

CONTENTS

1	Introduction	1
1.1	<i>Structure of the Book</i>	1
1.2	<i>Why Gretl and R?</i>	2
2	Start Using Gretl and R	5
2.1	<i>Gretl</i>	5
2.1.1	<i>Installing Gretl</i>	6
2.1.2	<i>Startup and Loading of Datasets</i>	6
2.1.3	<i>Data Visualization</i>	8
2.1.4	<i>Datasets</i>	9
2.2	<i>R and RStudio</i>	12
2.2.1	<i>Installation of R and RStudio</i>	12
2.2.2	<i>Startup and Loading Datasets</i>	14
2.2.3	<i>Some Simple R Codes</i>	15
2.2.4	<i>Loading Datasets</i>	16
2.2.5	<i>Data Visualization</i>	17
3	Basic Material	19
3.1	<i>Applied Statistics and Econometrics</i>	19
3.2	<i>Prerequisites</i>	20
3.2.1	<i>Summation</i>	21
3.2.2	<i>Derivation</i>	21
3.2.3	<i>Expectations</i>	23
3.3	<i>Different Summary Statistics</i>	24
3.3.1	<i>Central Tendency and Dispersion</i>	24
3.3.2	<i>Interval Estimate: Confidence Interval</i>	27
3.3.3	<i>Measures of Covariation: Covariance and Correlation</i>	28
3.4	<i>Probability Distributions</i>	31
3.4.1	<i>Normal Distribution</i>	31

3.4.2	<i>Standard Normal Distribution</i>	32
3.4.3	<i>Central Limit Theorem</i>	33
3.4.4	<i>t-distribution</i>	34
3.4.5	<i>Probability Distributions in Gretl</i>	35
3.4.6	<i>Probability Distributions in R</i>	35
	<i>References</i>	38
4	Hypothesis Testing	39
4.1	<i>Formulating Hypotheses</i>	40
4.2	<i>Test Statistic and Critical Value(s)</i>	40
4.2.1	<i>Example: Height of 9 Men—Normal Distribution</i>	42
4.3	<i>Examples in Gretl and R</i>	43
4.3.1	<i>Height of 9 Men: t-Distribution</i>	43
4.3.2	<i>Example Batteries: “Less Than” Alternative Hypothesis</i>	46
4.3.3	<i>Example with a Two-Sided Hypothesis Test</i>	52
4.4	<i>Hypothesis Testing for Correlation</i>	56
4.5	<i>p-Value</i>	56
5	Simple Linear Regression	59
5.1	<i>The Regression Line</i>	60
5.1.1	<i>A Straight Line: Math</i>	60
5.1.2	<i>A Straight Line: Regression</i>	62
5.1.3	<i>Interpreting the Estimated Coefficients</i>	64
5.2	<i>Simple Regression in Gretl</i>	66
5.3	<i>Simple Regression in R</i>	68
5.4	<i>Prediction</i>	69
5.5	<i>Explanatory Power of the Model</i>	71
5.6	<i>Hypothesis Testing and Confidence Intervals</i>	76
5.6.1	<i>Hypothesis Testing of the Slope Coefficient</i>	76
5.6.2	<i>Confidence Interval for a Slope Coefficient</i>	78
5.6.3	<i>Hypothesis Test for the Constant Term</i>	79
5.6.4	<i>Prediction Interval</i>	81
5.7	<i>Assumptions for the Regression Model</i>	84
5.7.1	<i>Graphical Assessment of the Assumptions</i>	85
5.8	<i>Supplementary Material</i>	88
5.8.1	<i>Where Do the Formulas for the Coefficients Come from?</i>	88
5.8.2	<i>Calculating the Numbers from a Regression Output</i>	89
	<i>Reference</i>	93
6	Multiple Regression	95
6.1	<i>Manual Calculation</i>	96
6.2	<i>Interpreting Estimated Parameters in Multiple Regression</i>	97
6.2.1	<i>Partial Derivatives (Mathematics)</i>	97

6.2.2	<i>Interpretation If We Have Two Explanatory Variables</i>	98
6.3	<i>Example (in Gretl and R)</i>	99
6.3.1	<i>Example: Used Car Price and Fuel Consumption</i>	103
6.4	<i>F-Test</i>	106
6.4.1	<i>Example F-Test</i>	106
6.5	<i>Heteroskedasticity Tests</i>	110
6.5.1	<i>The Example in Gretl</i>	111
6.5.2	<i>Example in R</i>	112
6.5.3	<i>Dealing with Heteroskedasticity</i>	113
6.6	<i>Multicollinearity</i>	114
6.7	<i>Instrumental Variable Regression</i>	114
6.7.1	<i>Example Using an Instrumental Variable</i>	116
6.8	<i>Omitted Variable Bias</i>	121
	<i>References</i>	122
7	Regression Using Dummy Variables	125
7.1	<i>Simple Regression with a Dummy Variable</i>	126
7.2	<i>Generate Dummy Variables in Gretl and R</i>	129
7.3	<i>Fixed Effects</i>	131
7.3.1	<i>Example: Wage, Education, and Sector</i>	132
7.3.2	<i>Hypothesis Testing</i>	134
7.4	<i>Interaction Effects</i>	134
7.4.1	<i>Example: Wage, Education, and Sector</i>	135
7.4.2	<i>Hypothesis Testing</i>	136
7.5	<i>Both Fixed Effects and Interaction Terms</i>	137
7.5.1	<i>Example</i>	138
7.5.2	<i>Hypothesis Testing</i>	140
7.5.3	<i>Example with Wage and City</i>	141
7.6	<i>Dummy Variable as Dependent Variable</i>	144
7.6.1	<i>Linear Probability Models</i>	144
7.6.2	<i>Probit Models</i>	145
7.6.3	<i>Logit Models</i>	151
7.6.4	<i>Which Probability Model to Use?</i>	155
8	Non-Linear Relationships	157
8.1	<i>Logarithmic Relationships</i>	161
8.1.1	<i>Lin-Log Model</i>	161
8.1.2	<i>Log-Lin Model</i>	164
8.1.3	<i>Log-Log Model</i>	165
8.1.4	<i>Predicted Y when ln Y Is the Dependent Variable</i>	165
8.2	<i>Polynomial Functions</i>	166
8.3	<i>Inverse Relationships</i>	170
8.4	<i>Which Non-Linear Model Should We Choose?</i>	172
8.5	<i>Supplementary Material</i>	174

8.5.1	<i>Logarithms and Approximation of Percentage Change</i>	174
8.5.2	<i>Lin-Log Regression by Hand</i>	175
	<i>Reference</i>	176
9	Time Series Data	177
9.1	<i>Time Series Variables and Regressions</i>	178
9.1.1	<i>Time Series in Gretl and R</i>	178
9.1.2	<i>Regression with Time Series</i>	180
9.1.3	<i>Development Over Time: Trend</i>	181
9.1.4	<i>Spurious Regression</i>	184
9.1.5	<i>Transforming Time Series Variables</i>	187
9.2	<i>Autocorrelation and Stationarity</i>	191
9.2.1	<i>Autoregressive Model</i>	191
9.2.2	<i>Autoregressive Model with Multiple Lags</i>	195
9.2.3	<i>AR Models in Gretl and R</i>	195
9.2.4	<i>AR Models in Gretl and R</i>	196
9.2.5	<i>Stationarity Test</i>	197
9.3	<i>Seasonal Variation</i>	203
9.3.1	<i>Seasonal Variation in Gretl and R</i>	204
9.3.2	<i>AR(1) Model with Drift and Seasonal Variation</i>	206
9.4	<i>Forecasts and Model Evaluation</i>	206
9.4.1	<i>Evaluating Forecasts in Gretl and R</i>	210
9.5	<i>Testing for Autocorrelation in the Residuals</i>	211
9.5.1	<i>Testing for Autocorrelated Residuals in Gretl and R</i>	212
9.6	<i>Parameter Stability</i>	214
9.6.1	<i>Chow Test in Gretl</i>	215
9.6.2	<i>Chow Test in R</i>	216
9.7	<i>Cointegration</i>	217
9.7.1	<i>Cointegration in Gretl</i>	218
9.7.2	<i>Cointegration in R</i>	221
	<i>References</i>	223
10	Other Statistical Tools	225
10.1	<i>T-test</i>	225
10.1.1	<i>Example</i>	226
10.1.2	<i>T-test or Regression Model</i>	229
10.2	<i>Chi-square Test</i>	230
10.2.1	<i>Chi-square Goodness of Fit Test</i>	231
10.2.2	<i>Gretl and R</i>	232
10.2.3	<i>Example with Data</i>	233
10.2.4	<i>Chi-square Test or Regression Analysis</i>	236

10.3	<i>Analysis of Variance</i>	238
10.3.1	<i>Example in Gretl</i>	240
10.3.2	<i>Example in R</i>	241
10.3.3	<i>Analysis of Variance or Using Dummy Variables</i>	242
Bibliography		243
Index		245