

Enjoyable Econometrics

Econometrics can at first appear a highly technical subject, but it can also equip the practitioner with a useful skillset of smart ways to formulate research questions and collect data. *Enjoyable Econometrics* applies econometric methods to a variety of unusual and engaging research questions, often beyond the realm of economics, demonstrating the great potential of using such methods to understand a wide range of phenomena. Unlike the typical textbook approach, *Enjoyable Econometrics* follows in the footsteps of *Freakonomics* by posing interesting questions first, before introducing the methodology to find the answers. Therefore, rather than equation-heavy sections based around complex methodologies, the reader is presented with chapters on “Money” and “Fashion, Art, and Music.” Franses writes in a way that will enthuse and motivate the economics student embarking on the essential study of econometrics. Indeed, the book shows that econometric methods can be applied to almost anything.

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Philip Hans Franses
Frontmatter
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*To find your true path, you must be as free as possible to cast
adrift.*

—Francis Bacon (*painter*)

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[More Information](#)

Contents

Preface	<i>page</i> ix
1 Introduction	1
2 Correlation and Regression	15
3 Money	53
4 Financial Literacy and Numeracy	82
5 Postage Stamps and Banknotes	115
6 Fashion, Art, and Music	149
7 Academic Publications	180
8 Trends and Fads	217
9 The Takeaways	253
Notes	260
Index	280

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[More Information](#)

Preface

The Wiki lemma of Econometrics (consulted February 28, 2017) states:

Econometrics is the application of statistical methods to economic data and is described as the branch of economics that aims to give empirical content to economic relations. More precisely, it is “the quantitative analysis of actual economic phenomena based on the concurrent development of theory and observation, related by appropriate methods of inference.”

Anyone who has a look at the content of an introductory textbook of econometrics will surely agree that statistical methods are important for econometrics, because most of these textbooks are full of mathematical notation. So, at first sight, econometrics is considered a highly technical subject that demands substantial skills from its practitioners. At the same time, however, it is not true that econometric methods are designed only for the sake of creating ever more complicated tools. No, the techniques are helpful in many situations: for example, when it comes to forecasting economic variables like gross domestic product (GDP) growth, inflation, and unemployment or when it comes to policy evaluation where the merits of educational programs and tax reform programs can be evaluated.

A closer look at the empirical applications of econometric methods, not only in textbooks but also in scientific articles in international journals, suggests that most applications address issues in macroeconomics and finance. These areas are usually characterized

X PREFACE

by the availability of an abundance of data, as national statistical institutes and financial institutions collect a wealth of information on an annual to a daily basis.

A first reason for writing this book is to emphasize that econometric methods can also be applied to *all kinds* of settings, where typically the practitioner has to collect his or her own data first. Such collection can be done by carefully combining existing databases, but also by holding surveys or running experiments. A nice by-product of having to collect one's own data is that doing so helps make a proper and educated choice among the wealth of potential methods and techniques to be considered later on. This book therefore contains a range of datasets so that anyone can play around with them, also perhaps to try out alternative methods than those that I chose to use. All data are available via www.enjoyable-econometrics.com.

A second reason for writing this book concerns the very motivation to engage in applying econometric methods. A casual glance at many econometric studies seems to suggest that most practitioners have a solid view on their research questions. Indeed, someone who needs an econometric model to create out-of-sample forecasts usually knows that he or she wants a tool that provides somehow accurate forecasts. And those who evaluate policy programs want to answer the question of whether a program is successful. However, there are many more (and also perhaps slightly unconventional) research questions that also benefit from using econometric methods, and in this book I will address quite a few of those. Indeed, as you may have seen in the table of contents, the chapter titles do not feature econometric concepts, but they do reference a range of research questions.

The two reasons for writing this book come together in the single overall goal: to attract newcomers to the field by showing

that econometrics also involves smart ways of formulating research questions and smart ways of data collection. So, while people may shy away from the mainstream applications of econometrics, it is hoped that this book full of other research questions and innovative datasets will provide a motivation to embark on a primer course of econometrics.

HISTORY



It is in this building in Rotterdam, the Netherlands, at the Pieter de Hooghweg where it all began. The world's first academic program on econometrics was launched in 1956. Initiated by Jan Tinbergen and Henri Theil, the Econometric Institute was founded and the first students embarked on an econometrics bachelor program, which bore many similarities with the one today. The library looked different in those days, by the way.



Since 1956, the Econometric Institute at the Erasmus University Rotterdam has educated thousands of students, and several of those have pursued academic careers. I am very proud today that I can be a part of this wonderful institute and that I can work with my superbly qualified colleagues and ambitious and very smart students.

THANKS

A first word of thanks is to the editorial team of Cambridge University Press. Phil Good has been very helpful in encouraging and in governing the publication process.

I am also thankful to the students who helped me with the data collection; in particular, I would like to mention Wouter Knecht, Bert de Bruijn, Stephanie Vermeer, Lotje Kruithof, Merel van Diepen, Rogier Potter van Loon, Marjolein van Baardwijk, and Jeanine Kippers.

A special word of thanks goes to Eva Janssens for checking all the computations and her help with the website and to Christiaan Heij for his keen eye on the equations.

Since 2006, I have served as Dean of the Erasmus School of Economics, a school with more than 6,000 bachelors and masters students in economics and econometrics. Usually, when someone becomes a dean, his or her research output will vaporize quickly, as the administrative duties require much time. I was lucky though, in the past years, to have a wonderful team to help me lead the school, which made it possible for me to have some spare moments to work on this book. I therefore conclude these words of thanks by expressing my enormous gratitude to Harry Commandeur, Saskia Krijger, Margaretha Buurman, Nine van Gent-van der Feltz, Bert de Groot, Ben Schotpoort, Reino de Boer, Ivo Arnold, Casper de Vries, Shirley May, Ylaise Herwig-Djojokarso, Ellen Baaij-van der Hoven, Ronald de Groot, Charles Hermans, and of course Tineke Kurtz-Wierenga, who has been my wonderful personal assistant for many years. Without all of you, this book could never have been completed.

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