

The Good, the Bad, and the Ugly ... Outlier

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Abstract:

The main goal of this paper is to warn practitioners of the danger of neglecting outliers in regression analysis, in particular good leverage points (i.e. points that are outlying in the design space, but following the regression model). We propose a step-by-step procedure to identify and deal with such points. To illustrate this, we present an economic example involving the data and very important results of Persson and Tabellini (1999).