

Homework 8. Due Wednesday November 15.

1. Use the Matlab panel data program that I have posted. Interpret the regression results (excess sensitivity and excess smoothness). Try and add lagged consumption and more lags of disposable income and interpret the results. Try (in a separate regression) to include state fixed effects—are the results sensitive to this?
2. Verify that the formula for Ω^{-1} on top of page 17 in the note about panel data indeed is the inverse of Ω .
3. Verify the formula for $\hat{\alpha}_i$ on top of page 8 in the note about panel data.