

Session 6: Review Exercises

AY2025/26 Term 1

Question 1: In Example 7.7 of Chapter 7 of Econometrics Notes (the demand-and-supply example / simultaneity bias assumption), the conditional expectation of Q_t conditional on P_t will be linear, i.e.,

$$E(Q_t | P_t) = a_0 + a_1 P_t.$$

Find expressions for a_0 and a_1 in terms of the parameters of the model.