



[Glossary]

Specification Errors

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Unit No. & Title:	Unit – 1 Relaxing the Assumptions of The Classical Linear Model
Lecture No. & Title:	Lecture – 6 Specification Errors

Glossary

1 Specification Error such an error arises due to undermining the true regression model thus causing misspecification error

2 Measurement Error This arises due to committing error in the measurement of dependent variable as well as independent variable.

3 Underestimating a model This is due to omission of a variable from the original (true) model and thus defining new model, based upon such an omitted variable.

4 Overestimating a model This is due to inclusion of an irrelevant variable in the original (true) model and thus defining new model based upon such an included variable.

5 L M test It is Lagrange's multiplier test. It is useful to check for the specification error.

6 RESET It is Regression Specification Error test. It is given by Ramsey. Hence it is called Ramsey's RESET test.

7 Wald's test This test given by Wald is used as a method of grouping in the case of measurement errors. It is useful with $n=2k$ sample observations of the same size divided into two groups.

8 Bartlett's test It is a modification to Wald's test and used for $n=3k$ observation dividing into 3 groups of the same size.

9 IV Method It is Instrumental Variables method which is useful to obtain consistent estimator in the case of measurement error by means of introducing a new variable Z (IV) in the data, where Z is uncorrelated with X , but corrected with error term.