

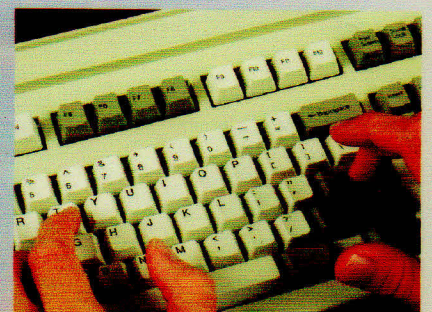
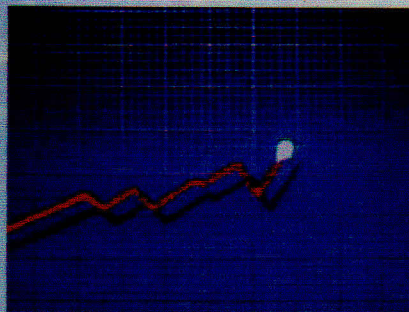
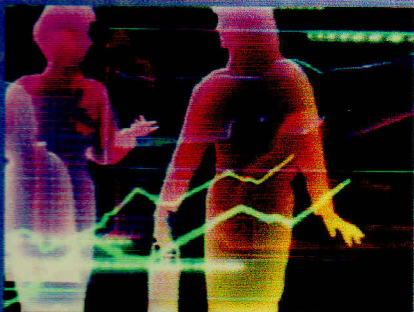
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PROCEEDING

UNIVERSITAS MALAHAYATI INTERNATIONAL CONFERENCE QUANTITATIVE METHODS



USED IN ECONOMICS AND BUSINESS 2008



on October, 15 17th, 2008

FACULTY of ECONOMICS
UNIVERSITAS MALAHAYATI
BANDAR LAMPUNG
INDONESIA



PREFACE

The International Conference on Quantitative Methods Applied in used economic and Business was conducted by Faculty of Economic, Universitas Malahayati on 15-17 October 2008. The conference was organized by Faculty of Economic Universitas Malahayati and collaborated with Universiti Malaysia Terengganu (UMT) International Islamic University Malaysia (IIUM), and University Putra Malaysia (UPM).

The participants of the conference are about 200 come from more than 20 higher institutions, among others: Universitas Malaysia Perlis, Institut Pertanian Bogor, Universitas of Montenegro, Universitas Bung Hatta, Universitas Putra Malaysia, Universitas of Peshawar Pakistan, Al-Bayt University Al Mafrq- Jordan, Universitas Indonesia, Universitas Gunadarma, Universitas Pendidikan Indonesia Bandung, Universitas Trunojoyo Madura, Universitas Negeri Papua, Universitas Jambi, Universitas Halouleo Kendari, Universitas Sriwijaya, Universitas Ahmad Dahlan Yogyakarta, Universitas Parahiyangan Katolik Bandung, Universitas Yarsi Indonesia, Poltek Negeri Medan, Universitas Islam Indonesia Yogyakarta, University of Malaysia, Politeknik Lampung, Universitas Lampung, Institut Teknologi 10 November Surabaya, Universitas Syarif Hidayat Jakarta, Universitas Maranata Bandung, Universitas Atma Jaya Yogyakarta, Universitas Malahayati. Which reflect the importance of the Internasional Conference on Quantitative Methods Used In Economics And Business.

I hope that this conference will become a place for scientists and economist to share their knowledge and experience and also to promote their expertise in their fields.

This kind of conference will surely have a positive impact on higher education in general as well as development of science, economics, business and research, in particular. For higher education in Indonesia, it is expected that this conference will encourage the faculty members as researchers to do more research as one of their duties.

On behalf of Steering Committee, we would like to express our deepest gratitude to the Foundation Alih Technology, Rector Universitas Malahayati, International Advisory Board members, and also to all participants. We are also grateful to all organizing committee and all the reviewers, without whose efforts such a high standard for the conference could not have been attained. We would like to express our deepest gratitude to the Faculty of Economic Universitasersitas Malahayati for conducted such conference. This is the first International Conference for the Faculty and we expect that this is will become annual activity for the Faculty of Economic.

Bandar Lampung, 15 October 2008

Iing Lukman, Ph.D
The Organizing Chairman

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INTERNATIONAL CONFERENCE QUANTITATIVE METHODS USED IN ECONOMICS AND BUSINESS 2008

on Oktober, 15 – 17th, 2008

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TABLE OF CONTENTS

ORGANIZING COMMITTEE	i
FOREWORD	ii
TABLE OF CONTENT	iii
 KEYNOTE SPEAKER-1	
Parabola-Quadratic Programming Used in Economics and Business Ismail Bin Mohd	1
On The Data Mining Concepts and Techniques with Application in Business Noor Akma Ibrahim, A. Kudus	19
Economic Evaluation of Deforestation ling Lukman, Noor Akma F, M.N. Hasan, M.N. Sulaiman, Dewi Sartika	36
Econometric Modelling for Agricultural Policy Analysis and Forecasting Mad Nasir Shamsudin	55
A Test For The Stability of Correlation Matrix Maman A. Jauhari, Eerna T. Herdiani	82
 PRESENTED	
Applied Analysis of Financial Time Series Based on The Montenegrin Capital Market Indices Vesna Karadzic, Tamara Backovic	94
Foreign Direct Investment Inflow and Economic Growth in Pakistan: A Simultaneous Equation Model Muhammad Azam Khan, Naeem-ur-Rahman Khattak	107
Structural Equation Modeling (SEM): A Tool for Research in Business and Management Setyo Hari Wijanto	114
The Use of Modified Conjoint Analysis For The Improvement of Mobile Phone Quality Based on Costumer Preferences Benidikutus Tanujaya	137
The Framework and Methodology of Data Warehousing Projects For Business Purposes Vitri Tundjungsari	142
Usability Studies and Comparison on E-Commerce Websites Vitri Tundjungsari	156
Effective Communication in Business Global Working Area Ratna Dewi	168
Growth Model of Teak Wood Assigning High Economic Value: Mathematical and Economic Points of View Arman, Rasas Raya, Rosmarlinasiah, Edi Cahyono	174
Mathematical Model of Wood Drying: Toward an Efficiency Process in Wood Industry La Gubu, E. Cahyono, Herdi Budiman	180
An Analysis of Exploitation Yard Area Resources With Limitation Land and Freshwater Fish Cultivation Through Optimizing Model in Pagelaran District Fitriani, Agus, Irmayani Noer	188
Optimization of East Java Economy by Applying Government Policy To Maximize Employment Absorption (Linear Programming Input-Output Model) Moses L. Singgih	199

**UNIVERSITAS MALAHAYATI
INTERNATIONAL CONFERENCE ON QUANTITATIVE METHODS
USED IN ECONOMICS AND BUSSINESS**

Input Output Analysis for Development of Oil Refinery in Bojonegoro Moses L. Singgih	209
The Decision of Standard Time and Pour Out Every Materials Capacity: Case Study In PT. Central Pertiwi Bahari Heri Wibowo, Tomi Z.	217
Give Mathematics that is Relevant to Business and Accounting Students Budi Frensidy	230
A Mathematical Model for Optimizing Economic Growth Based on Spreading Investment Muhammad Ridwansyah, Edi Cahyono	240
The GIG method to the valuation of Asian and Basket Options Ferry Jaya Permana	246
The Assimilation of Sinlammim Into System Thinking in The Quantitative Method With Modeling of Sukuk as Islamic Economic Instrument Roikhan Mochamad Aziz	258
Improving The Efficiency of Manufacturing Industry by Using Cycle Time Analysis Arinal Hamni, Tomi Z, Rawan Utara	279
The Price Earning Ratio (Review to The Share of The Listing Company in Jakarta Stock Exchange (BEI) Period 2006 – 2007 Iban Sofyan	288
HIV/AIDS Economic Impact Samino	298
Environment Pollution (Review From Environment Economy Aspect) P. Nasoetion, Indah Lia Puspita	306
Application of Physics To Finance and Economics: Quantum Field Theory In Forward Rates And Hedging Arif Hidayat, Omang Wirasasmita, Nidaul Hidayah, Bram Hadianto	315
The Implementation of Auction System on The Price of Tuna Fish in West Sumatera Junaidi	345
Open Queuing Networks and Applications Wamiliana	353
 KEYNOTE SPEAKER-2	
Software Development Frameworks Md Yazid Mohd Saman & A Rahim Abu Bakar	358
Survival Analysis For Banking System Faiz. A. M. Elfaki, Isa Daud, Noor. A. Ibrahim, Mustofa Usman ³ , and Iing Lukman	368
Application of Quantitative Methods in Agricultural Economics/Agribusiness Muhammad Firdaus	382
Beta Hat Model and its Application Mustofa Usman, Rudi Ruswandi, Jamal I Daoud and Faiz A.M. Elfaki	387

BETA HAT MODEL AND ITS APPLICATION

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ABSTRACT

In linear model $Y = X\beta + \varepsilon$, to test the specific form of a hypotheses of a linear function of parameters β , there are several methods of testing hypotheses available, among others are: Principle Conditional Error, Likelihood ratio test and Invariance test. In this paper, another methods which is well known as Beta hat models (Milliken and Johnson, 2002) will be presented and its application in some cases of linear model will be discussed.

1. Introduction

In linear model $Y = X\beta + \varepsilon$, to test the specific form of a hypotheses of a linear function of parameters β , there are several methods of testing hypotheses of a set of function of parameters or a linear function of parameters. Some well known methods which are used a lot in the literatures are among others: Generalized Likelihood Ratio (Graybill, 1976; Christensen, 1987; Rao, 1973), Principle Conditional Error (Bose, 1949; Milliken, 1971; Milliken, 1997, 2002, Christensen, 1987) and Beta hat model. In a Generalized Likelihood Ratio test, the test

$$\lambda(y) = \frac{\max_{(\beta, \sigma^2) \in \omega} (L(\beta, \sigma^2, y))}{\max_{(\beta, \sigma^2) \in \Omega} (L(\beta, \sigma^2, y))}$$

Where the parameter space Ω and ω are given by

$$\Omega = \{(\beta, \sigma^2): \beta \in E_p, \sigma^2 > 0\}$$

$$\omega = \{(\beta, \sigma^2): \beta \in E_p, H\beta = h, \sigma^2 > 0\}$$

The denominator is obtained in a straightforward; it is the likelihood function evaluated at the maximum likelihood value of the parameters β and σ^2 . The numerator can be found by two methods: (1) by solving $H\beta=h$ for β , substituting the constraints into the likelihood function, and then maximizing the resulting function; (2) by using Lagrange multipliers and maximizing the likelihood function subject to the constraints $H\beta=h$.

In Principle Conditional Error, we compare the two Sum of Squares Error from the reduce model, the model which is placing the restriction upon the parameters of another model and Sum of Squares Error from the full model. The test statistic is given by

$$F = \frac{SS(H_0)/df(H_0)}{SSE(R)/df(F)}$$

Where $SSE(F)$ denotes Sum of Squares Error after fitting the full model, $SSE(R)$ denotes Sum of Squares Error after fitting the reduce model. The Sum of Squares due to the restrictions given by the hypothesis is $SS(H_0) = SSE(R) - SSE(F)$. The degrees of freedom for both $SSE(R)$ and $SSE(F)$ are given by the difference between the number of observations made and the number of parameters estimated. The degree of freedom for $SSE(R)$ is denoted by $df(R)$ and for $SSE(F)$ is denoted by $df(F)$. The degree of freedom for $SS(H_0)$ is denoted by $df(H_0)$ and is calculated from $df(H_0) = df(R) - df(F)$.

Beta hat model is built from several models which have the same form of model to describe data from several populations, treatments, or treatments combinations. The beta hat model basically are used the information contained in the parameters and its variance or covariance, and based on these information, then we build the beta hat model. Then the test of hypothesis conducted based on this beta hat model (Milliken and Johnson, 2002).

2. Beta Hat Model

Consider the linear model $Y = X\beta + \varepsilon$ where $\varepsilon \sim N(0, \sigma^2 I)$, then the beta hat model is defined by

$$\hat{\beta} = I\beta + \varepsilon^* \quad \text{where } \varepsilon^* \sim N(0, \sigma^2(X'X)^{-1}).$$

The beta hat model can be used in very general context to give simple understanding, we describe here through example in analysis of covariance model for the j th observation from the i th treatment

$$Y_{ij} = \mu_i + \beta_{1i}X_{1ij} + \beta_{2i}X_{2ij} + \varepsilon_{ij}$$

Or

$$Y_i = X_i\beta_i + \varepsilon_i$$

Where

$$Y_i = \begin{bmatrix} Y_{i1} \\ Y_{i2} \\ \vdots \\ Y_{in_i} \end{bmatrix}, \quad X_i = \begin{bmatrix} 1 & X_{1i1} & X_{2i1} \\ 1 & X_{1i2} & X_{2i2} \\ \vdots & \vdots & \vdots \\ 1 & X_{1in_i} & X_{2in_i} \end{bmatrix}, \quad \beta_i = \begin{bmatrix} \mu_i \\ \beta_{1i} \\ \beta_{2i} \end{bmatrix}, \quad \varepsilon = \begin{bmatrix} \varepsilon_{i1} \\ \varepsilon_{i2} \\ \vdots \\ \varepsilon_{in_i} \end{bmatrix}$$

Least squares of β_i is

$$\hat{\beta}_i = (X_i'X_i)^{-1} X_i'Y_i$$

$i = 1, 2, \dots, p$, and the sampling distribution of $\hat{\beta}_i$ are

$$\hat{\beta}_i \sim N(\beta_i, \sigma^2 (X_i'X_i)^{-1})$$

The SSRes for the i th treatment is $SSRes(i)$ and the pooled estimate of the variance is

$$\hat{\sigma}^2 = SSRes/(N - 3t)$$

Now suppose that we are interested in comparing the β_{ii} where $i=1,2, \dots, p$. parameter from the model, the sampling distribution

$$\hat{\beta}_{ii} \sim N(\beta_{ii}, \sigma^2 \Gamma_{ikk})$$

Where Γ_{ikk} is the k th diagonal element of $(X'X)^{-1}$. Let

$$\hat{\beta}'_k = (\hat{\beta}_{k1}, \hat{\beta}_{k2}, \dots, \hat{\beta}_{kp})$$

And the beta hat model is

$$\hat{\beta}_k = I_p \beta_k + \varepsilon^*$$

Theorem 1

The sum of squares (SS) of testing hypotheses

$$H_0: H\beta = h \text{ against } H_1: H\beta \neq h$$

Computation via the Principle of Conditional Error or likelihood ratio test is equivalent for

$$\hat{\beta} = I\beta + \varepsilon^*$$

for the model

$$Y = X\beta + \varepsilon$$

Proof

Compute SS_{H_0} from $\hat{\beta}$ - model using Principle Conditional Error (PCE). To test the hypotheses $H_0: H\beta = h$

$$\hat{\beta}\text{-model} \quad \hat{\beta} = I\beta + \varepsilon^*$$

$$= I[H^{-1}H + (I - H^{-1}H)]\beta + \varepsilon^*$$

$$= H^{-1}H\beta + (I - H^{-1}H)\beta + \varepsilon^*$$

Impose condition of H_0 , replaced $H\beta$ by h . Model under condition of H_0 is

$$\hat{\beta} - H^{-1}h = (I - H^{-1}H)\beta + \varepsilon^* \text{ with } \varepsilon^* \sim N(0, \sigma^2(X'X)^{-1})$$

$$JKRes(H_0) = (\hat{\beta} - H^{-1}h)' (X'X - X'X(I - H^{-1}H)) [(I - H^{-1}H)'X'X(I - H^{-1}H)]^{-1} (I - H^{-1}H)X'X (\hat{\beta} - H^{-1}h).$$

$$= (X\hat{\beta} - XH^{-1}h)' (I - X(I - H^{-1}H)) [(I - H^{-1}H)'X'X(I - H^{-1}H)]^{-1} (I - H^{-1}H)X' (X\hat{\beta} - XH^{-1}h).$$

Note that: $(X\hat{\beta} - XH^{-1}h) = (XX^{-1}y - XH^{-1}h)$

$$= XX^{-1}y - XX^{-1}XH^{-1}h$$

$$= XX^{-1}(y - XH^{-1}h)$$

$$SS_{Reg}(H_0) = (y - XH^{-1}h)' XX^{-1}(I - X(I - H^{-1}H)[X(I - H^{-1}H)]^{-1})XX^{-1}(y - XH^{-1}h)$$

$$= (y - XH^{-1}h)' (XX^{-1} - X(I - H^{-1}H)[X(I - H^{-1}H)]^{-1})XX^{-1}(y - XH^{-1}h)$$

And

$$F_c = \frac{SS_{Res}(H_0)/q}{\hat{\sigma}^2}$$

Theorem 2

For the linear model

$$y = [X_1 \ X_2] \begin{bmatrix} \beta_1 \\ \beta_2 \end{bmatrix} + \varepsilon$$

where y is $n \times 1$ vector, $[X_1 \ X_2]$ is $n \times p$ matrix, $\begin{bmatrix} \beta_1 \\ \beta_2 \end{bmatrix}$ is $p \times 1$ vector of parameter and $\varepsilon \sim N(0, \sigma^2 I)$, the Likelihood Ratio Test statistics for testing the hypotheses

Ho: $H\beta_1 = h$ against Ha: $H\beta_1 \neq h$

Can be obtained from any of the following three models:

(1) $Y = X_1 \beta_1 + X_2 \beta_2 + \varepsilon$

(2) $\hat{\beta} = \begin{pmatrix} \hat{\beta}_1 \\ \hat{\beta}_2 \end{pmatrix} = I\beta + \varepsilon^*$, where $\varepsilon^* \sim N(0, \sigma^2 \begin{pmatrix} X_1'X_1 & X_1'X_2 \\ X_2'X_1 & X_2'X_2 \end{pmatrix}^{-1})$

Or

(3) $\hat{\beta}_1 = \beta_1 + \varepsilon_1^*$, where $\varepsilon_1^* \sim N(0, \sigma^2 \Delta_{11}^{-1})$.

Proof

It is already shown that (1) implies (2), now we are going to show that (2) implies (3). Without loss of generality, we assume that

$\hat{\beta}_1$ has order $q \times 1$ and $\hat{\beta}_2$ has order $(p-q) \times 1$

So

$$\begin{pmatrix} \hat{\beta}_1 \\ \hat{\beta}_2 \end{pmatrix} \text{ has order } p \times 1$$

Let

$$\hat{\beta} = \begin{pmatrix} \hat{\beta}_1 \\ \hat{\beta}_2 \end{pmatrix} = I\beta + \varepsilon^* \quad \text{and } \varepsilon^* \sim N(0, \sigma^2 \begin{pmatrix} X_1'X_1 & X_1'X_2 \\ X_1'X_2 & X_2'X_2 \end{pmatrix}^{-1}).$$

$\hat{\beta}$ is linear function of multivariate normal, so $\hat{\beta}$ is normally distributed with

$$E(\hat{\beta}) = \beta \quad \text{and} \quad \text{Var}(\hat{\beta}) = \sigma^2 \begin{pmatrix} X_1'X_1 & X_1'X_2 \\ X_1'X_2 & X_2'X_2 \end{pmatrix}^{-1}$$

Now use Theorem 3.3.5 (Graybill, 1976) and let a matrix $A = (I_q \ 0)_{q \times p}$. And let that $\Gamma = A\hat{\beta}$

Then by Theorem 3.3.5 (Graybill, 1976) Γ is normally distributed with mean

$$\begin{aligned} E(\Gamma) &= E(A\hat{\beta}) \\ &= (I_q \ 0)_{q \times p} \begin{pmatrix} \beta_1 \\ \beta_2 \end{pmatrix}_{p \times 1} \\ &= \beta_1. \end{aligned}$$

And variance

$$\begin{aligned} \text{Var}(\Gamma) &= A(\text{Var}(\hat{\beta}))A' \\ &= (I_q \ 0)_{q \times p} \sigma^2 \begin{pmatrix} X_1'X_1 & X_1'X_2 \\ X_1'X_2 & X_2'X_2 \end{pmatrix}^{-1} \begin{pmatrix} I_q \\ 0 \end{pmatrix}_{p \times q} \end{aligned}$$

By Theorem 1.3.1 (Graybill, 1976) it can be shown that, the variance is

$$\text{Var}(\Gamma) = \sigma^2 (X_1'X_1 - X_1'X_2(X_2'X_2)^{-1}X_2'X_1)^{-1} = \sigma^2 \Delta_{11}^{-1}$$

Then the beta hat model,

$$\Gamma = A\hat{\beta} = \hat{\beta}_1 = \beta_1 + \varepsilon_1^*, \quad \text{where } \varepsilon_1^* \sim N(0, \sigma^2 \Delta_{11}^{-1}).$$

Now to test the hypothesis

Ho: $H\beta_1 = h$ against Ha: $H\beta_1 \neq h$

$$SSH_0 = \hat{\beta}_1' (\Delta_{11}^{-1} - \Delta_{11}^{-1} H (H' \Delta_{11}^{-1} H)^{-1} H \Delta_{11}^{-1}) \hat{\beta}_1$$

The test statistic

$$F_c = \frac{SSH_0/r}{\hat{\sigma}^2}$$

Which is distributed as a nocentral F with r and $N-t(q+1)$ degrees of freedom where r is the number of linearly independent parameters in $H\beta_1$ or the rank of H .

Example of Application of Beta Hat Model

In this example we will discuss the data from Graybill (1976, p 337). Assume that the data come from three models

$$Y_{ij} = \alpha_i + \beta_i x_{ij} + \varepsilon_{ij} \text{ where } \varepsilon_{ij} \sim N(0, \sigma^2)$$

The hypothesis of interest is

$$H_0 = \beta_1 = \beta_2 = \beta_3 \text{ vs } H_a: \text{ not } H_0.$$

The data are given below:

Y_{1j}	1.2	1.8	1.9	2.1	2.8	2.8	3.1	4.2	4.5	6.2					
X_{1j}	2.94	1.43	0.48	1.42	-0.96	-1.20	0.01	-1.85	-3.26	-6.73					
Y_{2j}	1.0	1.8	2.3	2.5	2.6	3.1	3.4	3.6	3.8	4.2	5.3				
X_{2j}	6.5	7.1	7.3	7.6	4.39	5.49	4.03	0.50	2.04	-1.72	-0.04	2.75	-1.52	-2.58	-4.98
Y_{3j}	-2.0	-1.8	-0.6	0.4	0.5	0.6	1.2	1.5	1.9	2.0	3.8				
X_{3j}	5.2	9.61	7.78	6.75	4.39	4.05	1.93	3.88	3.65	2.49	3.71	-1.50	-1.29		

Sources: Graybill (1976, p 337).

By analysis covariance approach and using SAS program

```
Proc GLM;
Class trt;
Model Y = trt x x*trt;
```

From the test statistic we have $p\text{-value}=0.0847 > 0.05$. So we conclude that we fail to reject H_0 , ie. The slopes are not significantly different. See the printout below:

SOURCE	DF	SS	F VALUE	P-VALUE
TRT	2	4.7460	5.44	0.0092
X	1	93.9526	215.45	0.0001
X*TRT	2	2.3278	2.67	0.0847

By beta hat model, the model

$$\tilde{\beta} = I\beta + \varepsilon^*$$

From the computer print out, the estimation of β and its standard error (SE),

$$\tilde{\beta}' = (-0.5326 \quad -0.4388 \quad -0.5982)$$

$$SE = \begin{pmatrix} 0.0469 \\ 0.0405 \\ 0.0683 \end{pmatrix}$$

By using the estimate of β ($\tilde{\beta}$) and corresponding standard error (SE) one can use the following SAS Program to find SSHo.

```
DATA BETAH;
INPUT TRT BHAT SE;
S2=0.6604;
V=SE/S2;
WT=1/(V*V);
```


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```
CARDS;
1      -0.5326  0.0469
2      -0.4388      0.0405
3      -0.5982      0.0683;
PROC REG;
MODEL BHAT= ; WEIGHT WT;
```

The output is

		TEST FOR EQUAL BETA					
OBS	TRT	BHAT	SE	S2	V	WT	
1	1	-0.5326	0.0469	0.6604	0.07102		
2	2	-0.4388	0.0405	0.6604	0.06133	198.275	
3	3	-0.5982	0.0683	0.6604	0.10342	265.891	
Source	ProbF	df	SS	MS	Fvalue		
Error		2	2.35304	1.17652		93.492	

The error sum of squares provides the sum of squares due to deviations from the null hypothesis that all of the parameters are equal. The resulting F statistic is $F = 1.17652 / 0.43615 = 2.697$ and from the F-table $F_{0.05, 2, 32} = 3.29$ and we fail to reject H_0 .

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