Econometrics III - Midterm.

Due by 5:00pm on Friday, March 12th. Please send me an e-mail with your assignment at miravete@eco.utexas.edu and cc a copy to Zhan Shi at michael.zhanshi@gmail.com. Feel free to work in groups of 2-3 but each one of you needs provide his/her own code and results.

Please write your assignment as a section of a paper being submitted for publication.

Yous should use the two-step approach of Hotz-Miller to estimate the model considered by Rust's bus engine paper. The data can be found at ftp://gemini.econ.umd.edu/pub/John_Rust/nfxp/dat/. The documentation of the data is described in Chapter 4 of the manual available at http://gemini.econ.umd.edu/jrust/nfxp_description.html.

You should fix the discount factor to a standard value, such as 0.97.

Do the estimates change if you allow for a quadratic specification in costs?

Compare your estimates to those produced by Rust.