

8- Heteroskedasity

Consequences? NO: Unbias or Inconsistency. R^2 unaffected. YES: OLS no longer BLUE. Test are not normally distributed

Roburst: Use it to get valid SE for t,F,LM test. Correct in large sample size. We don't use it because they only give right t-test for large sample size, whereas OLD is right for every size.

Heteroskedasity-Roburst LM test

1. Obtain \hat{u} from the restricted model.
2. Reg each of the indpt vars excluded on all of the included indpt vars; if there are q excluded variables, this leads to q sets of residuals ($\hat{r}_1, \hat{r}_2, \dots, \hat{r}_q$).
3. Find the products between each \hat{r}_j and \hat{u} (for all observations).
- 4- Reg 1on $\hat{r}_1 \hat{u}, \hat{r}_2 \hat{u}, \dots, \hat{r}_q \hat{u}$, w/out an intercept



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Page 1 of 1.

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