On January 13 and 15, we discussed problems 2.1, 2.4, and 2.6 in Wooldridge's text, with special attention to the zero conditional mean assumption.

We also discussed some functional form issues, especially those summarized in Table 2.3 (p. 46) of Wooldridge.

As an example of regression analysis, we then discussed the paper by Ashenfelter, Ashmore, and LaLonde on "Bordeaux Wine Vintage Quality and the Weather." You should download this from the web. You can find it at: www.liquidasset.com/orley.htm

Finally, I tried to summarize your responses to the first assignment and give you further guidance on your project. The summary appears on the following pages.

**Assignment for Wednesday, January 22:**

1. Problems 6.1, 6.3, 6.4, and 6.7 in Wooldridge

2. Write a brief proposal for your project. Be sure to address the following:
   - What is the question you intend to address?
   - Where can you find data that will help your address your question?
   - What will be your dependent variable?
   - Are there key independent variables that you want to examine? (That is, are the important relationships between some variable and your dependent variable that you want to investigate?)
Discussion of Assignment 1

1. Write down what you feel to be the three most important things you have learned in economics during your time in college. Also, describe briefly why you feel these things are important.

A sampling of the responses:

- the concept of opportunity cost
- the related idea that choices have consequences
- supply and demand
- the importance of specialization
- the idea that Economics offers a general a way of thinking about social problems
- the concept of efficiency and the importance of efficient resource allocation
- the importance of data and research to support economic analysis
- the importance of regression analysis and idea of a "counterfactual"
- the role of assumptions in Economics (including rationality)
- the use of ceteris paribus in economic reasoning
- the diversity of economic systems
- the idea of comparative advantage and the importance (and efficiency) of trade
- the importance of schooling and education
- the importance of macroeconomic growth, living standards (including economic development), and business cycles (including economic dynamics)
- the Coase Theorem
- game theory (including Nash Equilibrium) and the theories of imperfect competition
- the importance of economic incentives
- that there are often many defensible answers to an
economic question
• the importance of economic factors to political and other outcomes

2. Write down three things that you are curious about. You might want to pose these as questions. These need not be related to economics in any obvious way; they simply need to be things about which you have a genuine intellectual curiosity.

• Policy analysis and program evaluation (for example, NAFTA, affirmative action, economic stimulus, tax reform, Enterprise Zones
• Futures markets
• Causes of economic growth and development (inter-country comparisons, effectiveness of policies like the World Bank. issues in transition for planned to market economy)
• Effects of competition in air travel and telecommunications
• Unions and economic outcomes
• Demographic changes and economic outcomes (for example, impacts of the baby boom and the birth dearth)
• Causes and effects of changes in consumption patterns
• Macroeconomics issues: causes of business cycles, impact of war on an economy,
• Causes of and solutions for poverty and income inequality
• Issues in sports economics
• The music industry
• Pay policies and the impacts
• Understanding schools of thought in economics
• Employment opportunities
Some comments:

It will be helpful to be specific and to state your interest as a question.

It also helps to be specific and to think about whether data exist that could help you address your question.

3. How would you go about evaluating the potential effectiveness of Personal Reemployment Accounts? (In other words, how would you go about evaluating them?)

Most of you gave your views of whether you liked the proposal, and in some cases, why you did or did not like it.

A few of you offered some ideas about how you would evaluate the program, which is what I hoped you would think about. The suggestions included:

• monitoring the recipients of the PRAs
• surveys of the recipients (both to see whether they felt the PRA was helpful and to see whether it led to improved outcomes), and
• modeling how much faster PRA recipients would obtain reemployment

Oddly, no one mentioned randomized trials, which are the gold standard of the scientific method.