

Financial Econometrics II – Sample Exam Questions (Andreas Fuster)

There will be two types of questions in the exam on my part of the course, which will last for 120 minutes. I will provide you with 8 questions, of which you will be asked to answer exactly 6. (You choose which 6 you want to respond to. Do not respond to more than 6.)

6 of the questions will be of type 1, about the substance of the material we saw; 2 of the questions will be of type 2, about the papers that we discussed in class.

Example of a question of type 1:

- a) Assume we want to estimate the causal effect of company size on CEO compensation. Explain why there might be a problem of omitted variables when using OLS.
- b) Assuming a single omitted variable, provide the formula for the sign and magnitude of the bias when OLS is used.
- c) Aside from omitted variables, what are other commonly encountered issues that will lead to OLS estimates being inconsistent? (Provide a brief explanation, not just the name of the issue.)

Example of a question of type 2 [on a paper we do not discuss in class this year]:

- a) What is the economic question asked in Bertrand and Mullainathan (JPE 2003), “Enjoying the Quiet Life? Corporate Governance and Managerial Preferences”?
- b) Bertrand and Mullainathan use the introduction of “Business Combination laws” at the US state level for identification of causal effects. What assumptions underlie their empirical design? How do they provide support for these assumptions?
- c) Are there potential issues with this research design that these authors did not address?