

(一)

Answer the following questions as clearly and precisely as possible. No partial credit is given to simple answers without proper explanations or justifications. These questions have been proofread carefully to avoid mistakes and typos. However, if you believe there is any important misprint or ambiguity, spell it out explicitly and give your answers accordingly. Good luck!

1 Regression Analysis (10)

Let the true model for y_t be:

$$y_t = \beta_0 + \beta_1 x_{1t} + \beta_2 x_{2t} + \epsilon_t \quad (1)$$

where ϵ_t is iid with mean 0 and variance σ^2 . but you mistakenly estimate the wrong model:

$$y_t = b_0 + b_1 x_{1t} + u_t \quad (2)$$

Let γ_{12}, γ_{21} be the coefficient of regressing x_{1t} on x_{2t} and x_{2t} on x_{1t} respectively:

$$\begin{aligned} x_{1t} &= c_1 + \gamma_{12} x_{2t} + u_{1t} \\ x_{2t} &= c_2 + \gamma_{21} x_{1t} + u_{2t} \end{aligned}$$

Denote $\hat{\beta}_1, \hat{\beta}_2, \hat{b}_1, \hat{\gamma}_{12}, \hat{\gamma}_{21}$ as the OLS estimates of $\beta_1, \beta_2, b, \gamma_{12}, \gamma_{21}$ respectively. Answer the following questions.

1. (3) Under what condition(s), will \hat{b}_1 be equal to $\hat{\beta}_1$?
2. (3) How do you determine if \hat{b}_1 will over- or under-estimate β_1 ? Be specific.
3. (4) Suppose that your calculator can only perform simple regression. That is, it can only compute regression with only one regressor and constant. Under this constraint, how do you compute $\hat{\beta}_1$, the OLS estimate of β_1 ?

2 Correlation Analysis (10)

Let X, Y, Z are three normal random variables under investigation and you are given n -sample data $(x_i, y_i, z_i), i = 1, \dots, n$.

- (3) How do you test if X, Y are uncorrelated? That is, testing the null hypothesis: $H_0 : \rho_{xy} \equiv \text{corr}(X, Y) = 0$. Specify precisely the test statistics and its distribution under the null hypothesis:
- (4) Suppose you suspect that Z is the common cause for X, Y . How do you find the correlation between X, Y with the effect of Z controlled? In other words, how to compute the partial correlation between X and Y conditional upon Z ? Either give the explicit formula or state precisely the procedure of computing the statistics.
- (3) Give an example that X and Y are correlated but conditional upon Z , X and Y are not correlated. You need to write down the exact model for your answer.

3 On R^2 (10)

Let y be defined as:

$$y_i = \alpha + \beta x_i + u_i, \quad i = 1, \dots, n \quad (3)$$

$\hat{\alpha}, \hat{\beta}$ be the corresponding OLS estimates, and R^2 the *coefficient of multiple determination*, the percent of the variation explained by the regression.

- (3) Write down the formula for R^2 .
- (3) Let $\hat{u}_i = y_i - \hat{\alpha} - \hat{\beta}x_i, i = 1, \dots, n$. What value is the R^2 when you regress y_i against x_i, \hat{u}_i with constant? Prove or explain your answer.
- (2) Let the constant, α , be dropped off the equation:

$$y_i = \gamma x_i + v_i, \quad i = 1, \dots, n \quad (4)$$

Is R^2 in (4) always between 0 and 1? Prove or justify your claim.

- (2) When a new variable Z is added to the regression in (3), the R^2 can never decrease. True or false. Explain your answer.

4 Hypothesis Testing (10)

Let

$$y_i = \alpha + \beta_1 x_{1i} + \beta_2 x_{2i} + \epsilon_i, \quad i = 1, \dots, n$$

where ϵ_i is *iid* normal with mean 0 and variance σ^2 , y, x_1, x_2 denote real money demand, income and interest rate respectively. Logarithmic transformations are applied to money demand and income but not to interest rate.

1. (3) How do you test if money demand model above is valid? Be specific about the test statistics and its distribution.
2. (3) How do you test if the income elasticity of money demand is equal to 1? Be specific about your test statistics and its distribution.
3. (4) For any given sample size, one can always construct the test statistics with proper size, say 5%. Thus, hypothesis testing is not affected by sample size as long as it is greater than number of parameters. True or false. Explain your answer.

5 Estimation and Prediction (10)

Let

$$y_i = \alpha + \beta_1 x_i + \epsilon_i, \quad i = 1, \dots, n$$

where ϵ_i is *iid* normal with mean 0 and variance σ^2 , and $(\hat{\alpha}, \hat{\beta})$ denotes the OLS estimate of (α, β) .

1. (3) What is the confidence interval of predicting y when $x = x_0$?
2. (3) What value should x_0 be to minimize the variance of predicting y ? Explain your answer.
3. (4) Suppose that x_i is a fixed regressor with M, m being upper and lower bounds and you have the power of determining the value of $x_i, i = 1, \dots, n$ (n is even). How do you select $x_i, i = 1, \dots, n$ to maximize the estimation precision of $\hat{\beta}$? In other words, how to choose x_i to minimize the standard deviation of $\hat{\beta}$? Be precise about your answer.

(二)

1. (6%) A machine in a factory must be repaired if it produces more than 10% defectives among the large lot of items it produces in a day. A random sample of 100 items from the day's production contains 15 defectives, and the supervisor says that the machine must be repaired. Does the sample evidence support his decision? Use a test with level .01.
2. (5%) The service times for customers coming through a checkout counter in a retail store are independent random variables with mean 1.5 minutes and variance 1.0. Approximate the probability that 100 customers can be served in less than 2 hours of total service time.
3. (5%) Of the volunteers donating blood in a clinic, 80% have the Rhesus factor present in their blood. If five are randomly selected, what is the probability that at most four have the Rhesus factor?
4. (6%) Let

$$f(y_1, y_2) = \begin{cases} 6y_1y_2^2, & 0 \leq y_1 \leq 1; 0 \leq y_2 \leq 1 \\ 0, & \text{elsewhere} \end{cases}$$

Show that Y_1 and Y_2 are independent.

5. (6%) Two methods for teaching reading were applied to two randomly selected groups of elementary schoolchildren and then compared on the basis of a reading comprehension test given at the end of the learning period. The sample means and variances computed from the test scores are shown in the accompanying table. Do the data present sufficient evidence to indicate a difference in the mean scores for the populations associated with the two teaching methods? What can be said about the attained significance level? What assumptions are required? What would you conclude at the $\alpha = .05$ level of significance?

	Method I	Method II
Number of children in group	11	14
\bar{y}	64	69
s^2	52	71

6. (6%) An experiment to explore the pain thresholds to electrical shocks for males and females resulted in the data summary given in table below. Do the data provide sufficient evidence to indicate a significant difference in the variability of pain thresholds for men and women? Use $\alpha = .10$. What can be said about the p -value.

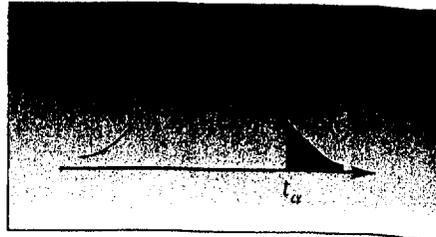
	Males	Females
n	14	10
\bar{y}	16.2	14.9
s^2	12.7	26.4

7. (10%) The Brunner Manufacturing Company operates 24 hours a day, five days a week. The workers rotate shifts each week. Management is interested in whether there is a difference in the number of units produced when the employees work on various shifts. A sample of five workers is selected and their output recorded on each shift. At the .05 significance level, can we conclude there is a difference in the mean production by shift and in the mean production by employee?

Employee	Day	Units Produced	
		Afternoon	Night
Skaff	31	25	35
Lum	33	26	33
Clark	28	24	30
Treece	30	29	28
Morgan	28	26	27

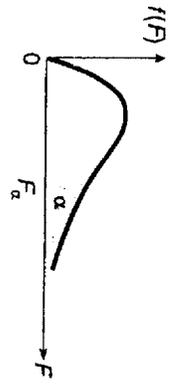
8. (6%) Pierre's Restaurant announced that on Thursday night the menu would consist of unusual gourmet items, such as squid, rabbit, snails from Scotland, and dandelion greens. As part of a large survey, a sample of 81 regular customers was asked whether they preferred the regular menu or the gourmet menu. Forty-three preferred the gourmet menu. Using the sign test and the .02 level, test whether the customers liked the gourmet menu better than the regular menu. Justify your conclusion.

Critical Values of the t Distribution



Degrees of Freedom	$t_{.100}$	$t_{.050}$	$t_{.025}$	$t_{.010}$	$t_{.005}$
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
∞	1.282	1.645	1.960	2.326	2.576

Percentage points of the F distribution. $\alpha = .01$

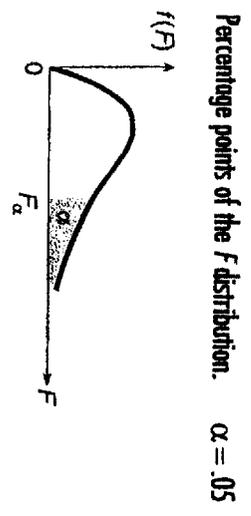


Denominator Degrees of Freedom	Numerator Degrees of Freedom									
	1	2	3	4	5	6	7	8	9	10
1	4.052	4.999	5.403	5.625	5.764	5.859	5.928	5.982	6.022	6.056
2	98.50	99.00	99.17	98.25	98.30	99.33	99.36	99.37	99.39	99.40
3	34.12	30.82	29.46	28.71	28.24	27.91	27.67	27.49	27.35	27.23
4	21.20	18.00	16.69	15.98	15.52	15.21	14.98	14.80	14.66	14.55
5	16.26	13.27	12.06	11.39	10.97	10.67	10.46	10.29	10.16	10.05
6	13.75	10.92	9.78	9.15	8.75	8.47	8.26	8.10	7.98	7.87
7	12.25	9.55	8.45	7.85	7.46	7.19	6.99	6.84	6.72	6.62
8	11.26	8.65	7.59	7.01	6.63	6.37	6.18	6.03	5.91	5.81
9	10.56	8.02	7.00	6.42	6.06	5.80	5.61	5.47	5.35	5.26
10	10.04	7.56	6.59	6.02	5.64	5.39	5.20	5.06	4.94	4.85
11	9.65	7.21	6.22	5.67	5.32	5.07	4.89	4.74	4.63	4.54
12	9.33	6.93	5.95	5.41	5.06	4.82	4.64	4.50	4.39	4.30
13	9.07	6.70	5.74	5.21	4.86	4.62	4.44	4.30	4.19	4.10
14	8.86	6.51	5.56	5.04	4.69	4.46	4.28	4.14	4.03	3.94
15	8.68	6.36	5.42	4.89	4.56	4.32	4.14	4.00	3.89	3.80
16	8.53	6.23	5.29	4.77	4.44	4.20	4.03	3.89	3.78	3.69
17	8.40	6.11	5.18	4.67	4.34	4.10	3.93	3.79	3.68	3.59
18	8.29	6.01	5.09	4.58	4.25	4.01	3.84	3.71	3.60	3.51
19	8.18	5.93	5.01	4.50	4.17	3.94	3.77	3.63	3.52	3.43
20	8.10	5.85	4.94	4.43	4.10	3.87	3.70	3.56	3.46	3.37
21	8.02	5.78	4.87	4.37	4.04	3.81	3.64	3.51	3.40	3.31
22	7.95	5.72	4.82	4.31	3.99	3.76	3.60	3.45	3.35	3.26
23	7.88	5.66	4.76	4.26	3.94	3.71	3.55	3.41	3.30	3.21
24	7.82	5.61	4.72	4.22	3.90	3.67	3.50	3.36	3.26	3.17
25	7.77	5.57	4.68	4.18	3.85	3.63	3.46	3.32	3.22	3.13
26	7.72	5.53	4.64	4.14	3.82	3.59	3.42	3.28	3.18	3.09
27	7.68	5.49	4.60	4.11	3.78	3.56	3.39	3.25	3.15	3.06
28	7.64	5.45	4.57	4.07	3.75	3.53	3.36	3.22	3.12	3.03
29	7.60	5.42	4.54	4.04	3.73	3.50	3.33	3.20	3.10	3.00
30	7.56	5.39	4.51	4.02	3.70	3.47	3.30	3.17	3.07	2.98
40	7.31	5.18	4.31	3.83	3.51	3.29	3.12	2.99	2.89	2.80
60	7.08	4.98	4.13	3.65	3.34	3.12	2.95	2.82	2.72	2.63
120	6.85	4.79	3.95	3.48	3.17	2.96	2.79	2.66	2.56	2.47
∞	6.63	4.61	3.78	3.32	3.02	2.80	2.64	2.51	2.41	2.32

NUMERATOR DEGREES OF FREEDOM

NUMERATOR DEGREES OF FREEDOM

DENOMINATOR DEGREES OF FREEDOM



$v_1 \backslash v_2$	NUMERATOR DEGREES OF FREEDOM										NUMERATOR DEGREES OF FREEDOM									
	1	2	3	4	5	6	7	8	9	10	12	15	20	24	30	40	60	120	∞	
1	161.4	199.5	215.7	224.6	230.2	234.0	236.8	238.9	240.5	241.9	243.9	245.9	248.0	249.1	250.1	251.1	252.2	253.3	254.3	
2	18.51	19.00	19.16	19.25	19.30	19.33	19.35	19.37	19.38	19.40	19.41	19.43	19.45	19.45	19.46	19.47	19.48	19.49	19.50	
3	10.13	9.55	9.28	9.12	9.01	8.94	8.89	8.85	8.81	8.79	8.74	8.70	8.66	8.64	8.62	8.59	8.57	8.55	8.53	
4	7.71	6.94	6.59	6.39	6.26	6.16	6.09	6.04	6.00	5.96	5.91	5.86	5.80	5.77	5.75	5.72	5.69	5.66	5.63	
5	6.61	5.79	5.41	5.19	5.05	4.95	4.88	4.82	4.77	4.74	4.68	4.62	4.56	4.53	4.50	4.46	4.43	4.40	4.36	
6	5.99	5.14	4.76	4.53	4.39	4.28	4.21	4.15	4.10	4.06	4.00	3.94	3.87	3.84	3.81	3.77	3.74	3.70	3.67	
7	5.59	4.74	4.35	4.12	3.97	3.87	3.79	3.73	3.68	3.64	3.57	3.51	3.44	3.41	3.38	3.34	3.30	3.27	3.23	
8	5.32	4.46	4.07	3.84	3.69	3.58	3.50	3.44	3.39	3.35	3.28	3.22	3.15	3.12	3.08	3.04	3.01	2.97	2.93	
9	5.12	4.26	3.86	3.63	3.48	3.37	3.29	3.23	3.18	3.14	3.07	3.01	2.94	2.90	2.86	2.83	2.79	2.75	2.71	
10	4.96	4.10	3.71	3.48	3.33	3.22	3.14	3.07	3.02	2.98	2.91	2.85	2.77	2.74	2.70	2.66	2.62	2.58	2.54	
11	4.84	3.98	3.59	3.36	3.20	3.09	3.01	2.95	2.90	2.85	2.78	2.72	2.65	2.61	2.57	2.53	2.49	2.45	2.40	
12	4.75	3.89	3.49	3.26	3.11	3.00	2.91	2.85	2.80	2.75	2.69	2.62	2.54	2.51	2.47	2.43	2.38	2.34	2.30	
13	4.67	3.81	3.41	3.18	3.03	2.92	2.83	2.77	2.71	2.67	2.60	2.53	2.46	2.42	2.38	2.34	2.29	2.25	2.21	
14	4.60	3.74	3.34	3.11	2.96	2.85	2.76	2.70	2.65	2.60	2.53	2.46	2.39	2.35	2.31	2.27	2.22	2.18	2.13	
15	4.54	3.68	3.28	3.06	2.90	2.79	2.71	2.64	2.59	2.54	2.47	2.40	2.33	2.29	2.25	2.21	2.16	2.12	2.08	
16	4.49	3.63	3.24	3.01	2.85	2.74	2.66	2.59	2.54	2.49	2.42	2.35	2.28	2.24	2.20	2.16	2.11	2.07	2.03	
17	4.45	3.59	3.20	2.96	2.81	2.70	2.61	2.55	2.50	2.45	2.38	2.31	2.23	2.20	2.15	2.11	2.06	2.02	1.98	
18	4.41	3.55	3.16	2.93	2.77	2.66	2.58	2.51	2.46	2.41	2.34	2.27	2.19	2.15	2.11	2.07	2.02	1.98	1.93	
19	4.38	3.49	3.10	2.87	2.71	2.60	2.52	2.45	2.39	2.35	2.28	2.21	2.13	2.10	2.05	2.01	1.96	1.92	1.88	
20	4.35	3.45	3.06	2.83	2.67	2.56	2.48	2.41	2.36	2.31	2.24	2.17	2.09	2.05	2.01	1.97	1.92	1.88	1.84	
21	4.32	3.47	3.07	2.84	2.68	2.57	2.49	2.42	2.37	2.32	2.25	2.18	2.10	2.06	2.02	1.98	1.93	1.89	1.84	
22	4.30	3.44	3.05	2.82	2.66	2.55	2.46	2.40	2.34	2.30	2.23	2.15	2.07	2.03	1.99	1.94	1.89	1.85	1.81	
23	4.28	3.42	3.03	2.80	2.64	2.53	2.44	2.37	2.32	2.27	2.20	2.13	2.05	2.01	1.97	1.92	1.88	1.84	1.78	
24	4.26	3.40	3.01	2.78	2.62	2.51	2.42	2.35	2.30	2.24	2.17	2.09	2.01	1.97	1.93	1.88	1.84	1.80	1.76	
25	4.24	3.39	2.99	2.76	2.60	2.49	2.40	2.33	2.28	2.22	2.15	2.07	1.99	1.95	1.90	1.85	1.81	1.77	1.71	
26	4.23	3.37	2.98	2.74	2.59	2.47	2.38	2.31	2.25	2.20	2.13	2.05	1.97	1.93	1.88	1.84	1.80	1.75	1.69	
27	4.21	3.35	2.96	2.73	2.57	2.45	2.36	2.29	2.24	2.18	2.11	2.03	1.94	1.90	1.85	1.81	1.77	1.71	1.65	
28	4.20	3.34	2.95	2.70	2.55	2.43	2.34	2.27	2.22	2.16	2.09	2.01	1.93	1.89	1.84	1.80	1.75	1.70	1.64	
29	4.18	3.33	2.93	2.69	2.53	2.41	2.32	2.25	2.20	2.14	2.07	1.99	1.90	1.86	1.81	1.77	1.73	1.68	1.62	
30	4.17	3.32	2.92	2.69	2.53	2.42	2.33	2.26	2.21	2.15	2.08	2.00	1.91	1.87	1.82	1.78	1.74	1.69	1.62	
40	4.08	3.23	2.84	2.61	2.45	2.34	2.25	2.18	2.12	2.06	1.99	1.92	1.84	1.79	1.74	1.70	1.66	1.61	1.55	
60	4.00	3.15	2.76	2.53	2.37	2.25	2.16	2.09	2.04	1.98	1.91	1.84	1.75	1.70	1.65	1.61	1.57	1.52	1.45	
120	3.92	3.07	2.68	2.45	2.29	2.17	2.09	2.02	1.96	1.90	1.83	1.75	1.66	1.61	1.55	1.50	1.43	1.35	1.29	
∞	3.84	3.00	2.60	2.37	2.21	2.10	2.01	1.94	1.88	1.83	1.75	1.67	1.57	1.52	1.46	1.39	1.32	1.22	1.00	