Let's put the econ back into econometrics II:

A .500 BATTING AVERAGE IS PRETTY GOOD, RIGHT?

The meaning of some "econometric" terms . . .

A coefficient is

	Economically significant	Economically insignificant
Precisely estimated	Statistically significant	May be statistically significant
Imprecisely estimated	May be statistically insignificant	Statistically insignificant

"Economically significant" means that the coefficient is large enough that we care about it. "Precisely estimated" means that we are confident about its size. The entries in the table explain the corresponding statistical jargon. A good example of how even a first rate economist can be mislead by this type of jargon can be found in a paper by John H. Cochrane that concludes "loss of work due to strike . . . [is an event] that seems effectively insured, up to the sensitivity of the test." In fact, his regression shows that a typical strike lowers consumption over a three-year period by about 9 percent, and "up to the sensitivity of the test," perhaps by as much as 21 percent. On the other hand, the coefficient is not "statistically significant." In other words, the data has little information about whether or not there is effective insurance, but it suggests that there is not.

Of course if the sample size is large enough every coefficient is statistically significant . . .

References:

John H. Cochrane [1989], "A Simple Test of Consumption Insurance," mimeo, University of Chicago

Source: \Docs\Annual\98\ADM\DOOR\STATISTICS.DOC