is considered a valid reason to be absent from class. If any of the course deadlines and/or exam dates conflict with the observance of your religious obligations, please inform your instructor ASAP.

Dropping a course or withdrawing from a course: Once a student is registered, it is his/her responsibility to attend the course, drop the course, or withdraw from the course. Dropping and withdrawing are distinct actions governed by different policies and impact a student's course enrollment status differently:

- Dropping a course causes the name of the course to disappear from the student's transcript.
- Withdrawing from a course causes the name of the course and a grade of "M" (if withdrawing with a passing grade) or "W" (if withdrawing with a failing grade) to appear on the student's transcript. Before withdrawing, students should consult the instructor.

For further information on these procedures, please see the following website:
<http://registrar.richmond.edu/services/policies/add-drop.html>.

Incomplete policy: A grade of “I” or “Y” may be given if the student’s course work has not been completed by the end of the term. The “I” is a provisional failing grade, to be given when the student’s reasons for incomplete work are deemed unjustifiable by the instructor. The “Y”, which does not count as a failing grade, is given when the student’s reasons for not completing are deemed justifiable. In the case of an “I”, the work is to be made up by a deadline to be set by the instructor, which may be no more than 45 days beyond the last day of the term. Otherwise, the “I” will become an “F”. In the case of a “Y”, it is still possible for the student to arrange with the instructor to complete the remaining requirements in order to receive a make-up grade.

Final examinations: No final examinations will be given outside the examination period without the permission of the Dean. All final examinations are scheduled by the University Registrar.

University closure: During the course of a semester, it is possible the university will experience closure. Make-up assignments or make-up sessions of equivalent face-to-face length may be scheduled to make up for lost class time.

Resources for Students: The University offers a variety of services that may be helpful to students taking Economics and/or in navigating the many personal, social, and academic challenges they may encounter in a university environment. See, for example, the links for the Academic Skills Center (asc.richmond.edu) and the counseling and community-building resources available through Counseling and Psychological Services (caps.richmond.edu). There is also a dedicated Writing Center to help you develop your academic writing skills. See here: <http://writing.richmond.edu/>.

Other policies: More information on policies, procedures, and general governance may be found at the Provost’s website. Specific policies and forms for the Robins School of Business are available in Blackboard.

| | TENTATIVE LECTURE OUTLINE | READINGS | ASSIGNMENTS |
|-----------|---|-----------------------------|---|
| T AUG 23 | Course introduction. The Goals and Vocabulary of Econometrics. | | |
| Th AUG 25 | Our first estimator: Difference-in-Differences. Review of statistical hypothesis testing. | Videos & notes on BB. | HW #1 due. |
| T AUG 30 | Difference-in-differences continued. Parallel trends. | | |
| Th SEP 1 | (Re-)introducing simple linear regression using Ordinary Least Squares (OLS) | JW 2.1-2.2 | HW #2 due. |
| T SEP 6 | Simple linear regression continued. | | |
| Th SEP 8 | OLS properties, Goodness of fit | JW 2.3, 2.5 | HW #3 due |
| T SEP 13 | OLS properties and assumptions cont'd | | |
| Th SEP 15 | Violations of OLS assumptions. Omitted variable bias. | JW 3.1-3.4 | HW #4 due |
| T SEP 20 | Catching up | | |
| Th SEP 22 | Review for midterm | | HW #5 (longer) due. |
| T SEP 27 | MIDTERM I | | GOOD LUCK! |
| Th SEP 29 | Omitted variable bias continued. Linear regression with multiple regressors. | JW 3.5-3.7 | HW #6 due |
| T OCT 4 | Linear regression with multiple regressors continued. | | |
| Th OCT 6 | Hypothesis testing | JW 4.4-4.5 | |
| T OCT 11 | FALL STUDY BREAK | | |
| Th OCT 13 | Hypothesis testing continued | | |
| T OCT 18 | "To log or not to log"? Elasticity and semi-elasticity | JW 6.1-6.3 | HW #7 due. |
| Th OCT 20 | Dummy variables | JW 7.1-7.4 | |
| T OCT 25 | Interaction terms | | Final exam pre-assignment I due |
| Th OCT 27 | Catching up | | |
| T NOV 1 | Review for midterm | | HW #8 (longer) due. |
| Th NOV 3 | MIDTERM II | | GOOD LUCK! |
| T NOV 8 | "Heteroskedasticity": non-constant error variance | JW 8.1-8.4 | |
| Th NOV 10 | Panel data (many units observed repeatedly over time) | JW 13.4, 14.3 | HW #9 due |
| T NOV 15 | Panel data continued | | |
| Th NOV 17 | Thinking critically in Econometrics; Bias and best practice. | notes on BB, JW 9.5-9.5b | |
| T NOV 22 | Something different | | (11/21) Final exam pre-assignment II due |
| Th NOV 24 | THANKSGIVING BREAK | | |
| T NOV 29 | Time series data (small number of units observed over many time periods) | JW 18 | |
| Th DEC 1 | Review for Final exam | | HW #10 (longer) due |
| F DEC 9 | TAKE-HOME FINAL EXAM DUE | | GOOD LUCK!!! |