3.7 — Interaction Effects

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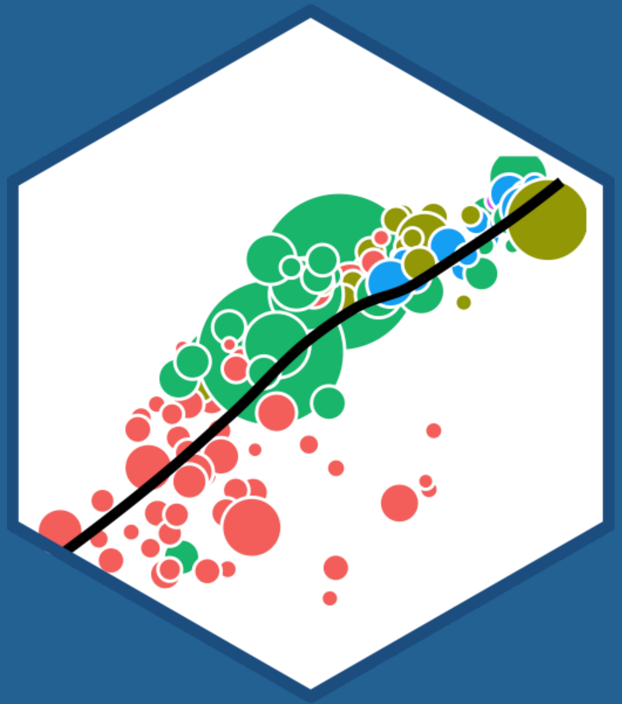
Ryan Safner

Assistant Professor of Economics

safner@hood.edu

ryansafner/metricsF20

metricsF20.classes.ryansafner.com



Outline

Interactions Between a Dummy and Continuous Variable

Interactions Between Two Dummy Variables

Interactions Between Two Continuous Variables

Sliders and Switches

Sliders and Switches

Dummy Variable

Continuous Variable

- Marginal effect of dummy variable: effect on Y of going from 0 to 1
- Marginal effect of continuous variable: effect on Y of a 1 unit change in X

Interaction Effects

- Sometimes one X variable might *interact* with another in determining Y

Example: Consider the gender pay gap again.

- *Gender* affects wages
- *Experience* affects wages

- **Does experience affect wages *differently* by gender?**
  - i.e. is there an **interaction effect** between gender and experience?

- **Note this is *NOT the same* as just asking: "do men earn more than women *with the same amount of experience?*"**

$$\widehat{\text{wages}}_i = \beta_0 + \beta_1 \, Gender_i + \beta_2 \, Experience_i$$

Three Types of Interactions

- Depending on the types of variables, there are 3 possible types of interaction effects

- We will look at each in turn

1. Interaction between a **dummy** and a **continuous** variable:

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 D_i + \beta_3 (X_i \times D_i)$$

2. Interaction between a **two dummy** variables:

$$Y_i = \beta_0 + \beta_1 D_{1i} + \beta_2 D_{2i} + \beta_3 (D_{1i} \times D_{2i})$$

3. Interaction between a **two continuous** variables:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 (X_{1i} \times X_{2i})$$

Interactions Between a Dummy and Continuous Variable

Interactions: A Dummy & Continuous Variable

Dummy Variable

Continuous Variable

- Does the marginal effect of the continuous variable on Y change depending on whether the dummy is "on" or "off"?

Interactions: A Dummy & Continuous Variable I

- We can model an interaction by introducing a variable that is an **interaction term** capturing the interaction between two variables:

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 D_i + \beta_3 (X_i \times D_i) \qquad \text{where } D_i = \{0, 1\}$$

- β_3 estimates the **interaction effect** between X_i and D_i on Y_i

- What do the different coefficients (β)'s tell us?

    - Again, think logically by examining each group $(D_i = 0$ or $D_i = 1)$

Interaction Effects as Two Regressions I

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 D_i + \beta_3 X_i \times D_i$$

- When $D_i = 0$ (Control group):

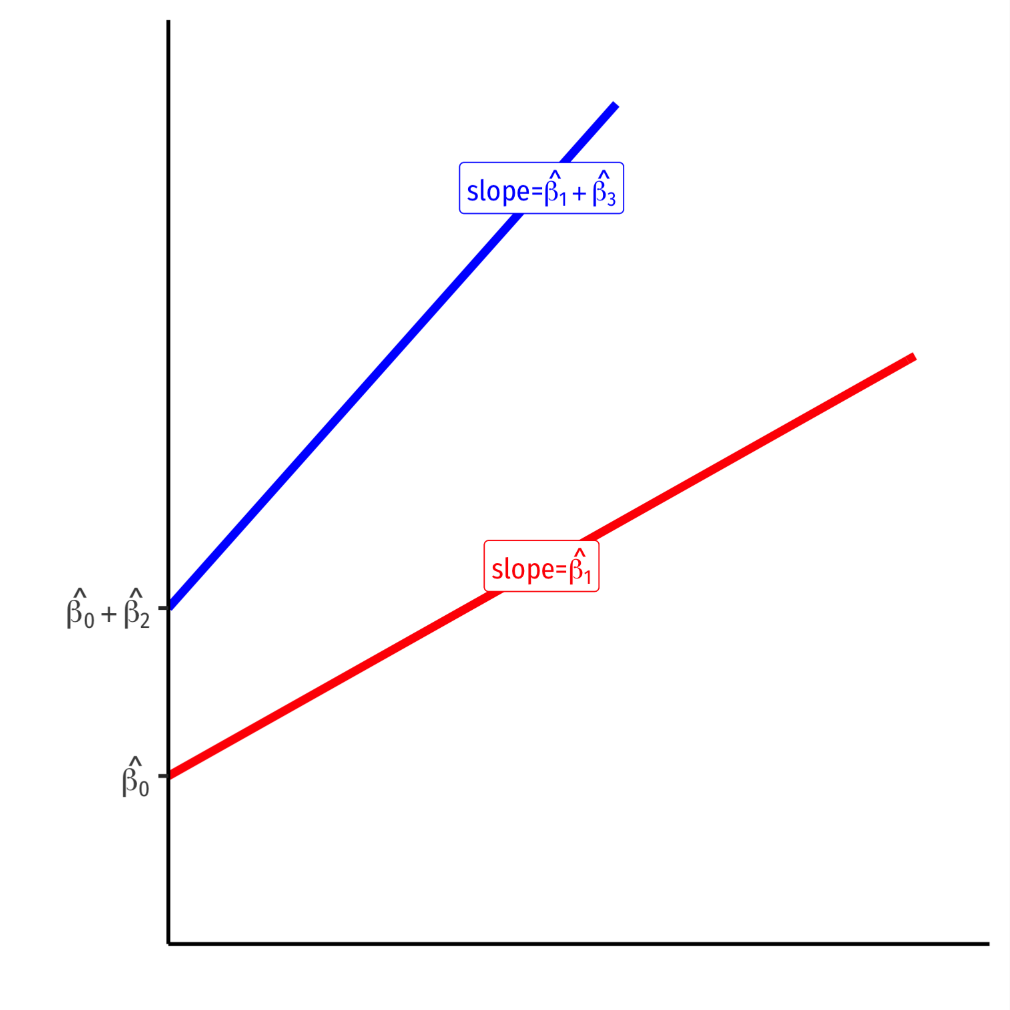
$$\begin{aligned}\hat{Y_i} &= \hat{\beta}_0 + \hat{\beta}_1 X_i + \hat{\beta}_2 (0) + \hat{\beta}_3 X_i \times (0)\\ \hat{Y_i} &= \hat{\beta}_0 + \hat{\beta}_1 X_i\end{aligned}$$

- When $D_i = 1$ (Treatment group):

$$\begin{aligned}\hat{Y_i} &= \hat{\beta}_0 + \hat{\beta}_1 X_i + \hat{\beta}_2 (1) + \hat{\beta}_3 X_i \times (1)\\ \hat{Y_i} &= (\hat{\beta}_0 + \hat{\beta}_2) + (\hat{\beta}_1 + \hat{\beta}_3) X_i\end{aligned}$$

- So what we really have is *two* regression lines!

Interaction Effects as Two Regressions II



- $D_i=0$ group:

$$Y_i=\hat{\beta}_0+\hat{\beta}_1X_i$$

- $D_i=1$ group:

$$Y_i=(\hat{\beta}_0+\hat{\beta}_2)+(\hat{\beta}_1+\hat{\beta}_3)X_i$$

Interpretting Coefficients I

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 D_i + \beta_3 (X_i \times D_i)$$

- To interpret the coefficients, compare cases after changing X by ΔX:

$$Y_i + \Delta Y_i = \beta_0 + \beta_1 (X_i + \Delta X_i) \beta_2 D_i + \beta_3 \big((X_i + \Delta X_i) D_i\big)$$

- Subtracting these two equations, the difference is:

$$\Delta Y_i = \beta_1 \Delta X_i + \beta_3 D_i \Delta X_i$$
$$\frac{\Delta Y_i}{\Delta X_i} = \beta_1 + \beta_3 D_i$$

- **The effect of $X \rightarrow Y$ depends on the value of D_i!**

- β_3: ***increment*** **to the effect of $X \rightarrow Y$ when $D_i = 1$ (vs. $D_i = 0$)**

Interpretting Coefficients II

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 D_i + \beta_3 (X_i \times D_i)$$

- $\hat{\beta_0}$: $E[Y_i]$ for $X_i = 0$ and $D_i = 0$
- β_1: Marginal effect of $X_i \rightarrow Y_i$ for $D_i = 0$
- β_2: Marginal effect on Y_i of difference between $D_i = 0$ and $D_i = 1$
- β_3: The **difference** of the marginal effect of $X_i \rightarrow Y_i$ between $D_i = 0$ and $D_i = 1$
- This is a bit awkward, easier to think about the two regression lines:

Interpretting Coefficients III

$$Y_i = \beta_0 + \beta_1 X_i + \beta_2 D_i + \beta_3 (X_i \times D_i)$$

For $D_i = 0$ Group: $\hat{Y}_i = \hat{\beta}_0 + \hat{\beta}_1 X_i$

- Intercept: $\hat{\beta}_0$
- Slope: $\hat{\beta}_1$

For $D_i = 1$ Group:
$\hat{Y}_i = (\hat{\beta}_0 + \hat{\beta}_2) + (\hat{\beta}_1 + \hat{\beta}_3) X_i$

- Intercept: $\hat{\beta}_0 + \hat{\beta}_2$
- Slope: $\hat{\beta}_1 + \hat{\beta}_3$

- $\hat{\beta}_2$: difference in intercept between groups
- $\hat{\beta}_3$: difference in slope between groups
- How can we determine if the two lines have the same slope and/or intercept?
  - Same intercept? t-test $H_0: \beta_2 = 0$
  - Same slope? t-test $H_0: \beta_3 = 0$

Example I

Example:

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1 exper_i + \hat{\beta}_2 female_i + \hat{\beta}_3 (exper_i \times female_i)$$

- For males $(female = 0)$:

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1 exper$$

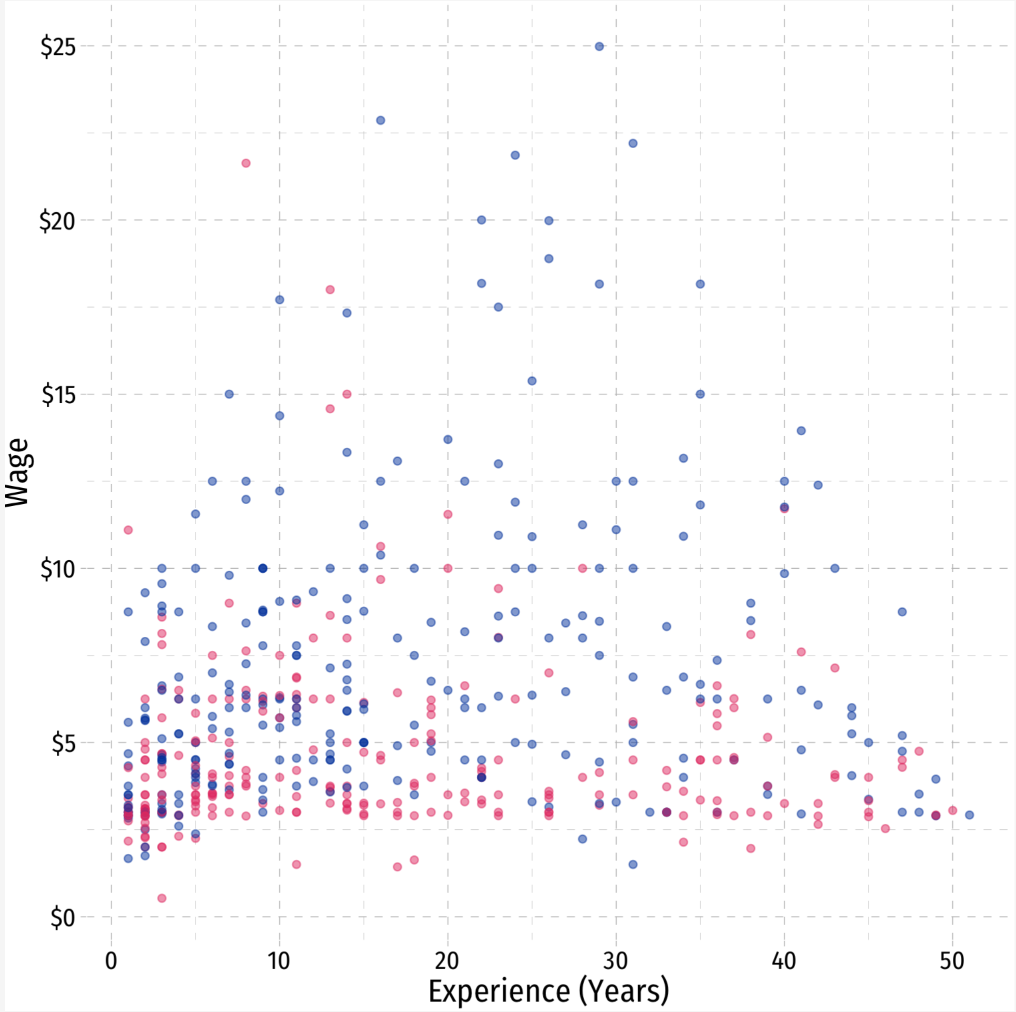
- For females $(female = 1)$:

$$\widehat{wage_i} = \underbrace{(\hat{\beta}_0 + \hat{\beta}_2)}_{\text{intercept}} + \underbrace{(\hat{\beta}_1 + \hat{\beta}_3)}_{\text{slope}} exper$$

Example II

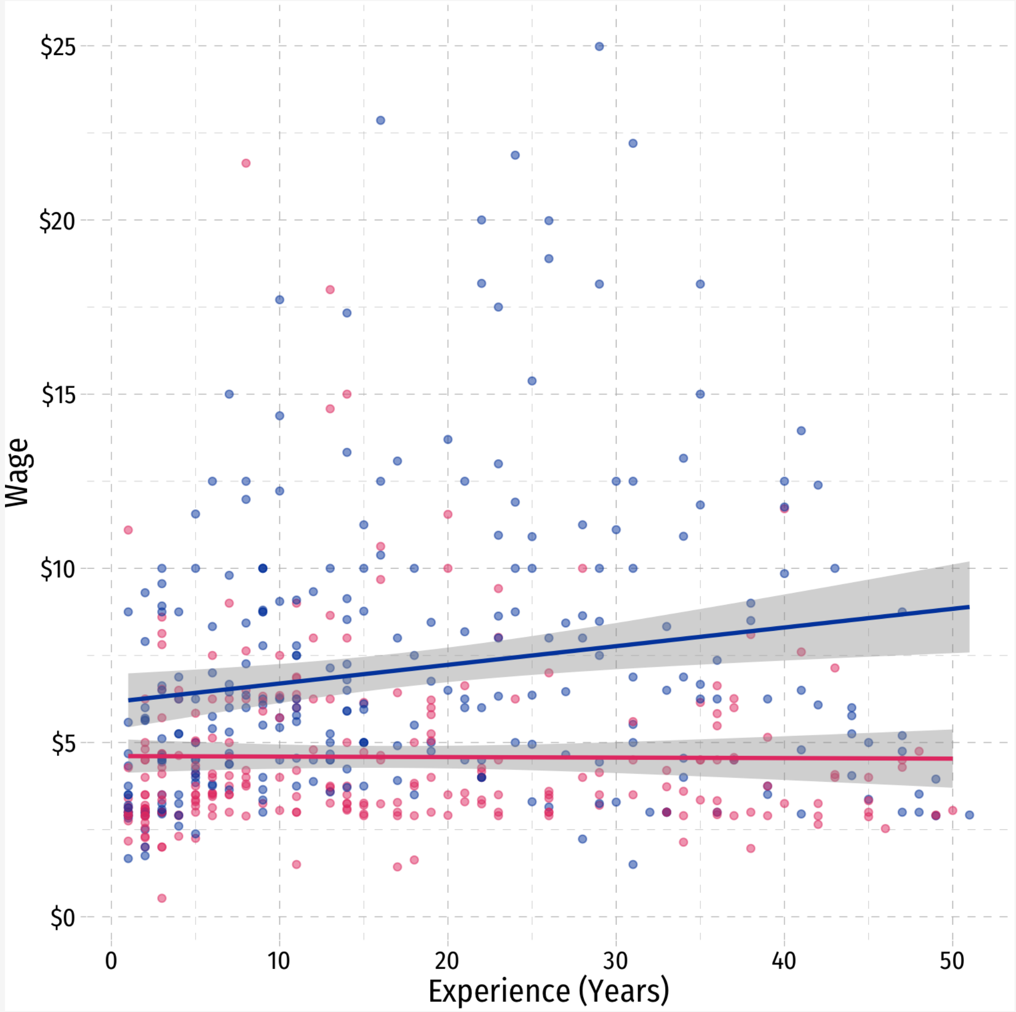
```r
interaction_plot <- ggplot(data = wages)+
  aes(x = exper,
      y = wage,
      color = as.factor(Gender))+ # make factor
  geom_point(alpha = 0.5)+
  scale_y_continuous(labels=scales::dollar)+
  labs(x = "Experience (Years)",
       y = "Wage")+
  scale_color_manual(values = c("Female" = "#e64173",
                                "Male" = "#0047AB")
                    )+ # setting custom colors
  guides(color=F)+ # hide legend
  theme_slides
interaction_plot
```

- Need to make sure `color` aesthetic uses a `factor` variable
  - Can just use `as.factor()` in ggplot code



Example II

```
interaction_plot+
  geom_smooth(method="lm")
```



Example II

```
interaction_plot+
  geom_smooth(method="lm")+
  facet_wrap(~Gender)
```

Example Regression in R I

- Syntax for adding an interaction term is easy in `R`: `var1 * var2`
  - Or could just do `var1 * var2` (multiply)

```r
# both are identical in R
interaction_reg <- lm(wage ~ exper * female, data = wages)
interaction_reg <- lm(wage ~ exper + female + exper * female, data = wages)
```

term	estimate	std.error	statistic	p.value
<chr>	<dbl>	<dbl>	<dbl>	<dbl>
(Intercept)	6.15827549	0.34167408	18.023830	7.998534e-57
exper	0.05360476	0.01543716	3.472450	5.585255e-04
female	-1.54654677	0.48186030	-3.209534	1.411253e-03
exper:female	-0.05506989	0.02217496	-2.483427	1.332533e-02

4 rows

Example Regression in R III

```r
library(huxtable)
huxreg(interaction_reg,
       coefs = c("Constant" = "(Intercept)",
                 "Experience" = "exper",
                 "Female" = "female",
                 "Experience * Female" = "exper:female"),
       statistics = c("N" = "nobs",
                      "R-Squared" = "r.squared",
                      "SER" = "sigma"),
       number_format = 2)
```

	(1)
Constant	6.16 ***
	(0.34)
Experience	0.05 ***
	(0.02)
Female	-1.55 **
	(0.48)
Experience * Female	-0.06 *
	(0.02)
N	526
R-Squared	0.14
SER	3.44

Example Regression in R: Interpretting Coefficients

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i - 1.55\, Female_i - 0.06\,(Experience_i \times Female_i)$$

- $\hat{\beta}_0$:

Example Regression in R: Interpretting Coefficients

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i - 1.55\, Female_i - 0.06\, (Experience_i \times Female_i)$$

- $\hat{\beta}_0$: Men with 0 years of experience earn 6.16
- $\hat{\beta}_1$:

Example Regression in R: Interpretting Coefficients

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i - 1.55\, Female_i - 0.06\,(Experience_i \times Female_i)$$

- $\hat{\beta}_0$: Men with 0 years of experience earn 6.16
- $\hat{\beta}_1$: For every additional year of experience, *men* earn \$0.05
- $\hat{\beta}_2$:

Example Regression in R: Interpretting Coefficients

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i - 1.55\, Female_i - 0.06\, (Experience_i \times Female_i)$$

- $\hat{\beta}_0$: Men with 0 years of experience earn 6.16
- $\hat{\beta}_1$: For every additional year of experience, *men* earn \$0.05
- $\hat{\beta}_2$: *Women* with 0 years of experience earn \$1.55 less than men
- $\hat{\beta}_3$:

Example Regression in R: Interpretting Coefficients

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i - 1.55\, Female_i - 0.06\,(Experience_i \times Female_i)$$

- $\hat{\beta}_0$: Men with 0 years of experience earn 6.16
- $\hat{\beta}_1$: For every additional year of experience, *men* earn \$0.05
- $\hat{\beta}_2$: *Women* with 0 years of experience earn \$1.55 less than men
- $\hat{\beta}_3$: *Women* earn \$0.06 less than men for every additional year of experience

Interpretting Coefficients as 2 Regressions I

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i - 1.55\, Female_i - 0.06\, (Experience_i \times Female_i)$$

Regression for men ($female = 0$)

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i$$

- Men with 0 years of experience earn $6.16 on average
- For every additional year of experience, men earn $0.05 more on average

Interpretting Coefficients as 2 Regressions II

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i - 1.55\, Female_i - 0.06\, (Experience_i \times Female_i)$$

Regression for women $(female = 1)$

$$\begin{aligned} \widehat{wage_i} &= 6.16 + 0.05\, Experience_i - 1.55(1) - 0.06\, Experience_i \times (1) \\ &= (6.16 - 1.55) + (0.05 - 0.06)\, Experience_i \\ &= 4.61 - 0.01\, Experience_i \end{aligned}$$

- Women with 0 years of experience earn \$4.61 on average
- For every additional year of experience, women earn \$0.01 *less* on average

Example Regression in R: Hypothesis Testing

- Are slopes & intercepts of the 2 regressions statistically significantly different?

$$\begin{aligned}\widehat{wage_i} &= 6.16 + 0.05\,Experience_i - 1.55\,Female_i \\ &- 0.06\,(Experience_i \times Female_i)\end{aligned}$$

term	estimate	std.error	statistic	p.value
(Intercept)	6.16	0.342	18	8e-57
exper	0.0536	0.0154	3.47	0.000559
female	-1.55	0.482	-3.21	0.00141
exper:female	-0.0551	0.0222	-2.48	0.0133

Example Regression in R: Hypothesis Testing

- Are slopes & intercepts of the 2 regressions statistically significantly different?

- Are intercepts different? $H_0 : \beta_2 = 0$
  - Difference between men vs. women for no experience?
  - Is $\hat{\beta}_2$ significant?
  - Yes (reject) H_0: $t = -3.210$, p-value = 0.00

$$\widehat{wage_i} = 6.16 + 0.05\, Experience_i - 1.55\, Female_i$$
$$- 0.06\, (Experience_i \times Female_i)$$

term	estimate	std.error	statistic	p.value
(Intercept)	6.16	0.342	18	8e-57
exper	0.0536	0.0154	3.47	0.000559
female	-1.55	0.482	-3.21	0.00141
exper:female	-0.0551	0.0222	-2.48	0.0133

Example Regression in R: Hypothesis Testing

- Are slopes & intercepts of the 2 regressions statistically significantly different?

- Are intercepts different? $H_0 : \beta_2 = 0$
  - Difference between men vs. women for no experience?
  - Is $\hat{\beta}_2$ significant?
  - Yes (reject) H_0: $t = -3.210$, p-value = 0.00

- Are slopes different? $H_0 : \beta_3 = 0$
  - Difference between men vs. women for marginal effect of experience?
  - Is $\hat{\beta}_3$ significant?

$$\begin{aligned}\widehat{wage_i} &= 6.16 + 0.05\,Experience_i - 1.55\,Female_i \\ &- 0.06\,(Experience_i \times Female_i)\end{aligned}$$

term	estimate	std.error	statistic	p.value
(Intercept)	6.16	0.342	18	8e-57
exper	0.0536	0.0154	3.47	0.000559
female	-1.55	0.482	-3.21	0.00141
exper:female	-0.0551	0.0222	-2.48	0.0133

Interactions Between Two Dummy Variables

Interactions Between Two Dummy Variables

- Does the marginal effect on Y of one dummy going from "off" to "on" change depending on whether the *other* dummy is "off" or "on"?

Interactions Between Two Dummy Variables

$$Y_i = \beta_0 + \beta_1 D_{1i} + \beta_2 D_{2i} + \beta_3 (D_{1i} \times D_{2i})$$

- D_{1i} and D_{2i} are dummy variables
- $\hat{\beta}_1$: effect on Y of going from $D_{1i} = 0$ to $D_{1i} = 1$ when $D_{2i} = 0$
- $\hat{\beta}_2$: effect on Y of going from $D_{2i} = 0$ to $D_{2i} = 1$ when $D_{1i} = 0$
- $\hat{\beta}_3$: effect on Y of going from $D_{1i} = 0$ to $D_{1i} = 1$ when $D_{2i} = 1$
  - *increment* to the effect of D_{1i} going from 0 to 1 when $D_{2i} = 1$ (vs. 0)
- As always, best to think logically about possibilities (when each dummy $= 0$ or $= 1$)

2 Dummy Interaction: Interpretting Coefficients

$$Y_i = \beta_0 + \beta_1 D_{1i} + \beta_2 D_{2i} + \beta_3 (D_{1i} \times D_{2i})$$

- To interpret coefficients, compare cases:
  - Hold D_{2i} constant (set to some value $D_{2i} = d_2$)
  - Plug in 0s or 1s for D_{1i}

$$E(Y_i | D_{1i} = 0, D_{2i} = d_2) = \beta_0 + \beta_2 d_2$$
$$E(Y_i | D_{1i} = 1, D_{2i} = d_2) = \beta_0 + \beta_1(1) + \beta_2 d_2 + \beta_3(1) d_2$$

- Subtracting the two, the difference is:

$$\beta_1 + \beta_3 d_2$$

- **The marginal effect of $D_{1i} \rightarrow Y_i$ depends on the value of D_{2i}**

  - $\hat{\beta}_3$ is the *increment* to the effect of D_1 on Y when D_2 goes from 0 to 1

Interactions Between 2 Dummy Variables: Example

Example: Does the gender pay gap change if a person is married vs. single?

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1 female_i + \hat{\beta}_2 married_i + \hat{\beta}_3 (female_i \times married_i)$$

- Logically, there are 4 possible combinations of $female_i = \{0, 1\}$ and $married_i = \{0, 1\}$

1) **Unmarried men** ($female_i = 0$, $married_i = 0$)

$$\widehat{wage_i} = \hat{\beta}_0$$

Interactions Between 2 Dummy Variables: Example

Example: Does the gender pay gap change if a person is married vs. single?

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1 female_i + \hat{\beta}_2 married_i + \hat{\beta}_3 (female_i \times married_i)$$

- Logically, there are 4 possible combinations of $female_i = \{0, 1\}$ and $married_i = \{0, 1\}$

1) **Unmarried men** ($female_i = 0$, $married_i = 0$)

$$\widehat{wage_i} = \hat{\beta}_0$$

2) **Married men** ($female_i = 0$, $married_i = 1$)

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_2$$

3) **Unmarried women** ($female_i = 1$, $married_i = 0$)

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1$$

Interactions Between 2 Dummy Variables: Example

Example: Does the gender pay gap change if a person is married vs. single?

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1 female_i + \hat{\beta}_2 married_i + \hat{\beta}_3 (female_i \times married_i)$$

- Logically, there are 4 possible combinations of $female_i = \{0, 1\}$ and $married_i = \{0, 1\}$

1) **Unmarried men** ($female_i = 0$, $married_i = 0$)

$$\widehat{wage_i} = \hat{\beta}_0$$

2) **Married men** ($female_i = 0$, $married_i = 1$)

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_2$$

3) **Unmarried women** ($female_i = 1$, $married_i = 0$)

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1$$

4) **Married women** ($female_i = 1$, $married_i = 1$)

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1 + \hat{\beta}_2 + \hat{\beta}_3$$

Looking at the Data

```r
# get average wage for unmarried men
wages %>%
  filter(female == 0,
         married == 0) %>%
  summarize(mean = mean(wage))
```

mean
5.17

```r
# get average wage for unmarried women
wages %>%
  filter(female == 1,
         married == 0) %>%
  summarize(mean = mean(wage))
```

mean
4.61

```r
# get average wage for married men
wages %>%
  filter(female == 0,
         married == 1) %>%
  summarize(mean = mean(wage))
```

mean
7.98

```r
# get average wage for married women
wages %>%
  filter(female == 1,
         married == 1) %>%
  summarize(mean = mean(wage))
```

mean
4.57

Two Dummies Interaction: Group Means

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1 female_i + \hat{\beta}_2 married_i + \hat{\beta}_3 (female_i \times married_i)$$

	Men	Women
Unmarried	\$5.17	\$4.61
Married	\$7.98	\$4.57

Interactions Between Two Dummy Variables: In R I

```
reg_dummies <- lm(wage ~ female + married + female:married, data = wages)
reg_dummies %>% tidy()
```

term	estimate	std.error	statistic	p.value
(Intercept)	5.17	0.361	14.3	2.26e-39
female	-0.556	0.474	-1.18	0.241
married	2.82	0.436	6.45	2.53e-10
female:married	-2.86	0.608	-4.71	3.2e-06

Interactions Between Two Dummy Variables: In R II

```r
library(huxtable)
huxreg(reg_dummies,
       coefs = c("Constant" = "(Intercept)",
                 "Female" = "female",
                 "Married" = "married",
                 "Female * Married" = "female:marr:
       statistics = c("N" = "nobs",
                      "R-Squared" = "r.squared",
                      "SER" = "sigma"),
       number_format = 2)
```

	(1)
Constant	5.17 ***
	(0.36)
Female	-0.56
	(0.47)
Married	2.82 ***
	(0.44)
Female * Married	-2.86 ***
	(0.61)
N	526
R-Squared	0.18
SER	3.35

*** p < 0.001; ** p < 0.01; * p < 0.05.

2 Dummies Interaction: Interpretting Coefficients

$$\widehat{wage_i} = 5.17 - 0.56\, female_i + 2.82\, married_i - 2.86\, (female_i \times married_i)$$

	Men	Women
Unmarried	$5.17	$4.61
Married	$7.98	$4.57

- Wage for **unmarried men**: $\hat{\beta}_0 = 5.17$
- Wage for **married men**: $\hat{\beta}_0 + \hat{\beta}_2 = 5.17 + 2.82 = 7.98$
- Wage for **unmarried women**: $\hat{\beta}_0 + \hat{\beta}_1 = 5.17 - 0.56 = 4.61$
- Wage for **married women**: $\hat{\beta}_0 + \hat{\beta}_1 + \hat{\beta}_2 + \hat{\beta}_3 = 5.17 - 0.56 + 2.82 - 2.86 = 4.57$

2 Dummies Interaction: Interpretting Coefficients

$$\widehat{wage_i} = 5.17 - 0.56\, female_i + 2.82\, married_i - 2.86\, (female_i \times married_i)$$

	Men	Women
Unmarried	\$5.17	\$4.61
Married	\$7.98	\$4.57

- $\hat{\beta}_1$: Wage for **unmarried men**
- $\hat{\beta}_2$: *Difference* in wages between **men** and **women** who are **unmarried**
- $\hat{\beta}_3$: *Difference* in:
  - effect of **Marriage** on wages between **men** and **women**
  - effect of **Gender** on wages between **unmarried** and **married** individuals

Interactions Between Two Continuous Variables

Interactions Between Two Continuous Variables

Continuous Variable

Continuous Variable

- Does the marginal effect of X_1 on Y depend on what X_2 is set to?

Interactions Between Two Continuous Variables

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 (X_{1i} \times X_{2i})$$

- To interpret coefficients, compare changes after changing ΔX_{1i} (holding X_2 constant):

$$Y_i + \Delta Y_i = \beta_0 + \beta_1 (X_1 + \Delta X_{1i}) \beta_2 X_{2i} + \beta_3 ((X_{1i} + \Delta X_{1i}) \times X_{2i})$$

- Take the difference to get:

$$\Delta Y_i = \beta_1 \Delta X_{1i} + \beta_3 X_{2i} \Delta X_{1i}$$
$$\frac{\Delta Y_i}{\Delta X_{1i}} = \beta_1 + \beta_3 X_{2i}$$

- **The effect of $X_1 \rightarrow Y_i$ depends on X_2**
  - β_3: *increment* to the effect of $X_1 \rightarrow Y_i$ for every 1 unit change in X_2

Continuous Variables Interaction: Example

Example: Do education and experience interact in their determination of wages?

$$\widehat{wage_i} = \hat{\beta}_0 + \hat{\beta}_1\, educ_i + \hat{\beta}_2\, exper_i + \hat{\beta}_3(educ_i \times exper_i)$$

- Estimated effect of education on wages depends on the amount of experience (and vice versa)!

$$\frac{\Delta wage}{\Delta educ} = \hat{\beta}_1 + \beta_3\, exper_i$$

$$\frac{\Delta wage}{\Delta exper} = \hat{\beta}_2 + \beta_3\, educ_i$$

- This is a type of nonlinearity (we will examine nonlinearities next lesson)

Continuous Variables Interaction: In R I

```r
reg_cont <- lm(wage ~ educ + exper + educ:exper, data = wages)
reg_cont %>% tidy()
```

term	estimate	std.error	statistic	p.value
(Intercept)	-2.86	1.18	-2.42	0.0158
educ	0.602	0.0899	6.69	5.64e-11
exper	0.0458	0.0426	1.07	0.283
educ:exper	0.00206	0.00349	0.591	0.555

Continuous Variables Interaction: In R II

```r
library(huxtable)
huxreg(reg_cont,
       coefs = c("Constant" = "(Intercept)",
                 "Education" = "educ",
                 "Experience" = "exper",
                 "Education * Experience" = "educ:exper"),
       statistics = c("N" = "nobs",
                      "R-Squared" = "r.squared",
                      "SER" = "sigma"),
       number_format = 3)
```

	(1)
Constant	-2.860 *
	(1.181)
Education	0.602 ***
	(0.090)
Experience	0.046
	(0.043)
Education * Experience	0.002
	(0.003)
N	526
R-Squared	0.226
SER	3.259

*** p < 0.001; ** p < 0.01; * p < 0.05.

Continuous Variables Interaction: Marginal Effects

$$\widehat{wages}_i = -2.860 + 0.602\, educ_i + 0.047\, exper_i + 0.002\, (educ_i \times exper_i)$$

Marginal Effect of Education on Wages by Years of Experience:

Experience	$\frac{\Delta wage}{\Delta educ} = \hat{\beta}_1 + \hat{\beta}_3\, exper$
5 years	$0.602 + 0.002(5) = 0.612$
10 years	$0.602 + 0.002(10) = 0.622$
15 years	$0.602 + 0.002(15) = 0.632$

- Marginal effect of education $\rightarrow$ wages **increases** with more experience (but very insignificantly)

Continuous Variables Interaction: Marginal Effects

$$\widehat{wages}_i = -2.860 + 0.602\, educ_i + 0.047\, exper_i + 0.002\, (educ_i \times exper_i)$$

Marginal Effect of Experience on Wages by Years of Education:

Education	$\frac{\Delta wage}{\Delta educ} = \hat{\beta}_1 + \hat{\beta}_3\, exper$
5 years	$0.047 + 0.002(5) = 0.057$
10 years	$0.047 + 0.002(10) = 0.067$
15 years	$0.047 + 0.002(15) = 0.077$

- Marginal effect of experience → wages **increases** with more education (but very insignificantly)

Marginal Effects

Can get the marginal effects more precisely by saving the coefficients and making a function of each:

```
b_1 <- reg_cont %>%
  tidy() %>%
  filter(term == "educ") %>%
  pull(estimate)

b_2 <- reg_cont %>%
  tidy() %>%
  filter(term == "exper") %>%
  pull(estimate)

b_3 <- reg_cont %>%
  tidy() %>%
  filter(term == "educ:exper") %>%
  pull(estimate)

# let's check these
c(b_1, b_2, b_3)
```

```
## [1] 0.601735470 0.045768911 0.002062345
```

```
# make marginal effect of education on wages by years of experience function
# input is years of experience
me_educ<-function(exper){b_1*b_3*exper}

# now its a function, let's input 5 years, 10 years, 15 years of experience
me_educ(c(5,10,15))
```

```
## [1] 0.006204929 0.012409858 0.018614788
```

```
# make marginal effect of experience on wages by years of education function
# input is years of education
me_exper<-function(educ){b_2*b_3*educ}

# now its a function, let's input 5 years, 10 years, 15 years of education
me_exper(c(5,10,15))
```

```
## [1] 0.0004719563 0.0009439126 0.0014158689
```

Marginal Effects