

ECON 5360 Problem Set #1

Due: Tuesday, February 12

1. Greene 7th edition, Application 9.1. (See dataset App9.1.)
2. Use the Monte Carlo consumption example provided in Gauss Example #4 to create two graphs. Hint: When generating the data, choose a low-to-moderate degree of heteroscedasticity.
 - (a) A graph that shows the tradeoff between sample size (N) and the power of the heteroscedasticity test [i.e., $1 - \Pr(\text{Type II error})$].
 - (b) A graph that shows the tradeoff between sample size (N) and the difference between the true OLS standard error of $\hat{\beta}_3$ and the one calculated with White's correction.