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Response to Levitan & Associates' Econometric Comments

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Insight in Economics™

Two Regressions Are Probably Worse Than One

- While we believe that the two regression approach is not necessarily inconsistent, it is logically more consistent to run a single regression. We have independent confirmation of the relevance of Transco Z6 in NYC and LI and Tetco M3 upstate
- Effect, as Levitan notes, is to slightly increase the reserve margin coefficient upstate and to lower it downstate.

Multicollinearity

- The basic issue is that it is an error to attribute to reserve margin something more properly attributed to something else. Regression analysis only attributes to reserve margin the effect which is unrelated to the other effects in the model
- The size of the reserve margin coefficient is plausible, and substantially lower or higher values are less plausible
- Expansion of the data set is inadvisable because of attenuation bias

OLS vs. FGLS

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- OLS is preferred, both practically and in a substantial strand of the relevant literature
- OLS effects are in no way biased. GLS effects are different, but achieve that difference by making stronger assumptions about the error structure that are unlikely to be the case
- OLS standard errors are biased, but three different methods of corrections show that results are still strongly significant

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