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Instrumental Variables and regression discontinuity designs

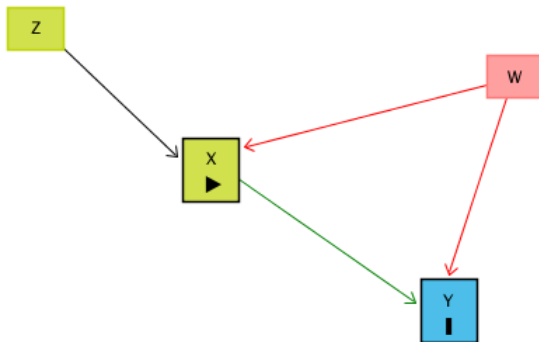
Nils Droste

2021 ClimBEco course



Instrumental Variables

Instrumental Variable (IV)



Using exogenous variation in instrument to close back-door. Image source: [Huntington-Klein 2018](#)



Instrumental Variables

An exemplary study

The Impact of the Women's March on the U.S. House Election*

Magdalena Larreboure

Felipe González

April 10, 2021

Three million people participated in the Women's March against discrimination in 2017, the largest single-day protest in U.S. history. We show that protesters in the March increased political preferences for women and people from ethnic minorities in the following federal election, the 2018 House of Representatives Election. Using **daily weather** shocks as exogenous drivers of attendance at the March, we show that protesters increased turnout at the Election and the vote shares obtained by minorities, particularly women, irrespective of their party affiliation. We conclude that protests can help to empower historically underrepresented groups through changes in local political preferences.

Larreboure and González 2021

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Instrumental Variables

But there may be plenty of causal pathways in reality

Introduction

Instrumental Variables

intuition

formalities

technicalities

Regression

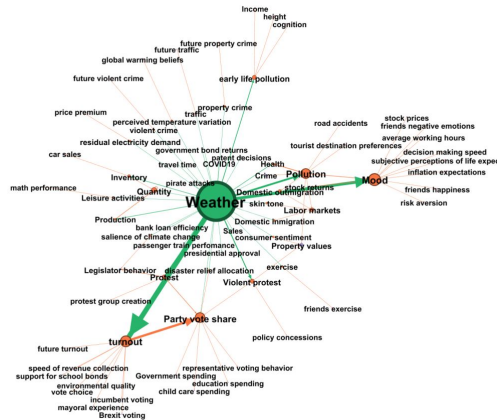
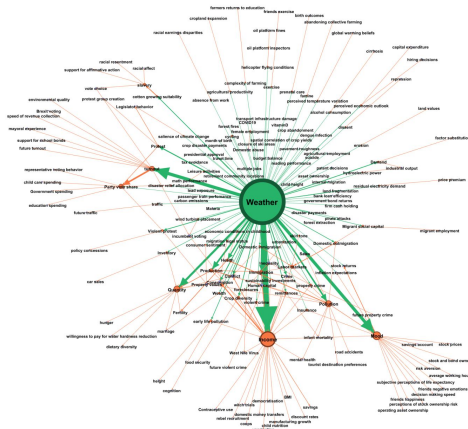
Discontinuity

intuition

notation

examples

References



Weather IV and (in)dep vars, in general (left) and with temporal variations (right). Source: Mellon 2020

Instrumental Variables

Introduction

Instrumental Variables

intuition

formalities

technicalities

Regression Discontinuity

intuition

notation

examples

References



Two-Stage Least Square (2SLS) estimator

1. stage: regress Z on X :

$$X_i = \alpha_1 + \beta_1 Z_i + \gamma_1 W_i + \varepsilon_{1,i} \quad (1)$$

and predict the variation in X
explained by Z : $\hat{X} = \beta_1 Z_i$.

2. stage: plug in \hat{X} to estimate the
variation in Y not explained by
confounder W :

$$Y_i = \alpha_2 + \beta_2 \hat{X}_i + \gamma_2 W_i + \varepsilon_{2,i} \quad (2)$$

conditions

Introduction

Instrumental Variables

intuition

formalities

technicalities

Regression Discontinuity

intuition

notation

examples

References

There are important conditions to consider

- *relevance* of instrument for predicting $Y \rightarrow E((\hat{X}_i|Z = 1) - (\hat{X}_i|Z = 0)) \neq 0$, aka Z is correlated with X , and thus with Y .



conditions

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

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- *exclusion* restriction of Z being independent of Y : $E(\epsilon_i, Z_i|W_i) = 0$, aka no backdoor $Z \rightarrow Y$ or endogeneity, i.e. no relation with omitted variables.



conditions

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

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Now, let us see how to formulate this in the potential outcome notation.



conditions

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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Now, let us see how to formulate this in the potential outcome notation.

For this let treatment or participation again be denoted by D , now as a function of the instrument $\rightarrow D_i(Z_i)$, the *intention to treat*.

notation

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

Step by step

- Imbens and Angrist (1994) formulate local average treatment effect (LATE)
 - for the *subpopulation* responding to instrument Z ,
that is those who participate $P(1)$ in treatment D



notation

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



Step by step

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$$E(Y_i | Z_i = 1) - E(Y_i | Z_i = 0) \quad (3)$$

notation

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

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- here the LATE is given by $P(1) \cdot E[Y_i(1) - Y_i(0) | D_i(1) = 1]$



notation

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

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- as long as participation $P(1) > P(0)$ and $D_i(1) \geq D_i(0) \forall i$, aka monotonic (or \leq , respectively)



notation

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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Why?

Who's gonna be "treated"

Consider Angrist, Imbens and Rubin (1996)

		$Z_i = 0$	
		$D_i(0) = 0$	$D_i(0) = 1$
$Z_i = 1$	$D_i(1) = 0$	Nevertaker	Defier
	$D_i(1) = 1$	Complier	Always-taker

Introduction

Instrumental Variables

intuition

formalities

technicalities

Regression

Discontinuity

intuition

notation

examples

References



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- *"if people are more likely, on average, to participate given $Z = w$ than given $Z = z$, then anyone who would participate given $Z = z$ must also participate given $Z = w$ " (Guido W Imbens and Angrist 1994)*



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→ assumes existence of only one of compliers or defiers, e.g. *no one* defies



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- *"if people are more likely, on average, to participate given $Z = w$ than given $Z = z$, then anyone who would participate given $Z = z$ must also participate given $Z = w$ " (Guido W Imbens and Angrist 1994)*
 - assumes existence of only one of compliers or defiers, e.g. *no one* defies
- allows valid estimate of LATE, but may not always be realistic



Relaxing monotonicity assumption

de Chaisemartin (2017) shows IVs can be valid without strong monotonicity

- *"If there are defiers in the population, we only know that 2SLS estimates a weighted difference between the effect of the treatment among compliers and defiers"*

Introduction

Instrumental Variables

intuition

formalities

technicalities

Regression

Discontinuity

intuition

notation

examples

References



Relaxing monotonicity assumption

de Chaisemartin (2017) shows IVs can be valid without strong monotonicity

- *"If there are defiers in the population, we only know that 2SLS estimates a weighted difference between the effect of the treatment among compliers and defiers"*
- a weak solution: $P(C_F) = P(F)$ and $E(Y(1) - Y(0)|C_F) = E(Y(1) - Y(0)|F)$

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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- *"is satisfied if a subgroup of compliers accounts for the same percentage of the population as defiers and has the same LATE"*

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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- a weak solution: $P(C_F) = P(F)$ and $E(Y(1) - Y(0)|C_F) = E(Y(1) - Y(0)|F)$
- *"is satisfied if a subgroup of compliers accounts for the same percentage of the population as defiers and has the same LATE"*
- I believe this can be approached with matching, too. See Murray et al. (2021) who suggest to estimate the intention to treat $D(Z)$ with logistic regression, providing leeway for a propensity score or other matching approach (cf. Hirano, Guido W Imbens and Ridder 2003; Rosenbaum and Donald B. Rubin 1984).

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



Weak instruments

Introduction

Instrumental Variables

intuition

formalities

technicalities

Regression

Discontinuity

intuition

notation

examples

References



When instruments are only weakly correlated with treatment, reconsider

$$Y_i = \alpha_2 + \beta_2 D_i + \gamma_2 W_i + \varepsilon_i \quad (4)$$

$$X_i = \alpha_1 + \beta_1 Z_i + \gamma_1 W_i + v_i \quad (5)$$

A condition was relevance, i.e. $E((D_i|Z = 1) - (D_i|Z = 0)) \neq 0$, or

$$\text{Cov}(Z_i, D_i|W_i) \neq 0$$

- to estimate IV, $\hat{\beta}_2 = \frac{\text{Cov}(Y_i, Z_i)}{\text{Cov}(Z_i, D_i|W_i)}$
- problematic when $\text{Cov}(Z_i, D_i|W_i) \rightarrow 0$ as $\Delta\beta_2$ grows large even for small variations

Weak instruments

Introduction

Instrumental Variables

- intuition
- formalities
- technicalities

Regression Discontinuity

- intuition
- notation
- examples

References

A range of techniques for robust parameter estimation in weak IV 2SLS

- F-test for strong enough instruments (Stock and Yogo 2005)



Weak instruments

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

A range of techniques for robust parameter estimation in weak IV 2SLS

- F-test for strong enough instruments (Stock and Yogo 2005)
- heteroskedasticity and autocorrelation robust for just identified models (Chernozhukov and Hansen 2008)



Weak instruments

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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Weak instruments

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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- a more powerful test with t-ratio critical value adjustments for significance testing (Lee et al. 2020)

Weak instruments

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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- a more powerful test with t-ratio critical value adjustments for significance testing (Lee et al. 2020)

→ We will look into some (basic) testing in the seminar.

intermediate summary

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



Instrumental variables allow us to

- isolate a treatment effect by looking at the outcomes of exogeneously caused treatment variation
- it is considered a very robust causal inference, but assumptions are *somewhat* crucial
- mainly it is theory and reason that make a "valid instrument"
- there is loads of tests, I do not think they alone suffice

A first thought experiment

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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ANALYSIS

Environmental pressure group strength and air pollution: An empirical analysis

Seth Binder, Eric Neumayer*

*Department of Geography and Environment and Center for Environmental Policy and Governance (CEPG),
London School of Economics and Political Science, Houghton Street, London WC2A 2AE, UK*

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Available online 24 February 2005

A first thought experiment

Introduction

Instrumental Variables

intuition
formalities
technicalities

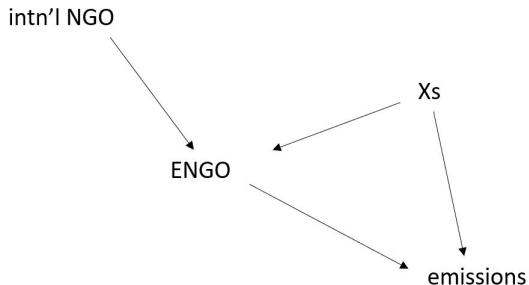
Regression Discontinuity

intuition
notation
examples

References



Do you think this is a valid instrument?



reformulating Binder and Neumayer 2005: a (partial DAG)

Intuition

Suppose we believe there is an effect for which assignment is non-random, but the cut-off at which treatment is assigned is quasi-random (cf. Thistlewaite et al. n.d.).

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

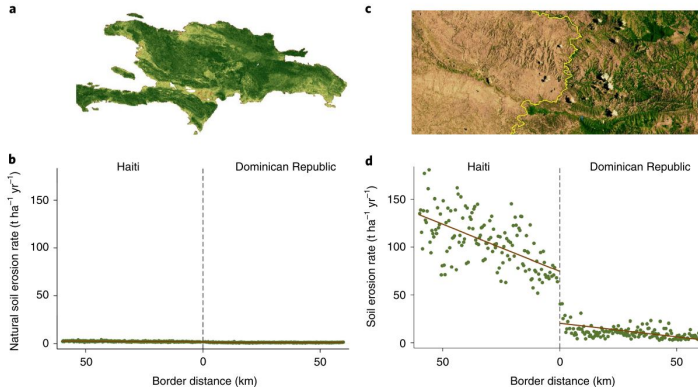
intuition
notation
examples

References



Intuition

Suppose we believe there is an effect for which assignment is non-random, but the cut-off at which treatment is assigned is quasi-random (cf. Thistlewaite et al. n.d.).



concept

Introduction

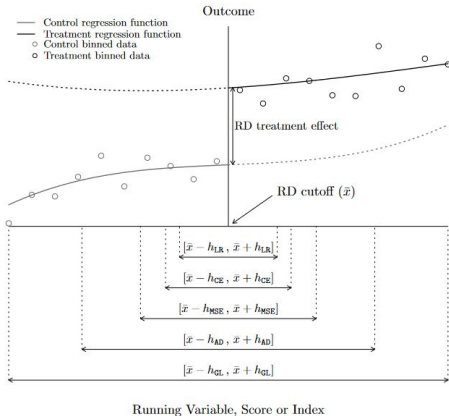
Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

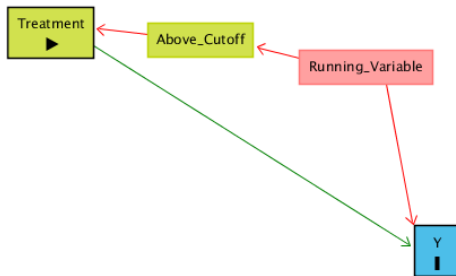
References



The RDD concept and the effect of bin size choice. Image source: Cattaneo and Vazquez-Bare 2016

DAGs

Regression-Discontinuity-Design (RDD)

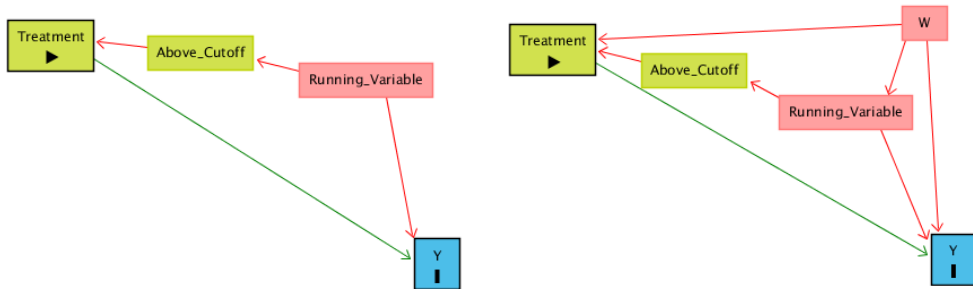


Focussing on effects just around the cutoff value. Image source: [Huntington-Klein 2018](#)



DAGs

Regression-Discontinuity-Design (RDD)



Focussing on effects just around the cutoff value. Image source: [Huntington-Klein 2018](#)
Do you see the IV in RDD?



notation

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

Let us formulate in the potential outcomes notation. Suppose there is a outcome $(Y(1), Y(0))$ that depends on treatment D and covariate X .



notation

Introduction

Instrumental Variables

- intuition
- formalities
- technicalities

Regression Discontinuity

- intuition
- notation**
- examples

References

Let us formulate in the potential outcomes notation. Suppose there is a outcome $(Y(1), Y(0))$ that depends on treatment D and covariate X .

While $Y(X)$ is assumed to be continuous, treatment D kicks in at a quasi-random threshold of \bar{x} , such that



notation

Introduction

Instrumental Variables

- intuition
- formalities
- technicalities

Regression Discontinuity

- intuition
- notation
- examples

References



Let us formulate in the potential outcomes notation. Suppose there is a outcome $(Y(1), Y(0))$ that depends on treatment D and covariate X .

While $Y(X)$ is assumed to be continuous, treatment D kicks in at a quasi-random threshold of \bar{x} , such that

$$D_i = \begin{cases} 1 & \text{if } x_i \geq \bar{x} \\ 0 & \text{if } x_i < \bar{x} \end{cases} \quad (6)$$

notation

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



Let us formulate in the potential outcomes notation. Suppose there is a outcome $(Y(1), Y(0))$ that depends on treatment D and covariate X .

While $Y(X)$ is assumed to be continuous, treatment D kicks in at a quasi-random threshold of \bar{x} , such that

$$D_i = \begin{cases} 1 & \text{if } x_i \geq \bar{x} \\ 0 & \text{if } x_i < \bar{x} \end{cases} \quad (6)$$

The identifying assumption is again that treatment assignment is independent of outcomes $E(Y(1) - Y(0) \perp D | X = \bar{x})$.

Sharp RDD

The cutcoff at \bar{x} can be **sharp**

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



Sharp RDD

The cutcoff at \bar{x} can be **sharp**

- in which case there is no overlap on both sides of \bar{x}

Introduction

Instrumental Variables

intuition

formalities

technicalities

Regression Discontinuity

intuition

notation

examples

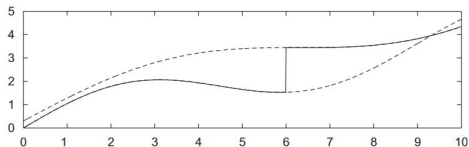
References



Sharp RDD

The cutoff at \bar{x} can be **sharp**

- in which case there is no overlap on both sides of \bar{x}
- we assume the outcomes would have been smooth in the absence of treatment (aka extrapolate a "bin" beyond the threshold)



Guido W. Imbens and Lemieux 2008

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

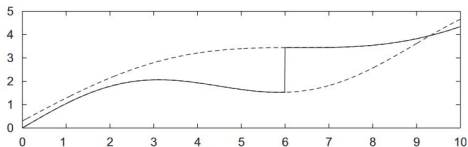
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Guido W. Imbens and Lemieux 2008

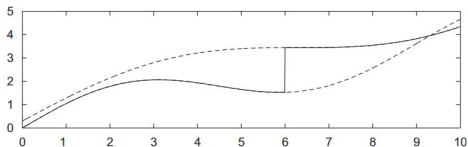
- and measure $\tau_{srd} = \lim_{x \rightarrow \bar{x}} E[Y(1)|X = x] - \lim_{x \leftarrow \bar{x}} E[Y(0)|X = x]$



Sharp RDD

The cutoff at \bar{x} can be **sharp**

- in which case there is no overlap on both sides of \bar{x}
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Guido W. Imbens and Lemieux 2008

- and measure $\tau_{srd} = \lim_{x \rightarrow \bar{x}} E[Y(1)|X = x] - \lim_{x \leftarrow \bar{x}} E[Y(0)|X = x]$
- D is not just correlated but a deterministic function of x (once we know x and \bar{x} , we know D)



estimator

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



estimator

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



RDD estimation

$$Y_i = \alpha_i + \beta X_{it} + \gamma t_i + \varepsilon_{it} \quad (7)$$

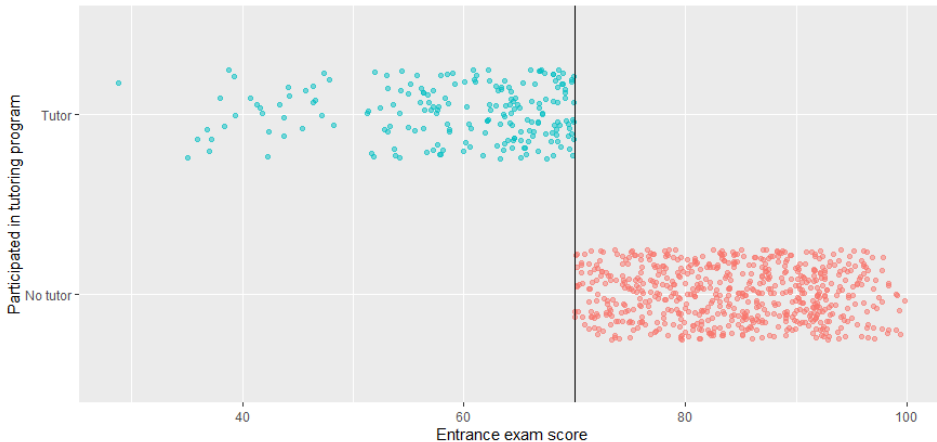
where t indicates treatment cutoff values \bar{x} :

$$t_i = \begin{cases} 1 & \text{if } x_i \geq \bar{x} \\ 0 & \text{if } x_i < \bar{x} \end{cases} \quad (8)$$

This would often include polynomial terms to allow for non-linear functional forms (but should not, cf. Gelman and Guido W Imbens 2019). Another typical approach is a local linear regression (which is displayed in the animation) or smoothing functions.

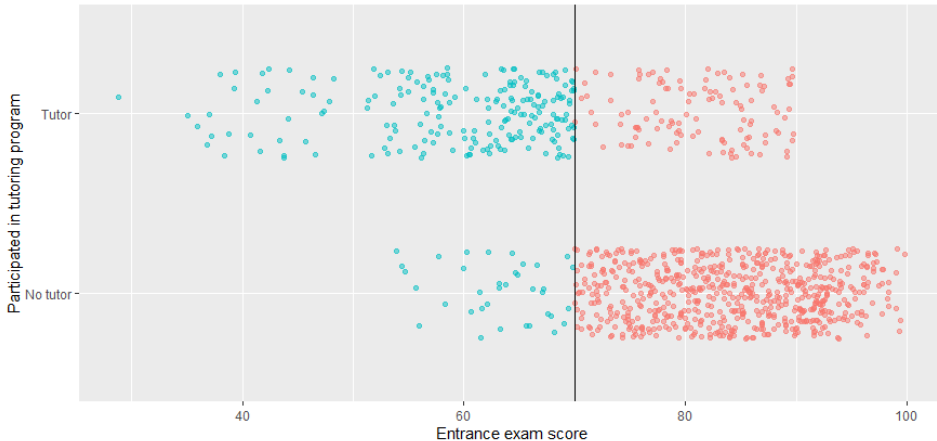
fuzzy RDD

Suppose the data did **not** look like this



fuzzy RDD

but rather looked like this



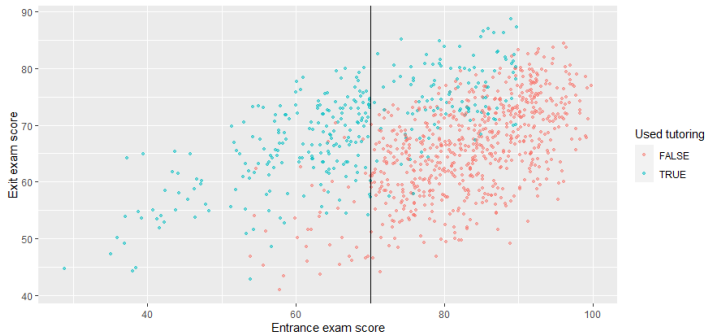
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fuzzy RDD

So we need to evaluate

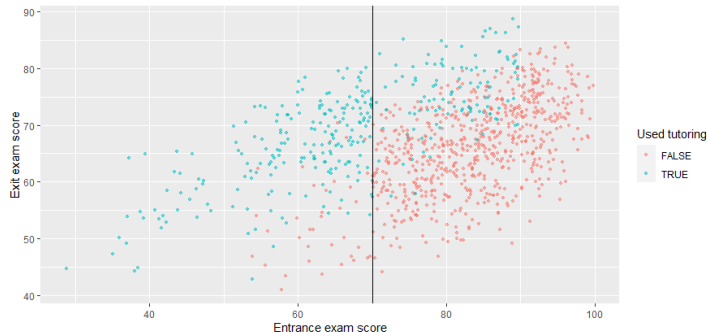


Heiss 2020



fuzzy RDD

So we need to evaluate



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This is literally an IV setting where a different probability on two sides of the cutoff predicts participation.



Fuzzy RDD

The cutcoff at \bar{x} is be **fuzzy**

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



Fuzzy RDD

The cutoff at \bar{x} is be **fuzzy**

- because of deniers or nevertakers etc, there is overlap on both sides of \bar{x}

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

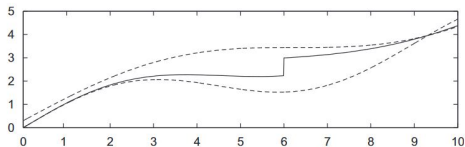
References



Fuzzy RDD

The cutoff at \bar{x} is be **fuzzy**

- because of deniers or nevertakers etc, there is overlap on both sides of \bar{x}
- probabilities differ: $\lim_{x \rightarrow \bar{x}} Pr(Y(1)|X = x) \neq \lim_{x \leftarrow \bar{x}} Pr(Y(0)|X = x)$



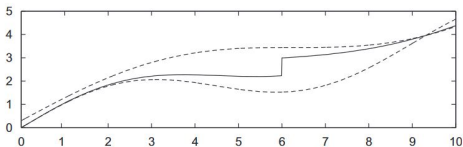
Guido W. Imbens and Lemieux 2008



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Guido W. Imbens and Lemieux 2008

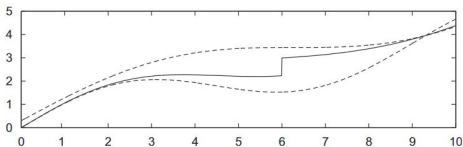
- if unconfounded, $\tau_{frdd} = E[Y(1)|D = 1, X = \bar{x}] - E[Y(0)|D = 1, X = \bar{x}]$



Fuzzy RDD

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Guido W. Imbens and Lemieux 2008

- if unconfounded, $\tau_{frdd} = E[Y(1)|D = 1, X = \bar{x}] - E[Y(0)|D = 1, X = \bar{x}]$
- which we can estimate with 2SLS, predicting D in first stage, plugging estimates into second stage

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

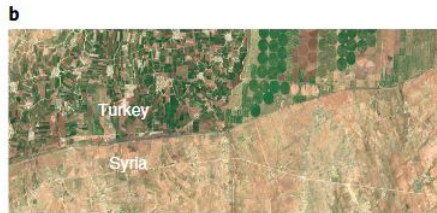
intuition
notation
examples

References



examples

There are discontinuities in space



Wuepper, Le Clech et al. 2020



examples

There are discontinuities in space

Introduction

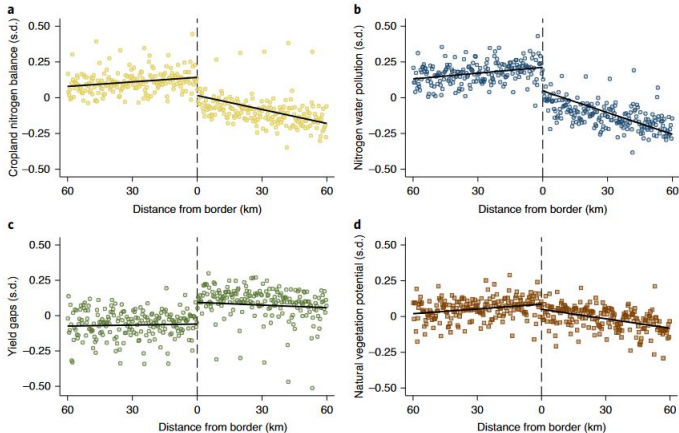
Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



examples

Time

Introduction

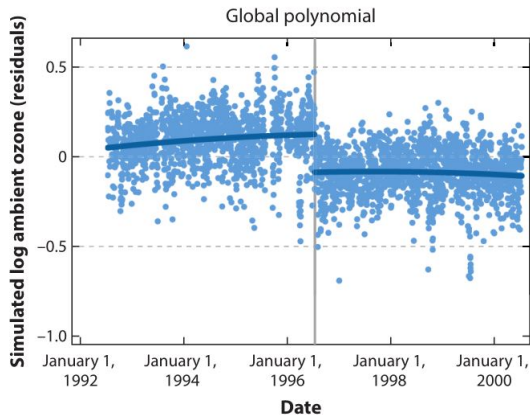
Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



Hausman and Rapson 2018



examples

Rules

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

The Causal Effect of Radical Right Success on Mainstream Parties' Policy Positions: A Regression Discontinuity Approach

TARIK ABOU-CHADI AND WERNER KRAUSE*

This article investigates how the success of radical right parties affects the policy positions of mainstream parties. We do this using a regression discontinuity approach that allows us to causally attribute mainstream parties' positional changes to radical right strength independent of public opinion as a potential confounder. Making use of exogenous variation created through differences in electoral thresholds, we empirically demonstrate that radical right success, indeed, causally affects mainstream parties' positions. This is true for mainstream left as well as mainstream right parties. These findings make an important contribution to the broader literature on party competition as they indicate that other parties' behavior and not only public opinion plays a crucial role in explaining parties' policy shift.

Keywords: radical right; party competition; immigration.

Abou-Chadi and Krause 2018



examples

Rules

Introduction

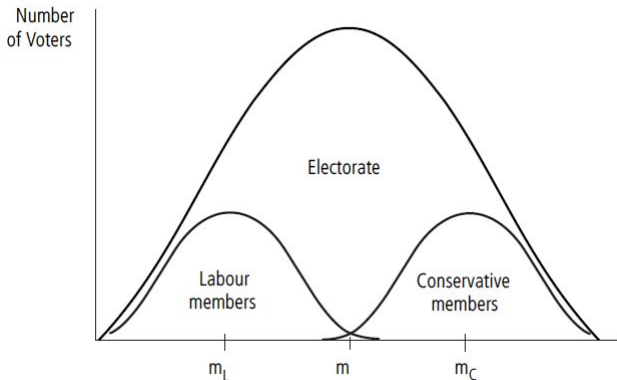
Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

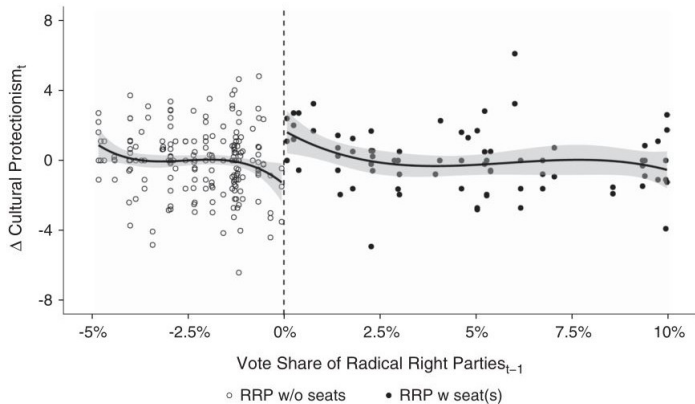


Hotelling-Downs Model of 2 Party Competition. Image Source: [Daniel Corradi Stevens](#)



examples

Rules



Mainstream party position on cultural position. Image source: Abou-Chadi and Krause 2018



examples

There can be kinks, aka slope shifts

Introduction

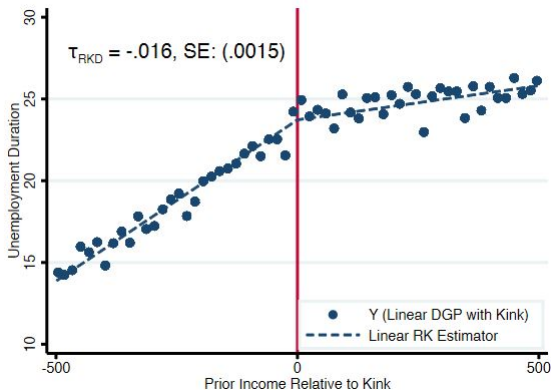
Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

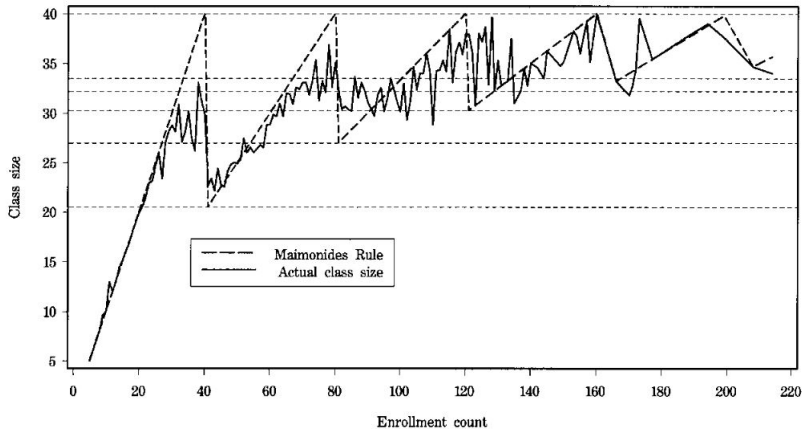


Ganong and Jäger 2018



examples

Multiple breaks

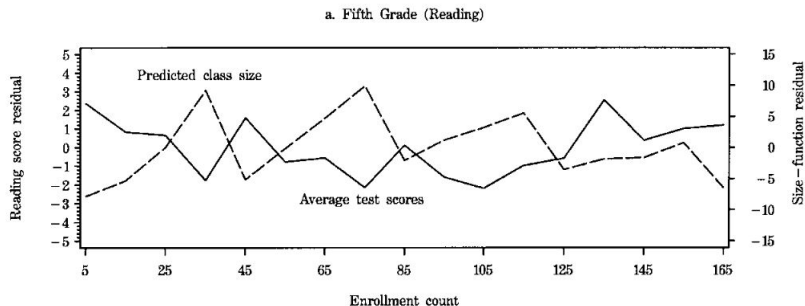


Angrist and Lay 1999
2021 ClimBEco course



examples

Multiple breaks



Angrist and Lavy 1999



software

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



available packages

- rdd
- rdrobust
- rdlocrand
- rddensity
- rdmulti
- rdpower

intermediate summary

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

Regression discontinuity designs

- identify a causal effect at a (quasi-)randomly occurring break point that introduces treatment
- are the youngest "classical" causal inference methods and seen as favorable
- use breaks that can occur in space, time, institutions, etc. pp.



References I

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

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References II

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

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Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References



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References IV

Introduction

Instrumental Variables

intuition
formalities
technicalities

Regression Discontinuity

intuition
notation
examples

References

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