Answers to reading check #9

1. Silver quotes Jan Hatzius in saying "nobody has a clue." What specifically was he referring to?

   Forecasting any aspect of the U.S. economy.

2. What does Silver claim is critical for a forecaster to provide, in addition to a "point prediction" like "the GDP will increase 1.9% next quarter?"

   A prediction interval.

3. Why does Hatzius think forecasters normally don't provide that information?

   "Why do people not give intervals? Because they're embarrassed. I think that's the reason. People are embarrassed."

4. The forecasting firm ECRI told its clients in a 2004 book: "Just as you do not need to know exactly how a car engine works in order to drive safely, you do not need to understand all the intricacies of the economy to accurately read those gauges." What does Silver think of this statement?

   It's bogus and short-sighted. It's "becoming more common in the age of Big Data. Who needs theory when you have so much information? But this is categorically the wrong attitude to take toward forecasting, especially in a field like economics where the data is so noisy."

5. Suppose there's a variable that seems to be a good economic indicator. What does Silver mention might happen to make it lose its predictive value?

   Once policy makers begin to target a particular variable, it may begin to lose its value as an economic indicator.

6. Silver discusses the "rational bias" phenomenon: **the less reputation you have, the less you have to lose by taking a big risk when you make a prediction.**