DATA ANALYSIS FOR BUSINESS, ECONOMICS, AND POLICY

This textbook provides future data analysts with the tools, methods, and skills needed to answer data-focused, real-life questions; to carry out data analysis; and to visualize and interpret results to support better decisions in business, economics, and public policy.

Data wrangling and exploration, regression analysis, machine learning, and causal analysis are comprehensively covered, as well as when, why, and how the methods work, and how they relate to each other.

As the most effective way to communicate data analysis, running case studies play a central role in this textbook. Each case starts with an industry-relevant question and answers it by using real-world data and applying the tools and methods covered in the textbook. Learning is then consolidated by 360 practice questions and 120 data exercises.

Extensive online resources, including raw and cleaned data and codes for all analysis in Stata, R, and Python, can be found at [http://www.gabors-data-analysis.com](http://www.gabors-data-analysis.com).

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“This exciting new text covers everything today’s aspiring data scientist needs to know, managing to be comprehensive as well as accessible. Like a good confidence interval, the Gabors have got you almost completely covered!”

Professor Joshua Angrist, Massachusetts Institute of Technology

“This is an excellent book for students learning the art of modern data analytics. It combines the latest techniques with practical applications, replicating the implementation side of classroom teaching that is typically missing in textbooks. For example, they used the World Management Survey data to generate exercises on firm performance for students to gain experience in handling real data, with all its quirks, problems, and issues. For students looking to learn data analysis from one textbook, this is a great way to proceed.”

Professor Nicholas Bloom, Department of Economics and Stanford Business School, Stanford University

“I know of few books about data analysis and visualization that are as comprehensive, deep, practical, and current as this one; and I know of almost none that are as fun to read. Gábor Békés and Gábor Kézdi have created a most unusual and most compelling beast: a textbook that teaches you the subject matter well and that, at the same time, you can enjoy reading cover to cover.”

Professor Alberto Cairo, University of Miami

“A beautiful integration of econometrics and data science that provides a direct path from data collection and exploratory analysis to conventional regression modeling, then on to prediction and causal modeling. Exactly what is needed to equip the next generation of students with the tools and insights from the two fields.”

Professor David Card, University of California–Berkeley

“This textbook is excellent at dissecting and explaining the underlying process of data analysis. Békés and Kézdi have masterfully woven into their instruction a comprehensive range of case studies. The result is a rigorous textbook grounded in real-world learning, at once accessible and engaging to novice scholars and advanced practitioners alike. I have every confidence it will be valued by future generations.”

Professor Kerwin K. Charles, Yale School of Management

“This book takes you by the hand in a journey that will bring you to understand the core value of data in the fields of machine learning and economics. The large amount of accessible examples combined with the intuitive explanation of foundational concepts is an ideal mix for anyone who wants to do data analysis. It is highly recommended to anyone interested in the new way in which data will be analyzed in the social sciences in the next years.”

Professor Christian Fons-Rosen, Barcelona Graduate School of Economics

“This sophisticatedly simple book is ideal for undergraduate- or Master’s-level Data Analytics courses with a broad audience. The authors discuss the key aspects of examining data, regression analysis, prediction, Lasso, random forests, and more, using elegant prose instead of algebra. Using well-chosen case studies, they illustrate the techniques and discuss all of them patiently and thoroughly.”

Professor Carter Hill, Louisiana State University

“A multifaceted book that considers many sides of data analysis, all of them important for the contemporary student and practitioner. It brings together classical statistics, regression, and causal inference, sending the message that awareness of all three aspects is important for success in this field. Many ‘best practices’ are discussed in accessible language, and illustrated using interesting datasets.”

Professor Ilya Ryzhov, University of Maryland

“This is a fantastic book to have. Strong data skills are critical for modern business and economic research, and this text provides a thorough and practical guide to acquiring them. Highly recommended.”

Professor John van Reenen, MIT Sloan

“Energy and climate change is a major public policy challenge, where high-quality data analysis is the foundation of solid policy. This textbook will make an important contribution to this with its innovative approach. In addition to the comprehensive treatment of modern econometric techniques, the book also covers the less glamorous but crucial aspects of procuring and cleaning data, and drawing useful inferences from less-than-perfect datasets. An important and practical combination for both academic and policy professionals.”

Laszlo Varro, Chief Economist, International Energy Agency
DATA ANALYSIS FOR BUSINESS, ECONOMICS, AND POLICY

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# BRIEF CONTENTS

*Why Use This Book*  
*Simplified Notation*  
*Acknowledgments*

## DATA EXPLORATION

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Origins of Data</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Preparing Data for Analysis</td>
<td>30</td>
</tr>
<tr>
<td>3</td>
<td>Exploratory Data Analysis</td>
<td>58</td>
</tr>
<tr>
<td>4</td>
<td>Comparison and Correlation</td>
<td>96</td>
</tr>
<tr>
<td>5</td>
<td>Generalizing from Data</td>
<td>118</td>
</tr>
<tr>
<td>6</td>
<td>Testing Hypotheses</td>
<td>143</td>
</tr>
</tbody>
</table>

## REGRESSION ANALYSIS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Simple Regression</td>
<td>171</td>
</tr>
<tr>
<td>8</td>
<td>Complicated Patterns and Messy Data</td>
<td>200</td>
</tr>
<tr>
<td>9</td>
<td>Generalizing Results of a Regression</td>
<td>236</td>
</tr>
<tr>
<td>10</td>
<td>Multiple Linear Regression</td>
<td>266</td>
</tr>
<tr>
<td>11</td>
<td>Modeling Probabilities</td>
<td>297</td>
</tr>
<tr>
<td>12</td>
<td>Regression with Time Series Data</td>
<td>329</td>
</tr>
</tbody>
</table>

## PREDICTION

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>A Framework for Prediction</td>
<td>365</td>
</tr>
<tr>
<td>14</td>
<td>Model Building for Prediction</td>
<td>391</td>
</tr>
<tr>
<td>15</td>
<td>Regression Trees</td>
<td>417</td>
</tr>
<tr>
<td>16</td>
<td>Random Forest and Boosting</td>
<td>438</td>
</tr>
</tbody>
</table>
Brief Contents

17 Probability Prediction and Classification 457
18 Forecasting from Time Series Data 487

IV CAUSAL ANALYSIS 517

19 A Framework for Causal Analysis 519
20 Designing and Analyzing Experiments 555
21 Regression and Matching with Observational Data 588
22 Difference-in-Differences 620
23 Methods for Panel Data 649
24 Appropriate Control Groups for Panel Data 681

References 704
Index 709
# CONTENTS

**Why Use This Book**  
*page* xxi  
**Simplified Notation**  
*page* xxiv  
**Acknowledgments**  
*page* xxv  

## I DATA EXPLORATION

1 Origins of Data  
1.1 What Is Data?  
1.2 Data Structures  
1.A1 CASE STUDY – Finding a Good Deal among Hotels: Data Collection  
1.3 Data Quality  
1.B1 CASE STUDY – Comparing Online and Offline Prices: Data Collection  
1.C1 CASE STUDY – Management Quality and Firm Performance: Data Collection  
1.4 How Data Is Born: The Big Picture  
1.5 Collecting Data from Existing Sources  
1.A2 CASE STUDY – Finding a Good Deal among Hotels: Data Collection  
1.B2 CASE STUDY – Comparing Online and Offline Prices: Data Collection  
1.6 Surveys  
1.C2 CASE STUDY – Management Quality and Firm Size: Data Collection  
1.7 Sampling  
1.8 Random Sampling  
1.B3 CASE STUDY – Comparing Online and Offline Prices: Data Collection  
1.C3 CASE STUDY – Management Quality and Firm Size: Data Collection  
1.9 Big Data  
1.10 Good Practices in Data Collection  
1.11 Ethical and Legal Issues of Data Collection  
1.12 Main Takeaways  
Practice Questions  
Data Exercises  
References and Further Reading  

2 Preparing Data for Analysis  
2.1 Types of Variables  
2.2 Stock Variables, Flow Variables  
2.3 Types of Observations  
2.4 Tidy Data  
2.A1 CASE STUDY – Finding a Good Deal among Hotels: Data Preparation  
2.5 Tidy Approach for Multi-dimensional Data  
2.B1 CASE STUDY – Displaying Immunization Rates across Countries  
2.6 Relational Data and Linking Data Tables
2.C1 CASE STUDY – Identifying Successful Football Managers 40
2.7 Entity Resolution: Duplicates, Ambiguous Identification, and Non-entity Rows 42
2.C2 CASE STUDY – Identifying Successful Football Managers 43
2.8 Discovering Missing Values 44
2.9 Managing Missing Values 46
2.A2 CASE STUDY – Finding a Good Deal among Hotels: Data Preparation 47
2.10 The Process of Cleaning Data 48
2.11 Reproducible Workflow: Write Code and Document Your Steps 49
2.12 Organizing Data Tables for a Project 50
2.C3 CASE STUDY – Identifying Successful Football Managers 52
2.C4 CASE STUDY – Identifying Successful Football Managers 53
2.13 Main Takeaways 54
Practice Questions 54
Data Exercises 55
References and Further Reading 56

3 Exploratory Data Analysis 58

3.1 Why Do Exploratory Data Analysis? 59
3.2 Frequencies and Probabilities 60
3.3 Visualizing Distributions 61
3.A1 CASE STUDY – Finding a Good Deal among Hotels: Data Exploration 62
3.4 Extreme Values 65
3.A2 CASE STUDY – Finding a Good Deal among Hotels: Data Exploration 66
3.5 Good Graphs: Guidelines for Data Visualization 68
3.A3 CASE STUDY – Finding a Good Deal among Hotels: Data Exploration 71
3.6 Summary Statistics for Quantitative Variables 72
3.B1 CASE STUDY – Comparing Hotel Prices in Europe: Vienna vs. London 74
3.7 Visualizing Summary Statistics 77
3.C1 CASE STUDY – Measuring Home Team Advantage in Football 78
3.8 Good Tables 80
3.C2 CASE STUDY – Measuring Home Team Advantage in Football 82
3.9 Theoretical Distributions 83
3.D1 CASE STUDY – Distributions of Body Height and Income 85
3.10 Steps of Exploratory Data Analysis 87
3.11 Main Takeaways 88
Practice Questions 88
Data Exercises 89
References and Further Reading 90

3.U1 Under the Hood: More on Theoretical Distributions 90
Bernoulli Distribution 91
Binomial Distribution 91
Uniform Distribution 92
Power-Law Distribution 92
## Contents

### 4 Comparison and Correlation

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 The $y$ and the $x$</td>
<td>97</td>
</tr>
<tr>
<td>4.2 Conditioning</td>
<td>100</td>
</tr>
<tr>
<td>4.3 Conditional Probabilities</td>
<td>101</td>
</tr>
<tr>
<td>4.A2 CASE STUDY – Management Quality and Firm Size: Describing Patterns of Association</td>
<td>102</td>
</tr>
<tr>
<td>4.4 Conditional Distribution, Conditional Expectation</td>
<td>103</td>
</tr>
<tr>
<td>4.5 Conditional Distribution, Conditional Expectation with Quantitative $x$</td>
<td>104</td>
</tr>
<tr>
<td>4.A3 CASE STUDY – Management Quality and Firm Size: Describing Patterns of Association</td>
<td>105</td>
</tr>
<tr>
<td>4.6 Dependence, Covariance, Correlation</td>
<td>108</td>
</tr>
<tr>
<td>4.7 From Latent Variables to Observed Variables</td>
<td>110</td>
</tr>
<tr>
<td>4.A4 CASE STUDY – Management Quality and Firm Size: Describing Patterns of Association</td>
<td>111</td>
</tr>
<tr>
<td>4.8 Sources of Variation in $x$</td>
<td>113</td>
</tr>
<tr>
<td>4.9 Main Takeaways</td>
<td>114</td>
</tr>
<tr>
<td>Practice Questions</td>
<td>115</td>
</tr>
<tr>
<td>Data Exercises</td>
<td>115</td>
</tr>
<tr>
<td>References and Further Reading</td>
<td>116</td>
</tr>
<tr>
<td>4.U1 Under the Hood: Inverse Conditional Probabilities, Bayes’ Rule</td>
<td>116</td>
</tr>
</tbody>
</table>

### 5 Generalizing from Data

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 When to Generalize and to What?</td>
<td>119</td>
</tr>
<tr>
<td>5.A1 CASE STUDY – What Likelihood of Loss to Expect on a Stock Portfolio?</td>
<td>121</td>
</tr>
<tr>
<td>5.2 Repeated Samples, Sampling Distribution, Standard Error</td>
<td>122</td>
</tr>
<tr>
<td>5.A2 CASE STUDY – What Likelihood of Loss to Expect on a Stock Portfolio?</td>
<td>123</td>
</tr>
<tr>
<td>5.3 Properties of the Sampling Distribution</td>
<td>125</td>
</tr>
<tr>
<td>5.A3 CASE STUDY – What Likelihood of Loss to Expect on a Stock Portfolio?</td>
<td>127</td>
</tr>
<tr>
<td>5.4 The confidence interval</td>
<td>128</td>
</tr>
<tr>
<td>5.A4 CASE STUDY – What Likelihood of Loss to Expect on a Stock Portfolio?</td>
<td>129</td>
</tr>
<tr>
<td>5.5 Discussion of the CI: Confidence or Probability?</td>
<td>129</td>
</tr>
<tr>
<td>5.6 Estimating the Standard Error with the Bootstrap Method</td>
<td>130</td>
</tr>
<tr>
<td>5.A5 CASE STUDY – What Likelihood of Loss to Expect on a Stock Portfolio?</td>
<td>132</td>
</tr>
<tr>
<td>5.7 The Standard Error Formula</td>
<td>133</td>
</tr>
<tr>
<td>5.A6 CASE STUDY – What Likelihood of Loss to Expect on a Stock Portfolio?</td>
<td>134</td>
</tr>
<tr>
<td>5.8 External Validity</td>
<td>135</td>
</tr>
<tr>
<td>5.A7 CASE STUDY – What Likelihood of Loss to Expect on a Stock Portfolio?</td>
<td>136</td>
</tr>
<tr>
<td>5.9 Big Data, Statistical Inference, External Validity</td>
<td>137</td>
</tr>
<tr>
<td>5.10 Main Takeaways</td>
<td>138</td>
</tr>
<tr>
<td>Practice Questions</td>
<td>138</td>
</tr>
<tr>
<td>Data Exercises</td>
<td>139</td>
</tr>
<tr>
<td>References and Further Reading</td>
<td>139</td>
</tr>
<tr>
<td>5.U1 Under the Hood: The Law of Large Numbers and the Central Limit Theorem</td>
<td>140</td>
</tr>
</tbody>
</table>
6 Testing Hypotheses

6.1 The Logic of Testing Hypotheses

6.2 Null Hypothesis, Alternative Hypothesis

6.3 The t-Test

6.4 Making a Decision; False Negatives, False Positives

6.5 The p-Value

6.6 Steps of Hypothesis Testing

6.7 One-Sided Alternatives

6.8 Testing Multiple Hypotheses

6.9 p-Hacking

6.10 Testing Hypotheses with Big Data

6.11 Main Takeaways

Practice Questions
Data Exercises
References and Further Reading

II REGRESSION ANALYSIS

7 Simple Regression

7.1 When and Why Do Simple Regression Analysis?

7.2 Regression: Definition

7.3 Non-parametric Regression

7.A1 CASE STUDY – Finding a Good Deal among Hotels with Simple Regression

7.4 Linear Regression: Introduction

7.5 Linear Regression: Coefficient Interpretation

7.6 Linear Regression with a Binary Explanatory Variable

7.7 Coefficient Formula

7.A2 CASE STUDY – Finding a Good Deal among Hotels with Simple Regression

7.8 Predicted Dependent Variable and Regression Residual

7.A3 CASE STUDY – Finding a Good Deal among Hotels with Simple Regression

7.9 Goodness of Fit, R-Squared

7.A4 CASE STUDY – Finding a Good Deal among Hotels with Simple Regression

7.10 Correlation and Linear Regression

7.11 Regression Analysis, Regression toward the Mean, Mean Reversion

7.12 Regression and Causation

7.A4 CASE STUDY – Finding a Good Deal among Hotels with Simple Regression

7.13 Main Takeaways

Practice Questions
Data Exercises
References and Further Reading

8 Complicated Patterns and Messy Data

8.1 When and Why Care about the Shape of the Association between y and x?

8.2 Taking Relative Differences or Log

8.3 Log Transformation and Non-positive Values

8.4 Interpreting Log Values in a Regression

8.A1 CASE STUDY – Finding a Good Deal among Hotels with Nonlinear Function

8.5 Other Transformations of Variables

8.B1 CASE STUDY – How is Life Expectancy Related to the Average Income of a Country?

8.6 Regression with a Piecewise Linear Spline

8.7 Regression with Polynomial

8.8 Choosing a Functional Form in a Regression

8.B2 CASE STUDY – How is Life Expectancy Related to the Average Income of a Country?

8.9 Extreme Values and Influential Observations

8.10 Measurement Error in Variables

8.C1 CASE STUDY – Hotel Ratings and Measurement Error

8.11 Classical Measurement Error

8.12 Non-classical Measurement Error and General Advice

8.B3 CASE STUDY – How is Life Expectancy Related to the Average Income of a Country?

8.13 Using Weights in Regression Analysis

8.B3 CASE STUDY – How is Life Expectancy Related to the Average Income of a Country?

8.14 Main Takeaways

Practice Questions
Data Exercises
References and Further Reading

9 Generalizing Results of a Regression

9.1 Generalizing Linear Regression Coefficients

9.2 Statistical Inference: CI and SE of Regression Coefficients

9.A1 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.3 Intervals for Predicted Values

9.A2 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.4 Testing Hypotheses about Regression Coefficients

9.A3 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.5 Testing More Complex Hypotheses

9.A4 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.6 Presenting Regression Results

9.A4 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.7 Data Analysis to Help Assess External Validity

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6 Testing Hypotheses

6.1 The Logic of Testing Hypotheses

6.A1 CASE STUDY – Comparing Online and Offline Prices: Testing the Difference

6.2 Null Hypothesis, Alternative Hypothesis

6.3 The t-Test

6.4 Making a Decision; False Negatives, False Positives

6.5 The p-Value

6.A2 CASE STUDY – Comparing Online and Offline Prices: Testing the Difference

6.6 Steps of Hypothesis Testing

6.7 One-Sided Alternatives


6.8 Testing Multiple Hypotheses

6.A3 CASE STUDY – Comparing Online and Offline Prices: Testing the Difference

6.9 p-Hacking

6.10 Testing Hypotheses with Big Data

6.11 Main Takeaways

Practice Questions
Data Exercises
References and Further Reading

8 Complicated Patterns and Messy Data

8.1 When and Why Care about the Shape of the Association between y and x?

8.2 Taking Relative Differences or Log

8.3 Log Transformation and Non-positive Values

8.4 Interpreting Log Values in a Regression

8.A1 CASE STUDY – Finding a Good Deal among Hotels with Nonlinear Function

8.5 Other Transformations of Variables

8.6 Regression with a Piecewise Linear Spline

8.7 Regression with Polynomial

8.8 Choosing a Functional Form in a Regression

8.B1 CASE STUDY – How is Life Expectancy Related to the Average Income of a Country?

8.9 Extreme Values and Influential Observations

8.10 Measurement Error in Variables

8.11 Classical Measurement Error

8.C1 CASE STUDY – Hotel Ratings and Measurement Error

8.12 Non-classical Measurement Error and General Advice

8.13 Using Weights in Regression Analysis

8.B2 CASE STUDY – How is Life Expectancy Related to the Average Income of a Country?

8.14 Main Takeaways

Practice Questions
Data Exercises
References and Further Reading

9 Generalizing Results of a Regression

9.1 Generalizing Linear Regression Coefficients

9.2 Statistical Inference: CI and SE of Regression Coefficients

9.A1 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.3 Intervals for Predicted Values

9.A2 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.4 Testing Hypotheses about Regression Coefficients

9.5 Testing More Complex Hypotheses

9.A3 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.6 Presenting Regression Results

9.A4 CASE STUDY – Estimating Gender and Age Differences in Earnings

9.7 Data Analysis to Help Assess External Validity
9.8 Main Takeaways 260
Practice Questions 261
Data Exercises 261
References and Further Reading 262

9.U1 Under the Hood: The Simple SE Formula for Regression Intercept 262
9.U2 Under the Hood: The Law of Large Numbers for \( \hat{\beta} \) 263
9.U3 Under the Hood: Deriving SE(\( \hat{\beta} \)) with the Central Limit Theorem 264
9.U4 Under the Hood: Degrees of Freedom Adjustment for the SE Formula 265

10 Multiple Linear Regression 266
10.1 Multiple Regression: Why and When? 267
10.2 Multiple Linear Regression with Two Explanatory Variables 267
10.3 Multiple Regression and Simple Regression: Omitted Variable Bias 268
10.A1 CASE STUDY – Understanding the Gender Difference in Earnings 270
10.4 Multiple Linear Regression Terminology 272
10.5 Standard Errors and Confidence Intervals in Multiple Linear Regression 273
10.6 Hypothesis Testing in Multiple Linear Regression 275
10.A2 CASE STUDY – Understanding the Gender Difference in Earnings 275
10.7 Multiple Linear Regression with Three or More Explanatory Variables 276
10.8 Nonlinear Patterns and Multiple Linear Regression 277
10.A3 CASE STUDY – Understanding the Gender Difference in Earnings 278
10.9 Qualitative Right-Hand-Side Variables 279
10.A4 CASE STUDY – Understanding the Gender Difference in Earnings 280
10.10 Interactions: Uncovering Different Slopes across Groups 282
10.A5 CASE STUDY – Understanding the Gender Difference in Earnings 284
10.11 Multiple Regression and Causal Analysis 286
10.A6 CASE STUDY – Understanding the Gender Difference in Earnings 287
10.12 Multiple Regression and Prediction 290
10.B1 CASE STUDY – Finding a Good Deal among Hotels with Multiple Regression 292
10.13 Main Takeaways 294
Practice Questions 294
Data Exercises 295
References and Further Reading 296
10.U1 Under the Hood: A Two-Step Procedure to Get the Multiple Regression Coefficient 296

11 Modeling Probabilities 297
11.1 The Linear Probability Model 298
11.2 Predicted Probabilities in the Linear Probability Model 299
11.A1 CASE STUDY – Does Smoking Pose a Health Risk? 301
11.3 Logit and Probit 307
11.A2 CASE STUDY – Does Smoking Pose a Health Risk? 308
11.4 Marginal Differences 309
11.A3 CASE STUDY – Does Smoking Pose a Health Risk? 311

Contents

11.5 Goodness of Fit: R-Squared and Alternatives 312
11.6 The Distribution of Predicted Probabilities 314
11.7 Bias and Calibration 314
11.81 CASE STUDY – Are Australian Weather Forecasts Well Calibrated? 315
11.8 Refinement 317
11.A4 CASE STUDY – Does Smoking Pose a Health risk? 318
11.9 Using Probability Models for Other Kinds of y Variables 321
11.10 Main Takeaways 322
Practice Questions 323
Data Exercises 324
References and Further Reading 325
11.U1 Under the Hood: Saturated Models 325
11.U2 Under the Hood: Maximum Likelihood Estimation and Search Algorithms 326
11.U3 Under the Hood: From Logit and Probit Coefficients to Marginal Differences 327

12 Regression with Time Series Data 329
12.1 Preparation of Time Series Data 330
12.2 Trend and Seasonality 332
12.3 Stationarity, Non-stationarity, Random Walk 333
12.A1 CASE STUDY – Returns on a Company Stock and Market Returns 335
12.4 Time Series Regression 338
12.5 Trends, Seasonality, Random Walks in a Regression 343
12.B1 CASE STUDY – Electricity Consumption and Temperature 346
12.6 Serial Correlation 349
12.7 Dealing with Serial Correlation in Time Series Regressions 350
12.B2 CASE STUDY – Electricity Consumption and Temperature 352
12.8 Lags of x in a Time Series Regression 355
12.B3 CASE STUDY – Electricity Consumption and Temperature 357
12.9 The Process of Time Series Regression Analysis 359
12.10 Main Takeaways 360
Practice Questions 360
Data Exercises 361
References and Further Reading 362
12.U1 Under the Hood: Testing for Unit Root 362

III PREDICTION 363

13 A Framework for Prediction 365
13.1 Prediction Basics 366
13.2 Various Kinds of Prediction 367
13.A1 CASE STUDY – Predicting Used Car Value with Linear Regressions 369
13.3 The Prediction Error and Its Components 369
13.A2 CASE STUDY – Predicting Used Car Value with Linear Regressions 371
13.4 The Loss Function 373
## Contents

| 13.5 | Mean Squared Error (MSE) and Root Mean Squared Error (RMSE) | 375 |
| 13.6 | Bias and Variance of Predictions | 376 |
| 13.7 | The Task of Finding the Best Model | 377 |
| 13.8 | Finding the Best Model by Best Fit and Penalty: The BIC | 379 |
| 13.9 | Finding the Best Model by Training and Test Samples | 380 |
| 13.10 | Finding the Best Model by Cross-Validation | 382 |
| 13.13 | Main Takeaways | 389 |
| 14 | Model Building for Prediction | 391 |
| 14.1 | Steps of Prediction | 392 |
| 14.2 | Sample Design | 393 |
| 14.3 | Label Engineering and Predicting $\log y$ | 394 |
| 14.A1 | CASE STUDY – Predicting Used Car Value with Linear Regressions | 395 |
| 14.4 | Feature Engineering: Dealing with Missing Values | 397 |
| 14.5 | Feature Engineering: What $x$ Variables to Have and in What Functional Form | 398 |
| 14.B1 | CASE STUDY – Predicting Used Car Value: Log Prices | 399 |
| 14.6 | We Can’t Try Out All Possible Models | 402 |
| 14.7 | Evaluating the Prediction Using a Holdout Set | 403 |
| 14.B2 | CASE STUDY – Predicting Airbnb Apartment Prices: Selecting a Regression Model | 404 |
| 14.8 | Selecting Variables in Regressions by LASSO | 407 |
| 14.B3 | CASE STUDY – Predicting Airbnb Apartment Prices: Selecting a Regression Model | 409 |
| 14.9 | Diagnostics | 410 |
| 14.B4 | CASE STUDY – Predicting Airbnb Apartment Prices: Selecting a Regression Model | 411 |
| 14.10 | Prediction with Big Data | 412 |
| 14.11 | Main Takeaways | 414 |
| 14.U1 | Under the Hood: Text Parsing | 415 |
| 14.U2 | Under the Hood: Log Correction | 416 |
| 15 | Regression Trees | 417 |
| 15.1 | The Case for Regression Trees | 418 |
| 15.2 | Regression Tree Basics | 419 |
13.5 Mean Squared Error (MSE) and Root Mean Squared Error (RMSE) 375
13.6 Bias and Variance of Predictions 376
13.7 The Task of Finding the Best Model 377
13.8 Finding the Best Model by Best Fit and Penalty: The BIC 379
13.9 Finding the Best Model by Training and Test Samples 380
13.10 Finding the Best Model by Cross-Validation 382
13.A3 CASE STUDY – Predicting Used Car Value with Linear Regressions 383
13.11 External Validity and Stable Patterns 384
13.A4 CASE STUDY – Predicting Used Car Value with Linear Regressions 386
13.12 Machine Learning and the Role of Algorithms 387
13.13 Main Takeaways 389

Practice Questions 389
Data Exercises 390
References and Further Reading 390

14 Model Building for Prediction 391
14.1 Steps of Prediction 392
14.2 Sample Design 393
14.3 Label Engineering and Predicting $\log y$ 394
14.4 Feature Engineering: Dealing with Missing Values 397
14.5 Feature Engineering: What $x$ Variables to Have and in What Functional Form 398
14.B1 CASE STUDY – Predicting Airbnb Apartment Prices: Selecting a Regression Model 399
14.6 We Can’t Try Out All Possible Models 402
14.7 Evaluating the Prediction Using a Holdout Set 403
14.B2 CASE STUDY – Predicting Airbnb Apartment Prices: Selecting a Regression Model 404
14.8 Selecting Variables in Regressions by LASSO 407
14.B3 CASE STUDY – Predicting Airbnb Apartment Prices: Selecting a Regression Model 409
14.9 Diagnostics 410
14.B4 CASE STUDY – Predicting Airbnb Apartment Prices: Selecting a Regression Model 411
14.10 Prediction with Big Data 412
14.11 Main Takeaways 414

Practice Questions 414
Data Exercises 415
References and Further Reading 415

15 Regression Trees 417
15.1 The Case for Regression Trees 418
15.2 Regression Tree Basics 419
15.3 Measuring Fit and Stopping Rules 420
15.A1 CASE STUDY – Predicting Used Car Value with a Regression Tree 421
15.4 Regression Tree with Multiple Predictor Variables 425
15.5 Pruning a Regression Tree 426
15.6 A Regression Tree is a Non-parametric Regression 426
15.A2 CASE STUDY – Predicting Used Car Value with a Regression Tree 427
15.7 Variable Importance 430
15.8 Pros and Cons of Using a Regression Tree for Prediction 431
15.A3 CASE STUDY – Predicting Used Car Value with a Regression Tree 433
15.9 Main Takeaways 435
Practice Questions 435
Data Exercises 436
References and Further Reading 437

16 Random Forest and Boosting 438
16.1 From a Tree to a Forest: Ensemble Methods 439
16.2 Random Forest 440
16.3 The Practice of Prediction with Random Forest 442
16.A1 CASE STUDY – Predicting Airbnb Apartment Prices with Random Forest 443
16.4 Diagnostics: The Variable Importance Plot 444
16.5 Diagnostics: The Partial Dependence Plot 445
16.6 Diagnostics: Fit in Various Subsets 446
16.A2 CASE STUDY – Predicting Airbnb Apartment Prices with Random Forest 446
16.7 An Introduction to Boosting and the GBM Model 449
16.A3 CASE STUDY – Predicting Airbnb Apartment Prices with Random Forest 450
16.8 A Review of Different Approaches to Predict a Quantitative $y$ 452
16.9 Main Takeaways 454
Practice Questions 454
Data Exercises 455
References and Further Reading 456

17 Probability Prediction and Classification 457
17.1 Predicting a Binary $y$: Probability Prediction and Classification 458
17.A1 CASE STUDY – Predicting Firm Exit: Probability and Classification 459
17.2 The Practice of Predicting Probabilities 462
17.A2 CASE STUDY – Predicting Firm Exit: Probability and Classification 463
17.3 Classification and the Confusion Table 466
17.4 Illustrating the Trade-Off between Different Classification Thresholds: The ROC Curve 468
17.A3 CASE STUDY – Predicting Firm Exit: Probability and Classification 469
17.5 Loss Function and Finding the Optimal Classification Threshold 471
17.A4 CASE STUDY – Predicting Firm Exit: Probability and Classification 473
17.6 Probability Prediction and Classification with Random Forest 475
17.A5 CASE STUDY – Predicting Firm Exit: Probability and Classification 477
17.7 Class Imbalance 480
17.8 The Process of Prediction with a Binary Target Variable 481
## Contents

17.9 Main Takeaways 482
Practice Questions 482
Data Exercises 483
References and Further Reading 484
17.U1 Under the Hood: The Gini Node Impurity Measure and MSE 484
17.U2 Under the Hood: On the Method of Finding an Optimal Threshold 485

18 Forecasting from Time Series Data 487
18.1 Forecasting: Prediction Using Time Series Data 488
18.2 Holdout, Training, and Test Samples in Time Series Data 489
18.3 Long-Horizon Forecasting: Seasonality and Predictable Events 491
18.4 Long-Horizon Forecasting: Trends 492
18.5 Forecasting for a Short Horizon Using the Patterns of Serial Correlation 500
18.6 Modeling Serial Correlation: AR(1) 500
18.7 Modeling Serial Correlation: ARIMA 501
18.B1 CASE STUDY – Forecasting a Home Price Index 503
18.8 VAR: Vector Autoregressions 505
18.A2 CASE STUDY – Forecasting a Home Price Index 507
18.9 External Validity of Forecasts 509
18.10 Main Takeaways 512
Practice Questions 512
Data Exercises 513
References and Further Reading 514
18.U1 Under the Hood: Details of the ARIMA Model 514
18.U2 Under the Hood: Auto-Arima 516

IV CAUSAL ANALYSIS 517

19 A Framework for Causal Analysis 519
19.1 Intervention, Treatment, Subjects, Outcomes 520
19.2 Potential Outcomes 522
19.3 The Individual Treatment Effect 523
19.4 Heterogeneous Treatment Effects 524
19.5 ATE: The Average Treatment Effect 525
19.6 Average Effects in Subgroups and ATET 527
19.7 Quantitative Causal Variables 527
19.A1 CASE STUDY – Food and Health 528
19.8 Ceteris Paribus: Other Things Being the Same 530
19.9 Causal Maps 531
19.10 Comparing Different Observations to Uncover Average Effects 533
19.11 Random Assignment 535
19.12 Sources of Variation in the Causal Variable 536
19.A2 CASE STUDY – Food and Health 537
Contents

19.13 Experimenting versus Conditioning 539
19.14 Confounders in Observational Data 541
19.15 From Latent Variables to Measured Variables 543
19.16 Bad Conditioners: Variables Not to Condition On 544
19.A3 CASE STUDY – Food and Health 545
19.17 External Validity, Internal Validity 549
19.18 Constructive Skepticism 551
19.19 Main Takeaways 552
Practice Questions 552
Data Exercises 553
References and Further Reading 554

20 Designing and Analyzing Experiments 555
20.1 Randomized Experiments and Potential Outcomes 556
20.2 Field Experiments, A/B Testing, Survey Experiments 557
20.A1 CASE STUDY – Working from Home and Employee Performance 558
20.B1 CASE STUDY – Fine Tuning Social Media Advertising 559
20.3 The Experimental Setup: Definitions 560
20.4 Random Assignment in Practice 560
20.5 Number of Subjects and Proportion Treated 562
20.6 Random Assignment and Covariate Balance 563
20.A2 CASE STUDY – Working from Home and Employee Performance 565
20.7 Imperfect Compliance and Intent-to-Treat 567
20.A3 CASE STUDY – Working from Home and Employee Performance 569
20.8 Estimation and Statistical Inference 570
20.B2 CASE STUDY – Fine Tuning Social Media Advertising 571
20.9 Including Covariates in a Regression 572
20.A4 CASE STUDY – Working from Home and Employee Performance 573
20.10 Spillovers 576
20.11 Additional Threats to Internal Validity 577
20.A5 CASE STUDY – Working from Home and Employee Performance 579
20.12 External Validity, and How to Use the Results in Decision Making 581
20.A6 CASE STUDY – Working from Home and Employee Performance 582
20.13 Main Takeaways 583
Practice Questions 584
Data Exercises 585
References and Further Reading 585
20.U1 Under the Hood: LATE: The Local Average Treatment Effect 586
20.U2 Under the Hood: The Formula for Sample Size Calculation 586

21 Regression and Matching with Observational Data 588
21.1 Thought Experiments 589
21.A1 CASE STUDY – Founder/Family Ownership and Quality of Management 590
21.2 Variables to Condition on, Variables Not to Condition On 591
21.A2 CASE STUDY – Founder/Family Ownership and Quality of Management 592
## 21.3 Conditioning on Confounders by Regression

21.4 Selection of Variables and Functional Form in a Regression for Causal Analysis

21.A3 CASE STUDY – Founder/Family Ownership and Quality of Management

21.5 Matching

21.6 Common Support

21.7 Matching on the Propensity Score

21.A4 CASE STUDY – Founder/Family Ownership and Quality of Management

21.8 Comparing Linear Regression and Matching

21.A5 CASE STUDY – Founder/Family Ownership and Quality of Management

21.9 Instrumental Variables

21.10 Regression-Discontinuity

21.11 Main Takeaways

Practice Questions

Data Exercises

References and Further Reading

21.U1 Under the Hood: Unobserved Heterogeneity and Endogenous \( x \) in a Regression

21.U2 Under the hood: LATE is IV

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## 22 Difference-in-Differences

22.1 Conditioning on Pre-intervention Outcomes

22.2 Basic Difference-in-Differences Analysis: Comparing Average Changes

22.A1 CASE STUDY – How Does a Merger between Airlines Affect Prices?

22.3 The Parallel Trends Assumption

22.A2 CASE STUDY – How Does a Merger between Airlines Affect Prices?

22.4 Conditioning on Additional Confounders in Diff-in-Diffs Regressions

22.A3 CASE STUDY – How Does a Merger between Airlines Affect Prices?

22.5 Quantitative Causal Variable

22.A4 CASE STUDY – How Does a Merger between Airlines Affect Prices?

22.6 Difference-in-Differences with Pooled Cross-Sections

22.A5 CASE STUDY – How Does a Merger between Airlines Affect Prices?

22.7 Main Takeaways

Practice Questions

Data Exercises

References and Further Reading

22.B1 CASE STUDY – How Does a Merger between Airlines Affect Prices?

22.B2 CASE STUDY – How Does a Merger between Airlines Affect Prices?

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## 23 Methods for Panel Data

23.1 Multiple Time Periods Can Be Helpful

23.2 Estimating Effects Using Observational Time Series

23.3 Lags to Estimate the Time Path of Effects

23.4 Leads to Examine Pre-trends and Reverse Effects

23.5 Pooled Time Series to Estimate the Effect for One Unit

23.A1 CASE STUDY – Import Demand and Industrial Production

23.6 Panel Regression with Fixed Effects

23.7 Aggregate Trend
## Contents

23.B1 CASE STUDY – Immunization against Measles and Saving Children 662
23.8 Clustered Standard Errors 665
23.9 Panel Regression in First Differences 666
23.10 Lags and Leads in FD Panel Regressions 667
23.B2 CASE STUDY – Immunization against Measles and Saving Children 669
23.11 Aggregate Trend and Individual Trends in FD Models 671
23.B3 CASE STUDY – Immunization against Measles and Saving Children 672
23.12 Panel Regressions and Causality 674
23.13 First Differences or Fixed Effects? 675
23.14 Dealing with Unbalanced Panels 677
23.15 Main Takeaways 678
   Practice Questions 678
   Data Exercises 680
   References and Further Reading 680

### 24 Appropriate Control Groups for Panel Data 681

24.1 When and Why to Select a Control Group in xt Panel Data 682
24.2 Comparative Case Studies 682
24.3 The Synthetic Control Method 683
24.4 Event Studies 687
24.B1 CASE STUDY – Estimating the Impact of Replacing Football Team Managers 690
24.5 Selecting a Control Group in Event Studies 694
24.6 Main Takeaways 701
   Practice Questions 701
   Data Exercises 702
   References and Further Reading 703

References 704
Index 709
WHY USE THIS BOOK

An applied data analysis textbook for future professionals

Data analysis is a process. It starts with formulating a question and collecting appropriate data, or assessing whether the available data can help answer the question. Then comes cleaning and organizing the data, tedious but essential tasks that affect the results of the analysis as much as any other step in the process. Exploratory data analysis gives context to the eventual results and helps deciding the details of the analytical method to be applied. The main analysis consists of choosing and implementing the method to answer the question, with potential robustness checks. Along the way, correct interpretation and effective presentation of the results are crucial. Carefully crafted data visualization help summarize our findings and convey key messages. The final task is to answer the original question, with potential qualifications and directions for future inquiries.

Our textbook equips future data analysts with the most important tools, methods, and skills they need through the entire process of data analysis to answer data focused, real-life questions. We cover all the fundamental methods that help along the process of data analysis. The textbook is divided into four parts covering data wrangling and exploration, regression analysis, prediction with machine learning, and causal analysis. We explain when, why, and how the various methods work, and how they are related to each other.

Our approach has a different focus compared to the typical textbooks in econometrics and data science. They are often excellent in teaching many econometric and machine learning methods. But they don’t give much guidance about how to carry out an actual data analysis project from beginning to end. Instead, students have to learn all of that when they work through individual projects, guided by their teachers, advisors, and peers – but not their textbooks.

To cover all of the steps that are necessary to carry out an actual data analysis project, we built a large number of fully developed case studies. While each case study focuses on the particular method discussed in the chapter, they illustrate all elements of the process from question through analysis to conclusion. We facilitate individual work by sharing all data and code in Stata, R, and Python.

Curated content and focus for the modern data analyst

Our textbook focuses on the most relevant tools and methods. Instead of dumping many methods on the students, we selected the most widely used methods that tend to work well in many situations. That choice allowed us to discuss each method in detail so students can gain a deep understanding of when, why, and how those methods work. It also allows us to compare the different methods both in general and in the course of our case studies.

The textbook is divided into four parts. The first part starts with data collection and data quality, followed by organizing and cleaning data, exploratory data analysis and data visualization, generalizing from the data, and hypothesis testing. The second part gives a thorough introduction to regression analysis, including probability models and time series regressions. The third part covers predictive analytics and introduces cross-validation, LASSO, tree-based machine learning methods such as random forest, probability prediction, classification, and forecasting from time series data. The fourth part covers causal analysis, starting with the potential outcomes framework and causal maps, then discussing experiments, difference-in-differences analysis, various panel data methods, and the event study approach.
Why Use This Book

When deciding on which methods to discuss and in what depth, we drew on our own experience as well as the advice of many people. We have taught Data Analysis and Econometrics to students in Master's programs for years in Europe and the USA, and trained experts in business analytics, economics, and economic policy. We used earlier versions of this textbook in many courses with students who differed in background, interest, and career plans. In addition, we talked to many experts both in academia and in industry: teachers, researchers, analysts, and users of data analysis results. As a result, this textbook offers a curated content that reflects the views of data analysts with a wide range of experiences.

Real-life case studies in a central role

A cornerstone of this textbook are 43 case studies spreading over one-third of our material. This reflects our view that working through case studies is the best way to learn data analysis. Each of our case studies starts with a relevant question and answers it in the end, using real-life data and applying the tools and methods covered in the particular chapter.

Similarly to other textbooks, our case studies illustrate the methods covered in the textbook. In contrast with other textbooks, though, they are much more than that.

Each of our case studies is a fully developed story linking business or policy questions to decisions in data selection, application of methods and discussion of results. Each case study uses real-life data that is messy and often complicated, and it discusses data quality issues and the steps of data cleaning and organization along the way. Then, each case study includes exploratory data analysis to clarify the context and help choose the methods for the subsequent analysis. After carrying out the main analysis, each case study emphasizes the correct interpretation of the results, effective ways to present and visualize the results, and many include robustness checks. Finally, each case study answers the question it started with, usually with the necessary qualifications, discussing internal and external validity, and often raising additional questions and directions for further investigation.

Our case studies cover a wide range of topics, with a potential appeal to a wide range of students. They cover consumer decision, economic and social policy, finance, business and management, health, and sport. Their regional coverage is also wider than usual: one third are from the USA, one third are from Europe and the UK, and one third are from other countries or includes all countries from Australia to Thailand.

Support material with data and code shared

We offer a truly comprehensive material with data, code for all case studies, 360 practice questions, 120 data exercises, derivations for advanced materials, and reading suggestions. Each chapter ends with practice questions that help revise the material. They are followed by data exercises that invite students to carry out analysis on their own, in the form of robustness checks or replicating the analysis using other data.

We share all raw and cleaned data we use in the case studies. We also share the codes that clean the data and produce all results, tables, and graphs in Stata, R, and Python so students can tinker with our code and compare the solutions in the different software.

All data and code are available on the textbook website:

http://gabor-s-data-analysis.com
Why Use This Book

Who is this book for?

This textbook was written to be a complete course in data analysis. It introduces and discusses the most important concepts and methods in exploratory data analysis, regression analysis, machine learning and causal analysis. Thus, readers don’t need to have a background in those areas.

The textbook includes formulae to define methods and tools, but it explains all formulae in plain English, both when a formula is introduced and, then, when it is used in a case study. Thus, understanding formulae is not necessary to learn data analysis from this textbook. They are of great help, though, and we encourage all students and practitioners to work with formulae whenever possible. The mathematics background required to understand these formulae is quite low, at the the level of basic calculus.

This textbook could be useful for university students in graduate programs as core text in applied statistics and econometrics, quantitative methods, or data analysis. The textbook is best used as core text for non-research degree Masters programs or part of the curriculum in a PhD or research Masters programs. It may also complement online courses that teach specific methods to give more context and explanation. Undergraduate courses can also make use of this textbook, even though the workload on students exceeds the typical undergraduate workload. Finally, the textbook can serve as a handbook for practitioners to guide them through all steps of real-life data analysis.
SIMPLIFIED NOTATION

A note for the instructors who plan to use our textbook.

We introduced some new notation in this textbook, to make the formulae simpler and more focused. In particular, our formula for regressions is slightly different from the traditional formula. In line with other textbooks, we think that it is good practice to write out the formula for each regression that is analyzed. For this reason, it important to use a notation for the regression formula that is as simple as possible and focuses only on what we care about. Our notation is intuitive, but it’s slightly different from traditional practice. Let us explain our reasons.

Our approach starts with the definition of the regression: it is a model for the conditional mean. The formulaic definition of the simple linear regression is $E[y|x] = a + bx$. The formulaic definition of a linear regression with three right-hand-side variables is $E[y|x_1, x_2, x_3] = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3$.

The regression formula we use in the textbook is a simplified version of this formulaic definition. In particular, we have $\hat{y}$ on the left-hand side instead of $E[y|...]$. $\hat{y}$ is just a shorthand for the expected value of $y$ conditional on whatever is on the right-hand side of the regression.

Thus, the formula for the simple linear regression is $\hat{y} = a + bx$, and $\hat{y}$ is the expected value of $y$ conditional on $x$. The formula for the linear regression with three right-hand-side variables is $\hat{y} = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3$, and here $\hat{y}$ is the expected value of $y$ conditional on $x_1$, $x_2$, and $x_3$. Having $\hat{y}$ on the left-hand side makes notation much simpler than writing out the conditional expectation formula $E[y|...]$, especially when we have many right-hand-side variables.

In contrast, the traditional regression formula has the variable $y$ itself on the left-hand side, not its conditional mean. Thus, it has to involve an additional element, the error term. For example, the traditional formula for the linear regression with three right-hand-side variables is $y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon$.

Our notation is simpler, because it has fewer elements. More importantly, our notation makes it explicit that the regression is a model for the conditional mean. It focuses on the data that analysts care about (the right-hand-side variables and their coefficients), without adding anything else.
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Creating the code base in Stata, R and Python was a massive endeavour. Both of us are primarily Stata users, and we needed R code that would be fairly consistent with Stata code. Plus, all graphs were produced in R. So we needed help to have all our Stata codes replicated in R, and a great deal of code writing from scratch. Zsuzsa Holler and Kinga Ritter have provided enormous development support, spearheading this effort for years. Additional code and refactoring in R was created by Máté Tóth, János Bíró, and Eszter Pázmándi. János and Máté also created the first version of Python notebooks. Additional coding, data collection, visualization, and editing were done by Viktória Kónya, Zsófia Kőműves, Dániel Bánki, Abuzar Ali, Endre Borza, Imola Csóka, and Ahmed Al Shaibani.

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