

Abstract

The conditions under which ordinary least squares is an unbiased and consistent estimator of the linear probability model (LPM) are unlikely to hold in many instances. Yet the LPM still may be the correct model or at least a good approximation to the probability generating process. A sequential least squares (SLS) estimation procedure is introduced that has the potential to outperform OLS in terms of finite sample bias and yields a consistent estimator under certain conditions. Monte Carlo simulations are conducted to evaluate the performance of the SLS estimator versus ordinary least squares, probit and logit. SLS is shown to outperform all three alternatives in terms of mean squared error of the predicted probabilities.