



Contents

Preface to the Third Edition	xi
Preface to the Second Edition	xii
Preface to the First Edition	xiii
Chapter 1 Introduction	1
Organization of the Book	3
Useful Background	4
Appendix 1.1: Mathematical Concepts Used in this Book	4
Endnote	7
References	7
Chapter 2 Basic Data Handling	8
Types of Economic Data	8
Obtaining Data	13
Working with Data: Graphical Methods	15
Working with Data: Descriptive Statistics	20
Appendix 2.1: Index Numbers	23
Appendix 2.2: Advanced Descriptive Statistics	29
Appendix 2.3: Expected Values and Variances	30
Endnotes	33
Chapter 3 Correlation	34
Understanding Correlation	34
Understanding Why Variables Are Correlated	39
Understanding Correlation through <i>XY</i> -plots	41

	Correlation between Several Variables	45
	Appendix 3.1: Mathematical Details	46
	Endnotes	46
Chapter 4	An Introduction to Simple Regression	48
	Regression as a Best Fitting Line	49
	Interpreting OLS Estimates	53
	Fitted Values and R^2 : Measuring the Fit of a Regression Model	56
	Nonlinearity in Regression	60
	Appendix 4.1: Mathematical Details	65
	Endnotes	66
Chapter 5	Statistical Aspects of Regression	68
	Which Factors Affect the Accuracy of the Estimate $\hat{\beta}$?	69
	Calculating a Confidence Interval for β	73
	Testing whether $\beta = 0$	79
	Hypothesis Testing Involving R^2 : The F Statistic	84
	Appendix 5.1: Using Statistical Tables for Testing whether $\beta = 0$	87
	Endnotes	88
	References	89
Chapter 6	Multiple Regression	90
	Regression as a Best Fitting Line	92
	Ordinary Least Squares Estimation of the Multiple Regression Model	92
	Statistical Aspects of Multiple Regression	92
	Interpreting OLS Estimates	93
	Pitfalls of Using Simple Regression in a Multiple Regression Context	96
	Omitted Variables Bias	98
	Multicollinearity	100
	Appendix 6.1: Mathematical Interpretation of Regression Coefficients	106
	Endnotes	107
Chapter 7	Regression with Dummy Variables	109
	Simple Regression with a Dummy Variable	111
	Multiple Regression with Dummy Variables	112
	Multiple Regression with Dummy and Nondummy Explanatory Variables	115
	Interacting Dummy and Nondummy Variables	118

	What if the Dependent Variable is a Dummy?	119
	Endnotes	121
Chapter 8	Regression with Time Lags: Distributed Lag Models	122
	Aside on Lagged Variables	124
	Aside on Notation	126
	Selection of Lag Order	130
	Appendix 8.1: Other Distributed Lag Models	133
	Endnotes	134
Chapter 9	Univariate Time Series Analysis	136
	The Autocorrelation Function	139
	The Autoregressive Model for Univariate Time Series	143
	Nonstationary versus Stationary Time Series	146
	Extensions of the AR(1) Model	148
	Testing in the AR(p) with Deterministic Trend Model	153
	Appendix 9.1: Mathematical Intuition for the AR(1) Model	158
	Endnotes	159
	References	160
Chapter 10	Regression with Time Series Variables	161
	Time Series Regression when X and Y Are Stationary	162
	Time Series Regression when Y and X Have Unit Roots: Spurious Regression	166
	Time Series Regression when Y and X Have Unit Roots: Cointegration	166
	Time Series Regression when Y and X Are Cointegrated: The Error Correction Model	173
	Time Series Regression when Y and X Have Unit Roots but Are NOT Cointegrated	177
	Endnotes	179
Chapter 11	Applications of Time Series Methods in Macroeconomics and Finance	181
	Volatility in Asset Prices	182
	Autoregressive Conditional Heteroskedasticity (ARCH)	188
	Granger Causality	193
	Vector Autoregressions	199
	Appendix 11.1: Hypothesis Tests Involving More than One Coefficient	215
	Endnotes	218

Chapter 12	Limitations and Extensions	220
	Problems that Occur when the Dependent Variable Has Particular Forms	221
	Problems that Occur when the Errors Have Particular Forms	222
	Problems that Call for the Use of Multiple Equation Models	225
	Endnotes	229
Appendix A	Writing an Empirical Project	231
	Description of a Typical Empirical Project	231
	General Considerations	233
	Project Topics	234
	References	238
Appendix B	Data Directory	239
Index		243
