Econ 722 – Advanced Econometrics IV, Part II

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Lecture #1 – AIC-type Information Criteria

Kullback-Leibler (KL) Divergence

Motivation

How well does a given density $f(y)$ approximate an unknown true density $g(y)$? Use this to select between parametric models.

Definition

$$\text{KL}(g; f) = \underbrace{\mathbb{E}_G\left[\log\left\{\frac{g(Y)}{f(Y)}\right\}\right]}_{\text{True density on top}} = \underbrace{\mathbb{E}_G\left[\log g(Y)\right]}_{\substack{\text{Depends only on truth} \\ \text{Fixed across models}}} - \underbrace{\mathbb{E}_G\left[\log f(Y)\right]}_{\substack{\text{Expected} \\ \text{log-likelihood}}}$$

Properties

- *Not* symmetric: $\text{KL}(g; f) \neq \text{KL}(f; g)$
- By Jensen's Inequality: $\text{KL}(g; f) \geq 0$ (strict iff $g = f$ a.e.)
- Minimize KL $\iff$ Maximize Expected log-likelihood

KL Divergence and Mis-specified MLE

Pseudo-true Parameter Value θ_0

$$\widehat{\theta}_{MLE} \xrightarrow{p} \theta_0 \equiv \underset{\theta \in \Theta}{\arg\min}\ \mathrm{KL}(g; f_\theta) = \underset{\theta \in \Theta}{\arg\max}\ \mathbb{E}_G[\log f(Y|\theta)]$$

What if f_θ is correctly specified?

If $g = f_\theta$ for some θ then $\mathrm{KL}(g; f_\theta)$ is minimized at zero.

Goal: Compare Mis-specified Models

$$\mathbb{E}_G\left[\log f(Y|\theta_0)\right] \qquad \text{versus} \qquad \mathbb{E}_G\left[\log h(Y|\gamma_0)\right]$$

where θ_0 is the pseudo-true parameter value for f_θ and γ_0 is the pseudo-true parameter value for h_γ.

How to Estimate Expected Log Likelihood?

For simplicity: $Y_1, \ldots, Y_n \sim$ iid $g(y)$

Unbiased but Infeasible

$$\mathbb{E}_G \left[\frac{1}{T} \ell(\theta_0) \right] = \mathbb{E}_G \left[\frac{1}{T} \sum_{t=1}^{T} f(Y_t|\theta_0) \right] = \mathbb{E}_G \left[f(Y|\theta_0) \right]$$

Biased but Feasible

$T^{-1}\ell(\widehat{\theta}_{MLE})$ is a biased estimator of $\mathbb{E}_G[\log f(Y|\theta_0)]$.

Intuition for the Bias

$T^{-1}\ell(\widehat{\theta}_{MLE}) > T^{-1}\ell(\theta_0)$ unless $\widehat{\theta}_{MLE} = \theta_0$. Maximized sample log-like. is an overly optimistic estimator of expected log-like.

What to do about this bias?

1. General-purpose asymptotic approximation of "degree of over-optimism" of maximized sample log-likelihood.
   - Takeuchi's Information Criterion (TIC)
   - Akaike's Information Criterion (AIC)
2. Problem-specific finite sample approach, assuming $g \in f_\theta$.
   - Corrected AIC (AIC_c) of Hurvich and Tsai (1989)

Tradeoffs

TIC is most general and makes weakest assumptions, but requires very large T to work well. AIC is a good approximation to TIC that requires less data. Both AIC and TIC perform poorly when T is small relative to the number of parameters, hence AIC_c.

Recall: Asymptotics for Mis-specified ML Estimation

Model $f(y|\theta)$, pseudo-true parameter θ_0. For simplicity $Y_1, \ldots, Y_T \sim$ iid $g(y)$.

Fundamental Expansion

$$\sqrt{T}(\widehat{\theta} - \theta_0) = J^{-1}\left(\sqrt{T}\bar{U}_T\right) + o_p(1)$$

$$J = -\mathbb{E}_G\left[\frac{\partial \log f(Y|\theta_0)}{\partial\theta\partial\theta'}\right], \quad \bar{U}_T = \frac{1}{T}\sum_{t=1}^{T}\frac{\partial \log f(Y_t)}{\partial\theta}$$

Central Limit Theorem

$$\sqrt{T}\bar{U}_T \to_d U \sim N_p(0, K), \quad K = \text{Var}_G\left[\frac{\partial \log f(Y|\theta_0)}{\partial\theta}\right]$$

$$\sqrt{T}(\widehat{\theta} - \theta_0) \to_d J^{-1}U \sim N_p(0, J^{-1}KJ^{-1})$$

Information Matrix Equality

If $g = f_\theta$ for some $\theta \in \Theta$ then $K = J \implies \text{AVAR} = J^{-1}$

Bias Relative to Infeasible Plug-in Estimator

Definition of Bias Term B

$$B = \underbrace{\frac{1}{T}\ell(\widehat{\theta})}_{\substack{\text{feasible} \\ \text{overly-optimistic}}} - \underbrace{\int g(y) \log f(y|\widehat{\theta}) \, dy}_{\substack{\text{uses data only once} \\ \text{infeas. not overly-optimistic}}}$$

Question to Answer

On average, over the sampling distribution of $\widehat{\theta}$, how large is B?

AIC and TIC construct an asymptotic approximation of $\mathbb{E}[B]$.

Derivation of AIC/TIC

Step 1: Taylor Expansion

$$B = \bar{Z}_T + (\widehat{\theta} - \theta_0) + (\widehat{\theta} - \theta_0)' J (\widehat{\theta} - \theta_0) + o_p(T^{-1})$$

$$\bar{Z}_T = \frac{1}{T} \sum_{t=1}^{T} \{\log f(Y_t|\theta_0) - \mathbb{E}_G[\log f(Y|\theta_0)\}$$

Step 2: $\mathbb{E}[\bar{Z}_T] = 0$

$$\mathbb{E}[B] \approx \mathbb{E}\left[(\widehat{\theta} - \theta_0)' J (\widehat{\theta} - \theta_0)\right]$$

Step 3: $\sqrt{T}(\widehat{\theta} - \theta_0) \to_d J^{-1} U$