

Ch. 7

Dummy / binary indep. var.

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

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

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

effect of  $x=1$  rel. to  $x=0$  (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  $y \rightarrow \text{wage}$   
 $x \rightarrow 1$  for marr.  
 $0$  for not "