

Problem Set #6
(Due Thursday, April 16 at beginning of lecture)

Economics 310

Spring 2009

1. VS Chap. 9, Exercise 8
2. Saab sells cars. One of their old advertising campaigns was "those who test drive a Saab, usually buy one."
Suppose George works at a Saab dealership, where there are two kinds of customers: those who test drive a car and those who do not. The test driving customers buy a car with probability 0.7. The non-test driving customers buy a car with probability 0.25. Based on this information George recommends to his boss that she ought to give away a prize to anyone who test drives a car, because test driving causes people to buy.
 - (a) George's recommendation includes a causal statement. What is the treatment variable in this statement?
 - (b) What are the potential outcomes?
 - (c) Evaluate George's recommendation/claim.
3. VS Chap. 15, Exercise 2.3
4. VS Chap. 15, Exercise 3.2 and 4.2
(You do not have to use Excel for this exercise.)