

ECO 313, Winter 2019, Required Homework Assignment #2
Due by the start of class on September 30, 2019

The purpose of this assignment is to quantify the historical relationship between housing and the business cycle. You are to:

1. Familiarize yourself with the probit and logit estimators. Your writeup should include a brief description of the one you use and why you chose it. You should also learn how to run them in Stata (or whatever other language you prefer). [Hint: To run probit, switch from “reg” to “probit.” I can’t fathom how to run logit.]
2. Construct a binary monthly variable indicating whether or not an NBER recession began within the next X months. You are free to choose the value of X , although 12 and 24 are sensible defaults.
3. Pick a variable indicating the state of the housing market. This may include a measure of residential investment or housing prices (make sure that you use a rate of change such as the year-over-year difference).
4. Pick at least two other macroeconomic variables that you think potentially have predictive power. You should defend your choices in your writeup.
5. Estimate either a probit or logit model with the binary recession indicator variable as your independent variable and with the dependent variables from #3-4.
6. Write a 2-3 page memo focusing on whether or not housing historically predicts recessions. You should provide your current estimated risk of a recession beginning within the next X months.
7. Most importantly, remember that Hyman Roth ALWAYS makes money for his partners.