[Frequently Asked Questions]

Dummy Variables

Subject:	Business Economics
Course:	B.A., 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 304 Basic Econometrics
Unit No. & Title:	Unit - 5 Dummy Variables
Lecture No. & Title:	Lecture – 1 Dummy Variables

Frequently Asked Questions

Q1. Define quantitative variable.

A1. A variable which can be measured with discrete or continuous scale is called quantitative variable.

Q2. Give two examples of quantitative variable.

A2. 1. Age of a person 2. Demand of the product

Q3. Define qualitative variable.

A3. A variable which cannot be measured but simply we can observe is called qualitative variable.

Q4. Give two examples of qualitative variables.

A4. 1. Color of the product 2. Defective or non-defective item

Q5. Define dummy variable.

A5. A variable which is used in regression model in place of qualitative variable is called dummy variable.

Q6. What is the rule for defining dummy variable for a qualitative variable?

A6. Number of dummy variables = number of categories in the qualitative variable – 1.

Q7. How many dummy variables are used for four directions: East, West, South, and North?

A7. Number of dummy variables for directions = 4 – 1 = 3

Q8. State the regression equation to predicting sales per month based on advertising cost per month and gender of the sale-man.

A8. Sales = a + b(adv. Cost) + c(D1) + U, where D1 = 1 for male and D1 = 0 for Female.

Q9. State the regression model for predicting sales based on the four quarters only.

A9. $Y= \beta_0+ \beta_1 D_{2+} \beta_2 D_3+ \beta_3 D_4+U$

Where $D_2=1$ for 2^{nd} quarter, 0 otherwise

$D_3=1$ for 3^{rd} quarter, 0 otherwise

$D_4=1$ for 4^{th} quarter, 0 otherwise.