A more powerful subvector Anderson and Rubin test in linear instrumental variables regression

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Overview

• Robust inference on a slope coefficient(s) in a linear IV regression

• "Robust" means uniform control of null rejection probability over all "empirically relevant" parameter constellations

• "Weak instruments"
  – pervasive in applied research (Angrist and Krueger, 1991)
  – adverse effect on estimation and inference (Dufour, 1997; Staiger and Stock 1997)
- Large literature on "robust inference" for the full parameter vector

- Here: Consider **subvector inference in the linear IV model**, allowing for weak instruments

- First assume **homoskedasticity**
  - then relax to general **Kronecker-Product** structure
  - then allow for arbitrary forms of **heteroskedasticity**

- Presentation based on two papers; one being "A more powerful subvector Anderson Rubin test in linear instrumental variables regression"
Focus on the **Anderson and Rubin (AR, 1949) subvector test statistic**:

- **"History of critical values"**:

- Projection of AR test (Dufour and Taamouti, 2005)

- Guggenberger, Kleibergen, Mavroeidis, and Chen (2012, GKMC) provide power improvement:
  
  Using \( \chi^2_{k-m_W,1-\alpha} \) as critical value, rather than \( \chi^2_{k,1-\alpha} \) still controls asymptotic size

  "Worst case" occurs under strong identification

**HERE:** consider a **data-dependent critical value** that adapts to strength of identification
• Show: controls \textit{finite sample/asymptotic size} & has uniformly \textbf{higher power} than method in GKMC

• One additional main contribution : \textit{computational ease}

• Implication: Test in GKMC is "inadmissible"
Presentation

- Introduction: ✓

- finite sample case
  a) $m_W = 1$: motivation, correct size, power analysis (near optimality result)
  b) $m_W > 1$: correct size, uniform power improvement over GKMC
  c) refinement
• asymptotic case:
  a) homoskedasticity
  b) general Kronecker-Product structure
  c) general case (arbitrary forms of heteroskedasticity)
Model and Objective (finite sample case)

\[ y = Y\beta + W\gamma + \varepsilon, \]
\[ Y = Z\Pi_Y + V_Y, \]
\[ W = Z\Pi_W + V_W, \]

\[ y \in \mathbb{R}^n, Y \in \mathbb{R}^{n \times m_Y} \text{ (end or ex)}, W \in \mathbb{R}^{n \times m_W} \text{ (end)}, \quad Z \in \mathbb{R}^{n \times k} \text{ (IVs)} \]

- Reduced form:

\[ \begin{pmatrix} y \\ Y \\ W \end{pmatrix} = Z \begin{pmatrix} \Pi_Y \\ \Pi_W \end{pmatrix} \begin{pmatrix} \beta & I_{m_Y} & 0 \\ \gamma & 0 & I_{m_W} \end{pmatrix} + \begin{pmatrix} v_y \\ V_Y \\ V_W \end{pmatrix}, \]

where \( v_y := \varepsilon + V_Y\beta + V_W\gamma. \)

- Objective: test

\[ H_0 : \beta = \beta_0 \text{ versus } H_1 : \beta \neq \beta_0. \]
s.t. size bounded by nominal size & "good" power

Parameter space:

1. The reduced form error satisfies:

\[ V_i \sim \text{i.i.d. } N(0, \Omega), \ i = 1, ..., n, \]

for some \( \Omega \in \mathbb{R}^{(m+1) \times (m+1)} \) s.t. the variance matrix of \( (\bar{Y}_{0i}, V_{Wi})' \) for \( \bar{Y}_{0i} = y_i - Y_i' \beta_0 = W_i' \gamma + \epsilon_i \), namely

\[
\Omega (\beta_0) = \begin{pmatrix}
1 & 0 \\
-\beta_0 & 0 \\
0 & I_mW
\end{pmatrix}' \Omega \begin{pmatrix}
1 & 0 \\
-\beta_0 & 0 \\
0 & I_mW
\end{pmatrix}
\]

is known and positive definite.

2. \( Z \in \mathbb{R}^{n \times k} \) fixed, and \( Z'Z > 0 \) \( k \times k \) matrix.
• **Note:** no restrictions on reduced form parameters $\Pi_Y$ and $\Pi_W \rightarrow$ allow for weak IV
• Several robust tests available for **full vector inference**

$$H_0 : \beta = \beta_0, \gamma = \gamma_0 \text{ vs } H_1 : \text{not } H_0$$


Subvector procedures

- **Projection**: "inf" test statistic over parameter not under test, same critical value → "computationally hard" and "uninformative"


- **Plug-in approach**: Kleibergen (2004), Guggenberger and Smith (2005) ... Requires strong identification of parameters not under test.
• GMM models: Andrews, I. and Mikusheva (2016)

• Models defined by moment inequalities: Gafarov (2016), Kaido, Molinari, and Stoye (2016), Bugni, Canay, and Shi (2017), ...
The Anderson and Rubin (1949) test

- **AR test stat** for full vector hypothesis
  
  \[ H_0 : \beta = \beta_0, \gamma = \gamma_0 \]  
  vs \[ H_1 : \text{not } H_0 \]

- AR statistic exploits \( EZ_i \varepsilon_i = 0 \)

- **AR test stat:**
  
  \[
  AR_n(\beta_0, \gamma_0) = \frac{(y - Y\beta_0 - W\gamma_0)'P_Z(y - Y\beta_0 - W\gamma_0)}{(1 : -\beta_0' : -\gamma_0') \Omega (1 : -\beta_0' : -\gamma_0)'}
  \]

- AR stat is distri. as \( \chi^2_k \) under null hypothesis; critical value \( \chi^2_{k,1-\alpha} \)
• **Subvector AR statistic** for testing $H_0$ is given by

$$AR_n(\beta_0) = \min_{\gamma \in R^{mW}} \frac{(\bar{Y}_0 - W\gamma)'P_Z(\bar{Y}_0 - W\gamma)}{(1 : -\beta'_0 : -\gamma') \Omega (1 : -\beta'_0 : -\gamma')}$$

where again $\bar{Y}_0 = y - Y\beta_0$.

• Alternative representation (using $\kappa_{\text{min}}(A) = \min_{x, \|x\|=1} x'Ax$):

$$AR_n(\beta_0) = \hat{\kappa}_p,$$

where $\hat{\kappa}_i$ for $i = 1, \ldots, p = 1 + m_W$ be roots of characteristic polynomial in $\kappa$

$$\left| \kappa I_p - \Omega (\beta_0)^{-1/2} (\bar{Y}_0 : W)' P_Z (\bar{Y}_0 : W) \Omega (\beta_0)^{-1/2} \right| = 0,$$

ordered non-increasingly
• When using $\chi^2_{k,1-\alpha}$ critical values, as for projection, trivially, test has correct size;

GKMC show that this is also true for $\chi^2_{k-m_W,1-\alpha}$ critical values
• **Next show:** AR statistic is the minimum eigenvalue of a non-central Wishart matrix

• For par space above, the roots $\hat{\lambda}_i$ solve

$$0 = \left| \hat{\lambda}_i I_{1+m_W} - \Xi'\Xi \right|, \quad i = 1, \ldots, p = 1 + m_W,$$

where

$$\Xi \sim N \left( M, I_k \otimes I_p \right),$$

and $M$ is a $k \times p$.

• Under $H_0$, the noncentrality matrix becomes $M = \left( 0^k, \Theta_W \right)$, where

$$\Theta_W = \left( Z'Z \right)^{1/2} \Pi_W \Sigma_{V_W V_W^{\varepsilon \varepsilon}}^{-1/2} \Pi_W' \Sigma_{V_W V_W^{\varepsilon \varepsilon}},$$

$$\Sigma_{V_W V_W^{\varepsilon \varepsilon}} = \Sigma_{V_W V_W} - \Sigma_{V_W}^{\varepsilon \varepsilon} \Sigma_{V_W}^{-1} \Sigma_{V_W}^{\varepsilon \varepsilon}.$$
and

\[
\begin{pmatrix}
\sigma_{\varepsilon\varepsilon} & \sum_{\varepsilon \varepsilon} V_W \\
\sum_{\varepsilon \varepsilon} V_W' & \sum_{\varepsilon \varepsilon} V_W V_W'
\end{pmatrix} = \begin{pmatrix} 1 & 0 \\ -\beta_0 & 0 \end{pmatrix}' \Omega \begin{pmatrix} 1 & 0 \\ -\beta_0 & 0 \end{pmatrix}
\]

- **Summarizing**, under \(H_0\) the \(p \times p\) matrix

\[
\Xi' \Xi \sim W \left( k, I_p, M'M \right)
\]

has non-central Wishart with noncentrality matrix

\[
M'M = \begin{pmatrix} 0 & 0 \\ 0 & \Theta_W' \Theta_W \end{pmatrix}
\]

and

\[
AR_n(\beta_0) = \kappa_{\min}(\Xi' \Xi)
\]
• The distribution of the eigenvalues of a noncentral Wishart matrix only depends on the eigenvalues of the noncentrality matrix $M'M$. 

• Hence, distribution of $\hat{\kappa}_i$ only depends on the eigenvalues of $\Theta'_W\Theta_W$, $\kappa_i$ say, $i = 1, \ldots, m_W$ and $\kappa = (\kappa_1, \ldots, \kappa_{m_W})'$

• When $m_W = 1$, $\kappa = \kappa_1 = \Theta'_W\Theta_W$ is scalar.
Figure 1: The cdf of the subset AR statistic with $k = 3$ instruments, for different values of $\kappa_1 = 5, 10, 15, 100$

**Theorem:** Suppose $m_W = 1$. Then, under the null hypothesis $H_0: \beta = \beta_0$, the distribution function of the subvector AR statistic, $AR_n(\beta_0)$, is monotonically decreasing in the parameter $\kappa_1$. 
New critical value for subvector Anderson and Rubin test: \( m_W = 1 \)

- **Relevance:** If we knew \( \kappa_1 \) we could implement the subvector AR test with a smaller critical value than \( \chi^2_{k-m_W,1-\alpha} \) which is the critical value in the case when \( \kappa_1 \) is "large".

- Muirhead (1978): Under null, when \( \kappa_1 "is large", the larger root \( \hat{\kappa}_1 \) (which measures strength of identification) is a sufficient statistic for \( \kappa_1 \)

- More precisely: the conditional density of \( AR_n (\beta_0) = \hat{\kappa}_2 \) given \( \hat{\kappa}_1 \) can be approximated by

\[
f_{\hat{\kappa}_2|\hat{\kappa}_1} (x) \sim f_{\chi^2_{k-1}} (x) (\hat{\kappa}_1 - x)^{1/2} g (\hat{\kappa}_1),
\]
where \( f_{\chi^2_{k-1}} \) is the density of a \( \chi^2_{k-1} \) and \( g \) is a function that does not depend on \( \kappa_1 \).

- **Analytical formula for** \( g \)

- **The new critical value** for the subvector AR-test at significance level \( 1 - \alpha \) is given by

  \[
  1 - \alpha \text{ quantile of (approximation of } AR_n \text{ given } \hat{\kappa}_1) \]

- **Denote cv by**

  \[
  c_{1-\alpha}(\hat{\kappa}_1, k - m_W) \]

  Depends only on \( \alpha, k - m_W, \) and \( \hat{\kappa}_1 \)
• Conditional quantiles can be computed by numerical integration

• Conditional critical values can be tabulated → implementation of new test is trivial and fast

• They are increasing in \( \kappa_1 \) and converging to quantiles of \( \chi^2_{k-1} \)

• We find, by simulations over fine grid of values of \( \kappa_1 \), that new test

\[
1(AR_n(\beta_0) > c_{1-\alpha}(\hat{\kappa}_1, k - m_W))
\]

controls size

• It improves on the GKMC procedure in terms of power
• **Theorem:** Suppose $m_W = 1$. The new conditional subvector Anderson Rubin test has correct size under the assumptions above.

• Proof partly based on simulations; Verified for e.g. $\alpha \in \{1\%, 5\%, 10\%\}$ and $k - m_W \in \{1, \ldots, 20\}$.

• **Summary** $m_W = 1$: the cond’l test rejects when

$$\hat{\kappa}_2 > c_{1-\alpha}(\hat{\kappa}_1, k - 1),$$

where $(\hat{\kappa}_1, \hat{\kappa}_2)$ are the eigenvalues of $2 \times 2$ matrix $\Xi' \Xi \sim W(k, I_p, M'M)$;

Under the null $M'M$ is of rank 1; **test has size** $\alpha$
Critical value function $c_{1-\alpha}(\hat{\kappa}_1, k-1)$ for $\alpha = 0.05$. 
Table of conditional critical values \( cv = c_1 - \alpha(\hat{k}_1, k - m_W) \)

\[ \alpha = 5\%, \quad k - m_W = 4 \]

<table>
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<tr>
<th>( \hat{k}_1 )</th>
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<td>8.0</td>
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</table>

* For simplicity of implementation we suggest linear interpolation of tabulated cv's; we verify resulting test has correct size
Null rejection frequency of subset AR test based on conditional (red) and \( \chi^2_{k-1} \) (blue) critical values, as function of \( \kappa_1 \).
Extension to $m_W > 1$

We define a new subvector Anderson Rubin test that rejects when

$$AR_n(\beta_0) > c_{1-\alpha}(\kappa_{\max}(\Xi'\Xi), k - m_W).$$

Note: We condition on the LARGEST eigenvalue of the Wishart matrix.

Theorem: The test above has i) correct size and ii) has uniformly larger power than the test in GKMC.

Lemma: Under the null $H_0 : \beta = \beta_0$, there exists a random matrix $O \in O(p)$, such that for

$$\tilde{\Xi} := \Xi O \in R^{k \times p}, \text{ and its upper left submatrix } \tilde{\Xi}_{11} \in R^{k-m_W+1 \times 2}$$
$\tilde{\Xi}_{11} \tilde{\Xi}_{11}$ is a non-central Wishart $2 \times 2$ matrix of order $k - m_W + 1$ (cond’l on $O$), whose noncentrality matrix, $\tilde{M}_1' \tilde{M}_1$ say, is of rank 1;

Proof of Theorem:

(i) Note that

$$AR_n(\beta_0) = \kappa_{\min}(\Xi' \Xi) = \kappa_{\min}(\tilde{\Xi}' \tilde{\Xi})$$

$$\leq \kappa_{\min}(\tilde{\Xi}_{11}' \tilde{\Xi}_{11}) \leq \kappa_{\max}(\tilde{\Xi}_{11}' \tilde{\Xi}_{11})$$

$$\leq \kappa_{\max}(\tilde{\Xi}' \tilde{\Xi}) = \kappa_{\max}(\Xi' \Xi) \tag{1}$$

and thus

$$P(AR_n(\beta_0) > c_{1-\alpha}(\kappa_{\max}(\Xi' \Xi), k - m_W))$$

$$\leq P(\kappa_{\min}(\tilde{\Xi}_{11}' \tilde{\Xi}_{11}) > c_{1-\alpha}(\kappa_{\max}(\tilde{\Xi}_{11}' \tilde{\Xi}_{11}), k - m_W))$$

$$= P(\kappa_2(\tilde{\Xi}_{11}' \tilde{\Xi}_{11}) > c_{1-\alpha}(\kappa_1(\tilde{\Xi}_{11}' \tilde{\Xi}_{11}), k - m_W))$$

$$\leq \alpha,$$
where first inequality follows from (1) and last inequality from correct size for \(m_W = 1\) (by conditionning on \(O\)) and the lemma.

Recall summary when \(m_W = 1\): new test rejects when

\[
\hat{\kappa}_2 > c_{1-\alpha}(\hat{\kappa}_1, k - 1)
\]

where \((\hat{\kappa}_1, \hat{\kappa}_2)\) are the eigenvalues of \(\Xi'\Xi \sim W(k, I_2, M'M)\) and \(M'M\) is of rank 1 under the null.

(ii) new conditional test is uniformly more powerful than test in GKMC (because \(c_{1-\alpha}(\cdot, k - m_W)\)) is increasing and converging to \(\chi^2_{k-m_W, 1-\alpha}\) as argument goes to infinity), i.e. the test in GKMC is inadmissible.
Power analysis of tests based on \((\hat{k}_1, \ldots, \hat{k}_p)\)

- For \(A = E [Z'(y - Y\beta_0 : W)] \in \mathbb{R}^{k \times p}\), consider
  \[
  H_0' : \rho(A) \leq m_W \text{ versus } H_1' : \rho(A) = p = m_W + 1
  \]

- \(H_0 : \beta = \beta_0\) implies \(H_0'\) but the converse is not true:
  
  \(- H_0'\) holds iff \([\rho(\Pi_W) < m_W \text{ or } \Pi_Y (\beta - \beta_0) \in \text{span}(\Pi_W)]\)

- Under \(H_0'\), \((\hat{k}_1, \ldots, \hat{k}_p)\) are distributed as eigenvalues of Wishart \(W (k, I_p, M'M)\) with rank deficient noncentrality matrix - a distribution that appears also under \(H_0\)
• Thus, every test $\varphi(\hat{\kappa}_1, \ldots, \hat{\kappa}_p) \in [0, 1]$ that has size $\alpha$ under $H_0$ must also have size $\alpha$ under $H'_0$ - so cannot have power exceeding size under alternatives $H'_0 \setminus H_0$.

• In other words, size $\alpha$ tests $\varphi(\hat{\kappa}_1, \ldots, \hat{\kappa}_p)$ under $H_0$ can only have nontrivial power under alternatives $\rho(A) = p$.

• We use this insight to derive a power envelope for tests of the form $\varphi(\hat{\kappa}_1, \ldots, \hat{\kappa}_p)$.
Power bounds

- Consider only the case $m_W = 1$.

- Equivalently, $H_0^l : \kappa_2 = 0, \kappa_1 \geq \kappa_2$ against $H_1^l : \kappa_2 > 0, \kappa_1 \geq \kappa_2$.

- Obtain point-optimal power bounds using approximately least favorable distribution $\Lambda^{LF}$ over nuisance parameter $\kappa_1$ based on algorithm in Elliott, Müller, and Watson (2015).
Power of conditional subvector AR test \( \varphi_c(\hat{\kappa}) = 1\{\hat{\kappa}_2 > c_{1-\alpha}(\hat{\kappa}_1, k-1)\} \) relative to power bound (left) and power of \( \varphi_c, \varphi_{GKMC}(\hat{\kappa}) = 1\left\{\frac{\hat{\kappa}_2}{\chi^2_{k-1,1-\alpha}}\right\} = 1\{\hat{\kappa}_2 > c_{1-\alpha}(\infty, k-1)\} \) and bound at \( \kappa_1 = \kappa_2 \) (right) for \( k = 5 \). Computed using 10000 MC replications.
• Little scope for power improvement over proposed test. But not zero scope...:

**Refinement:** For the case $k = 5$, $m_W = 1$, and $\alpha = 5\%$, let $\varphi_{adj}$ be the test that uses the critical values in Table above where the smallest 8 critical values are divided by 5
Asymptotic case: a) homoskedasticity

- Define **parameter space** $\mathcal{F}$ under the null hypothesis $H_0 : \beta = \beta_0$.
  
  Let $U_i := (\varepsilon_i + V_{W,i}^I \gamma, V_{W,i}^I)^T$ and $F$ distribution of $(U_i, V_{Y,i}, Z_i)$

  $\mathcal{F}$ is set of all $(\gamma, \Pi_W, \Pi_Y, F)$ s.t.

  $\gamma \in R^{mW}, \Pi_W \in R^{k \times mW}, \Pi_Y \in R^{k \times mY},$

  $E_F(||T_i||^{2+\delta}) \leq M, \text{ for } T_i \in \{vec(Z_i U_i), Z_i, U_i\},$

  $E_F(Z_i(\varepsilon_i, V_{W,i}^I, V_{Y,i}^I)) = 0,$

  $E_F(vec(Z_i U_i^I)(vec(Z_i U_i^I)))' = (E_F(U_i U_i^I) \otimes E_F(Z_i Z_i^I)),$

  $\kappa_{\min}(A) \geq \delta \text{ for } A \in \{E_F(Z_i Z_i^I), E_F(U_i U_i^I)\}$

  for some $\delta > 0, M < \infty$

- Note: no restriction is imposed on the variance matrix of $vec(Z_i V_{Y,i}^I)$
• **subvector AR stat** equals smallest solution of

\[
\hat{\kappa} I_{1+m_W} - \left( \frac{\bar{Y}' M Z \bar{Y}}{n - k} \right)^{-1/2} (\bar{Y}' P_Z \bar{Y}) \left( \frac{\bar{Y}' M Z \bar{Y}}{n - k} \right)^{-1/2} = 0
\]

where

\[
\bar{Y} := (y - Y \beta_0 : W) \in R^{n \times (1+m_W)}
\]

• **Note:** Same as in finite sample case with \( \Omega (\beta_0) \) replaced by \( \frac{\bar{Y}' M Z \bar{Y}}{n - k} \)

• **critical value** is again

\[
c_{1-\alpha}(\hat{\kappa}_1, k - m_W)
\]

the \( 1 - \alpha \) quantile of (the approximation of) \( AR_n \) given \( \hat{\kappa}_1 \)
• **Theorem:** The new subvector AR test has correct asymptotic size for parameter space $\mathcal{F}$.

• Again, part of the proof is based on simulations.
Asymptotic case: b) general Kronecker Product Structure

- For $U_i := (\varepsilon_i + V'_{W,i} \gamma, V'_{W,i})'$, $p := 1 + m_W$, and $m := m_Y + m_W$ let

$$\mathcal{F}_{KP} = \{ (\gamma, \Pi_W, \Pi_Y, F) : \gamma \in \mathbb{R}^{m_W}, \Pi_W \in \mathbb{R}^{k \times m_W}, \Pi_Y \in \mathbb{R}^{k \times m_Y},$$

$$E_F(||T_i||^{2+\delta_1}) \leq B, \text{ for } T_i \in \{ \text{vec}(Z_i U'_i), \text{vec}(Z_i Z'_i) \},$$

$$E_F(Z_i V'_i) = 0^{k \times (m+1)}, \ E_F(\text{vec}(Z_i U'_i)(\text{vec}(Z_i U'_i))') = G_1 \otimes G_2,$$

$$\kappa_{\min}(A) \geq \delta_2 \text{ for } A \in \{ E_F\left( Z_i Z'_i \right), G_1, G_2 \}$$

for pd $G_1 \in \mathbb{R}^{p \times p}$ (whose upper left element is normalized to 1) and $G_2 \in \mathbb{R}^{k \times k}$ and $\delta_1, \delta_2 > 0, \ B < \infty$

- Covers homoskedasticity, but also cases of (cond) heteroskedasticity
Example. Take $(\tilde{\varepsilon}_i, \tilde{V}_{W,i}^l) \in \mathbb{R}^p$ i.i.d. zero mean with pd variance matrix, independent of $Z_i$, and

$$(\varepsilon_i, V_{W,i}^l)' := f(Z_i)(\tilde{\varepsilon}_i, \tilde{V}_{W,i}^l)'$$

for some scalar valued function $f$ of $Z$, e.g. $f(Z_i) = ||Z_i||/k^{1/2}$. Then

$$EF(\text{vec}(Z_iU_i^l)(\text{vec}(Z_iU_i^l))')$$
$$= EF \left( U_iU_i^l \otimes Z_iZ_i^l \right)$$
$$= EF \left( (\varepsilon_i + V_{W,i}^l\gamma, V_{W,i}^l)'(\varepsilon_i + V_{W,i}^l\gamma, V_{W,i}^l) \otimes Z_iZ_i^l \right)$$
$$= EF \left( (\tilde{\varepsilon}_i + \tilde{V}_{W,i}^l\gamma, \tilde{V}_{W,i}^l)'(\tilde{\varepsilon}_i + \tilde{V}_{W,i}^l\gamma, \tilde{V}_{W,i}^l) \right) \otimes EF \left( f(Z_i)^2 Z_iZ_i^l \right)$$

has KP structure even though

$$EF(U_iU_i^l|Z_i) = f(Z_i)^2 EF(\tilde{\varepsilon}_i + \tilde{V}_{W,i}^l\gamma, \tilde{V}_{W,i}^l)'(\tilde{\varepsilon}_i + \tilde{V}_{W,i}^l\gamma, \tilde{V}_{W,i}^l)$$

depends on $Z_i$. 
- **Modified AR subvector statistic.** Estimate \( E_F(U_iU_i' \otimes Z_iZ_i') \) by

\[
\hat{R}_n := n^{-1} \sum_{i=1}^{n} f_i f_i' \in \mathbb{R}^{kp \times kp}, \quad \text{where}
\]

\[
f_i := ((M_Z(y - Y \beta_0))_i, (M_Z W)_i')' \otimes Z_i \in \mathbb{R}^{kp}.
\]

- Let

\[(\hat{G}_1, \hat{G}_2) = \arg \min ||G_1 \otimes G_2 - \hat{R}_n||_F,
\]

where the minimum is taken over \((G_1, G_2)\) for \(G_1 \in \mathbb{R}^{p \times p}, G_2 \in \mathbb{R}^{k \times k}\) being pd, symmetric matrices, normalized such that the upper left element of \(G_1\) equals 1. Estimators are unique and given in closed form.

- The subvector AR statistic, \( AR_{KP,n}(\beta_0) \) is defined it as the smallest root \( \hat{\kappa}_{pn} \) of the roots \( \hat{\kappa}_{in}, i = 1, \ldots, p \) (ordered nonincreasingly) of the
characteristic polynomial

\[ \left| \hat{\kappa} I_p - n^{-1} \hat{G}_1^{-1/2} (\bar{Y}_0, W)' Z \hat{G}_2^{-1} Z' (\bar{Y}_0, W) \hat{G}_1^{-1/2} \right| = 0. \]

- Note: Relative to previous definition, 
  \( \hat{G}_1 \) replaces \( \bar{Y}' M_Z Y \) and \( \hat{G}_2 \) replaces \( \frac{Z'Z}{n} \)

- The conditional subvector AR\(_{KP}\) test rejects \( H_0 \) at nominal size \( \alpha \) if
  \[ AR_{KP,n}(\beta_0) > c_{1-\alpha}(\hat{k}_{1n}, k - m_W), \]
  where \( c_{1-\alpha}(\cdot, \cdot) \) is defined as above.
**Theorem:** The conditional subvector AR\(_{KP}\) test implemented at nominal size \(\alpha\) has asymptotic size, i.e.

\[
\lim_{n \to \infty} \sup_{(\gamma, \Pi_W, \Pi_Y, F) \in \mathcal{F}_{KP}} P(\beta_0, \gamma, \Pi_W, \Pi_Y, F)(AR_{AKP, n}(\beta_0) > c_{1-\alpha}(\hat{k}_1n, k-m_W))
\]
equal to \(\alpha\).
Asymptotic case: c) General forms of Hetero

- Perform a Wald type pretest based on $\hat{G}_1 \otimes \hat{G}_2 - \hat{R}_n$ to test the null of Kronecker Product structure.

- If pretest rejects continue with a robust (to hetero and weak IV) subvector procedure, like the AR type tests proposed in Andrews (2017).

- Otherwise, continue with the test AR$_{KP}$ test.

- Resulting test has correct asymptotic size no matter what the pretest nominal size is.
• Reasons:
  
  – pretest is consistent against deviations from null for which
    
    \[ n^{1/2} \min \| \overline{G}_1 \otimes \overline{G}_2 - E_F(U_i U_i' \otimes Z_i Z_i')\| \to \infty \]
    
    and the AR type tests in Andrews (2017) have correct asymptotic size
  
  – when
    
    \[ n^{1/2} \min \| \overline{G}_1 \otimes \overline{G}_2 - E_F(U_i U_i' \otimes Z_i Z_i')\| = O(1) \]
    
    the conditional subvector AR\(_{KP}\) test has correct asymptotic size and rejects whenever the AR type test in Andrews (2017) rejects.
Asymptotic Size: General theory

- Distinction between pointwise (asymptotic) null rejection probability and (asymptotic) size

“Discontinuity” in limiting distribution of test statistic

Staiger and Stock (1997): simplified version of linear IV model with one IV

\[ y_1 = y_2 \theta + u, \]
\[ y_2 = Z \pi + v \]

Let \( \lambda_n = (\lambda_{1n}, \lambda_{2n}, \lambda_{3n}) \) be sequence of parameters s.t. \( \lambda_{3n} = (F_n, \pi_n) \)

\[ \lambda_{1n} = (EZ_i^2)^{1/2} \pi / \sigma_v \text{ and } \lambda_{2n} = corr(u_i, v_i) \]
satisfies

\[ h_{n,1}(\lambda_n) = n^{1/2} \lambda_{1n} \to h_1 < \infty \text{ and } h_{n,2}(\lambda_n) = \lambda_{2n} \to h_2. \]

We will denote such a sequence \( \lambda_n \) by \( \lambda_{n,h} \).

Work out limiting distribution of 2SLS under \( \lambda_{n,h} \):

\[
\frac{\sigma_v}{\sigma_u} (\hat{\theta}_{2SLS} - \theta) = \frac{\sigma_v y'_2 P Z u}{\sigma_u y'_2 P Z y_2} = \frac{(n^{-1} Z' Z)^{-1/2} n^{-1/2} Z' u / \sigma_u}{(n^{-1} Z' Z)^{-1/2} n^{-1/2} Z' y_2 / \sigma_v}
\]

\[
= \frac{(n^{-1} Z' Z)^{-1/2} n^{-1/2} Z' u / \sigma_u}{(n^{-1} Z' Z)^{1/2} n^{1/2} \pi / \sigma_v + (n^{-1} Z' Z)^{-1/2} n^{-1/2} Z' v / \sigma_v}
\]

\[
\to d \frac{z_{u,h_2}}{h_1 + z_{v,h_2}}, \text{ where}
\]

\[
\begin{pmatrix} z_{u,h_2} \\ z_{v,h_2} \end{pmatrix} \sim N(0, \Sigma_{h_2}) \text{ and } \Sigma_{h_2} = \begin{pmatrix} 1 & h_2 \\ h_2 & 1 \end{pmatrix}
\]
• Similarly for t test statistic $T_n(\theta_0)$:

$$T_n(\theta_0) \to_d J_h$$

for $h = (h_1, h_2)$ under the parameter sequence $\lambda_{n,h}$.

• So, to implement the test, we should take the $1 - \alpha$-quantile $c_h(1 - \alpha)$ of $J_h$ as the critical value.

• If we implement a test using a Wald statistics with chi-square critical values, the asymptotic size is 1, see Dufour (1997).

• Problem: we cannot consistently estimate $h$; we can only estimate consistently $\lambda_{1n}$. 
• $(h_1, h_2)$ takes on values in $H = (R \cup \{\pm \infty\}) \times [-1, 1]$

• We say the limit distribution of $T_n(\theta_0)$ "depends discontinuously on nuisance parameter $\lambda_1$" and continuously on $\lambda_2$

  Continuity: when $x \to x_0$ then $f(x) \to f(x_0)$

  Here $(EZ_i^2)^{1/2}\pi/\sigma_v \to 0$, but limit of $T_n(\theta_0)$ does not just depend on 0

• Situation arises frequently in applied econometrics and leads to size distortion for various "classical" inference procedures:

  weak IVs/identification, use of pretests, moment inequalities, (nuisance) parameters on boundary, inference in (V)ARs with unit root(s)
General Theory: Asymptotic Size of Tests

- $\{\varphi_n : n \geq 1\}$ sequence of tests for null hypothesis $H_0$
- $\lambda$ indexes the true null distribution of the observations
- Parameter space for $\lambda$ is some space $\Lambda$
- $RP_n(\lambda)$ denotes rejection probability of $\varphi_n$ under $\lambda$
- The asymptotic size of $\varphi_n$ for the parameter space $\Lambda$ is defined as:

$$AsySz = \limsup_{n \to \infty} \sup_{\lambda \in \Lambda} RP_n(\lambda)$$
Formula for Calculation of AsySz

Recall relevance of limits of $h_{n,1}(\lambda_n) = n^{1/2}\lambda_{1n} = n^{1/2}(EZ_i^2)^{1/2}/\sigma_v$ and $h_{n,2}(\lambda_n) = \lambda_{2n} = corr(u_i, v_i)$ for limit distributions of test statistics in weak IV example.

Generalizing, let

$$\{h_n(\lambda) = (h_{n,1}(\lambda), \ldots, h_{n,J}(\lambda))' \in R^J : n \geq 1\}$$

be a sequence of functions on $\Lambda$, where $h_{n,j}(\lambda) \in R$ $\forall j = 1, \ldots, J$.

For any subsequence $\{p_n\}$ of $\{n\}$ and $h \in (R \cup \{\pm\infty\})^J$ denote a sequence $\{\lambda_{p_n} \in \Lambda : n \geq 1\}$ such that $h_{p_n}(\lambda_{p_n}) \to h$ by

$$\lambda_{p_n,h}$$

Define

$$H = \{h \in (R \cup \{\pm\infty\})^J : \text{there is subsequence } \{p_n\} \text{ and sequence } \lambda_{p_n,h}\}.$$
Theorem, Andrews, Cheng, and Guggenberger (2011)

Assume that under any sequence $\lambda_{p_n,h}$

$$RP_{p_n}(\lambda_{p_n,h}) \to RP(h)$$

for some $RP(h) \in [0, 1]$. Then:

$$AsySz = \sup_{h \in H} RP(h).$$

**Proof.** i) Let $h \in H$. To show $AsySz \geq RP(h)$. By definition of $H$, there is $\lambda_{p_n,h}$. Then

$$AsySz = \limsup_{n \to \infty} \sup_{\lambda \in \Lambda} RP_n(\lambda)$$

$$\geq \limsup_{n \to \infty} RP_{p_n}(\lambda_{p_n,h})$$

$$= RP(h)$$
Proof. (continued)

ii) To show $\text{AsySz} \leq \sup_{h \in H} RP(h)$. Let $\{\lambda_n \in \Lambda : n \geq 1\}$ be a sequence such that

$$\limsup_{n \to \infty} RP_n(\lambda_n) = \text{AsySz}.$$ 

Let $\{p_n : n \geq 1\}$ be a subsequence of $\{n\}$ such that $\lim_{n \to \infty} RP_{p_n}(\lambda_{p_n})$ exists and equals $\text{AsySz}$ and $h_{p_n}(\lambda_{p_n}) \to h$. Therefore this sequence is of type $\lambda_{p_n},h$, and thus, by assumption, $RP_{p_n}(\lambda_{p_n}) \to RP(h)$. Because also $RP_{p_n}(\lambda_{p_n}) \to \text{AsySz}$, it follows that $\text{AsySz} = RP(h)$. $\square$
Specification of \( \lambda \) for subvector Anderson and Rubin test

- Given \( F \) let

\[
W_F := (E_F Z_i Z'_i)^{1/2} \text{ and } U_F := \Omega(\beta_0)^{-1/2}.
\]

- Consider a singular value decomposition

\[
C_F \Lambda_F B'_F
\]

of

\[
W_F(\Pi_W \gamma, \Pi_W)U_F
\]

- i.e. \( B_F \) denote a \( p \times p \) orthogonal matrix of eigenvectors of

\[
U'_F(\Pi_W \gamma, \Pi_W)'W'_FW_F(\Pi_W \gamma, \Pi_W)U_F
\]
and \( \mathbf{C}_F \) denote a \( k \times k \) orthogonal matrix of eigenvectors of

\[
W_F(\Pi_{W\gamma}, \Pi_W)U_FU_F'(\Pi_{W\gamma}, \Pi_W)'W_F'
\]

- \( \Lambda_F \) denotes a \( k \times p \) diagonal matrix with singular values \( (\tau_{1F}, \ldots, \tau_{pF}) \) on diagonal, ordered nonincreasingly

- Note \( \tau_{pF} = 0 \)
• Define the elements of $\lambda_F$ to be

$$\lambda_{1,F} := (\tau_1 F, ..., \tau_p F)' \in R^p,$$
$$\lambda_{2,F} := B_F \in R^{p \times p},$$
$$\lambda_{3,F} := C_F \in R^{k \times k},$$
$$\lambda_{4,F} := W_F \in R^{k \times k},$$
$$\lambda_{5,F} := U_F \in R^{p \times p},$$
$$\lambda_{6,F} := F,$$
$$\lambda_F := (\lambda_{1,F}, ..., \lambda_{9,F}).$$

• A sequence $\lambda_{n,h}$ denotes a sequence $\lambda_{F_n}$ such that $(n^{1/2} \lambda_{1,F_n}, ..., \lambda_{5,F_n}) \to h = (h_1, ..., h_5)$

• Let $q = q_h \in \{0, ..., p - 1\}$ be such that

$$h_{1,j} = \infty \text{ for } 1 \leq j \leq q_h \text{ and } h_{1,j} < \infty \text{ for } q_h + 1 \leq j \leq p - 1$$
• Roughly speaking, need to compute asy null rej probs under seq’s with (i) strong ident’n, (ii) semi-strong ident’n, (iii) std weak ident’n (all parameters weakly ident’d) & (iv) nonstd weak ident’n

• **strong identification:** \( \lim_{n \to \infty} \tau_{mW,F_n} > 0 \)

• **semi-strong ident’n:** \( \lim_{n \to \infty} \tau_{mW,F_n} = 0 \) & \( \lim_{n \to \infty} n^{1/2} \tau_{mW,F_n} = \infty \)

• **weak ident’n:** \( \lim_{n \to \infty} n^{1/2} \tau_{mW,F_n} < \infty \)
  
  – **standard** (of all parameters): \( \lim_{n \to \infty} n^{1/2} \tau_{1,F_n} < \infty \) as in Staiger & Stock (1997)

  – **nonstandard:** \( \lim_{n \to \infty} n^{1/2} \tau_{mW,F_n} < \infty \) & \( \lim_{n \to \infty} n^{1/2} \tau_{1,F_n} = \infty \) includes some weakly/some strongly ident’d parameters, as in Stock & Wright (2000); also includes **joint weak ident’n**
Andrews and Guggenberger (2014): Limit distribution of eigenvalues of quadratic forms

- Consider a singular value decomposition $C_F \Lambda_F B'_F$ of $W_F D_F U_F$

- Define $\lambda_F, h, \lambda_n, h ...$ as above

Let $\hat{\kappa}_{jn} \forall j = 1, ..., p$ denote $j$th eigenval of

$$n \hat{U}'_n \hat{D}'_n \hat{W}'_n \hat{W}_n \hat{D}_n \hat{U}_n,$$
where under $\lambda_{n,h}$

$$n^{1/2}(\hat{D}_n - D_{F_n}) \rightarrow d\hat{D}_h \in R^{k \times p},$$
$$\hat{W}_n - W_{F_n} \rightarrow p^0_{k \times k},$$
$$\hat{U}_n - U_{F_n} \rightarrow p^0_{p \times p},$$
$$W_{F_n} \rightarrow h_4, \ U_{F_n} \rightarrow h_5$$

with $h_4, h_5$ nonsingular

**Theorem (AG, 2014):** under $\{\lambda_{n,h} : n \geq 1\}$,

(a) $\hat{\kappa}_{jn} \rightarrow_p \infty$ for all $j \leq q$

(b) vector of smallest $p-q$ eigenvals of $n\hat{U}_n'\hat{D}_n'\hat{W}_n'\hat{W}_n\hat{D}_n\hat{U}_n$, i.e., $(\hat{\kappa}_{(q+1)n}, ..., \hat{\kappa}_{pn})'$, converges in dist'n to $p-q$ vector of eigenvals of random matrix $M(h, \hat{D}_h) \in R^{(p-q) \times (p-q)}$
• complicated proof;
  – eigenvalues can diverge at any rate or converge to any number
  – can become close to each other or close to 0 as $n \to \infty$
We apply this result with

\[ W_F = (E_F Z_i Z_i')^{1/2}, \hat{W}_n = (n^{-1} \sum Z_i Z_i')^{1/2}, \]
\[ U_F = \Omega(\beta_0)^{-1/2}, \hat{U}_n = \left( \frac{Y' M Z Y}{n - k} \right)^{-1/2}, \]
\[ D_F = (\Pi_W \gamma, \Pi_W), \hat{D}_n = (Z' Z)^{-1} Z' \bar{Y} \]

to obtain the joint limiting distribution of all eigenvalues.
Joint asymptotic dist’n of eigenvalues

• Recall: test statistic and critical value are functions of \( p = 1 + m_W \) roots of

\[
\left| \hat{\kappa} I_{1+m_W} - \left( \frac{\bar{Y}' M Z \bar{Y}}{n-k} \right)^{-1/2} (\bar{Y}' P Z \bar{Y}) \left( \frac{\bar{Y}' M Z \bar{Y}}{n-k} \right)^{-1/2} \right| = 0
\]

• To obtain joint limiting distribution of eigenvalues, we use general result in Andrews and Guggenberger (2014) about joint limiting distribution of eigenvalues of quadratic forms

**Results:**

• the joint limit depends only on localization parameters \( h_{1,1}, \ldots, h_{1,m_W} \)
• asymptotic cases replicate finite sample, normal, fixed IV, known variance matrix setup

• together with above proposition, correct asymptotic size then follows from correct finite sample size