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Sequence of Manuscript

I. Title page
II. Abstract (150-250 words)
III. Keywords (3-5)
IV. Introduction
V. Literature Review
VI. Methodology
VII. Results and Discussion
VIII. Conclusion and Recommendations
IX. References (APA 7th Edition)
X. Appendices (if necessary)
XI. Author Biographies (optional)

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EFFECT OF AUDIT PRICING ON QUALITY OF AUDIT IN LISTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

Auditor quality is a central tool that adds credibility to annual reports and accounts prepared by managers to users of the information contained therein. The fee paid to external auditors for their services, their independence and the specialty of the auditor are believed to substantially affect the outcome of their audit services. Due the call for enhanced financial reporting and audit quality and the dearth in literature examining this, the study therefore examines the extent to which audit pricing, independence and specialization affect the auditor quality. The study focused on listed Deposit Money Banks and used secondary data collected for 140 firm-year observations. Robust Ordinary Least Square Technique was adopted and analysis carried out using STATA 13 version. The results revealed a significant positive effect of audit pricing on quality of auditor, while audit independence significantly but negatively affect auditor quality, the audit specialization has negative and insignificant effect on audit quality. Furthermore, firm size used as a control variable was found to have a positive and significant effect on audit quality. The study recommends that regulators and management of banks should encourage and pay higher audit fee as it can motivate auditors to expand their efforts that will directly influence audit quality. Banks' management and shareholders should continue to engage the services of specialist's auditors in order to guarantee quality audit services. Furthermore, the study also recommended that since audit fees can affect audit quality, regulators need to make policies so that audit fees paid to the external auditors should not be more than or less than the normal fees or within a certain threshold in order to maintain a balance.

Keywords: Auditor quality, Audit pricing, Auditor independence and Auditor specialization.

Introduction

The consistent clamour for financial reports and reporting process free of misstatement has dominated series of discussions in accounting and finance literature (Farouk, 2022). This is following the financial scandals and subsequent collapse of big multinational corporations around the world which include Enron, Parmalat, WorldCom and Cardbury in Nigeria among many others. These events have attracted the interest of policy makers, regulators, other stakeholders and researchers in calling for the practice of good corporate governance both in developed and developing economies. The failures of corporations have propelled international efforts towards formulation of internationally recognized good corporate governance practice to curtail opportunistic tendencies of managers which have threatened investors and potential investors' confidence in accounting information of companies (Oba, 2014). In Nigeria, corporations such as defunct Oceanic Bank Plc, Skye Bank, Afribank Plc and Intercontinental Bank Plc have all been found engaging in manipulative accounting practice and have created doubt on the credibility of financial reporting of firms. The conduct of this manipulative act is to attract unsuspecting investors, or to obtain undeserved accounting-based rewards through the presentation of an exaggerated, misleading, or deceptive state of bank financial affairs (Farouk, 2018). Hence, it is important to examine dynamics that can assist towards increasing the level of auditor quality via audit pricing, particularly in the financial sector which serves as fulcrums of economy of Nigeria.

Audit is seen as an independent assessment of

corporation where the auditor passes on reasonable results about the allocation of investments by that entity (IFAC, 2001). Therefore, the primary motive of auditing is to achieve accountability as well as clarity in both public and/or private sector. These reviews enable the instrument that makes public and private organizations accountable and as well liable for their own task. Audit hence guarantees accountability, value, transparency and respectability in functioning of units.

However, recent financial scandals have increased the question of whether an external auditor is effective in constraining earnings manipulations and the wave of audit failure in the capital market has also increased concerns about audit quality (Velury, 2005). The relationhip between audit pricing and the quality of auditor is from a common belief among the public that pricing of audit services is a key driver of the quality of auditors and the company's ability to engage a reputable audit firm. External audit has become an important instrument for shareholders, to ensure the transparency and credibility of financial reporting. External auditors are responsible for verifying that the financial statements are fairly stated in conformity with GAAP and that these statements reflect the 'true' economic condition and operating results of the entity, thus, the external auditor's verification adds credibility to the company's financial statements, therefore, a good audit pricing is expected to drive quality audit engagement and enhance the quality of financial reports.

Big 4 audit firms are argued to give top-quality of auditing over the non-Big 4 audit firms (Boulila Taktak & Mbarki, 2014). Because the Big 4 audit firms are regarded as reputable firms needs to uphold the image and fear losing the engagement created in the case that they offer low audit quality (Bigus, 2015). Reputable audit firms likewise are believed to serve high audit quality on the assumption that they usually gets higher remuneration for their audit engagement services and possess greater competence to sustain their realized potentiality (Aronmwan et al., 2013). Also, some extant researches indicated that audit quality would be high if the auditors do not suffer any form of constraints during the audit exercise (DeAngelo, 1981).

To access the independence of an auditor, it can be ascertained via several elements and the important one among these elements is the audit fees given by the client to auditor. Auditor's reliance upon a specific client could lead the auditor to indulge in a manner that is capable of undermining the quality of audit. Analyst have also argued that when auditors are paid higher remuneration, it may motivate them to put in their greatest amounts of energy in conducting the audit exercise and revealing the key money related errors of his clients. In another dimension, it could also be contended that when high audit fees is paid to auditors, they may become financially dependable on their clients and as such become reserved in uncovering main errors. Therefore, based on this conflicting argument, it has become imperative to investigate audit quality and its determinants to help the regulators and auditors to enhance the audit quality standards. The quality of audit services in turn depends on the experience of the auditors, their knowledge of the industry (industry specialization) and their independence, amongst others. Such knowledge and experience will help the auditor to diagnose the complex issues in specific industries.

Previous studies have examined some specific variables which have influence on audit quality. This study is, however, unique because variables such as audit pricing, auditor independence and auditor specialization are examined against audit quality of financial firms. Furthermore, studies of this nature were mostly conducted in developed countries. Therefore, attempt is made to bridge the gap by investigating only the financial sector, most especially the most vibrant sector which drives the Nigeria's economy.

The major objective of the study is to examine the effect of audit pricing on quality of audit in listed deposit money banks in Nigeria. Other specific objectives are to:

i. assess the effect of audit pricing on quality of audit of listed non-financial firms in Nigeria.

ii. Investigate the effect of audit independence on quality of audit of listed non-financial firms in Nigeria.

iii. determine the effect of audit specialization on quality of audit of listed non-financial firms in Nigeria.

The following hypotheses have been formulated in null form;

H_{01}: Audit Pricing has no significant effect on quality of audit of listed non-financial firms in Nigeria.

H_{02}: Auditor independence has no significant effect on quality of audit of listed non-financial firms in Nigeria.

H_{03}: Auditor specialization has no significant effect on quality of audit of listed non-financial firms in Nigeria.

REVIEW OF LITERATURE AND THEORY

2.1 Conceptual Review

Many literatures have explained that qualities of auditors contribute to the varying differences in value of financial reporting. De Anglo (1981) defines audit quality as the likelihood that audit will honestly provide the audit detections in accounting treatments of their customer, for the public interest. The quality of the external auditor has been identified as another factor enhancing financial reporting of an organization. Watts and Zimmerman (1986) argued that the value of auditing arises, because auditing reduces the misreporting of financial information and as such increase the image of the firm and reduces agency costs.

2.2 Empirical Review

The remuneration given to auditors in exchange of their services toward their clients may impact audit quality (Simunic, 1980). The direct relationship among audit remuneration and the proxies that are utilized to evaluate the quality of auditing has been witnessed in earlier investigations (for example Ettredge et al., 2014; Hoitash et al., 2007). Ettredge et al. (2014) investigated that audit remuneration influence in the period of monetary downfall is directly or positively connected with reporting errors. There are a few supporting conclusions for the direct connections among audit remuneration and quality of auditing. Choi et al. (2010) demonstrated that auditing companies that perform superior quality of audit facilities bill greater audit remuneration than those who render lower audit quality facilities as charges to perform high quality of audits are higher as compared to lower quality of auditing. Higher remuneration can motivate auditors to expand their efforts that will directly influence audit quality (Hoitash et al., 2007).

Ridzky and Fitriany (2022) investigated the impact of abnormal audit fees on audit quality. An abnormal audit fee is the difference between the actual fee paid by the auditee to the external auditor and the normal fee. If the actual audit fee is above the normal audit fee, it is called a positive abnormal audit fee (premium) and if the actual audit fee is below the normal audit fee, it is called a negative abnormal audit fee (discount). The samples for the study were 3,694 selected companies from Indonesia, Malaysia, Singapore, the Philippines, and Thailand. Data were analyzed using regression analysis and it was found that positive abnormal audit fees could decrease the audit quality. This is because of the economic arrangement between the auditors and the clients as the auditor will be more tolerant towards the earnings management carried out by the client. On the other hand, negative abnormal audit fees have an insignificant relationship with the audit quality, which means if auditors are paid below the normal fees, they have no incentive to compromise the audit quality. Because audit fees can affect audit quality, regulators need to make policies so that audit fees paid to the external auditors should not be more than the normal fees.

Azizkhani, Hobart, Sami, Monroe and Amirkhani (2022) using the Herfindahl index to measure competition in the audit market at the national level, the study used a sample of listed firms from the emerging Iranian audit market, which is characterized by increase in audit market competition as a result of a regulatory change and a lack of market concentration because the audit market does not include Big 4 audit firms or any dominant local audit firms to examine the impact of competition on audit pricing and audit quality. The study found that higher (lower) levels of audit market competition measured using the Herfindahl index are associated with lower (higher) audit fees and higher (lower) levels of abnormal accruals. These results suggest that increased competition in audit markets in developing economies generates audit fee pressure, which negatively affects audit quality.

Van, Thanh, Thanh, Ngoc and Hai (2022) investigated the determining factors of audit fees and audit quality in Vietnam. Using random data collection, a questionnaire was created on Google forms and sent to auditors from the 4th quarter of 2020 to the end of the 1st quarter of 2021. 267 valid auditors' responses in 28 audit firms were used for data analysis. Exploratory factor analysis (EFA) was used to determine relationships between observed variables and factors. The measurement model and recommended hypotheses were confirmed by structural equation modeling (SEM) using SPSS 26 and AMOS 26. The study results showed that contract types and audit complexity, audit firms' reputation, size, and risk significantly impact audit fees and audit quality. In addition, the specialization of the audit firms does not have a positive effect on audit quality but on audit fees. The audit tenure has no statistical impact on audit fees and audit quality. Notably, audit fees statistically affected audit quality.

Zulvia, Zusmawati and Fathiah (2021) determine how much influence audit ethics, audit fees Auditor Experience and Competence, partially on the quality of the audit at the Padang city public accounting firm, using the data collection method in the form of a questionnaire as many as 66 respondents. Validity and reliability tests were conducted and the classical assumption test which are normality, multicollinearity, heteroscedasticity test were carried out. Multiple linear regression analysis was used, coefficient of determinant, f test, t test, and r^2 test using the SPSS16.0 tool. The results showed that the audit ethics variable had an influence on the audit quality variable, the audit fee in this study also had an influence on the audit quality variable, the Auditor's experience in this study had an influence on the audit

quality variable and the competence in this study had an influence on audit quality.

Sheikh and Siddiqui (2021) examined the impact of audit fees and audit firm's reputation on audit quality of listed companies in Pakistan. The study utilized discretionary/irregular accruals to serve as proxy for income manipulation, while audit firms' reputation and audit fees were utilized. Sample of 49 listed firms from KSE-100 index of Pakistan Stock Exchange (PSX) were employed covering the duration of 5 years. The data is evaluated through multiple regression and correlations. The outcomes suggested that audit fee seems to have a significant and negative effect on quality of auditing, The outcomes indicates that non-Big 4 audit firms in Pakistan perform higher quality of auditing than Big 4 audit firms. In addition to that, the outcome discloses that in exchange of higher audit fees, auditors perform lower quality of audits.

Serly and Helmayunita (2018) study aimed at determining the effect of audit quality and audit fees on the integrity of financial statements with audit fees as moderating variable on audit quality. The population in the study was 78 companies listed on the Indonesia Stock Exchange in the 2014-2016 periods. The data analysis technique used was Moderated Regression Analysis (MRA). The result showd that audit quality does not significantly influence the financial statement integrity; while, audit fees have a positive effect on the integrity of financial statements. Then, the audit fee variable is not able to moderate the effect of audit quality on the integrity of financial statements.

Ibrahim and Ali (2018) investigated the impact of audit fees on audit quality of conglomerates companies in Nigeria covering the periods 2004 to 2015. Data for the study were collected from the annual reports and accounts of the companies. A panel data was employed used with OLS and Random effect regressions. The study found that both audit fees and audit firm size have positive impact on company audit quality. Abdul-Rahman, Benjamin and Olayinka (2017) examined the effect of audit fees on audit quality in Nigeria using a sample of listed cement companies on the floor of the Nigerian Stock Exchange. In specific terms, the study investigates the relationship between audit fee, audit tenure, client size, leverage ratio and audit quality. Ordinary Least Square Model estimation technique was employed to analyze the relationship between the explanatory variables and the dependent variable. Secondary data derived from the published annual reports of the selected companies for a six year period (2010-2015) was used for the study. Findings from the study showed that audit fee, audit tenure, client size and leverage ratio exhibit a joint significant relationship with audit quality. Audit fee in particular showed a significant positive impact on audit quality as well as a high positive correlation coefficient of 0.7513 with audit quality.

Oladipupo and Monye-Emina (2016) examined the effect of abnormal audit fees on audit quality in audit market in Nigeria. The data for the study were collected from the audited annual reports and accounts of 50 companies quoted on the Nigeria Stock Exchange (NSE) for a period of 7 years spanning from 2005 to 2012 financial years giving a total of 350 data firm observations. A probit binary regression technique was employed for the analysis. The study documented that both positive and negative abnormal audit fees had insignificant positive impacts on audit quality. In the same vein, Olarinoye and Ahmad (2016) examined whether audit fees impair the independence of auditors in Nigeria and also the effects of corporate governance mechanisms on the quality of financial reporting. The study employed the Generalized Methods of Moment (GMM) estimation to control the presence of unobserved heterogeneity effects and endogeneity issues in the auditors' independent model. The data was obtained from the annual reports of 89 listed companies on the Nigerian Stock Exchange (NSE) for the years 2008 to 2013. The findings of the study revealed that abnormal audit fees charged by Nigerian auditors do not impair their independence, but rather they might reflect additional efforts undertaken during the course of the audit.

Choi, Kim, Kim and Zang (2010) using a large sample of U.S. audit client firms over the period 2000-2005, this study investigated whether and how the size of a local practice office within an audit firm is a significant, engagement-specific factor determining audit quality and audit fees over and beyond audit firm size at the national level and auditor industry leadership at the city or office level. For the empirical tests, audit quality is measured by unsigned abnormal accruals, and the office size is measured in two different ways: one based on the number of audit clients in each office and the other based on a total of audit fees earned by each office. Their results showed that the office size has significantly positive relations with both audit quality and audit fees even after controlling for national-level audit firm size and office-level industry expertise.

2.3 Theoretical Framework

A simple agency theory suggests that, as result of in formation asymmetries and self-interest, principals' lack reasons to trust their agents and will seek to resolve these concerns by putting in place mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic behaviour (ICAEW, 2005).

According to agency theory, audit is a monitoring mechanism that provides reasonable assurance that financial statements prepared by managers are free of material misstatement and therefore protects the interest of stakeholders. Furthermore, in cases where interests of management conflicts with the interests of stockholders and the fact that management compensation often is based on reported earnings and to maximize their wealth, managers have incentives to manage reported earnings and they often have the ability to do (Dang, Brown & McCullough, 2011). This, agency problem between stockholders and managers gives rise to the engagement of an auditor who provides independent assurance to corporate stakeholders. Thus, auditing plays a significant role in enforcing and protecting stakeholders' right by detecting misstatements and expropriation by managements. For auditors to successfully discharge this responsibility, they need to be independent that is the state of being objective and just. Therefore, the higher the audit pricing the better the audit quality and hence the more auditors are motivated to detect financial mis-statements.

3. Methodology

The study adopted the ex-post research design. The design is considered appropriate because it helps to determine the relationship and effect of audit pricing on quality of listed deposit money banks in Nigeria which permits prediction. The justification for choosing banking sector, to the best of our knowledge, is premised on the fact that it is still an area with paucity of studies on this topic, particularly in Nigeria. The study population covers all the listed deposit money banks on the Nigerian Exchange Group (NGX). Secondary source of data was used to gather information in relations to the variables of the study for the purpose of analysis. Data were extracted from the Published Audited Annual Reports and Accounts of the selected firms for a range of ten (10) years starting from 2013 to 2022. The justification for choosing this period is that it coincided with the period of revised version of the Audit regulation of 2020 by the Financial Reporting Council of Nigeria. The variables considered include audit pricing, auditor independence and auditor specialization. Also, selection of this period is considered imperative because the period under review has witnessed clamour for sound and credible financial reporting and audit quality.

3.2 Model Specification

The model for both the dependent and independent variables are presented below.

$$ADQ_{it} = \beta_{0it} + \beta_1 ADP_{it} + \beta_2 ADI_{it} + \beta_3 ADS_{it} + \beta_4 FS + \mu_{it}$$

Where:
ADQ = Audit Quality, ADP = Audit Pricing, ADI = Auditor Independence, ADS = Audit Specialization, FS = Firm Size, $\beta_1 - \beta_4$ = Coefficient of explanatory variables, β_o = Constant, μ = Error Term and it = Firms and Time

3.3 Description of Variables

Audit Quality: Measured as a dummy variable that takes the value of 1 if audit firm is medium practitioner (amongst the top 10 audit firms) and value of zero (0) is given if the audzit firm is categorized as small firm (outside the top 10 audit firms).

Audit Pricing: Measured as the value of audit fee paid as remuneration.

Audit Independence: Measured as dummy variables that take the value of 1 if a firm does not offer non-audit services and zero if otherwise

Auditor Specialization: Measured as a dummy variable that takes the value of 1 if market share ≥ 20%, and 0 if otherwise.

Firm Size: Measured as the natural logarithm of total assets of the firms.

4. Results and Discussion

4.1 Descriptive Analysis

The descriptive statistics is presented in Table 1 showing the minimum, maximum, mean, standard deviation and normality test showcased through skewness and kurtosis.

Table 2: Descriptive Analysis

Variable	Min	Max	Mean	Std. Dev	Sk. Test	VIF
ADQ	0	1	0.878	0.327	0.00000	
ADP	16	20	18.57	1.040	0.00008	1.07
ADI	0	1	0.635	0.482	0.94000	1.05
ADS	0	1	0.707	0.456	0.22942	5.15
FS	23.3	29.8	27.38	1.386	0.00044	5.20
Mean VIF						3.12

source: Result output from Stata 13

Table 1 shows that the minimum value for audit quality is zero (0) implying that there were banks who engaged the services of non-big four audit firms. When compared with the highest level of audit quality, it depicts that some banks engaged the services of big four audit firms. The mean value of 0.88 further substantiates the fact that majority of the banks engaged the services of the big four as it is nearly one. Audit pricing had a minimum value of sixteen million and a maximum value of twenty million naira. Audit independence had a minimum value of 0 and a maximum value of 1 implying that there was a situation where external auditors were not independent but can be said to be above average in term of independence. The audit specialization also showed that there was a mix of specialized and non-specialized external auditors within the study period in the bank. On the average, majority of the audit firm were specialist within the banking industry. The standard deviation shows a less and tolerably mild abnormality of the data sets.

4.2 Correlation Analysis

Table 2 shows the Spearman correlation values between the dependent and the independent variables. It also shows the relationship amongst the independent variables.

	ADQ	ADP	ADI	ADS	FS
ADQ	1				
ADP	0.376*	1			
ADI	-.2360*	-.1789*	1		
ADS	.5777*	.1707*	-.1610	1	
FS	.4121*	.9094*	-.1144	.1917*	1

Source: Result output from Stata 13
***. Correlation is significant at 0.01 and 0.05 level (2-tailed)**

Table 2 shows that audit quality is positively correlated with audit pricing of listed deposit money bank in Nigeria. This implies that the variables move in same direction but at different magnitude. Audit independence is found to have negative relationship with audit quality. Audit quality recorded positive relationship with audit specialization. This implies that audit quality has an inverse correlation with audit independence but correlate directly with audit specialization. Finally, the association between other independent variables was tolerably mild.

4.3 Regression Results

The tobit regression results are presented in Table 3. Cummulatively, the model records a Cummulative R^2 of 0.4751 (47.51%) which shows the extent to which the audit quality is explained by the combination of audit pricing, audit independence, audit specialization and the size of banks. In addition, the F-statistic value of 15.47 indicates that the model of the study is well fitted, as such, the variables selection, usage and combination are adequate. The P.value (0.000<.001) implies a implies 99% level of confidence indicating that the relationship between the dependent and independent variables is not due to mere chance.

Variables	Coeff	T-Stat	Prob	Cum. R
Constant	-1.5618350	-3.75	0.000	
ADP	0.3452065	5.53	0.000	
ADI	-0.0920918	-2.47	0.015	
ADS	-0.0456257	-1.22	0.224	
FS	0.1132915	3.63	0.000	
R^2				0.4751
F-Statistics				15.47
P-Value				0.0000

Source: Result output from Stata 13
*Coeff = Coefficient, Stat = Statistics, Prob = Probability, Cum. R = Cumulative Result

The regression results revealed that audit pricing has positive and significant effect on audit quality of banks. This implies that for any point increase in audit pricing by firm, their audit quality increases significantly. Increasing audit pricing may be a form of inducement to external auditor and as such may interfere in their best of judgment which may lead to decrease in quality of audit. This result is not surprising because of the economic arrangement between the auditors and the clients as the auditor will be more diligent and careful in exercising his duties towards the client and may not further seek for non-audit services which may impede their independence. This is a demonstration that auditing companies that perform superior quality of audit facilities bill greater audit remuneration than those who render lower audit quality facilities as charges to perform high quality of audits are higher as compared to lower quality of auditing.

The audit independence has a negative but significant effect on audit quality of banks. This shows that the more independent the auditors are, the lesser the quality of audit services. This finding is not surprising as the inducement through bogus audit fee can make them not attain actual independence as expected; however, this finding require further research to unravel the mystery.

Audit specialization based on its coefficient value of -0.0456257 which is significant at 1% level shows a negative and insignificant effect audit quality of the listed deposit money banks in Nigeria. This implies that when banks engage specialist auditors within the industry, their quality of audit services delivery is less enhanced. This may be as a result of the fact that as the external auditors become more familiar and conversant with the job, monotony and fatigue sets in thereby affecting the quality of service delivery.

The findings of the study provide evidence to reject the hypothesis in respect of audit pricing, audit independence. However the study fails to reject the hypothesis on audit specialization which proves to have no significant effect on audit quality of listed deposit money banks in Nigeria

5. Conclusion and Recommendation

The study investigates the effects of audit pricing on audit quality of listed Deposit Money Banks in Nigeria. The variables examined against audit quality were audit pricing, audit independence and audit specialization, while the control variable was bank size. The study has made significant contributions through introduction of new variables such as audit pricing. The study revealed that audit pricing and audit independence is significant driver in explaining audit quality of listed DMBs in Nigeria, while audit specialization is found to have insignificant and negative contribution to quality of audit in banks. The study recommends that regulators and management of banks should encourage and pay higher audit fee as it can motivate auditors to expand their efforts that will directly influence audit quality. Banks' management and shareholders should continue to engage the services of specialist's auditors in order to guarantee quality audit services. Because audit fees can affect audit quality, regulators need to make policies so that audit fees paid to the external auditors should not be more than or less than the normal fees or within a certain threshold in order to maintain a balance.

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Appendices

```
. xtset id year, yearly
       panel variable:  id (strongly balanced)
        time variable:  year, 2013 to 2022
                delta:  1 year
```

```
. xtsum adq adp adi ads fs
```

Variable		Mean	Std. Dev.	Min	Max	Observations	
adq	overall	.8785714	.3277975	0	1	N =	140
	between		.3142233	0	1	n =	14
	within		.1229143	.5785714	1.578571	T =	10
adp	overall	18.57576	1.044643	16.3004	20.2848	N =	140
	between		1.003252	17.05176	19.87817	n =	14
	within		.3872147	16.79487	20.50857	T =	10
adi	overall	.6357143	.4829572	0	1	N =	140
	between		.2437121	.2	1	n =	14
	within		.4215422	-.2642857	1.435714	T =	10
ads	overall	.7071429	.4567075	0	1	N =	140
	between		.3149219	0	1	n =	14
	within		.3403342	-.1928571	1.407143	T =	10
fs	overall	27.38399	1.386981	23.3705	29.8991	N =	140
	between		1.317961	25.07364	29.11616	n =	14
	within		.5469578	24.98535	29.41394	T =	10

```
. sktest adq adp adi ads fs
```

Skewness/Kurtosis tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	joint adj chi2(2)	joint Prob>chi2
adq	140	0.0000	0.0000	53.71	0.0000
adp	140	0.0632	0.0000	16.27	0.0003
adi	140	0.0072	.	.	.
ads	140	0.0001	0.0000	47.05	0.0000
fs	140	0.0297	0.0298	8.47	0.0145

```
. swilk adq adp adi ads fs
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
adq	140	0.91819	8.974	4.957	0.00000
adp	140	0.95118	5.355	3.790	0.00008
adi	140	0.99542	0.502	-1.555	0.94000
ads	140	0.98735	1.388	0.741	0.22942
fs	140	0.96026	4.359	3.326	0.00044

```
. sfrancia adq adp adi ads fs
```

Shapiro-Francia W' test for normal data

Variable	Obs	W'	V'	z	Prob>z
adq	140	1.00000	-0.000	.	0.00001
adp	140	0.95683	5.197	3.330	0.00043
adi	140	1.00000	-0.000	.	0.00001
ads	140	1.00000	0.000	-58.937	1.00000
fs	140	0.96257	4.506	3.041	0.00118

```
. spearman adq adp adi ads fs, star (0.05)
(obs=140)
```

	adq	adp	adi	ads	fs
adq	1.0000				
adp	0.3762*	1.0000			
adi	-0.2360*	-0.1789*	1.0000		
ads	0.5777*	0.1707*	-0.1610	1.0000	
fs	0.4121*	0.9094*	-0.1144	0.1917*	1.0000

```
. reg adq adp adi ads fs
```

Source	SS	df	MS
Model	7.09639963	4	1.77409991
Residual	7.83931466	135	.058068997
Total	14.9357143	139	.107451182

Number of obs	= 140
F(4, 135)	= 30.55
Prob > F	= 0.0000
R-squared	= 0.4751
Adj R-squared	= 0.4596
Root MSE	= .24098

adq	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
adp	.3452065	.0463682	7.44	0.000	.2535045	.4369084
adi	-.0920918	.0433652	-2.12	0.036	-.1778547	-.0063289
ads	-.0456257	.0444113	-1.03	0.306	-.1334576	.0422062
fs	.1132915	.0335931	3.37	0.001	.0468546	.1797283
_cons	-1.561835	.4112453	-3.80	0.000	-2.375152	-.7485184

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of adq

         chi2(1)      =    83.58
         Prob > chi2  =   0.0000
```

```
. vif
```

Variable	VIF	1/VIF
fs	5.20	0.192437
ads	5.15	0.194091
adp	1.07	0.931566
adi	1.05	0.952424
Mean VIF	3.12	

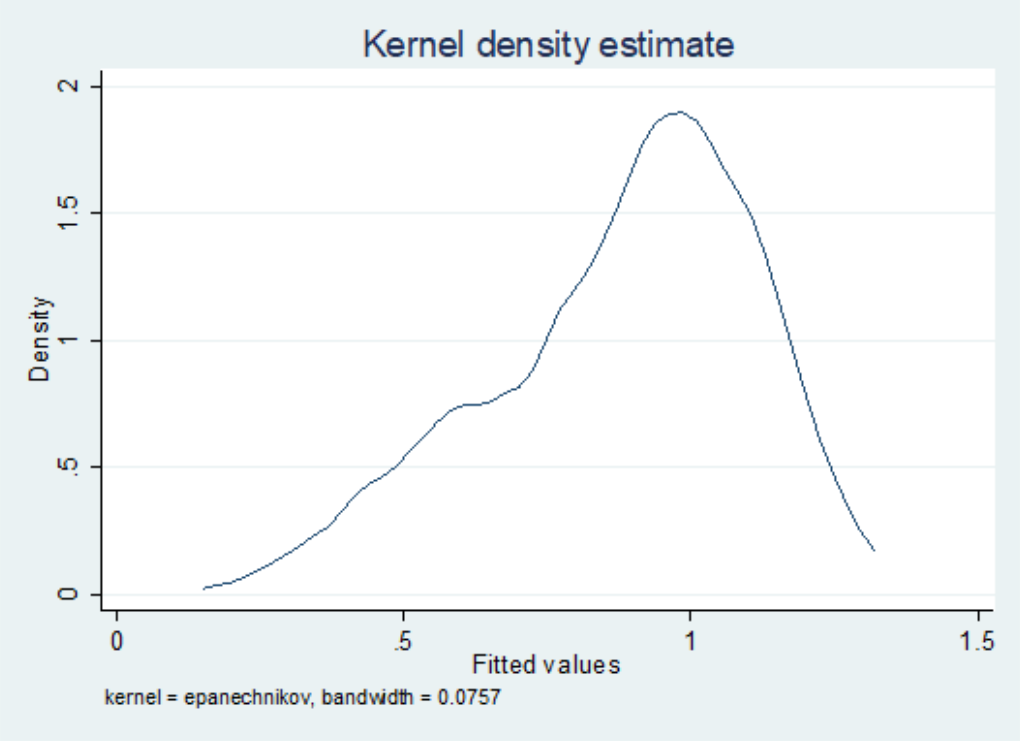
```
. reg adq adp adi ads fs, robust

Linear regression                               Number of obs =     140
                                                F(  4,    135) =   15.47
                                                Prob > F      =  0.0000
                                                R-squared     =  0.4751
                                                Root MSE      =  .24098
```

adq	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
adp	.3452065	.0624516	5.53	0.000	.2216964	.4687165
adi	-.0920918	.0373104	-2.47	0.015	-.1658803	-.0183033
ads	-.0456257	.0373415	-1.22	0.224	-.1194757	.0282244
fs	.1132915	.0312469	3.63	0.000	.0514947	.1750882
_cons	-1.561835	.4160563	-3.75	0.000	-2.384666	-.7390038

```
. predict e
(option xb assumed; fitted values)

. kdensity e
```



```
. xtreg adq adp adi ads fs, fe

Fixed-effects (within) regression               Number of obs      =       140
Group variable: id                              Number of groups   =        14

R-sq:  within  = 0.1353                         Obs per group: min =        10
       between = 0.5135                                        avg =      10.0
       overall = 0.2984                                        max =        10

                                                F(4,122)           =      4.77
corr(u_i, Xb)  = 0.4283                         Prob > F           =    0.0013
```

adq	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
adp	.1292967	.0307672	4.20	0.000	.06839	.1902034
adi	-.007072	.0248773	-0.28	0.777	-.0563191	.0421751
ads	-.0265703	.034432	-0.77	0.442	-.094732	.0415913
fs	.013652	.0246419	0.55	0.581	-.035129	.062433
_cons	.9113539	.5717075	1.59	0.114	-.2203981	2.043106
sigma_u	.28567537					
sigma_e	.12200263					
rho	.84574712	(fraction of variance due to u_i)				

```
F test that all u_i=0:     F(13, 122) =    31.13                 Prob > F = 0.0000

. est store fixed


. xtreg adq adp adi ads fs, re

Random-effects GLS regression                   Number of obs      =       140
Group variable: id                              Number of groups   =        14

R-sq:  within  = 0.1277                         Obs per group: min =        10
       between = 0.7204                                        avg =      10.0
       overall = 0.4505                                        max =        10

                                                Wald chi2(4)       =     24.98
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0001
```

adq	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
adp	.1465981	.0318719	4.60	0.000	.0841303	.209066
adi	-.0111193	.0259688	-0.43	0.669	-.0620171	.0397785
ads	-.0124292	.0346527	-0.36	0.720	-.0803472	.0554889
fs	.0279819	.0251326	1.11	0.266	-.0212771	.0772409
_cons	.2466002	.532403	0.46	0.643	-.7968905	1.290091
sigma_u	.18375981					
sigma_e	.12200263					
rho	.69406095	(fraction of variance due to u_i)				

```
. est store random
```

```
. hausman fixed random
```

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
adp	.1292967	.1465981	-.0173014	.
adi	-.007072	-.0111193	.0040473	.
ads	-.0265703	-.0124292	-.0141412	.
fs	.013652	.0279819	-.0143299	.

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 3.33
Prob>chi2 = 0.5035
(V_b-V_B is not positive definite)

```
. xttest0
```

Breusch and Pagan Lagrangian multiplier test for random effects

adq[id,t] = Xb + u[id] + e[id,t]

Estimated results:

	Var	sd = sqrt(Var)
adq	.1074512	.3277975
e	.0148846	.1220026
u	.0337677	.1837598

Test: Var(u) = 0
chibar2(01) = 184.31
Prob > chibar2 = 0.0000