

Introductory Econometrics WS 2006/07

Questions for review

First lecture

1. Ragnar Frisch's statement in the first Econometrica issue basically says that Econometrics is not (only) applied statistics and not (only) mathematics applied to economics. What is it, then?
2. How does the fundamental asset value evolve over time in the Glosten/Harris(1988) model. Which parts of the equation are associated with public and which parts with private information that influences the fundamental asset value.
3. When do we call an asset price "efficient"?
4. Explain the components of the equations that give the buy (bid) and the (ask) price in the Glosten/Harris model.
5. Explain how in the Glosten/Harris the market maker anticipates the impact that a trade event exerts on the fundamental asset price when setting buy and sell prices.
6. Why should it be interesting for a) an investor and b) for a stock exchange (like the New York Stock Exchange) to attach real numbers to the parameters of the Glosten/Harris (1988) model (z_0, z_1, c, μ).
7. What does the spread mean? Why is the spread associated with (implicit) transaction costs.
8. Which objects (variables and parameters) in the Glosten Harris model are a) observable to the market maker, but not to the econometrician b) observable to the econometrician.
9. The final equation of the Glosten/Harris model contains observable objects, unknown parameters and an unobservable component. What are these? What is the meaning of the unobservable variable in the final equation?
10. Why did we transform the equations for the market maker's buy and sell price that the market maker posts at point in time t ?
11. In the "Mincer equation" from human capital theory (discussed in the lecture) what are the observable variables and what is the meaning of the unobservable component?
12. Why should the government be interested in estimating the parameters of the Mincer equation from human capital theory? Why do we need statistical hypothesis testing in that context?
13. Explain why we can conceive $\ln(WAGE_i)$, S_i , $TENURE_i$ and $EXPR_i$ in the Mincer equation as random variables.