

Small Area Estimation with R

Unit 3: Model-based estimators

V. Gómez-Rubio

Department of Mathematics
Universidad de Castilla-La Mancha, Spain

Model-based estimation

- Direct estimators cannot cope efficiently with estimates for areas that have not been included in the sample
- Model-based estimation relies on a parametric model
- The domains are assumed to be part of a *superpopulation* whose characteristics are estimated by the models

Types of models

Unit level models

- Use the survey data directly
- Area level covariates will be needed to provide small area estimates
- Sometimes access to individual data is difficult because of problems of confidentiality

Area level models

- Based on direct estimates and area level covariates
- No confidentiality issues involved
- Given that these are based on ecological data, the coefficients of the covariates in the model must be interpreted with care

Fay-Herriott estimator

The Fay Herriott estimator combines direct estimations with linear regression:

$$\hat{\bar{Y}}_i = \mu_i + \epsilon_i; \quad \epsilon_i \sim N(0, \hat{\sigma}_i^2)$$

$$\mu_i = \alpha + \beta \bar{X}_i$$

- $\hat{\bar{Y}}_i$ is a direct estimator
- $\hat{\sigma}_i^2$ is a design variance
- \bar{X}_i is a vector of area level covariates (i.e., area level means in this case)
- α and β can be estimated by means of Generalised Least Squares

Standard linear regression

An alternative is to fit a standard linear regression model:

$$\hat{Y}_i = \mu_i + \epsilon_i; \epsilon_i \sim N(0, \sigma^2)$$

$$\mu_i = \alpha + \beta \bar{X}_i$$

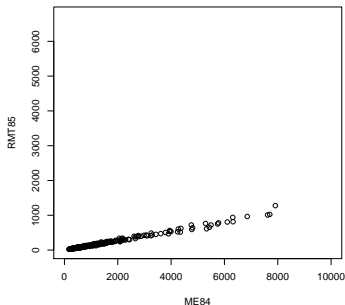
- This is useful when the design variances are not known
- No finite-population correction is implicitly done

Linear Regression

There are two approaches when using linear regression for SAE

- `lm` assumes that the sample comes from an *infinite* population
- `svyglm` accounts for the survey design and provides a correction for *finite population* in the estimation of the standard errors

We are trying to model the total tax revenues according to the number of municipal employees



```
> survlm<-lm(RMT85~ME84, dsmp)
> survglm<-svyglm(RMT85~ME84, svy)
> plot(MU284$ME84, MU284$RMT85, xlab="ME84", ylab="RMT85")
```

Unit level models

Unit level models

$$y_{ij} = \mu_{ij} + \varepsilon_{ij}; \varepsilon_{ij} \sim N(0, \sigma^2)$$

$$\mu_{ij} = \alpha + \beta x_{ij}$$

- y_{ij} unit level target variable
- x_{ij} unit level covariates

Small Area Estimation

- Additional area level covariates are required to provide small area estimates

$$\hat{\bar{Y}}_i = \hat{\alpha} + \hat{\beta} \bar{X}_i$$

- We ignore that we know a small proportion of the units in the domain

Unit level models

Unit level models with area level variances

$$y_{ij} = \mu_{ij} + \varepsilon_{ij}; \varepsilon_{ij} \sim N(0, \sigma_i^2)$$

$$\mu_{ij} = \alpha + \beta x_{ij}$$

- σ_i^2 is the variance of the units in area i
- This model allows for internal variation to change between areas and it is likely that it will provide a better fit

Package **nlme**

- Function `gls` can be used to fit these models
- The variance structure of the data must be defined using `varFunc`

Variance and Correlation structures

Variance-Covariance structure

The family of functions `varFunc()` provide different ways of defining the covariance between the small areas

- These are passed as argument `weights=`
- `varIdent()`: Allows different variances per group
- `varFixed()`: Allows fixed variances depending on a covariate

Correlation structure

The family of functions `corClasses()` can be used to define correlation structures

- These are passed as argument `correlation=`
- `corGaus()`: Gaussian Correlation Structure
- `corExp()`: Exponential Correlation Structure

Example: MU284 data set

First of all, we fit a model with $\sigma_i^2 = \sigma^2$. This is equivalent to use `lm()`

```
> library(nlme)
> #Region level covariates
> REGCOV<-data.frame(ME84=as.vector(by(MU284$ME84, MU284$REG,mean)))
> #One variance
> gls1<-gls(RMT85~ME84, data=dsmp)
> synth1<-predict(gls1, REGCOV, interval="confidence")
```

Then, we fit model that considers a different variance per region. Note that we have 8 regions and we estimate the variances as compared to that of region 1.

```
> #Region-level variances
> #dsmp$REG<-as.factor(dsmp$REG)
> l<-as.list(rep(1,7))
> names(l)<-as.character(2:8)
> vf1 <- varIdent(l, form = ~ 1 | REG)
> gls2<-gls(RMT85~ME84, data=dsmp, weights=vf1)
> synth2<-predict(gls2, REGCOV, interval="confidence")
```

Data 'missing' by design

- Usually, some areas are not covered in the survey design
- This means that some data will be 'missing'
- The missingness mechanism can be ignored because the data are 'missing' by design
- Synthetic estimation is used to provide estimates in these areas
- Information between areas is borrowed by means of the coefficients of the covariates
- The model that we will fit will only consider $\sigma_i^2 = \sigma^2$
- Prediction is done by means of *synthetic estimators*

Example: Synthetic estimation

First of all, we produce some estimates using the model with a common variance

```
> #One variance
> glsmiss1<-gls(RMT85~ME84, data=dsmp)
> synthmiss1<-predict(glsmiss1, REGCOV, interval="confidence")
```

The following example fits a model based on a two-stage sampling and allowing for region-level variances

```
> #Region-level variances
> #dsmp$REG<-as.factor(dsmp$REG)
> regs<-unique(dsmpcl2$REG)
> l<-as.list(rep(1,length(regs)-1))
> names(l)<-as.character(regs[-1])
> vfmiss1 <- varIdent(l, form = ~ 1 | REG)
> glsmiss2<-gls(RMT85~ME84, data=dsmpcl2, weights=vfmiss1)
> synthmiss2<-predict(glsmiss2, REGCOV, interval="confidence")
```

Composite estimator

The composite estimator aims at combining the good properties of direct and model based estimators:

- Direct estimators ($\hat{Y}_{D,i}$) are design-unbiased
- Model-based estimators ($\hat{Y}_{M,i}$) have a lower variance, because they combine information from different areas

$$\hat{Y}_{C,i} = \gamma_i \hat{Y}_{D,i} + (1 - \gamma_i) \hat{Y}_{M,i}$$

- $0 \leq \gamma_i \leq 1$ is a shrinkage parameter to weight both estimators
- $\gamma_i = 0$ if $n_i = 0$ and the composite estimator reduces to the synthetic estimator
- Otherwise, γ_i can be estimated in different ways

Estimation of the shrinkage parameter

Different shrinkage parameters

γ_i is obtained by minimising $MSE(\hat{\bar{Y}}_{C,i})$ when $Cov(\hat{\bar{Y}}_{D,i}, \hat{\bar{Y}}_{M,i}) \approx 0$

$$\hat{\gamma}_i = 1 - \frac{Var[\hat{\bar{Y}}_{D,i}]}{(\hat{\bar{Y}}_{M,i} - \hat{\bar{Y}}_{D,i})^2}$$

Common shrinkage parameter

$\gamma_i = \gamma$ is obtained by minimising $\sum_i MSE(\hat{\bar{Y}}_{C,i})$ when $Cov(\hat{\bar{Y}}_{D,i}, \hat{\bar{Y}}_{M,i}) \approx 0$

$$\hat{\gamma}_i = \hat{\gamma} = 1 - \frac{\sum_i Var[\hat{\bar{Y}}_{D,i}]}{\sum_i (\hat{\bar{Y}}_{M,i} - \hat{\bar{Y}}_{D,i})^2}$$

Example: Composite estimator of regional values

Computation of individual weights

```
> gammaw1<- 1- (destdom$se.RMT85^2)/((synth1- destdom$statistics.RMT85)^2)
> gammaw1

numeric(0)

> gammaw1[gammaw1<0]<-0
> gammaw1[gammaw1>1]<-1
> comp1<-gammaw1*destdom[,2]+(1-gammaw1)*synth1
> comp1

numeric(0)
```

Computation of a common weight

```
> gammaw2<- 1- sum(destdom$se.RMT85^2)/sum((synth2- destdom$statistics.RMT85)^2)
> gammaw2

[1] NaN

> comp2<-gammaw2*destdom[,2]+(1-gammaw2)*synth2
> comp2

[1] NaN NaN NaN NaN NaN NaN NaN NaN
attr("label")
[1] "Predicted values"
```

Example: Comparison of different types of estimators

| | AEMSE |
|--------------|--------------|
| DIRECT | 198763.46148 |
| SYNTH 1 | 119.49474 |
| SYNTH 2 | 50.43277 |
| COMP GAMMA_i | NaN |
| COMP GAMMA | NaN |

- Regression models can be extended to account for different types of effects
- When the relationship between a covariate and the target variable is not linear, splines can be used (see package **mgcv**)
- Temporal models can be fitted by modelling areas as longitudinal data
- Spatial effects are more difficult to model, and they are usually considered as random effects