

GSERM - Oslo 2018

Hierarchical / Multilevel Models

January 16, 2018 (morning session)

“Robust” Variance-Covariance Estimators

Linear Model: $\text{Var}(\hat{\beta})$ with $\mathbf{u}\mathbf{u}' = \sigma^2\Omega$:

$$\begin{aligned}\text{Var}(\beta_{\text{Het.}}) &= (\mathbf{X}'\mathbf{X})^{-1}(\mathbf{X}'\mathbf{W}^{-1}\mathbf{X})(\mathbf{X}'\mathbf{X})^{-1} \\ &= (\mathbf{X}'\mathbf{X})^{-1} \mathbf{Q} (\mathbf{X}'\mathbf{X})^{-1}\end{aligned}$$

where $\mathbf{Q} = (\mathbf{X}'\mathbf{W}^{-1}\mathbf{X})$ and $\mathbf{W} = \sigma^2\Omega$.

Rewrite:

$$\begin{aligned}\mathbf{Q} &= \sigma^2(\mathbf{X}'\Omega^{-1}\mathbf{X}) \\ &= \sum_{i=1}^N \sigma_i^2 \mathbf{x}_i \mathbf{x}_i'\end{aligned}$$

“Robust” Variance-Covariance Estimators

White's Insight:

$$\hat{\mathbf{Q}} = \sum_{i=1}^N \hat{u}_i^2 \mathbf{x}_i \mathbf{x}_i'$$

$$\begin{aligned} \widehat{\text{Var}}(\boldsymbol{\beta})_{\text{Robust}} &= (\mathbf{X}'\mathbf{X})^{-1}(\mathbf{X}'\hat{\mathbf{Q}}^{-1}\mathbf{X})(\mathbf{X}'\mathbf{X})^{-1} \\ &= (\mathbf{X}'\mathbf{X})^{-1} \left[\mathbf{X}' \left(\sum_{i=1}^N \hat{u}_i^2 \mathbf{x}_i \mathbf{x}_i' \right)^{-1} \mathbf{X} \right] (\mathbf{X}'\mathbf{X})^{-1} \end{aligned}$$

What about MLE?

Recall:

$$\begin{aligned}\text{Var}(\hat{\theta}) &= \text{E}[(\hat{\theta} - \theta)(\hat{\theta} - \theta)'] \\ &= \text{E} \left[\left(-\frac{\partial^2 \ln L}{\partial \theta^2} \right)^{-1} \frac{\partial \ln L}{\partial \theta} \frac{\partial \ln L'}{\partial \theta} \left(-\frac{\partial^2 \ln L}{\partial \theta^2} \right)^{-1} \right]\end{aligned}$$

We assumed:

$$\text{E} \left[\frac{\partial \ln L}{\partial \theta} \frac{\partial \ln L'}{\partial \theta} \right] = \text{E} \left[\frac{\partial^2 \ln L}{\partial \theta^2} \right]$$

So,

$$\begin{aligned}\text{Var}(\hat{\theta}) &= \left[-\text{E} \left(\frac{\partial^2 \ln L}{\partial \theta^2} \right) \right]^{-1} \\ &= [\mathbf{I}(\theta)]^{-1}\end{aligned}$$

Alternatively:

$$\text{Var}(\hat{\theta})_{\text{Robust}} = [\mathbf{I}(\theta)]^{-1} \left(\frac{\partial \ln L}{\partial \hat{\theta}} \frac{\partial \ln L'}{\partial \hat{\theta}} \right) [\mathbf{I}(\theta)]^{-1}$$

“Clustering”

Suppose N “clusters” $i = \{1, 2, \dots, N\}$, each with n_i observations $j = \{1, 2, \dots, n_i\}$.

Model:

$$Y_{ij} = \mathbf{X}_{ij}\beta + u_{ij}$$

Then:

$$\widehat{\text{Var}(\beta)}_{\text{Clustered}} = (\mathbf{X}'\mathbf{X})^{-1} \left\{ \mathbf{X}' \left[\sum_{i=1}^N \left(\sum_{j=1}^{n_i} \hat{u}_{ij}^2 \mathbf{X}_{ij} \mathbf{X}_{ij}' \right) \right]^{-1} \mathbf{X} \right\} (\mathbf{X}'\mathbf{X})^{-1}$$

“Regular” OLS:

```
> id<-seq(1,100,1) # 100 observations
> set.seed(7222009)
> x<-rnorm(100) # N(0,1) noise
> y<-1+1*x+rnorm(100)*abs(x)
> library(rms)
> fit<-ols(y~x,x=TRUE,y=TRUE)
> fit
```

Linear Regression Model

```
ols(formula = y ~ x, x = TRUE, y = TRUE)
```

		Model Likelihood	Discrimination
		Ratio Test	Indexes
Obs	100	LR chi2 61.54	R2 0.460
sigma	0.9538	d.f. 1	R2 adj 0.454
d.f.	98	Pr(> chi2) 0.0000	g 1.002

Residuals

	Min	1Q	Median	3Q	Max
	-3.27767	-0.54898	0.09069	0.35771	2.95014

	Coef	S.E.	t	Pr(> t)
Intercept	0.8867	0.0954	9.30	<0.0001
x	0.8822	0.0966	9.13	<0.0001

Further Illustration: “Robust” \hat{V}

```
> RVCV<-robcov(fit)
> RVCV
```

Linear Regression Model

```
ols(formula = y ~ x, x = TRUE, y = TRUE)

              Model Likelihood      Discrimination
              Ratio Test              Indexes
Obs          100    LR chi2      61.54    R2          0.460
sigma 0.9538    d.f.           1    R2 adj    0.454
d.f.          98    Pr(> chi2) 0.0000    g          1.002
```

Residuals

	Min	1Q	Median	3Q	Max
	-3.27767	-0.54898	0.09069	0.35771	2.95014

	Coef	S.E.	t	Pr(> t)
Intercept	0.8867	0.0943	9.41	<0.0001
x	0.8822	0.1352	6.52	<0.0001

Attack of the Clones

```
> bigID<-rep(id,16)
> bigX<-rep(x,16)
> bigY<-rep(y,16)
> bigdata<-as.data.frame(cbind(bigID,bigY,bigX))
> bigOLS<-ols(bigY~bigX,data=bigdata,x=TRUE,y=TRUE)
> bigOLS
```

Linear Regression Model

```
ols(formula = bigY ~ bigX, data = bigdata, x = TRUE, y = TRUE)
```

		Model Likelihood	Discrimination
		Ratio Test	Indexes
Obs	1600	LR chi2	984.69
		R2	0.460
sigma	0.9448	d.f.	1
		R2 adj	0.459
d.f.	1598	Pr(> chi2)	0.0000
		g	0.993

Residuals

	Min	1Q	Median	3Q	Max
	-3.27767	-0.54898	0.09069	0.35771	2.95014

	Coef	S.E.	t	Pr(> t)
Intercept	0.8867	0.0236	37.54	<0.0001
bigX	0.8822	0.0239	36.86	<0.0001

Peter and Hal To The Rescue

```
> BigRVCV<-robcov(bigOLS,bigdata$bigID)
> BigRVCV
```

Linear Regression Model

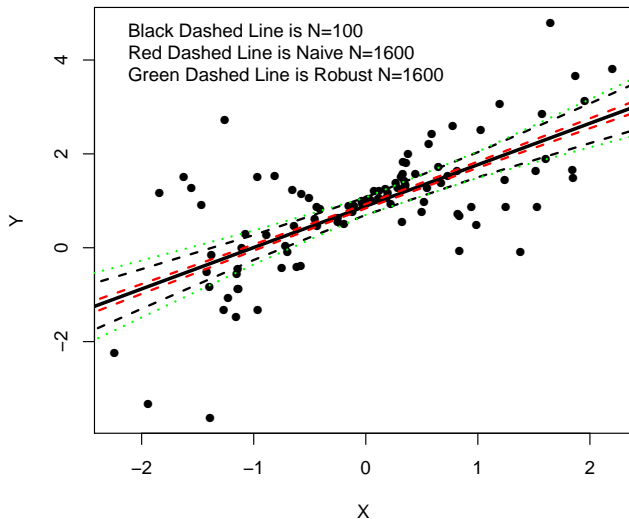
```
ols(formula = bigY ~ bigX, data = bigdata, x = TRUE, y = TRUE)
              Model Likelihood      Discrimination
              Ratio Test              Indexes
Obs              1600      LR chi2      984.69      R2      0.460
sigma              0.9448      d.f.      1      R2 adj  0.459
d.f.              1598      Pr(> chi2) 0.0000      g      0.993
Cluster on bigdata$bigID
Clusters              100
```

Residuals

	Min	1Q	Median	3Q	Max
	-3.27767	-0.54898	0.09069	0.35771	2.95014

	Coef	S.E.	t	Pr(> t)
Intercept	0.8867	0.0943	9.41	<0.0001
bigX	0.8822	0.1352	6.52	<0.0001

Illustrated...



‘Robust’ Variance Estimators: Cautions

- Are *only* consistent (Chesher and Jewitt 1987)
- Efficiency loss if homoscedastic (Kauermann and Carroll 2001)
- “Even if the key assumption holds, bias should be of greater interest than variance, especially when the sample is large and causal inferences are based on a model that is incorrectly specified. Variances will be small, and bias may be large.” (Freedman 2006)

Things you should read...

Freedman, D. A. 2006. "On the So-Called 'Huber Sandwich Estimator' and 'Robust' Standard Errors." *The American Statistician* 60:299-302.

Huber, P. J. 1967. "The Behavior of Maximum Likelihood Estimates under Nonstandard Conditions." *Proceedings of the Fifth Berkeley Symposium on Mathematical Statistics and Probability* 1:221-33.

White, H. 1994. *Estimation, Inference, and Specification Analysis*. New York: Cambridge University Press.

HLM Starting Points

Begin by considering a two-level “nested” data structure, with:

$$\begin{aligned} i &\in \{1, 2, \dots, N\} \text{ indexing first-level units, and} \\ j &\in \{1, 2, \dots, J\} \text{ indexing second-level groups.} \end{aligned}$$

A general two-level HLM is an equation of the form:

$$Y_{ij} = \beta_{0j} + \mathbf{X}_{ij}\beta_j + u_{ij} \tag{1}$$

where β_{0j} is a “constant” term, \mathbf{X}_{ij} is a $NJ \times K$ matrix of K covariates, β_j is a $K \times 1$ vector of parameters, and $u_{ij} \sim \text{i.i.d. } N(0, \sigma_u^2)$ is the usual random-disturbance assumption.

Each of these $K + 1$ “level-one” parameters is then allowed to vary across Q “level-two” variables \mathbf{Z}_j , so that:

$$\beta_{0j} = \gamma_{00} + \mathbf{Z}_j\gamma_0 + \varepsilon_{0j} \quad (2)$$

for the “intercept” and

$$\beta_{kj} = \gamma_{k0} + \mathbf{Z}_j\gamma_k + \varepsilon_{kj} \quad (3)$$

for the “slopes” of \mathbf{X} . The ε s are typically assumed to be distributed multivariate Normal, with parameters for the variances and covariances selected by the analyst. Substitution of (3) and (2) into (1) yields:

$$Y_{ij} = \gamma_{00} + \mathbf{Z}_j\gamma_0 + \mathbf{X}_{ij}\gamma_{k0} + \mathbf{X}_{ij}\mathbf{Z}_j\gamma_k + \mathbf{X}_{ij}\varepsilon_{kj} + \varepsilon_{0j} + u_{ij} \quad (4)$$

The form is essentially one of a model with “saturated” interaction effects across the various levels, as well as “errors” which are multivariate Normal.

- Linearity / Additivity
- Normality of u s
- Homoscedasticity
- Residual Independence:
 - $\text{Cov}(\varepsilon_{.j}, u_{ij}) = 0$
 - $\text{Cov}(u_{ij}, u_{i\ell}) = 0$

Two main alternatives:

- MLE
- “Restricted” MLE (“RMLE”)
- Choosing:
 - MLE is biased in small samples, especially for estimating variance effects.
 - RMLE is not, but prevents use of LR tests when the models do not have identical fixed effects.
 - In general: RMLE is better with small sample sizes, but MLE is fine in larger ones.

An Example: HIV Death Rates, 1990-2007

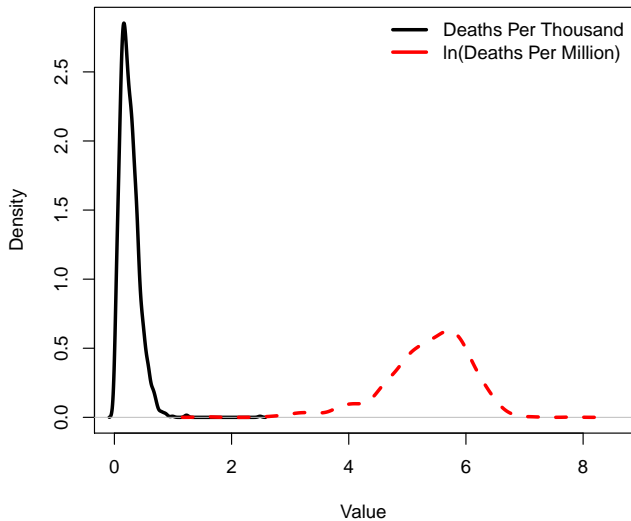
```
> temp<-getURL("https://raw.githubusercontent.com/PrisonRodeo/GSERM-Oslo-2018-git/master/Data/HIVDeaths.csv")
> HIV<-read.csv(text=temp, header=TRUE)
> HIV<-HIV[ which(is.na(HIV$HIVDeathRate)==FALSE), ]
> HIV$LnDeathPM <- log(HIV$HIVDeathRate*1000)
> summary(HIV)
```

country	ISO3	year	HIVDeathRate
Angola : 18	AGO : 18	Min. :1990	Min. :0.00478
Argentina: 18	ARG : 18	1st Qu.:1995	1st Qu.:0.14429
Australia: 18	AUS : 18	Median :2000	Median :0.23303
Benin : 18	BDI : 18	Mean :1999	Mean :0.26126
Botswana : 18	BEN : 18	3rd Qu.:2004	3rd Qu.:0.34889
Brazil : 18	BFA : 18	Max. :2007	Max. :2.48542
(Other) :1540	(Other):1540		

CivilWarDummy	OPENLag	GDPGrowthLag	POLITYLag
Min. :0.000	Min. : 1.09	Min. : -62.368	Min. : -10.00
1st Qu.:0.000	1st Qu.: 44.31	1st Qu.: -0.458	1st Qu.: -4.00
Median :0.000	Median : 61.21	Median : 1.961	Median : 6.00
Mean :0.181	Mean : 74.29	Mean : 1.899	Mean : 2.97
3rd Qu.:0.000	3rd Qu.: 97.37	3rd Qu.: 4.428	3rd Qu.: 9.00
Max. :1.000	Max. :456.56	Max. : 88.748	Max. :10.00
	NA's :30	NA's :32	NA's :63

POLITYSQLag	InterstateWarLag	PolityLag	BatDeaths1000Lag
Min. : 0.0	Min. :0.00000	Min. : 0	Min. : 0.000
1st Qu.: 25.0	1st Qu.:0.00000	1st Qu.: 6	1st Qu.: 0.000
Median : 49.0	Median :0.00000	Median :16	Median : 0.000
Mean : 49.5	Mean :0.00364	Mean :13	Mean : 0.264
3rd Qu.: 81.0	3rd Qu.:0.00000	3rd Qu.:19	3rd Qu.: 0.000
Max. :100.0	Max. :1.00000	Max. :20	Max. :30.239
NA's :63		NA's :63	

GDPLogK	LnDeathPM
Min. : 0.153	Min. :1.57
1st Qu.: 1.576	1st Qu.:4.97
Median : 5.011	Median :5.45
Mean : 8.582	Mean :5.35
3rd Qu.:10.265	3rd Qu.:5.85
Max. :42.683	Max. :7.82
NA's :30	



```

> OLSfit<-with(HIV, lm(LnDeathPM~GDPLagK+GDPGrowthLag+
+                      OPENLag+POLITYLag+POLITYSQLag+CivilWarDummy+
+                      InterstateWarLag+BatDeaths1000Lag))
> summary(OLSfit)

Call:
lm(formula = LnDeathPM ~ GDPLagK + GDPGrowthLag + OPENLag + POLITYLag +
    POLITYSQLag + CivilWarDummy + InterstateWarLag + BatDeaths1000Lag)

Residuals:
    Min       1Q   Median       3Q      Max
-3.940 -0.388  0.095  0.447  1.953

Coefficients:
            Estimate Std. Error t value    Pr(>|t|)
(Intercept)   5.493740   0.044516  123.41 < 2e-16 ***
GDPLagK      -0.027965   0.002509  -11.15 < 2e-16 ***
GDPGrowthLag -0.002261   0.002430   -0.93  0.3524
OPENLag       0.001972   0.000368    5.35 0.000000099 ***
POLITYLag     0.010009   0.003356    2.98  0.0029 **
POLITYSQLag  -0.002182   0.000734   -2.97  0.0030 **
CivilWarDummy  0.051862   0.047026    1.10  0.2703
InterstateWarLag 0.129922  0.283361    0.46  0.6467
BatDeaths1000Lag -0.024675  0.011732   -2.10  0.0356 *
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.651 on 1548 degrees of freedom
(91 observations deleted due to missingness)
Multiple R-squared:  0.177, Adjusted R-squared:  0.173
F-statistic: 41.7 on 8 and 1548 DF,  p-value: <2e-16

```

Fixed Effects

```
> FEfit<-plm(LnDeathPM~GDPLagK+GDPGrowthLag+OPENLag+POLITYLag+POLITYSQLag+CivilWarDummy+
+           InterstateWarLag+BatDeaths1000Lag,data=HIV,effect="individual", model="within",
+           index=c("IS03","year"))
> summary(FEfit)
Oneway (individual) effect Within Model
```

Call:

```
plm(formula = LnDeathPM ~ GDPLagK + GDPGrowthLag + OPENLag +
POLITYLag + POLITYSQLag + CivilWarDummy + InterstateWarLag +
BatDeaths1000Lag, data = HIV, effect = "individual", model = "within",
index = c("IS03", "year"))
```

Unbalanced Panel: n=117, T=1-18, N=1557

Coefficients :

	Estimate	Std. Error	t-value	Pr(> t)
GDPLagK	-0.0987550	0.0094605	-10.439	< 2e-16 ***
GDPGrowthLag	0.0045675	0.0020894	2.186	0.029 *
OPENLag	0.0077044	0.0009468	8.138	8.67e-16 ***
POLITYLag	0.0505600	0.0051147	9.885	< 2e-16 ***
POLITYSQLag	-0.0006743	0.0009589	-0.703	0.482
CivilWarDummy	0.0751139	0.0534712	1.405	0.160
InterstateWarLag	-0.3030380	0.2396271	-1.265	0.206
BatDeaths1000Lag	0.0004229	0.0103239	0.041	0.967

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Total Sum of Squares: 445.6

Residual Sum of Squares: 378.6

R-Squared: 0.1505

Adj. R-Squared: 0.1384

F-statistic: 31.7023 on 8 and 1432 DF, p-value: < 2.2e-16

Random Effects (using lmer)

```
> REfit<-lmer(LnDeathPM~GDPLagK+GDPGrowthLag+OPENLag+POLITYLag+POLITYSQLag+CivilWarDummy+
+             InterstateWarLag+BatDeaths1000Lag+(1|IS03),data=HIV,REML=FALSE)
```

```
> summary(REfit)
```

Linear mixed model fit by maximum likelihood ['lmerMod']

Formula:

```
LnDeathPM ~ GDPLagK + GDPGrowthLag + OPENLag + POLITYLag + POLITYSQLag +
```

```
  CivilWarDummy + InterstateWarLag + BatDeaths1000Lag + (1 | IS03)
```

Data: HIV

AIC	BIC	logLik	deviance	df.resid
2698.9	2757.7	-1338.4	2676.9	1546

Random effects:

Groups	Name	Variance	Std.Dev.
IS03	(Intercept)	0.265	0.515
Residual		0.270	0.520

Number of obs: 1557, groups: IS03, 117

Fixed effects:

	Estimate	Std. Error	t value
(Intercept)	5.272156	0.086694	60.8
GDPLagK	-0.050509	0.005092	-9.9
GDPGrowthLag	0.002749	0.002077	1.3
OPENLag	0.004776	0.000706	6.8
POLITYLag	0.044502	0.004565	9.7
POLITYSQLag	-0.000964	0.000888	-1.1
CivilWarDummy	0.060362	0.052101	1.2
InterstateWarLag	-0.251942	0.240937	-1.0
BatDeaths1000Lag	-0.003502	0.010331	-0.3

Correlation of Fixed Effects:

	(Intr)	GDPLgK	GDPGrL	OPENLg	POLITYL	POLITYS	CvlWrD	IntrWL
GDPLagK		-0.172						
GDPGrowthLg	-0.032	-0.051						
OPENLag	-0.554	-0.222	-0.015					
POLITYLag	-0.047	-0.222	0.002	0.017				
POLITYSQLag	-0.373	-0.341	0.000	0.054	-0.051			
CivilWrDmmy	-0.194	-0.002	0.076	0.074	0.126	0.060		
IntrsttWrLg	-0.005	0.014	-0.025	-0.009	-0.028	0.013	0.023	
BtDths1000L	-0.045	-0.013	0.129	0.044	0.056	-0.019	-0.105	-0.329

HLM with Random β for GDP

```
> HLMfit1<-lmer(LnDeathPM~GDPLagK+(GDPLagK|ISO3)+GDPGrowthLag+OPENLag+POLITYLag+POLITYSQLag+CivilWarDummy+
+ InterstateWarLag+BatDeaths1000Lag,data=HIV,REML=FALSE)
> summary(HLMfit1)
Linear mixed model fit by maximum likelihood ['lmerMod']
Formula:
LnDeathPM ~ GDPLagK + (GDPLagK | ISO3) + GDPGrowthLag + OPENLag + POLITYLag + POLITYSQLag + CivilWarDummy +
InterstateWarLag + BatDeaths1000Lag
Data: HIV
```

AIC	BIC	logLik	deviance	df.resid
2298.8	2368.4	-1136.4	2272.8	1544

Random effects:

Groups	Name	Variance	Std.Dev.	Corr
ISO3	(Intercept)	9.168	3.028	
	GDPLagK	0.200	0.447	-0.74
Residual		0.136	0.369	

Number of obs: 1557, groups: ISO3, 117

Fixed effects:

	Estimate	Std. Error	t value
(Intercept)	4.791024	0.302393	15.84
GDPLagK	0.155304	0.048233	3.22
GDPGrowthLag	0.000872	0.001555	0.56
OPENLag	0.005995	0.000834	7.19
POLITYLag	0.039930	0.003959	10.09
POLITYSQLag	-0.003896	0.000770	-5.06
CivilWarDummy	0.009747	0.040489	0.24
InterstateWarLag	-0.261331	0.178583	-1.46
BatDeaths1000Lag	0.013020	0.007920	1.64

Correlation of Fixed Effects:

	(Intr)	GDPLgK	GDPGrL	OPENLg	POLITYL	POLITYS	CvlWrD	IntrWL
GDPLagK	-0.686							
GDPGrowthLg	0.018	-0.067						
OPENLag	-0.120	-0.085	0.002					
POLITYLag	-0.018	-0.033	-0.007	-0.074				
POLITYSQLag	-0.084	-0.055	0.002	-0.019	0.039			
CivilWrDmmy	-0.041	-0.004	0.080	0.025	0.101	0.052		
IntrsttWrLg	-0.009	0.005	-0.020	0.018	-0.039	0.017	0.019	
BtDths1000L	-0.009	-0.008	0.101	0.065	0.063	-0.052	-0.095	-0.353

```
> anova(REfit,HLMfit1)
```

```
Data: HIV
```

```
Models:
```

```
REfit: LnDeathPM ~ GDPLagK + GDPGrowthLag + OPENLag + POLITYLag + POLITYSQLag +
```

```
REfit: CivilWarDummy + InterstateWarLag + BatDeaths1000Lag + (1 |
```

```
REfit: IS03)
```

```
HLMfit1: LnDeathPM ~ GDPLagK + (GDPLagK | IS03) + GDPGrowthLag + OPENLag +
```

```
HLMfit1: POLITYLag + POLITYSQLag + CivilWarDummy + InterstateWarLag +
```

```
HLMfit1: BatDeaths1000Lag
```

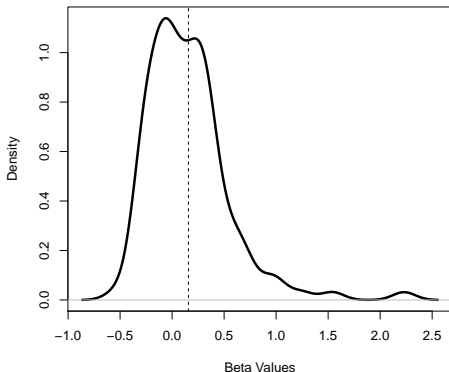
	Df	AIC	BIC	logLik	deviance	Chisq	Chi	Df	Pr(>Chisq)
REfit	11	2699	2758	-1338	2677				
HLMfit1	13	2299	2368	-1136	2273	404.1		2	<2e-16 ***

```
---
```

```
Signif. codes:  0 *** 0.001 ** 0.01 * 0.05 . 0.1 1
```

Random Coefficients

```
> Bs<-data.frame(coef(HLMfit1)[1])
>
> head(Bs)
      IS03..Intercept. IS03.GDPLagK IS03.GDPGrowthLag IS03.OPENLag
AGO          3.96339    0.3234238    0.000869237    0.00598492
ARG          3.57905    0.1164726    0.000869237    0.00598492
ARM          5.07487    0.1142131    0.000869237    0.00598492
AUS          9.97544   -0.1999752    0.000869237    0.00598492
AUT          7.08153   -0.0845660    0.000869237    0.00598492
AZE          3.80985    0.0133378    0.000869237    0.00598492...
>
> mean(Bs$IS03.GDPLagK)
[1] 0.156798
```



Wrap-Up & Extensions

- Can expand to 3- and 4- and higher-level models (e.g., students in classrooms in schools in districts)
- Cross-Level Interactions...
- Widely used in education, psychology, ecology, etc. (less so in economics, political science)
- There are many, many excellent books, websites, etc. that address HLMs