Syllabus, ECON 2600

Bayesian and Structural Econometrics

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Lectures: TBA

Office Hours: TBA

Course Description: This course will cover a number of topics in Bayesian econometrics and estimation of structural dynamic discrete choice models. The Bayesian econometrics part of the course will start with introductory textbook material (Geweke, 2005, Contemporary Bayesian Econometrics and Statistics, denoted by G). A list of 11 topics with corresponding readings is given below. Topics 1-5 will be covered. A subset of topics 6-11 determined by interests of the course participants will be covered as well. Readings marked with asterisk * are not required.

Grading: The grade for the course will be based on problem sets. The problem sets will include analytical and numerical problems. The numerical problems will require the use of a programming language, such as Matlab or R. There will be a problem set for each topic we cover, 6-7 problem sets overall. A problem set will be assigned soon after the relevant material is covered in class; students will have 7-10 days to complete it. The problem sets will be equally weighted in determining the final grade, except for two problem sets with numerical problems (these two problem sets will have a 2-3 times higher weight). Late problem sets will not be accepted.

Useful books:

- Ferguson (1967) and Berger (1985) are books on statistical decision theory and Bayes.
- Gelman et al. (2003) is a book on Bayesian statistics.
- Ghosh and Ramamoorthi (2003) - frequentist properties of Bayesian nonparametric procedures.

List of topics

1. Course overview and motivation

   1.1 Dehejia (2005) - an application of Bayesian decision theory to program evaluation
   1.2 Barberis (2000) - taking into account parameter uncertainty in portfolio optimization
1.3 Keane (2010) - structural vs. non-structural econometrics

2. Bayesian approach to inference
   
   2.1 Probability as a degree of belief
   2.2 Conditioning
   2.3 Bayesian Modelling: ingredients, complete model, estimation, credible sets, model comparison (G Ch 2);
   2.4 Prior distributions: conjugate, non-informative, hierarchical (G Ch 3.1, 3.2; Berger (1985)*, Ch 3*; Bernardo (1979)*, Berger et al. (2009)*);

3. Frequentist asymptotic properties of posterior distributions in parametric Bayesian models
   
   3.1 Posterior consistency (G 3.4, Ghosh and Ramamoorthi (2003)*)
   3.2 Posterior asymptotic normality / Bernstein-von Mises theorem (G 3.4, Ghosh and Ramamoorthi (2003)*)
   3.3 Laplace approximations and BIC (Kass (1993)*), consistency of BIC (Hong and Preston (2012)*)

4. Simulation methods for Bayesian inference
   
   4.1 Basic simulation methods: pseudo random numbers, inverse cdf method, acceptance and importance sampling (G Ch 4);
   4.2 Intro to MCMC, Gibbs sampling, Metropolis-Hastings, and Hybrid MCMC algorithms (G Ch 4);
   4.3 Econometric models: linear models, models with latent variables, hierarchical models for heterogeneity, time series models, SUR, mixtures of distributions (G Ch 5, 6, 7)
   4.4 Practical issues: implementation checks, convergence testing, numerical accuracy, improving mixing, variance reduction, (G Ch 4.4, 4.7, 8.1).
   4.5 MCMC for classical inference (Chernozhukov and Hong (2003)).
   4.6 Unbiased likelihood simulation and MH (Flury and Shephard (2011))
   4.7 Computing marginal likelihood (G Ch 8.2)

5. Dynamic discrete choice models, identification and estimation
   
   5.1 Surveys: Rust (1994); Aguirregabiria and Mira (2010);
   5.2 Hotz and Miller (1993); Bajari et al. (2007)
   5.3 Bayesian inference (Norets (2009), Norets and Tang (2010))

6. Foundations of Bayesian approach to inference
   
   6.1 Subjective probability and utility (Ferguson (1967))
   6.2 Frequentist decision theory and complete class theorem (Ferguson (1967), Berger (1985))*
   6.3 Confidence sets and betting (Müller and Norets (2012))
6.4 Likelihood principle (G Ch 1, 3.5; Berger and Wolpert (1984), Ch 1-3);
6.5 De Finetti theorem (Heath and Sudderth (1976)*);

7. Bayesian bootstrap

8. Bayesian nonparametrics: Dirichlet process priors
   8.1 Introduction (Ghosh and Ramamoorthi (2003), Ch 3; Ferguson (1973), Sethuraman (1994));
   8.2 Applications (Escobar and West (1995); Hirano (2002)*; Conley et al. (2008)*)

9. Bayesian nonparametrics: Gaussian process priors
   (G 5.4.1, Rasmussen and Williams (2006)*)

10. Theory of MCMC

11. Frequentist asymptotic properties of posterior distributions in nonparametric models
    Ghosh and Ramamoorthi (2003) Ch4

References


