

You will be given two Excel spreadsheets, `pricemat.xls` and `quant.txt` containing yearly prices and quantities for five sports car models, over the twenty-year period 1971-1990. The models are: Chevy Camaro and Corvette, Ford Mustang and Thunderbird, and Pontiac Firebird.

(The datasets contain both new and used quantities, and also new and used prices. Focus just on the new car prices and sales.)

Also, you need to deflate the prices, before you use them. The price deflator is contained in the “general cpi” column in `pricemat.xls`. Deflate prices by dividing by the cpi deflator.

1. Estimate a linear demand curve for each car model, by regressing new car sales on new car prices.
2. Do you believe the results? Why or why not?
3. If there is an endogeneity problem, please suggest some remedies.

In the remainder, focus on your results from question 1, for the Chevy Camaro.

4. Assuming your regression results are fine, calculate the implied markup on the Camaro, for each year in the sample. In doing this, assume that production and pricing of the Camaro follows the monopoly model.