

Contents

Preface	page ix
List of illustrations	xi
Notation	xii
1 The technology of estimation	1
1.1 <i>Least squares</i>	1
1.2 <i>Modern computing</i>	3
1.3 <i>An example: money demand</i>	5
1.4 <i>Maximum Likelihood methodology</i>	7
1.5 <i>Computing and clerical errors</i>	9
2 Likelihood	11
2.1 <i>Simple linear regression</i>	11
2.2 <i>Generalities</i>	12
2.3 <i>Regularity</i>	15
2.4 <i>Score vector and information matrix</i>	16
<i>Questions and exercises</i>	18
2.5 <i>The inequality of Cramér–Rao</i>	19
2.6 <i>Maximum Likelihood estimation</i>	22
2.7 <i>Independent observations</i>	23
2.8 <i>Consistency of the MLE</i>	24
2.9 <i>Asymptotic distribution of the MLE</i>	25
2.10 <i>Estimation of the covariance matrix</i>	27
<i>Questions and exercises</i>	28
3 Tests of simplifying assumptions	30
3.1 <i>Invariance of MLE and transformation of parameters</i>	30
<i>Questions and exercises</i>	33
3.2 <i>Nested hypotheses</i>	34
3.3 <i>Constrained estimation</i>	35
<i>Questions and exercises</i>	39
3.4 <i>Likelihood Ratio test</i>	39
3.5 <i>Wald’s test</i>	41
3.6 <i>Lagrange multiplier test</i>	42

Contents	
3.7	<i>Discussion</i> 43
	<i>Questions and exercises</i> 43
4	The use of likelihood in econometrics 45
4.1	<i>A Bayesian interpretation</i> 46
4.2	<i>Asymptotic behavior</i> 47
4.3	<i>Statistical models</i> 49
4.4	<i>Economic aggregates</i> 50
4.5	<i>Genuine samples</i> 53
5	Techniques of maximization 56
5.1	<i>Stepwise maximization</i> 57
5.2	<i>Concentrating the likelihood function</i> 59
	<i>Questions and exercises</i> 62
5.3	<i>Grid search: optimization in one dimension</i> 63
5.4	<i>Directions in Θ</i> 65
5.5	<i>Choice of a direction</i> 66
5.6	<i>Quadratic approximation</i> 69
	<i>Questions and exercises</i> 70
5.7	<i>Two-stage estimation procedures</i> 71
5.8	<i>Starting values and convergence criteria</i> 72
5.9	<i>Choice of a method</i> 73
5.10	<i>Local and global maxima</i> 75
5.11	<i>Some common failures</i> 76
6	Generalized classical regression 79
6.1	<i>Generalized classical regression</i> 80
6.2	<i>Score vector and information matrix</i> 84
6.3	<i>Concentrating the likelihood function</i> 86
	<i>Questions and exercises</i> 89
6.4	<i>Estimation</i> 90
6.5	<i>Scalar nonlinear regression: choice of a function</i> 92
6.6	<i>Scalar nonlinear regression: estimation</i> 94
	<i>Questions and exercises</i> 96
7	Systems of linear regression equations 100
7.1	<i>Seemingly unrelated regression equations and the single regression equation</i> 102
7.2	<i>The Generalized Least Squares model</i> 104
	<i>Questions and exercises</i> 108
7.3	<i>Sum-constrained dependent variables</i> 108
7.4	<i>Restrictions on the linear coefficients</i> 112
	<i>Questions and exercises</i> 118
7.5	<i>Simultaneous linear equations</i> 119

Contents	vii
7.6 <i>Tests of coefficient restrictions</i>	121
<i>Questions and exercises</i>	123
7.7 <i>Shortcomings of data sets and of models</i>	123
8 The transformation of Box and Cox	129
8.1 <i>The transformation of Box and Cox</i>	130
8.2 <i>Estimation</i>	132
<i>Questions and exercises</i>	134
9 Time series data and dynamic models	136
9.1 <i>General remarks</i>	138
9.2 <i>Dynamic regression equations</i>	139
<i>Questions and exercises</i>	141
9.3 <i>An infinite distributed lag</i>	142
9.4 <i>Autoregressive disturbances</i>	144
9.5 <i>Lagged dependent variables</i>	147
<i>Questions and exercises</i>	149
10 Discrete choice models	150
10.1 <i>The discrete choice model and its likelihood</i>	151
10.2 <i>Grouped data</i>	155
10.3 <i>Tests of simplifying assumptions and of goodness of fit</i>	157
<i>Questions and exercises</i>	160
10.4 <i>The probit model</i>	161
10.5 <i>The logit model</i>	164
<i>Questions and exercises</i>	171
11 Hybrid and mixed dependent variables	172
11.1 <i>Tobin's model</i>	172
11.2 <i>Heckman's model</i>	177
11.3 <i>Truncated samples</i>	180
11.4 <i>Attempts at simultaneity</i>	181
12 Simple random process models	184
12.1 <i>Poisson regression</i>	185
12.2 <i>Models of duration</i>	186
12.3 <i>Additional heterogeneity</i>	188
12.4 <i>Some duration model likelihoods</i>	190
References	194
Author index	203
Subject index	206