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ESCoE Research Seminar

Regression with an Imputed Dependent Variable

Presented by Thomas F. Crossley
University of Essex, ESCoE and Institute for Fiscal Studies

15 January 2019

Regression with an Imputed Dependent Variable

ESCoE Seminar

Thomas F. Crossley (Essex, ESCoE and IFS)

with Peter Levell (IFS and UCL) and Stavros Poupakis (UCL)

January 2019

Motivation

- Wish to estimate $y = X\beta + \epsilon$.
- β is the object of interest.
- OLS would be fine if we had complete data: $plim(X\epsilon) = 0$.
- But no data on $\frac{1}{N}\sum yX$.
- Have some data on $(y_1, Z_1), (X_2, Z_2)$.
  - these are both random samples from the population of interest
  - subscript indexes data set (or sample), absence of subscript means population.
- Z is a proxy or proxies for y.

Motivating Example

- Estimating effect of income or wealth (shocks) on consumption expenditure with:
  - a data set with food exp. and income/wealth.
  - a data set with food exp. and consumption exp.
  - e.g., PSID and CE, UKHLS and LCF, HFCS and National Budget Surveys

Set up

$$y = X\beta + \epsilon$$

$$plim(\frac{1}{n_j} X_j' X_j) = \Sigma_{xx}$$

and

$$plim(\frac{1}{n_j} X_j' \epsilon_j) = 0$$

Set up

- data on (y_1, Z_1) and (X_2, Z_2).

$$z = y\gamma + u.$$

$$z = X\beta\gamma + \epsilon\gamma + u.$$

- Z *must* depend on ϵ

Alternative Imputation/Data Combination Strategies (1)

- Skinner (1987) suggested regressing y_1 on Z_1 in the CE and using the resulting coefficients to predict $\hat{y}_2$ in the PSID
- Then regressing $\hat{y}_2$ on X_2.
- With a single spending category as the proxy, the first stage is an "inverse" Engel curve.
- **RP** procedure for "Regression Prediction".
- Advocated by Browning, Crossley, Weber (2003).
- Employed by Attanasio and Pistaferri (2014), Arrondel et al., (2015).
- Add a first-stage residual: **RP+**.

Alternative Imputation/Data Combination Strategies (2)

- Blundell, Pistaferri, Preston (2004,2008) regress Z_1 on y_1 then predict $\hat{y}_2 = Z_2 \frac{1}{\hat{\gamma}}$: **BPP** procedure.
- Again using the CE and PSID, proxy, z, is food expenditure.
- Estimate an Engel curve and then invert it to predict consumption.
- Recently been employed Attanasio, Hurst and Pistaferri (2012).

Alternative Imputation/Data Combination Strategies (3)

- Do not impute y at the unit level at all.
- Recover β from a combination of moments taken from the two surveys.
- Arellano and Meghir (1992): **AM** procedure.
- Here:
  - Regress Z_1 on y_1 to get $\hat{\gamma}$.
  - Regress Z_2 on X_2 to get $\hat{\gamma\beta}$
  - Take ratio of the two to estimate β.

RP inconsistent for β

- **RP** does not consistently estimate β: $plim(\hat{\beta}^{RP}) = \beta R^2_{y_1,Z_1}$

Proof.

$$plim(\hat{\beta}^{RRP}) = plim\left\{\left(\frac{X_2'X_2}{n_2}\right)^{-1}\frac{X_2'Z_2}{n_2}\left(\frac{Z_1'Z_1}{n_1}\right)^{-1}\frac{Z_1'y_1}{n_1}\right\}$$

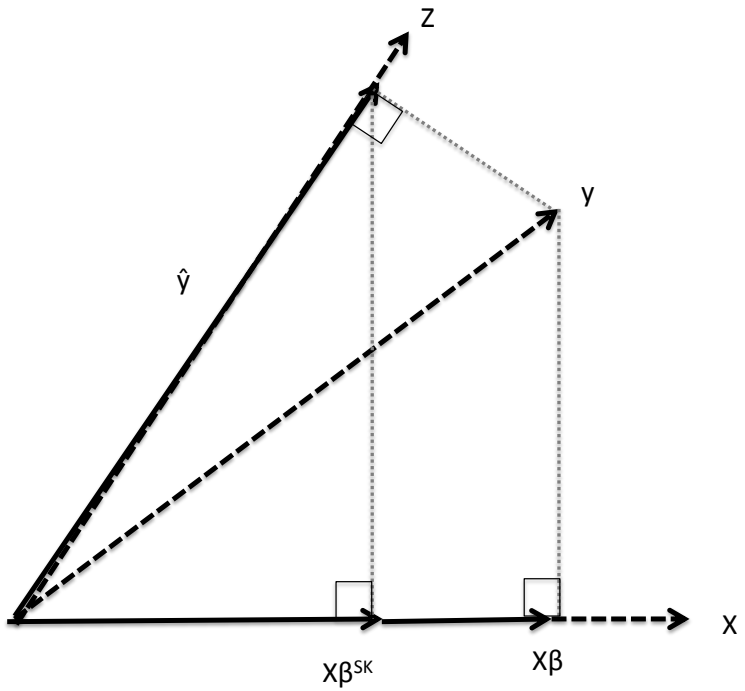
$$= plim\left\{\left(\frac{X_2'X_2}{n_2}\right)^{-1}\frac{X_2'Z_2}{n_2}\left(\frac{Z_1'Z_1}{n_1}\right)^{-1}\frac{Z_1'y_1}{n_1}\frac{1}{R^2_{y_1,Z_1}}R^2_{y_1,Z_1}\right\}$$

$$= \beta\gamma Q_{ZZ}^{-1}\gamma'\Sigma_{yy}\left[\Sigma_{yy}\gamma Q_{zz}^{-1}\gamma'\Sigma_{yy}\right]^{-1}\Sigma_{yy}R^2_{y_1,Z_1}$$

$$= \beta\gamma Q_{ZZ}^{-1}\gamma'\left[\gamma Q_{zz}^{-1}\gamma'\right]^{-1} = \beta R^2_{y_1,Z_1}$$

∎

Geometric Intuition



Magnitude

- First stage R^2 for food on total consumption $50 - 70\%$.
- Downward bias $30 - 50\%$.

RP+

- Similar problem with **RP+** (intuition below).

RRP

- As the bias in the *RP* procedure is an estimable quantity, it can be corrected.
- Rescale $\hat{\beta}^{RP}$ by the estimated first stage $R^2_{y,Z}$: "Re-scaled Regression Prediction" (**RRP**, $\hat{\beta}^{RRP}$).

$$plim(\hat{\beta}^{RRP}) = plim\left(\frac{\hat{\beta}^{RP}}{R^2_{y_1,Z_1}}\right) = \beta$$

- Proof follows immediately from Proposition 1.
- Rescaling of $\hat{\beta}^{RP}$ is equivalent to rescaling the predicted consumption vector $\hat{y}_2^{RP}$ by $1/R^2_{y,Z}$.

AM, BPP and RRP

- IFF there is a single proxy z, $\hat{\beta}^{RRP}$, $\hat{\beta}^{BPP}$ and $\hat{\beta}^{AM}$ are numerically identical.

Proof.

$$\hat{\beta}^{BPP} = (X_2' X_2)^{-1} X_2' z_2 (y_1' z_1)^{-1} y_1' y_1 = \hat{\beta}^{RRP}$$

$$\begin{aligned}\hat{\beta}^{AM} = \widehat{\beta\gamma}/\hat{\gamma} &= (X_2' X_2)^{-1} X_2' z_2 \left[(y_1' y_1)^{-1} y_1' z_1\right]^{-1} \\ &= (X_2' X_2)^{-1} X_2' z_2 (y_1' z_1)^{-1} y_1' y_1 = \hat{\beta}^{RRP} = \hat{\beta}^{BPP}\end{aligned}$$

∎

- Therefore **BPP**, **AM** consistently estimate β.

Other Moments: Means

- $plim(\frac{\sum \hat{y}^{RP}}{n_2}) = \mu_y$,
- $plim(\frac{\sum \hat{y}^{RRP}}{n_2}) = \frac{\mu_y}{R^2} \neq \mu_y$.
- With one proxy $\hat{y}^{BPP}$ is numerically identical to $\hat{y}^{RRP}$
- **AM** does not generate unit level estimates of y.

Other Moments: Variances and Covariances

$$Asymp\ Var(\hat{y}^{RP}) = Asymp\ Var(y) \times R^2_{y,Z}$$

$$Asymp\ Cov(\hat{y}^{RP}, X) = Asymp\ Cov(y, X) \times R^2_{y,Z}.$$

$$Asymp\ Var(\hat{y}^{RRP}) = Asymp\ Var(\hat{y}^{BPP}) = Asymp\ Var(y)/R^2$$

$$Asymp\ Cov(\hat{y}^{RRP}, X) = Asymp\ Cov(\hat{y}^{BPP}, X) = Asymp\ Cov(y, X)$$

Other Moments

Table: Summary of imputation methods (consistency)

	μ_y	σ_{yy}	β
Regression Prediction (**RP**)	✓	×	×
Regression Prediction + $\hat{e}$ (**RP+**)	✓	✓	×
Rescaled Regression Prediction (**RRP**)	×	×	✓
Blundell et al., 2004; 2008 (**BPP**)	×	×	✓
Arellano and Meghir, 1992 (**AM**)	-	-	✓

Hot-Deck Imputation

- y drawn from a matched cell is a regression prediction plus a residual.
  - Saturated regression on categorical variables
- If one or more matching variables are excluded from X this maps into **RP+**.

Related Literature: Berkson Measurement Error

- classical measurement error on the right:
  $\tilde{X} = X + \tilde{v},\ \tilde{v} \perp X,\ y = \tilde{X}\beta - \tilde{v}\beta + \epsilon$
- classical measurement error on the left:
  $\tilde{y} = y + \tilde{v},\ \tilde{v} \perp y,\ \tilde{y} = X\beta + \epsilon + \tilde{v}$
- Berkson measurement error (prediction error) on the right:
  $X = \hat{X} + \hat{v},\ \hat{v} \perp \hat{X},\ y = \hat{X}\beta - \hat{v}\beta + \epsilon$
- Here: prediction error (Berkson) on the left.
- Hyslop and Imbens (2001) show attenuation bias in a regression of $\hat{y}$ on X where $\hat{y}$ is an optimal linear predictor (see also Hoderlien and Winter (2010))
- Key differences:
  - assume prediction by respondent and respondent knows Z, β and $E[X]$
  - also assume $Z = y + u$; $(\gamma = 1)$

More Related Literature

- Dumont et al., (2005): "Generated Regressands".
  - predicted value is the correct regressand.
  - no Berkson error, no bias - just SE correction.
- Bollinger and Hirsch (2006)
  - Partial imputation of the dependent variable (item non-response).
  - Hot-deck, matching on subset of X (no proxies).
  - Bias.

Related Literature: 2SIV

- Wish to estimate $y = X\beta + \epsilon$, have some data on $(y_1, Z_1), (X_2, Z_2)$.
- Z is a grouping variable (e.g.. birth cohort, occupation, birth cohort x education).
- In this case we effectively use **Z to impute X**.
- Two Sample IV (2SIV, Angrist & Krueger, 1992).

$$\hat{\beta}_{TSIV} = \left(\frac{Z_2' X_2}{n_2}\right)^{-1} \left(\frac{Z_1' y_1}{n_1}\right)$$

- key assumption: $Z \perp \epsilon$ (Z affects y *only* through X).
- Lusardi (1996): CE and PSID.

Extension: Additional Covariates

- Residualize or add to both stages (Frisch-Waugh-Lovell).
- first-stage partial R^2.

Extension: Measurement error in y

- Easy to see that with **AM** we need an instrument for y because we need consistent estimate of γ.
- True for **BPP** and **RRP** too.
- For **RRP**, sample R^2 will not be consistent estimate of population R^2 in presence of ME (but can estimate).

Extension: Panel Case

- Often wish to estimate $\Delta y = \Delta X\beta + \epsilon$
- OLS would be fine if we had complete data $E[X\epsilon] = 0$, $plim(X\epsilon) = 0$
- But no data on $\frac{1}{N}\sum \Delta y \Delta X$
- Have some data on $(y_1^1, Z_1), (y_2^0, Z_2), (\Delta X_3, Z_3)$ where $\Delta y = y^1 - y^0$
  - e.g. cross sectional budget survey and panel income/wealth survey

Extension: Panel Case

- **BPP** and **RRP** are identical (with one proxy) and consistent.

$$\hat{\beta} = (\Delta X' \Delta X)^{-1} \Delta X' \Delta \hat{y}$$

where $\Delta \hat{y} = \hat{y}^1 - \hat{y}^0$

Inference

- OLS with full data: asymptotic variance for $\hat{\beta}$ of $(\Sigma_{XX})^{-1}\sigma_{\epsilon}^{2}$.
- **two** losses of precision: imputation, data combination.
- One proxy case:
  - $\hat{\beta}^{AM}$, $\hat{\beta}^{RRP}$ and $\hat{\beta}^{BPP}$ are numerically identical
  - Start from $\hat{\beta}^{AM}$
- General case in paper.

Imputation on Full Data

- Asymptotic variance-covariance matrix for moments:

$$F = \begin{bmatrix} \sigma_u^2 \Sigma_{yy} & \beta\sigma_u^2 \Sigma_{XX} \\ \beta\sigma_u^2 \Sigma_{XX} & \left(\gamma^2\sigma_u^2 + \sigma_\epsilon^2\right) \Sigma_{XX} \end{bmatrix}$$

- The asymptotic variance covariance matrix of (β, γ) is $\left(G' F^{-1} G\right)^{-1}$.
- The asymptotic variance of $\hat{\beta}$ is:

$$Asymp.Var(\hat{\beta}) = \frac{\left(\Sigma_{XX}\right)^{-1} \sigma_\epsilon^2}{R_{yZ}^2}$$

- Loss of asymptotic precision proportional to the first stage R_{yZ}^2.
  - Note similarity to linear IV (Shea, 1997).

Imputation and Data Combination

- Asymptotic variance-covariance matrix for moments:

$$F = \begin{bmatrix} \sigma_u^2 \Sigma_{yy} & 0 \\ 0 & \left(\gamma^2 \sigma_u^2 + \sigma_\epsilon^2\right) \Sigma_{XX} \end{bmatrix}$$

- The asymptotic variance of $\hat{\beta}$ is:

$$\left(\Sigma_{XX}\right)^{-1} \left(\sigma_\epsilon^2 + \gamma^{-2}\sigma_u^2\right) + \left(\Sigma_{yy}\right)^{-1} \beta^2 \gamma^{-2} \sigma_u^2.$$

$$= \frac{\left(\Sigma_{XX}\right)^{-1} \sigma_\epsilon^2}{R_{yZ}^2} + 2\beta^2 \left(\frac{1 - R_{yZ}^2}{R_{yZ}^2}\right)$$

- The second term is a *second* loss of precision.

OLS SE are biased

- With some algebra, can show that:

$$plim\left[\hat{V}^{OLS}(\hat{\beta})\right] = \left[\frac{(\Sigma_{XX})^{-1}\sigma_{\epsilon}^{2}}{R_{yZ}^{2}} + \beta^{2}\left(\frac{1-R_{yZ}^{2}}{R_{yZ}^{2}}\right)\right]$$

- Too small by factor $\beta^2\left(\frac{1-R_{yZ}^2}{R_{yZ}^2}\right)$.
- Can be corrected using the available consistent estimates of β and R_{yZ}^2.
- STATA command available from authors.

Monte Carlo: Design

- $x \sim N(0, 2)$
- $y = 1 + \beta x + \epsilon$ with $\sigma_\epsilon = 1$, $\beta = 1$
- $z_j = 1 + 0.5 y_j + u_j$ with $\sigma_u = 1$
- First stage $R^2 = 0.56$
- Simulate population, draw samples (500) of (y_1, z_1) and (x_2, z_2).
- 10,000 replications.

Monte Carlo Results: One Proxy

	FULL	RP	RP+	RRP	BPP	AM
$\hat{\beta}$ $(\beta = 1)$	1.000	0.556	0.555	1.002	1.002	1.002
Std. Dev. $\hat{\beta}$	0.022	0.036	0.049	0.065	0.065	0.065
SE($\hat{\beta}$)	0.022	0.028	0.043	0.050	0.050	
Corrected SE($\hat{\beta}$)				0.064		
$E(\hat{y})$ $(E[y] = 1)$	1.000	1.000	0.999	1.805	1.805	
$V(\hat{y})$ $(V[y] = 5)$	4.999	2.784	5.000	9.048	9.048	

Monte Carlo Results: Two Proxies

	FULL	RP	RP+	RRP	AM
$\hat{\beta}$	1.000	0.711	0.711	1.000	1.001
Std. Dev. $\hat{\beta}$	0.023	0.035	0.044	0.049	0.049
SE($\hat{\beta}$)	0.022	0.028	0.039	0.039	
Corrected SE($\hat{\beta}$)				0.048	

Monte Carlo Results: Alternative DGPs

	FULL	RP	RP+	RRP	AM
$\sigma_{u,a} = 1$ and $\sigma_{u,b} = 1$	0.023	0.035	0.044	0.049	0.049
$\sigma_{u,a} = 1$ and $\sigma_{u,b} = 2$	0.023	0.036	0.048	0.060	0.066
$\sigma_{u,a} = 1$ and $\sigma_{u,b} = 4$	0.022	0.036	0.050	0.068	0.090

Empirical Examples

- Impute consumption.
- PSID 2005-2013: "full" data.
- Also impute consumption from CE.
  - Food consumption as proxy.
  - Discarding "full" data.

Housing Wealth Effects

- Elasticity of nondurable consumption wrt house value.
- Following Skinner (1989).
- Homeowners only.

Housing Wealth Effects: First Stage

Table: Imputing nondurable consumption spending using the CE

	(1) 2005	(2) 2007	(3) 2009	(4) 2011	(5) 2013
log Food	0.562***	0.545***	0.541***	0.549***	0.555***
	(0.012)	(0.008)	(0.008)	(0.008)	(0.008)
log Utilities	0.377***	0.382***	0.410***	0.384***	0.389***
	(0.015)	(0.010)	(0.011)	(0.010)	(0.011)
Cars	0.035***	0.036***	0.027***	0.042***	0.031***
	(0.005)	(0.004)	(0.003)	(0.004)	(0.004)
Partial R^2	0.728	0.755	0.751	0.761	0.753
N	1,590	2,896	2,759	2,668	2,470

Housing Wealth Effects: Results

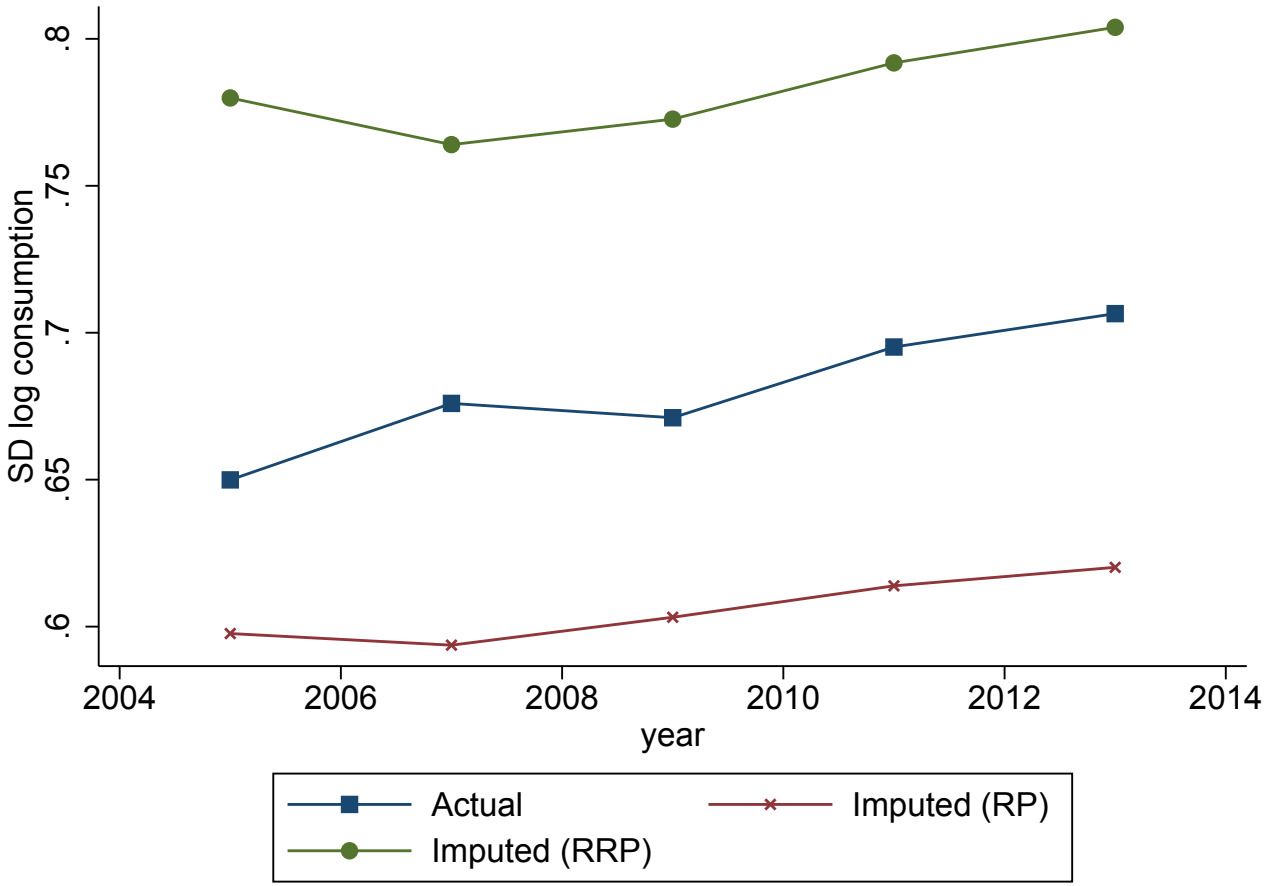
	(1) PSID	(2) CE (RP)	(3) CE (RRP)
log Income$_{t-3}$	0.047**	0.036*	0.048*
	(0.016)	(0.015)	(0.020)
log Income$_{t-2}$	0.064***	0.043*	0.057*
	(0.018)	(0.017)	(0.022)
log Income$_{t-1}$	0.040*	0.024	0.032
	(0.017)	(0.016)	(0.021)
log Income$_{t}$	0.109***	0.080***	0.106***
	(0.020)	(0.019)	(0.025)
log Income$_{t+1}$	0.105***	0.075***	0.100***
	(0.010)	(0.010)	(0.013)
log House value	0.114***	0.083***	0.111***
	(0.010)	(0.010)	(0.013)
N	5,406	5,406	5,406

Consumption Inequality

- In the spirit of Attanasio and Pistaferri (2014).
- Homeowners and non-homeowners.

Consumption Inequality: Results

Figure: Standard deviation of log consumption



Key Points (1)

- Imputed dependent variable can bias regression coefficients.
  - Berkson measurement error in *dependent* variable a problem.
- Bias related to first-stage R^2.
- Method of imputation matters (e.g. **BPP**).
- Imputation of consumption.
- More generally: hot-deck imputation.

Key Points (2)

- Best imputation strategy depends on objects of interest.
  - Challenge to data providers.
- A good proxy can't be a good instrument (and vice versa).
  - Approach to data combination should depend on plausibility of alternative assumptions.

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