

Economics 6002 - Fall Semester 2008
Assignment #1

Due October 2.

Review Berndt, chapter 3, sections 3.1, 3.3, and 3.5.3.

Do exercise 4 of chapter 3. The [dataset](#) will be posted on the course web page.

Include your SHAZAM output with your assignment.

Note: Exercise 4 involves estimating a cost function that is homogeneous of degree one in factor prices. The exercise enforces this restriction by asking you to divide the relevant variables by the price of fuel PF (see equations 3.17-3.21 in the text of the chapter). In SHAZAM, it is more satisfactory to do this by Restricted Least Squares, which SHAZAM supports. Restricted Least Squares minimizes the sum of squared errors subject to a linear restriction on the parameters - see Greene, section 5.3.2, and the [section on Restricted Least Squares in chapter 7 of the SHAZAM Manual](#). SHAZAM does this using the RESTRICT option of the OLS command.

You may discuss together how to solve the problem posed in the exercise. But remember that handing in someone else's work as your own is a serious academic offense.