

WWS 508b

Precept 9

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April 20, 2010

LPM: Interpreting Coefficients

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How do we decide if an observation is an outlier?

How do we compute studentized residuals?

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- ▶ by introducing dummy variables
- ▶ using STATA's post-estimation commands, either via the menu or directly as

```
predict [\textit{variable name}], rstudent
```

LAD with STATA

What is “Least Absolute Deviations Estimation” and how does it differ from OLS?

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`qreg`

Constant returns to scale

Definition:

For any constant a greater than or equal to 0,

$$F(aK, aL) = aF(K, L)$$

Let's say our function is $F(K, L) = K^\alpha L^\beta$

For what values of α and β would we have constant returns to scale?

Testing multiple linear hypotheses

Multiple approaches, including rewriting the model and refitting it. Important STATA commands to remember:

- ▶ `lincom`
- ▶ `test (condition 1) (condition 2)`