

Alternative Approaches to Causal Inference

These notes do not come from the textbook and are primarily geared towards answering (i) how should you interpret regressions under treatment effect heterogeneity? and (ii) what are some alternative approaches to estimation besides linear regression that might be useful in this context?

Interpreting Regressions under Treatment Effect Heterogeneity

Very early on in the semester, we thought some about why one would want to use a regression in order to try to answer research questions — where research questions typically involve trying to answer “causal” questions when the researcher had access to observational data.

For simplicity (and somewhat for simplicity), I’ll mainly consider the case with a binary treatment. In that context, we made the following three main assumptions:

- Unconfoundedness: $Y(0) \perp D|X$
- Treatment Effect Homogeneity: $Y_i(1) - Y_i(0) = \alpha$ for all units
- Linear model for untreated potential outcomes: $Y_i(0) = X_i'\beta + e_i$.

In this context, we showed that you could run the following regression:

$$Y_i = \alpha D_i + X_i'\beta + e_i$$

and interpret α as an estimate of the causal effect of D on Y .

For this section, I would like to maintain the unconfoundedness assumption while thinking about relaxing the treatment effect homogeneity and (sometimes) the linear model assumptions.

As a reminder, recall that ATT is identified in this context:

$$\begin{aligned} ATT &= E[Y(1) - Y(0)|D = 1] \\ &= E[Y|D = 1] - E[E[Y(0)|X, D = 1]|D = 1] \\ &= E[Y|D = 1] - E[E[Y(0)|X, D = 0]|D = 1] \end{aligned} \tag{1}$$

where the first equality holds by the definition of ATT , the second equality by the law of iterated expectations, and the last equality by unconfoundedness.

For the arguments below about interpreting regressions, it will be helpful to write down some notation for the linear projection of Y on X , and the linear projection of D on X :

$$\begin{aligned} Y &= X'\gamma_Y + u_Y \\ D &= X'\gamma_D + u_D \end{aligned}$$

Sometimes, I’ll also use notation like $L(Y|X)$ to denote the linear projection of Y on X (so that, in this context, $L(Y|X) = X'\gamma_Y$).

Using population versions Frisch-Waugh types of arguments (recall that we discussed this earlier in the semester on the last page here), we have that

$$\alpha = \frac{E[Du_Y]}{E[u_D^2]}$$

To start with, let's consider the numerator. We have that

$$\begin{aligned} E[Du_Y] &= E[D(Y - L(Y|X))] \\ &= E[D(Y - E[Y|X])] + E[D(E[Y|X] - L(Y|X))] \\ &=: A + B \end{aligned}$$

where the first equality holds by the definition of u_Y , and the second equality just adds and subtracts $E[DE[Y|X]]$.

Now, let's further consider each of these terms.

$$\begin{aligned} A &= E[E[DY|X] - p(X)E[Y|X]] \\ &= E[E[Y|X, D = 1]p(X) - p(X)(E[Y|X, D = 1]p(X) + E[Y|X, D = 0](1 - p(X)))] \\ &= E[p(X)(1 - p(X))(E[Y|X, D = 1] - E[Y|X, D = 0])] \\ &= E[E[D](1 - p(X))(E[Y|X, D = 1] - E[Y|X, D = 0])|D = 1] \\ &= E[E[D](1 - p(X))ATT(X)|D = 1] \end{aligned}$$

where the first equality holds by the law of iterated expectations, the second equality holds by the law of iterated expectations applied both to the first and second terms, the third equality holds by rearranging terms. To see the fourth equality, notice that we are averaging a function (for simplicity called g below) over X , which we can write as

$$\begin{aligned} \int g(x) f(x) dx &= \int g(x) \frac{f(x)}{f(x|D = 1)} f(x|D = 1) dx \\ &= \int g(x) \frac{f(x)p(D = 1)}{p(D = 1|X = x)f(x)} f(x|D = 1) dx \end{aligned}$$

where the second equality holds by applying the definition of conditional probability twice (and because $p(D = 1) = E[D]$). The fifth equality holds by unconfoundedness.

For term B, first, there is a law of iterated projections (broadly similar to the law of iterated expectations) that implies that: $L(Y|X) = L(Y|X, D = 1)L(D|X) + L(Y|X, D = 0)(1 - L(D|X))$ which we use below.

$$\begin{aligned}
B &= E \left[E[Y|X] - L(Y|X) \middle| D = 1 \right] E[D] \\
&= E \left[\left(E[Y|X, D = 1]p(X) + E[Y|X, D = 0](1 - p(X)) \right) \right. \\
&\quad \left. - \left(L(Y|X, D = 1)L(D|X) + L(Y|X, D = 0)(1 - L(D|X)) \right) \middle| D = 1 \right] E[D] \\
&= E \left[\left(E[Y|X, D = 1] - L(Y|X, D = 1) \right) p(X) + \left(E[Y|X, D = 0] - L(Y|X, D = 0) \right) (1 - p(X)) \right. \\
&\quad \left. - \left(L(Y|X, D = 1) - L(Y|X, D = 0) \right) (L(D|X) - p(X)) \middle| D = 1 \right] E[D]
\end{aligned}$$

where the first equality holds by the law of iterated expectations, the second equality holds by the law of iterated expectations and the law of iterated projections, and the last equality holds by adding and subtracting $L(Y|X, D = 1)p(X)$ and $L(Y|X, D = 0)(1 - p(X))$ and rearranging terms.

Finally, consider the denominator in the expression for α . You can show that $E[DL(D|X)] = E[L(D|X)^2]$ (by just plugging in the definition of $L(D|X)$ and simplifying), and therefore

$$\begin{aligned}
E[u_D^2] &= E[(D - L(D|X))^2] \\
&= E[D - 2DL(D|X) + L(D|X)^2] \\
&= E[D(1 - L(D|X))] \\
&= E[1 - L(D|X)|D = 1]E[D]
\end{aligned}$$

Let's put all of this back together. We now have that

$$\alpha = E[w_1(X)ATT(X)|D = 1] \tag{2}$$

$$+ E[w_{2a}(X)(E[Y|X, D = 1] - L(Y|X, D = 1))|D = 1] \tag{3}$$

$$+ E[w_{2b}(X)(E[Y|X, D = 0] - L(Y|X, D = 0))|D = 1] \tag{4}$$

$$+ E[w_3(X)(L(Y|X, D = 1) - L(Y|X, D = 0))|D = 1] \tag{5}$$

where

$$w_1(X) = \frac{1 - p(X)}{E[1 - L(D|X)|D = 1]}$$

$$w_{2a}(X) = \frac{p(X)}{E[1 - L(D|X)|D = 1]}$$

$$w_{2b}(X) = \frac{1 - p(X)}{E[1 - L(D|X)|D = 1]}$$

$$w_3(X) = \frac{p(X) - L(D|X)}{E[1 - L(D|X)|D = 1]}$$

This is an interesting, but perhaps confusing result. Equation 2 is roughly a weighted average of conditional ATT 's. Equations 3 and 4 can be thought of as bias terms due when those conditional expectations are potentially nonlinear. Equation 5 amounts to a bias term coming from possible nonlinearity of the propensity score.

Let's make some additional assumptions to try to simplify this a bit more. **Linearity of the propensity score** $p(X) = L(D|X)$. A leading case where the propensity score is linear is when all of the covariates are discrete and the model is "saturated" in the covariates (i.e., all interactions between covariates are included). In this case, the weights simplify:

$$\begin{aligned} w_1(X) &= \frac{1 - p(X)}{E[1 - p(X)|D = 1]} \\ w_{2a}(X) &= \frac{p(X)}{E[1 - p(X)|D = 1]} \\ w_{2b}(X) &= \frac{1 - p(X)}{E[1 - p(X)|D = 1]} \\ w_3(X) &= 0 \end{aligned}$$

so that there is 0 weight on the term in Equation 5. Moreover, $E[w_1(X)|D = 1] = E[w_{2b}(X)|D = 1] = 1$ (so that these weights have mean 1, which is typically a good property for weights to have). $E[w_{2a}(X)|D = 1] = E[p(X)|D = 1]/(1 - E[p(X)|D = 1])$ so this term would tend to get a large amount of weight when $E[p(X)|D = 1]$ is close to 1 (in general, these weights don't have mean 1 except in the case where $E[p(X)|D = 1] = 1/2$).

Now, let's make the additional assumption of **linearity of conditional expectations of outcomes**: for $d \in \{0, 1\}$, $E[Y|X, D = d] = L(Y|X, D = d)$. Notice that when $d = 0$, this corresponds to "linearity of untreated potential outcomes" that we discussed at the beginning of this section, but also needs to hold for $d = 1$. In my view, this is often a relatively strong assumption, but it could be satisfied in the case where the covariates are discrete and the model includes the full set of interactions. In this case, the bias terms in Equation 3 and 4 are equal to 0.

Under these two assumptions, $\alpha = E[w_1(X)ATT(X)|D = 1]$. Interestingly, even in this case (which already involves strong assumptions), α still suffers from what is sometimes called a **weight reversal** property. In particular, notice that the largest weights on $ATT(X)$ are for values of X where $p(X)$ is small — this means that these are values of the covariates that are relatively uncommon for the treated group relative to the untreated group. Likewise, the smallest weights are put on values of X where $p(X)$ is small; that is, values of the covariates that are relatively common for the treated group. These are peculiar/undesirable weights in my view. And, in particular, this means that α could be far away from the ATT when $ATT(X)$ varies across different values of X .

Along these lines, let's introduce one more assumption: **treatment effect homogeneity across covariates** so that $ATT(X)$ is constant across X . Under all three of the additional conditions

above,

$$\alpha = ATT$$

Alternative Approaches

Now, let's give some alternative approaches that can recover the ATT under weaker assumptions

Regression adjustment

If we are willing to believe (i) unconfoundedness and (ii) the linear model for untreated potential outcomes (both of which we'd already need to believe for the regression to work), then Equation 1 implies that

$$\begin{aligned} ATT &= E[Y|D = 1] - E[E[Y|X, D = 0]|D = 1] \\ &= E[Y|D = 1] - E[X'\beta|D = 1] \\ &= E[Y|D = 1] - E[X'|D = 1]\beta \end{aligned}$$

For thinking about the asymptotic theory of this type of estimator, it is sometimes to re-write this as

$$ATT = E\left[\frac{D}{p}Y\right] - E\left[\frac{D}{p}X'\right]\beta$$

which can be estimated by

$$\widehat{ATT} = \frac{1}{n} \sum_{i=1}^n \frac{D_i}{\hat{p}} Y_i - \frac{1}{n} \sum_{i=1}^n \frac{D_i}{\hat{p}} X_i' \hat{\beta}$$

and where $\hat{\beta}$ comes from the regression of Y on X using untreated observations only.

Propensity Score Weighting

In some cases, you might not want to use the linear model for untreated potential outcomes. Here, we'll show that an alternative can be to model/estimate the propensity score. As a quick intuition, notice that, if the distribution of X were the same across the treated and untreated groups, then (even under unconfoundedness) we could just compute $ATT = E[Y|D = 1] - E[Y|D = 0]$ (make sure that you understand why this is the case). The idea of propensity score weighting will essentially be to weight observations in the untreated group in a way that, in the re-weighted data, they will have the same distribution of covariates as the treated group.

To show this more formally, notice that we can write

$$\begin{aligned}
ATT &= E \left[\frac{D}{p} Y \right] - E \left[\frac{p(X)(1-p)}{p(1-p(X))} Y | D = 0 \right] \\
&= E \left[\frac{D}{p} Y \right] - E \left[\frac{(1-D)p(X)}{p(1-p(X))} Y \right] \\
&= E \left[\left(\frac{D}{p} - \frac{(1-D)p(X)}{p(1-p(X))} \right) Y \right]
\end{aligned} \tag{6}$$

where the second part of the first line holds because you can think of $E[Y|X, D = 0]$ inside the expression for ATT in Equation 1 as a function of X and because

$$\begin{aligned}
\int g(x) f(x|D = 1) dx &= \int g(x) \frac{f(x|D = 1)}{f(x|D = 0)} f(x|D = 0) dx \\
&= \int g(x) \frac{p(x)}{p} \frac{1-p}{1-p(x)} \frac{f(x)}{f(x)} f(x|D = 0) dx
\end{aligned}$$

and the second line in the expression for ATT holds by the law of iterated expectations, and the last equality holds just by combining terms. You can think of this expression as showing that ATT is equal to the average Y among the treated group adjusted by a weighted average of Y among the untreated group (due to the $(1-D)$ term) where the weights are driven by the propensity score and more weight is given to untreated units with a high propensity score (indicating that they have characteristics that are relatively more common among the treated group).

Side-Comment: Notice that the denominator in the expression for ATT involves $1-p(X)$. In order to avoid a divide by 0, we need to the assumption that $p(x) < 1$ for all possible values of x . This is an **overlap condition**, and intuitively it means that there are no values of the covariates where are all units with those covariates are treated; alternatively: for any treated unit, we can always find untreated “matches” with the same covariates X .

Given the expression for ATT in Equation, it suggests estimating ATT by

$$\widehat{ATT} = \frac{1}{n} \sum_{i=1}^n \left(\frac{D_i}{\hat{p}} - \frac{(1-D_i)\hat{p}(X_i)}{\hat{p}(1-\hat{p}(X_i))} \right) Y_i$$

where \hat{p} is just the fraction of treated observations in the data, and $\hat{p}(X_i)$ comes from estimating a propensity score model (e.g., leading choices would be logit or probit of the treatment on covariates) and computing predicted values for each X_i in the data.

Notice that the above estimation strategy involves specifying/estimating a model for the propensity score, but side-steps needing to impose a linear model for untreated potential outcomes.

Doubly Robust

Side-Comment: Machine Learning

Continuous Treatment

Because we are running out of time this semester, I am going to (at least for the moment) skip the case with a continuous treatment.