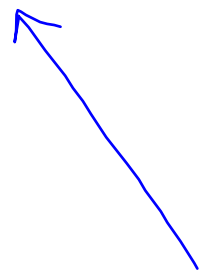


bwght
wage

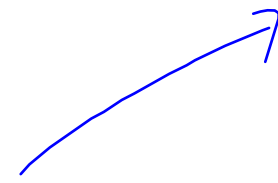
Dep. var.

+
-



indep.
var.

+
+



U (includes omitted vars.) alcohol

educ. smoking

Bias > 0

Bias < 0

IQ

No bias if $\beta_2 = 0$ or

x_2 uncorr. w/ x_1 .

More complicated derivation of bias w/ add.
explanatory vars.

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + u$$

FDI env. reg. input prices infrastructure political activism

If x_1 corr. w/ u
 x_2, x_3 : not

OLS estimator biased for all β 's if x_1 corr.
w/ x_2 and x_3

Other sources of bias :

- Measurement error in x or y
(e.g., crime, distance, ...)

- Simultaneity



- Sample selection

data observed if $y >$ threshold
(e.g. trade)

Inclusion of irrelevant regressors :

- Exercise caution

y	x
# accidents	alcohol laws, " <u>consumption</u> , ...
wage	educ, <u>occupation</u> , discrimination