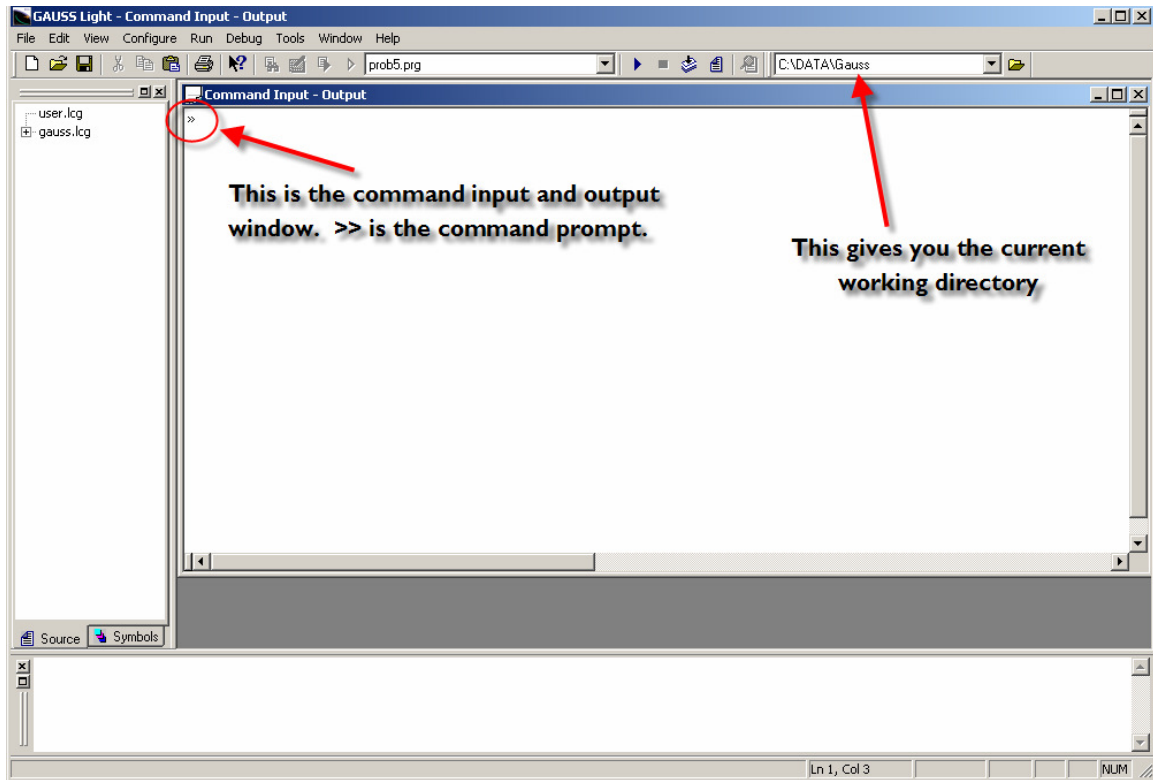


# Introduction to Gauss

Gauss is a high level programming language that you can use to learn and do econometrics. This is a brief guide to get you started using GAUSS 8.

First, open the Gauss program. I'll assume you know how to find and open a program in MS Windows. This will open the following window



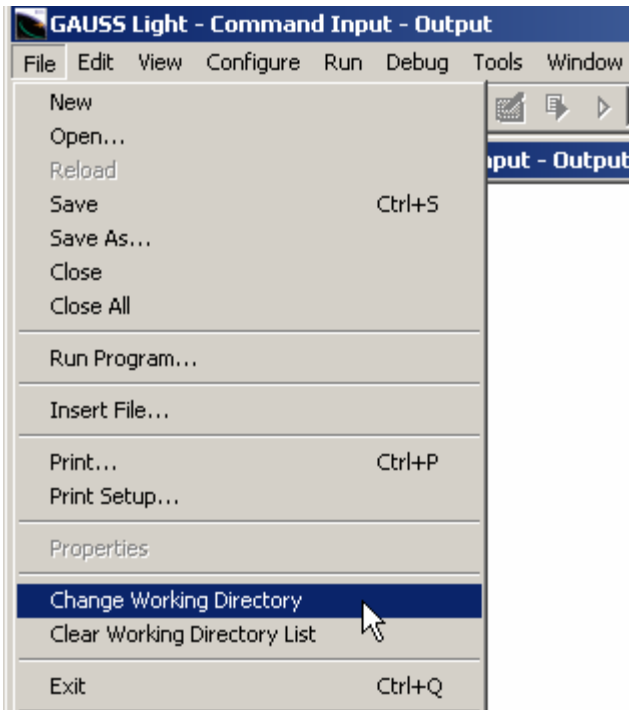
Gauss can be operated in two ways. First, you can use it interactively. That means you can input program statements one line at a time. You can check the results in each step to make sure the program is computing what you want it to compute.

The other way to use Gauss is to collect program statements into a file that can be executed in a batch.

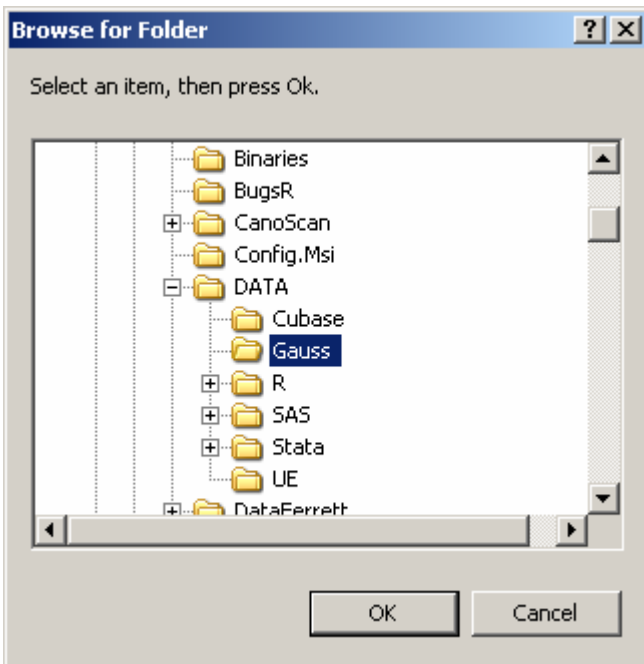
## ***Change the working directory***

The first thing you should do is to change Gauss's working directory to some location that is easy to get to. Use something as close to **C:\** as you can, using short directory and file names with no spaces. If you use something more complicated like **C:\Documents and Settings\Lee\Desktop\Gauss\Data\** then you are asking for trouble. I use

**C:\gauss\programs** or **C:\data\gauss**. To change the working directory, go to the menu bar and select File>Change Working Directory as shown



Browse for the desired location



and click OK.

## ***Load Consumption.txt***

The first thing you are going to do is to load the data contained in the file `consumption.txt`. This data in this file are in ascii format. That means that it contains no formatting information other than having spaces between the numbers. There are no variable names in the file. We'll add these separately.

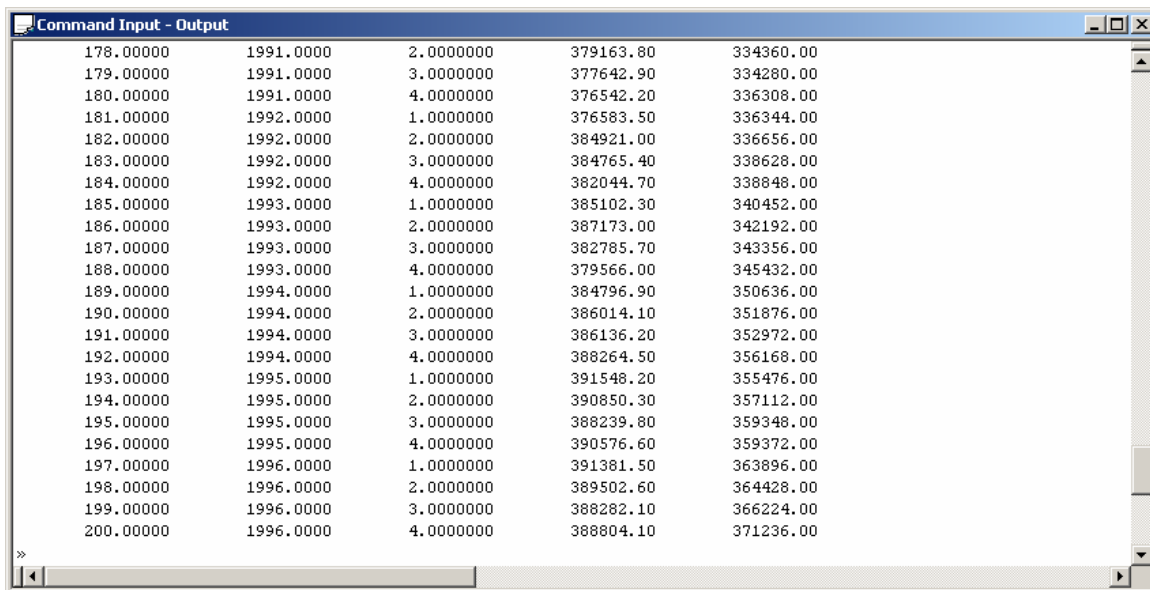
Download the `consumption.txt` file from my website and put it into your working directory. Then, at the command prompt, type

```
» load dat[200,5]=consumption.txt;
```

If this is successful then it will appear as if nothing happened. If it fails then you'll get an error message in the bottom window of the first figure above. To see if this loaded, type

```
» dat
```

at the command prompt and press enter. The contents of **dat** will be printed to the screen in the output window.



178.00000	1991.0000	2.0000000	379163.80	334360.00
179.00000	1991.0000	3.0000000	377642.90	334280.00
180.00000	1991.0000	4.0000000	376542.20	336308.00
181.00000	1992.0000	1.0000000	376583.50	336344.00
182.00000	1992.0000	2.0000000	384921.00	336656.00
183.00000	1992.0000	3.0000000	384765.40	338628.00
184.00000	1992.0000	4.0000000	382044.70	338848.00
185.00000	1993.0000	1.0000000	385102.30	340452.00
186.00000	1993.0000	2.0000000	387173.00	342192.00
187.00000	1993.0000	3.0000000	382785.70	343356.00
188.00000	1993.0000	4.0000000	379566.00	345432.00
189.00000	1994.0000	1.0000000	384796.90	350636.00
190.00000	1994.0000	2.0000000	386014.10	351876.00
191.00000	1994.0000	3.0000000	386136.20	352972.00
192.00000	1994.0000	4.0000000	388264.50	356168.00
193.00000	1995.0000	1.0000000	391548.20	355476.00
194.00000	1995.0000	2.0000000	390850.30	357112.00
195.00000	1995.0000	3.0000000	388239.80	359348.00
196.00000	1995.0000	4.0000000	390576.60	359372.00
197.00000	1996.0000	1.0000000	391381.50	363896.00
198.00000	1996.0000	2.0000000	389502.60	364428.00
199.00000	1996.0000	3.0000000	388282.10	366224.00
200.00000	1996.0000	4.0000000	388804.10	371236.00

The syntax of the statement is fairly simple. `load` is the command use to load ascii files. `dat[200,5]` tells Gauss that you want to create a 200 row by 5 column matrix called `dat`. The contents of that will be the file `consumption.txt`. For this to work, the file has to contain 1000 numbers. Gauss will read in these numbers 5 at a time, assigning each to a row. So, if the data are arranged by observation with 5 variables and 200 observations (spaces between each number) then the data will be read in as desired.

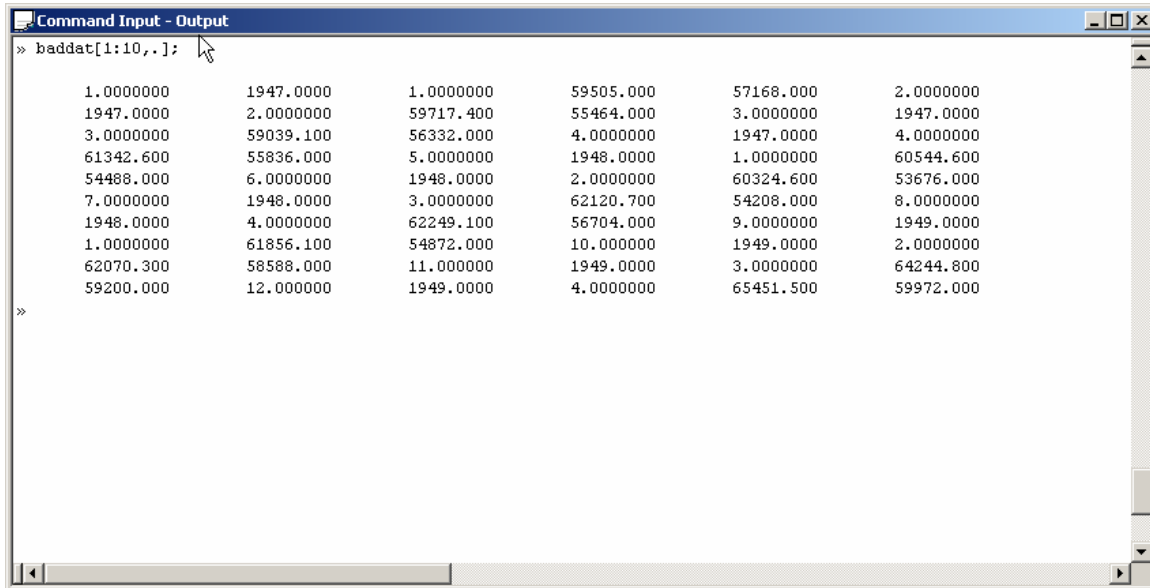
Try loading in the data into 6 columns 200 rows and see what happens. Hint: it is not good.

```

» load baddat[200,6]=consumption.txt;
» baddat[1:10,.];

```

The result of this is



```

Command Input - Output
» baddat[1:10,.];
1.0000000    1947.0000    1.0000000    59505.000    57168.000    2.0000000
1947.0000    2.0000000    59717.400    55464.000    3.0000000    1947.0000
3.0000000    59039.100    56332.000    4.0000000    1947.0000    4.0000000
61342.600    55836.000    5.0000000    1948.0000    1.0000000    60544.600
54488.000    6.0000000    1948.0000    2.0000000    60324.600    53676.000
7.0000000    1948.0000    3.0000000    62120.700    54208.000    8.0000000
1948.0000    4.0000000    62249.100    56704.000    9.0000000    1949.0000
1.0000000    61856.100    54872.000    10.0000000    1949.0000    2.0000000
62070.300    58588.000    11.0000000    1949.0000    3.0000000    64244.800
59200.000    12.0000000    1949.0000    4.0000000    65451.500    59972.000
»

```

That does not look like data arranged in row and column by observation so you have obviously done something wrong.

The statement used to list the contents of the matrix has been modified using Gauss's indexing capabilities. Here I used

```

» baddat[1:10,.];

```

to list rows 1 through 10, with all columns. If I wanted to print the contents of the 3<sup>rd</sup> column I would use `baddat[.,3]`. To find the element in the 2<sup>nd</sup> row and 2<sup>nd</sup> column use `baddat[2,2]` and so on.

### ***Means and standard deviations***

Two functions are particularly useful. To get the column means of a matrix **X** use `meanc(X)` and to get the sample standard deviations use `stdc(X)`. For the consumption data these are:

```

» meanc(dat);

```

```

100.50000
1971.5000
2.5000000
213507.83
189998.84

```

```

» stdc(dat);

57.879185
14.467083
1.1208396
116948.86
101117.11

```

Also, you can get correlations among the variables in **dat** using **corr(x(dat))**.

The 4<sup>th</sup> column of the matrix **dat** is YD, personal disposable income, 1986 dollars, Canada, SA and column 5 is CE, personal consumption expenditure, 1986 dollars. If you wanted the sample mean of YD you could simply take

```

» avgdat = meanc(dat);
» avgYD = avgdat[4];
» avgYD;
213507.83

```

First, you found the means of all the columns. Then you use the indexing ability to pick off the 4<sup>th</sup> element (the one that corresponds to YD). Notice that **avgdat** is a vector (1 row or column) and so you can index it using a single argument, its position in the vector.

## ***Regression***

Once the data are in **X** and **y**, regression is a snap. Let's put consumption into **y** and income and a column of 1's into **X**.

```

» y=dat[:,5];
» jt = ones(rows(dat),1);
» x = jt ~ dat[:,4];

```

The first line puts all rows (.) of the 5<sup>th</sup> column of **dat** into a new variable, **y**. The next line creates a column of ones to put into **x**. It uses the **ones(n,k)** function, where **n** is the number of rows and **k** is the number of columns that you want to take the value of one. We used the **rows(dat)** function to count the number of rows in our **dat** matrix. This column of ones is now called **jt**. In the last line we used the horizontal concatenation operator **~** to join the ones column with the 4<sup>th</sup> column of **dat** (which contains income). Print out the first 5 rows of **x** to confirm that the data are arranged as you want.

```

» x[1:5, .];

1.0000000    59505.000
1.0000000    59717.400
1.0000000    59039.100

```

```
1.0000000      61342.600
1.0000000      60544.600
```

Now that  $y$  and  $X$  are defined we want to compute least squares. Recall that algebraically, the least squares estimator is

$$b = (X'X)^{-1}X'y$$

The syntax in Gauss could hardly be simpler (or more intuitive)

```
b = invpd(x'*x)*x'*y
```

This uses the `invpd()` function, which takes the inverse of a positive definite, symmetric matrix; it uses the matrix multiplication operator, `*`; and it uses the transpose operator, `'`.

```
» b = invpd(x'*x)*x'*y;
» b;
```

```
6000.2561
0.86178847
```

These are your least squares estimates of the intercept and slope of the model. Now, it is up to you to keep track of which is which! This is done based on the algebra and on how you built  $x$ . Since the column of ones is in the first column of  $x$ , the first element of  $b$  will correspond to the intercept. Try this, make a new  $x$  and reestimate the model.

```
» x1 = dat[.,4]~jt;
» b1 = invpd(x1'*x1)*x1'*y;
» b1;
```

```
0.86178847
6000.2561
```

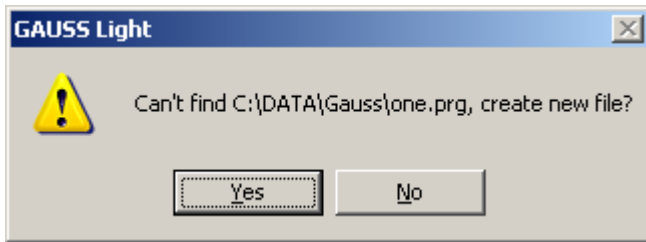
Notice that reversing the columns of  $x$  reverses the coefficients.

### ***Put it into a program***

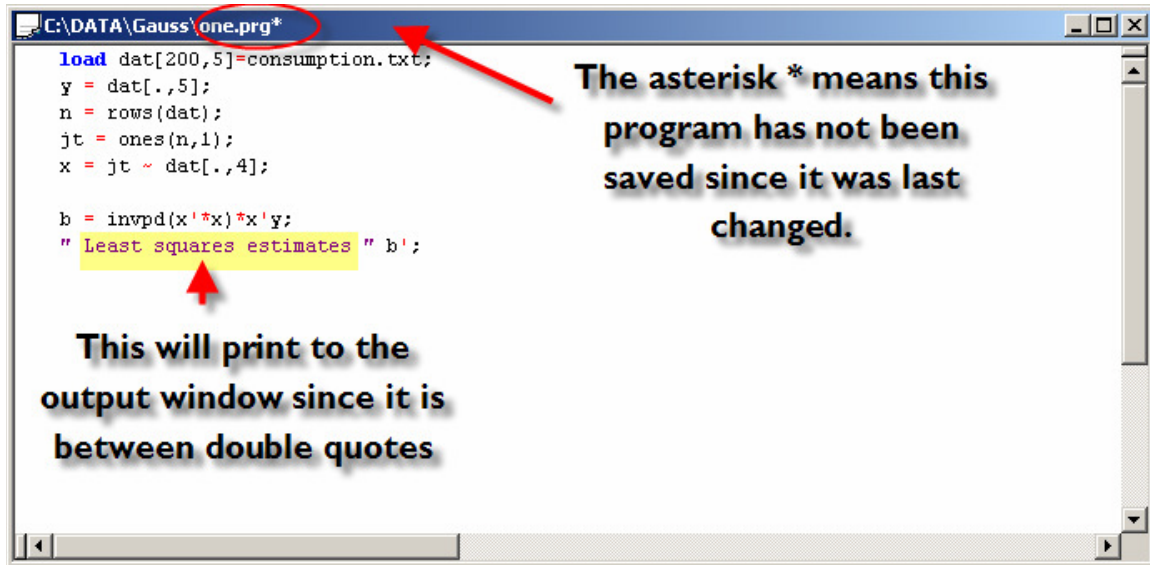
Open a new file called `one.prg` by typing in `edit one.prg` at the command line

```
» edit one.prg;
```

You'll be presented with this dialog asking you whether you really want to create a new file called `one.prg` in your working directory. If `one.prg` already exists, it will simply open without this nag.



Click Yes and a new, empty program will open. Type in the program shown



Basically this program consists of statements we've already used. I created a separate variable for sample size called **n** using the **rows(dat)**. Also, I used a fancier, annotated statement to print the result, which is transposed. Gauss will print whatever you list between double quotation marks, in this case **Least Squares estimates**.

Save the program using **Ctrl+S** or from the pull-down menu (**File>Save**). To run the program press **F6**, or **Run>Run Active File** from the pull-down menu.

The results look like this:

```
» run C:\DATA\Gauss\one.prg;
Least squares estimates      6000.2561      0.86178847
```

To exit Gauss, save your programs or output if desired, and use **Ctrl+Q** or **File>Exit**. You are now a Gauss professional!