

Ch. 7Dummy / binary indep. vars.

y	x	u
trade / env. performance	trade / env. agreement	political pref.
wage	marital status	work ethic, reliability

Single Dummy Variable

$$y = \beta_0 + \delta_0 x + u$$

↓  
0/1

$$E(y|x) = \beta_0 + \delta_0 x$$

effect of  $x=1$   
rel. to  $x=0$

$$\Rightarrow \delta_0 = E(y|x=1) - E(y|x=0)$$

base/reference group

$$\hat{\delta}_0 = \bar{y}_{x=1} - \bar{y}_{x=0}$$

$$= \overline{\text{wage}}_{\text{marr.}} - \overline{\text{wage}}_{\text{not marr.}}$$

if y: wage  
 $x \rightarrow 1$  marr.  
 $0$  not marr.