ECON 5213: ADVANCED ECONOMETRICS

UNIVERSITY OF OKLAHOMA
DEPARTMENT OF ECONOMICS

SPRING 2019

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1 REMARK

This syllabus is only tentative and subject to change. I will update it according to the progress of this course. It is your responsibility to check Canvas constantly for updates. There may be major changes regarding the course such as grading policy, exams and empirical project if deemed necessary, but they will be explicitly announced in class at least one month ahead.

Email is the fastest way to contact me.

2 COURSE DESCRIPTION

This is a graduate level introduction to econometrics offered primarily to first-year Ph.D. economics students. The course is designed to provide a foundation for and a general introduction to econometric technique, theory, and application to prepare students for future study of 1) frontier topics in econometrics or 2) empirical applications of these techniques in topical areas. Knowledge of multivariate calculus, probability theory, and mathematical statistics is assumed. As well, you should be comfortable with basic matrix algebra. A prior course in undergraduate econometrics would be helpful, but not required.

The course has four basic objectives. The first is to provide some background knowledge in probability theory and mathematical statistics necessary for econometrics. The second is to review, extend, modify, and otherwise build on the econometric techniques already covered in undergraduate econometrics classes (i.e., the classic linear regression model, non-spherical disturbances, instrumental variables, etc.). The third objective is to present sufficient econometric theory (i.e., large sample/asymptotic theory) so that students will 1) have deeper understanding of the techniques they are using, and as well, will recognize the circumstances under which they might be appropriately used; 2) gain experience of formal proofs and rigorous derivations of econometric theory. Finally, we should also emphasize the “application” aspect
of this course, which entails becoming familiar with statistical software (Stata will be used in
the course). Students will eventually develop and prove competency in Stata in order to apply
the techniques learned and to evaluate the theories.

I would like to emphasize that this is an econometrics course. And we will try to distinguish
ourselves from statisticians or other quantitative researchers by emphasizing the economic mo-
tivations and interpretations behind these methods whenever we can. If time permits, we will
also touch upon some formal structural estimations that explicitly incorporate economic theory
or models in estimations.

3 Required Readings

3.1 Probability Theory and Mathematical Statistics

The first part of the semester will be focused on probability theory and mathematical statistics
so that everyone is on the same page for more advanced econometrics. Pick any mathematical
statistics book, Review Appendices in Greene. Google any material that you think would be
helpful. Below is a link to Penn State website that would be helpful for those of you who need
some reviews at the undergrad level.

https://onlinecourses.science.psu.edu/stat414/node/3

Below are some recommended (NOT required) readings:

Robert V. Hogg , Allen Craig , Joseph W. McKean, Introduction to Mathematical Statistics or
any versions no later than 5th edition.

Herman J. Bierens, Introduction to the Mathematical and Statistical Foundations of Economet-
rics

George Casella, Roger L. Berger, Statistical Inference

3.2 Econometrics

The second part of the semester will be focused on econometrics. While I emphasize the
separation of these two parts for the organization purpose, it does not mean that these two
parts are distinct and unrelated. Instead the second part is built on and transitioned from
the first part. Hopefully by presenting these two parts altogether, we can see the connections
between the two, and probably understand them better as well.

William Greene, Econometric Analysis. The 8th edition is the most recent. Corrections and
other information for the text can be found at http://pages.stern.nyu.edu/~wgreene/Text/
econometricanalysis.htm. Certain chapters and material in the older editions can be used as
a substitute.

Bruce Hansen, Econometrics. available at https://www.ssc.wisc.edu/~bhansen/econometrics/
It is also recommended that you have access to the following:


Note that Greene's book is not necessarily "best" for any topic, but it is likely, at a minimum, second best for just about every topic. Please, also, note that we use the material from Greene, but do not closely follow the order in the book.

4 **(SOME) MORE RECOMMENDED READINGS**


5 **(SOME) RECOMMENDED RESOURCES FOR STATA**

1. Undergrad Econometrics Using Stata at Rochester https://www.youtube.com/channel/UCbeLdyQFjWuP39wuVfX1w

6 **ASSIGNMENT, TESTING, AND GRADING**

6.1 **Tests**

There will be one midterm exam (**tentative date: 03/13/2019**) and one final exam (May 6, 2019, 4:30pm - 6:30pm). The format of these exams will be announced later. **No make-up exams will be given.** If a student misses a midterm examination for any reason, the weight of that examination will be added to that of the final exam. I'd like to have the flexibility to speed up or slow down depending on how I think the class understands the material. So, the midterm date may be subject to change according to the progress but will be announced one week in advance.

6.2 **Homework Assignment**

There will be homework assignments following each topic. Students are usually given a week to complete these assignments, but this could vary depending on the length of the homework. **Homework assignments will be due at the beginning of class and late homework assignments will not be graded for credit.** It is important to know that the homework
assignments are very important in that the basic ideas covered by them invariably show up on the mid-term and the final. If you know you are going to be missing a class on the day a homework exercise is due, hand in your homework in advance to receive full credit for your work.

- You should try to type all the homework. This is also courteous to your TA who would be grading the homework.

- Group discussion is encouraged when working on the problem sets. Your answers should show individual understanding of the materials and be written in your own words. If you collaborate with other student(s), everyone in your group should be acknowledged at the beginning of the homework. Identical homework assignments would receive a zero for both students.

6.3 Grading

The weights in the final grade are assigned as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homework Assignments</td>
<td>35</td>
</tr>
<tr>
<td>Midterm</td>
<td>25</td>
</tr>
<tr>
<td>Final</td>
<td>35</td>
</tr>
<tr>
<td>Participation</td>
<td>5</td>
</tr>
</tbody>
</table>

The grading scale is:

- 90-100  A
- 70-90   B
- 60-70   C
- 55-60   D
- 0-55    F

A number with a parenthesis means any number less than it. For example 90) means any number less than 90, but not equal to 90. It could be 89.9999999. I reserve the right to change the grading scale. The required score for the final grade could be lower but not higher. For example, the current requirement for an A is 90-100, but later I may change the cut-off point to 85-100, but won’t change it to 97-100.

7 University Policies

7.1 Accommodations for Students with Disabilities

If you are a student with a documented disability who will require accommodations in this course, please register with the Disability Resource Center (Goddard Health Center, Room 166, 325-3852). Students who are already registered with the Office of Disability Services and wish to receive accommodations in this course are strongly encouraged to share their Accommodation Letter with me in a timely manner so I can provide an appropriate contact to discuss
accommodations necessary to ensure full participation and facilitate your educational opportunities. Students with disabilities must be registered with the Disability Resource Center before receiving academic adjustments.

7.2 Academic Honesty

Cheating is strictly prohibited at the University of Oklahoma, because it devalues the degree you are working hard to get. As a member of the OU community it is your responsibility to protect your educational investment by knowing and following the rules. For specific definitions on what constitutes cheating, review the Student’s Guide to Academic Integrity at http://integrity.ou.edu/students.html.

7.3 Religious Observance

It is the policy of the University to excuse the absences of students that result from religious observances and to reschedule examinations and additional required classwork that may fall on religious holidays, without penalty.

7.4 Title IX Resources and Reporting Requirement

For any concerns regarding gender-based discrimination, sexual harassment, sexual assault, dating/domestic violence, or stalking, the University offers a variety of resources. To learn more or to report an incident, please contact the Sexual Misconduct Office at 405/325-2215 (8 to 5, M-F) or smo@ou.edu. Incidents can also be reported confidentially to OU Advocates at 405/615-0013 (phones are answered 24 hours a day, 7 days a week). Also, please be advised that a professor/GA/TA is required to report instances of sexual harassment, sexual assault, or discrimination to the Sexual Misconduct Office. Inquiries regarding non-discrimination policies may be directed to: Bobby J. Mason, University Equal Opportunity Officer and Title IX Coordinator at 405/325-3546 or bjm@ou.edu. For more information, visit http://www.ou.edu/eoo.html.

7.5 Adjustments for Pregnancy/Childbirth Related Issues

Should you need modifications or adjustments to your course requirements because of documented pregnancy-related or childbirth-related issues, please contact your professor or the Disability Resource Center at 405/325-3852 as soon as possible. Also, see http://www.ou.edu/eoo/faqs/pregnancy-faqs.html for answers to commonly asked questions.

8 Tentative Course Outline

Note that the schedule is subject to change depending on the pace of the course. Not all material would be covered, and extensions of the basic models not listed below may be added to deepen our understanding of these techniques. Moreover, the material will not be necessarily covered in the same order as below.

1. Intro to Probability Theory and Distribution
2. Mathematical Expectation
3. Alternative Ways to Characterize Distributions
4. Quantile Function
5. Monte Carlo Simulation and Parametric Distributions
6. Joint Distribution
7. Conditional Distribution
8. Conditional Expectation and Its Properties
9. Linear Regression: Basics
10. Linear Regression: Computational Tool
11. Linear Regression: Approximation Tool
12. Understanding OLS more: Holding Everything Else Constant
13. Understanding OLS more: Finite Sample Properties
14. Understanding OLS more: Asymptotic Properties
15. Hypothesis Testing
16. Violations I and II: Collinearity and Functional Form
17. Violation III: Endogeneity and IV
18. Violation IV: Endogeneity and Panel Data
19. Violation V: Heteroskedasticity