

44-6873-00L- Econometrics for Business and Economics	Dr Amr Algarhi (Miro)
Exercise sheet 6. Specification error Week 21	Department of Management Sheffield Hallam University

Question 1 (Stata). Consider a sample of married couples where both husbands and wives work. Assume the following econometric model,

$$FAMINC = \beta_1 + \beta_2 HE + \beta_3 WE + u$$

where *FAMINC* is the family income and is measured in 2006 dollars, *HE* is the husband's education in years, and *WE* is the wife's education in years. The data are stored in the file **couples.dta**

- (a) Open the data file and estimate the above model.
- (b) Estimate the above model, omitting wife's education. Comment on the results.
- (c) Estimate the above model including the number of preschool age children. Comment on the results.
- (d) Now estimate the above model including two artificially generated irrelevant variables, **xtra_x5** and **xtra_x6**, and comment on the regression results.

(END)