

1. Multiple regression
 - Importance of controlling for additional factors
 - Interpretation of coefficients
 - Dummy variable: 0-1 variable to capture categorical effect (e.g., male-female)
 - Interaction variable: product of two variables. Permits the value of one variable to affect the slope on another (e.g., married * school)

2. Regression problems and pitfalls: diagnosis and treatment
 - Bias in estimated coefficients: Meaning, sources, and treatment
 - Sources of bias: Generally, this occurs when one or more X's are correlated with u (error term)
 - (1) Misspecified functional form
 - (2) Left-out variables
 - (3) Errors in measurement
 - (4) Endogeneity
 - Problems affecting estimated standard errors of coefficients
 - (1) Non-normal residuals
 - (2) Residual variance depends on X
 - (3) Multicollinearity: two or more X variables are closely correlated

Reading for next time: *Notes on Labor Economics*, chapter 5; Card and Krueger, *Myth and Measurement*, chapter 2 (see web site)

Homework #6: see attached.