Supplementary materials for *Small sample methods for cluster-robust variance estimation and hypothesis testing in fixed effects models*

July 12, 2016

Contents

S1   Proof of Theorem 1

The Moore-Penrose inverse of $\mathbf{B}_i$ can be computed from its eigen-decomposition. Let $b \leq n_i$ denote the rank of $\mathbf{B}_i$. Let $\mathbf{\Lambda}$ be the $b \times b$ diagonal matrix of the positive eigenvalues of $\mathbf{B}_i$ and $\mathbf{V}$ be the $n_i \times b$ matrix of corresponding eigen-vectors, so that $\mathbf{B}_i = \mathbf{V}\mathbf{\Lambda}\mathbf{V}'$. Then $\mathbf{B}_i^+ = \mathbf{V}\mathbf{\Lambda}^{-1}\mathbf{V}'$ and $\mathbf{B}_i^{+1/2} = \mathbf{V}\mathbf{\Lambda}^{-1/2}\mathbf{V}'$. Now, observe that

$$
\begin{aligned}
\ddot{\mathbf{R}}_i'\mathbf{W}_i\mathbf{A}_i\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i \mathbf{\Phi}\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i' \mathbf{A}_i'\mathbf{W}_i\ddot{\mathbf{R}}_i &= \ddot{\mathbf{R}}_i'\mathbf{W}_i\mathbf{D}_i\mathbf{B}_i^{+1/2}\mathbf{B}_i\mathbf{B}_i^{+1/2}\mathbf{D}_i'\mathbf{W}_i\ddot{\mathbf{R}}_i \\
&= \ddot{\mathbf{R}}_i'\mathbf{W}_i\mathbf{D}_i\mathbf{V}\mathbf{V}'\mathbf{D}_i'\mathbf{W}_i\ddot{\mathbf{R}}_i.
\end{aligned}
\tag{1}
$$

Because $\mathbf{D}_i$, and $\mathbf{\Phi}$ are positive definite and $\mathbf{B}_i$ is symmetric, the eigen-vectors $\mathbf{V}$ define an orthonormal basis for the column span of $\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i$. We now show that $\ddot{\mathbf{U}}_i$ is in the column space of $\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i$. Let $\mathbf{Z}_i$ be an $n_i \times (r+s)$ matrix of zeros. Let $\mathbf{Z}_k = -\ddot{\mathbf{U}}_k\mathbf{L}^{-1}\mathbf{M}_{\ddot{\mathbf{U}}}^{-1}$, for $k \neq i$ and take $\mathbf{Z} = \left(\mathbf{Z}_1', ..., \mathbf{Z}_m'\right)'$. Now observe that $\left(\mathbf{I} - \mathbf{H}_\mathbf{T}\right)\mathbf{Z} = \mathbf{Z}$. It follows that

$$
\begin{aligned}
\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i \mathbf{Z} &= \left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{U}}}\right)_i \left(\mathbf{I} - \mathbf{H}_\mathbf{T}\right)\mathbf{Z} = \left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{U}}}\right)_i \mathbf{Z} \\
&= \mathbf{Z}_i - \ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}}\sum_{k=1}^m \ddot{\mathbf{U}}_k'\mathbf{W}_k\mathbf{Z}_k \\
&= \ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}}\left(\sum_{k \neq i}\ddot{\mathbf{U}}_k'\mathbf{W}_k\ddot{\mathbf{U}}\right)\mathbf{L}^{-1}\mathbf{M}_{\ddot{\mathbf{U}}}^{-1} = \ddot{\mathbf{U}}_i.
\end{aligned}
$$

Thus, there exists an $N \times (r+s)$ matrix $\mathbf{Z}$ such that $\left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{X}}}\right)_i \mathbf{Z} = \ddot{\mathbf{U}}_i$, i.e., $\ddot{\mathbf{U}}_i$ is in the column span of $\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i$. Because $\mathbf{D}_i\mathbf{W}_i$ is positive definite and $\ddot{\mathbf{R}}_i$ is a sub-matrix of $\ddot{\mathbf{U}}_i$, $\mathbf{D}_i\mathbf{W}_i\ddot{\mathbf{R}}_i$ is also in the column span of $\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i$. It follows that

$$
\ddot{\mathbf{R}}_i'\mathbf{W}_i\mathbf{D}_i\mathbf{V}\mathbf{V}'\mathbf{D}_i'\mathbf{W}_i\ddot{\mathbf{R}}_i = \ddot{\mathbf{R}}_i'\mathbf{W}_i\mathbf{\Phi}_i\mathbf{W}_i\ddot{\mathbf{R}}_i.
\tag{2}
$$

Substituting (2) into (1) demonstrates that $\mathbf{A}_i$ satisfies the generalized BRL criterion (Eq. 6 of the main paper).

Under the working model, the residuals from cluster i have mean $\mathbf{0}$ and variance

$$
\text{Var}\left(\ddot{\mathbf{e}}_i\right) = \left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i \mathbf{\Phi}\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i',
$$

It follows that

$$
\begin{aligned}
\text{E}\left(\mathbf{V}^{CR2}\right) &= \mathbf{M}_{\ddot{\mathbf{R}}}\left[\sum_{i=1}^m \ddot{\mathbf{R}}_i'\mathbf{W}_i\mathbf{A}_i\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i \mathbf{\Phi}\left(\mathbf{I} - \mathbf{H}_\mathbf{X}\right)_i' \mathbf{A}_i\mathbf{W}_i\ddot{\mathbf{R}}_i\right]\mathbf{M}_{\ddot{\mathbf{R}}} \\
&= \mathbf{M}_{\ddot{\mathbf{R}}}\left[\sum_{i=1}^m \ddot{\mathbf{R}}_i'\mathbf{W}_i\mathbf{\Phi}_i\mathbf{W}_i\ddot{\mathbf{R}}_i\right]\mathbf{M}_{\ddot{\mathbf{R}}} \\
&= \text{Var}\left(\hat{\boldsymbol{\beta}}\right)
\end{aligned}
$$

S2 Proof of Theorem 2

From the fact that $\ddot{\mathbf{U}}_i'\mathbf{W}_i\mathbf{T}_i = \mathbf{0}$ for $i = 1, ..., m$, it follows that

$$
\begin{aligned}
\mathbf{B}_i &= \mathbf{D}_i \left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{U}}}\right)_i \left(\mathbf{I} - \mathbf{H}_{\mathbf{T}}\right) \boldsymbol{\Phi} \left(\mathbf{I} - \mathbf{H}_{\mathbf{T}}\right)' \left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{U}}}\right)_i' \mathbf{D}_i' \\
&= \mathbf{D}_i \left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{U}}} - \mathbf{H}_{\mathbf{T}}\right)_i \boldsymbol{\Phi} \left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{U}}} - \mathbf{H}_{\mathbf{T}}\right)_i' \mathbf{D}_i' \\
&= \mathbf{D}_i \left(\boldsymbol{\Phi}_i - \ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}}\ddot{\mathbf{U}}_i' - \mathbf{T}_i\mathbf{M}_{\mathbf{T}}\mathbf{T}_i'\right) \mathbf{D}_i'
\end{aligned}
$$

and

$$
\mathbf{B}_i^+ = \left(\mathbf{D}_i'\right)^{-1} \left(\boldsymbol{\Phi}_i - \ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}}\ddot{\mathbf{U}}_i' - \mathbf{T}_i\mathbf{M}_{\mathbf{T}}\mathbf{T}_i'\right)^+ \mathbf{D}_i^{-1}. \tag{3}
$$

Let $\boldsymbol{\Psi}_i = \left(\boldsymbol{\Phi}_i - \ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}}\ddot{\mathbf{U}}_i'\right)^+$. Using a generalized Woodbury identity (Henderson and Searle, 1981),

$$
\boldsymbol{\Psi}_i = \mathbf{W}_i + \mathbf{W}_i\ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}} \left(\mathbf{M}_{\ddot{\mathbf{U}}} - \mathbf{M}_{\ddot{\mathbf{U}}}\ddot{\mathbf{U}}_i'\mathbf{W}_i\ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}}\right)^+ \mathbf{M}_{\ddot{\mathbf{U}}}\ddot{\mathbf{U}}_i'\mathbf{W}_i.
$$

It follows that $\boldsymbol{\Psi}_i\mathbf{T}_i = \mathbf{W}_i\mathbf{T}_i$. Another application of the generalized Woodbury identity gives

$$
\begin{aligned}
\left(\boldsymbol{\Phi}_i - \ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}}\ddot{\mathbf{U}}_i' - \mathbf{T}_i\mathbf{M}_{\mathbf{T}}\mathbf{T}_i'\right)^+ &= \boldsymbol{\Psi}_i + \boldsymbol{\Psi}_i\mathbf{T}_i\mathbf{M}_{\mathbf{T}} \left(\mathbf{M}_{\mathbf{T}} - \mathbf{M}_{\mathbf{T}}\mathbf{T}_i'\boldsymbol{\Psi}_i\mathbf{T}_i\mathbf{M}_{\mathbf{T}}\right)^+ \mathbf{M}_{\mathbf{T}}\mathbf{T}_i'\boldsymbol{\Psi}_i \\
&= \boldsymbol{\Psi}_i + \mathbf{W}_i\mathbf{T}_i\mathbf{M}_{\mathbf{T}} \left(\mathbf{M}_{\mathbf{T}} - \mathbf{M}_{\mathbf{T}}\mathbf{T}_i'\mathbf{W}_i\mathbf{T}_i\mathbf{M}_{\mathbf{T}}\right)^+ \mathbf{M}_{\mathbf{T}}\mathbf{T}_i'\mathbf{W}_i \\
&= \boldsymbol{\Psi}_i.
\end{aligned}
$$

The last equality follows from the fact that

$$
\mathbf{T}_i\mathbf{M}_{\mathbf{T}} \left(\mathbf{M}_{\mathbf{T}} - \mathbf{M}_{\mathbf{T}}\mathbf{T}_i'\mathbf{W}_i\mathbf{T}_i\mathbf{M}_{\mathbf{T}}\right)^- \mathbf{M}_{\mathbf{T}}\mathbf{T}_i' = \mathbf{0}
$$

because the fixed effects are nested within clusters. Substituting into (3), we then have that $\mathbf{B}_i^+ = \left(\mathbf{D}_i'\right)^{-1} \boldsymbol{\Psi}_i\mathbf{D}_i^{-1}$. But

$$
\tilde{\mathbf{B}}_i = \mathbf{D}_i \left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{U}}}\right)_i \boldsymbol{\Phi} \left(\mathbf{I} - \mathbf{H}_{\ddot{\mathbf{U}}}\right)_i' \mathbf{D}_i' = \mathbf{D}_i \left(\boldsymbol{\Phi}_i - \ddot{\mathbf{U}}_i\mathbf{M}_{\ddot{\mathbf{U}}}\ddot{\mathbf{U}}_i'\right) \mathbf{D}_i' = \mathbf{D}_i\boldsymbol{\Psi}_i^+\mathbf{D}_i',
$$

and so $\mathbf{B}_i^+ = \tilde{\mathbf{B}}_i^+$. It follows that $\mathbf{A}_i = \tilde{\mathbf{A}}_i$ for $i = 1, ..., m$.

S3 Details of simulation study

This section provides further details regarding the design of the simulations reported in Section 4 of the main text. The simulations examined six distinct study designs. Outcomes are measured for n units (which may be individuals, as in a cluster-randomized or block-randomized design, or time-points, as in a difference-in-differences panel) in each of m clusters under one of three treatment conditions. Suppose that there are G sets of clusters, each of size m_g, where the clusters in each set have a distinct configuration of treatment assignments. Let n_{ghi} denote the number of units at which cluster i in configuration g is observed under condition h, for $i = 1, ..., m$, $g = 1, ..., G$, and $h = 1, 2, 3$. Table S1 summarizes the cluster-level sample sizes and unit-level patterns of treatment allocation for each of the six designs. The simulated designs included the following:

1. A balanced, block-randomized design, with an un-equal allocation within each block. In the balanced design, the treatment allocation is identical for each block, so $G = 1$.

2. An unbalanced, block-randomized design, with two different patterns of treatment allocation ($G = 2$).

3. A balanced, cluster-randomized design, in which units are nested within clusters and an equal number of clusters are assigned to each treatment condition.

4. An unbalanced, cluster-randomized design, in which units are nested within clusters but the number of clusters assigned to each condition is not equal.

5. A balanced difference-in-differences design with two patterns of treatment allocation ($G = 2$), in which half of the clusters are observed under the first treatment condition only and the remaining half are observed under all three conditions.

6. An unbalanced difference-in-differences design, again with two patterns of treatment allocation ($G = 2$), but where 2/3 of the clusters are observed under the first treatment condition only and the remaining 1/3 of clusters are observed under all three conditions.

Table S1: Study designs used for simulation

| Study design	Balance	Configuration	Clusters	Treatment allocation
Randomized Block	Balanced	1	$m_1 = m$	$n_{11i} = n/2, n_{12i} = n/3, n_{13i} = n/6$
Randomized Block	Unbalanced	1	$m_1 = m/2$	$n_{11i} = n/2, n_{12i} = n/3, n_{13i} = n/6$
		2	$m_2 = m/2$	$n_{21i} = n/3, n_{22i} = 5n/9, n_{23i} = n/9$
Cluster-Randomized	Balanced	1	$m_1 = m/3$	$n_{11i} = n$
		2	$m_2 = m/3$	$n_{22i} = n$
		3	$m_3 = m/3$	$n_{33i} = n$
Cluster-Randomized	Unbalanced	1	$m_1 = m/2$	$n_{11i} = n$
		2	$m_2 = 3m/10$	$n_{22i} = n$
		3	$m_3 = m/5$	$n_{33i} = n$
Difference-in-Differences	Balanced	1	$m_1 = m/2$	$n_{11i} = n$
		2	$m_2 = m/2$	$n_{21i} = n/2, n_{22i} = n/3, n_{23i} = n/6$
Difference-in-Differences	Unbalanced	1	$m_1 = 2m/3$	$n_{11i} = n$
		2	$m_2 = m/3$	$n_{21i} = n/2, n_{22i} = n/3, n_{23i} = n/6$

S4 Additional simulation results
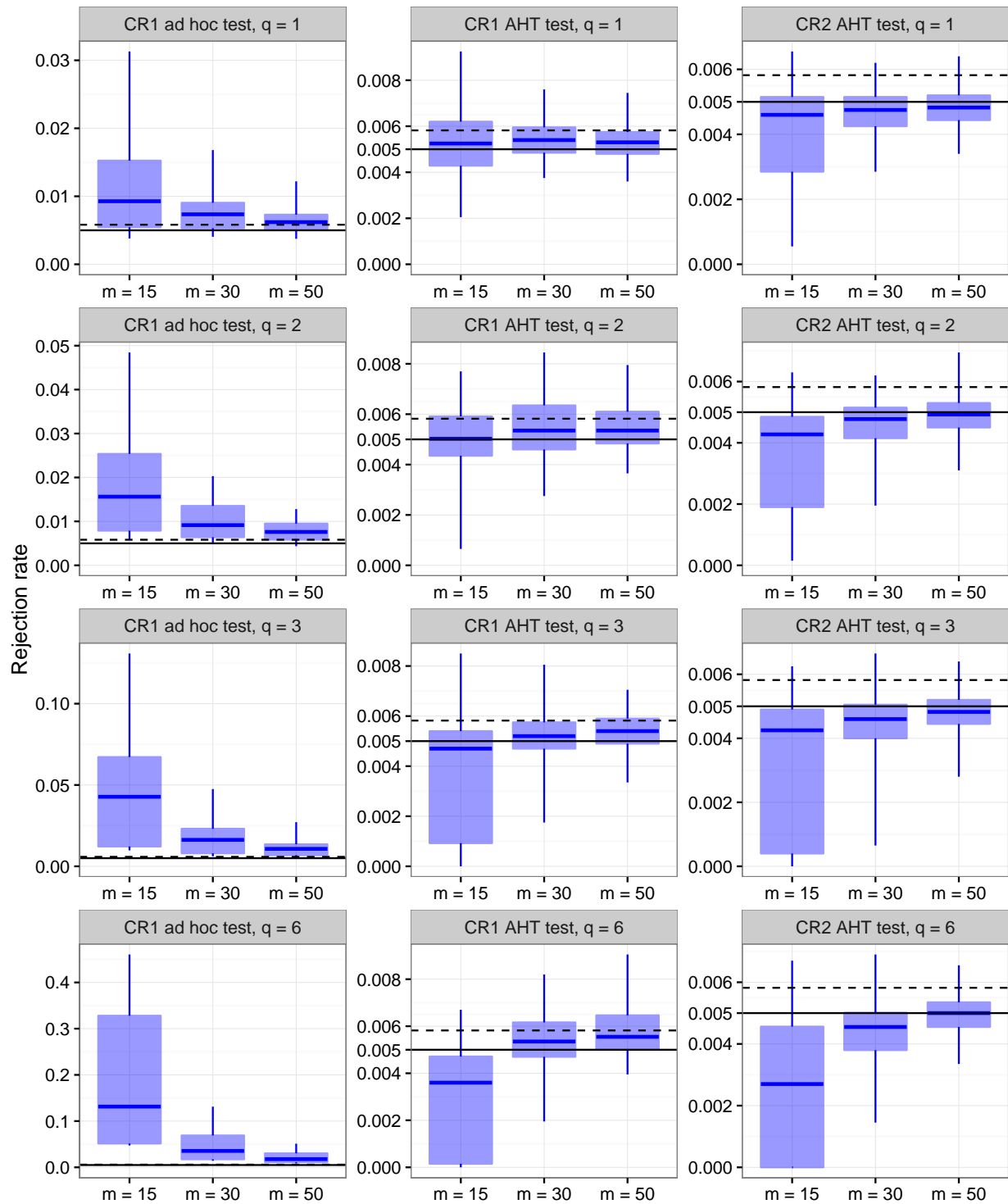
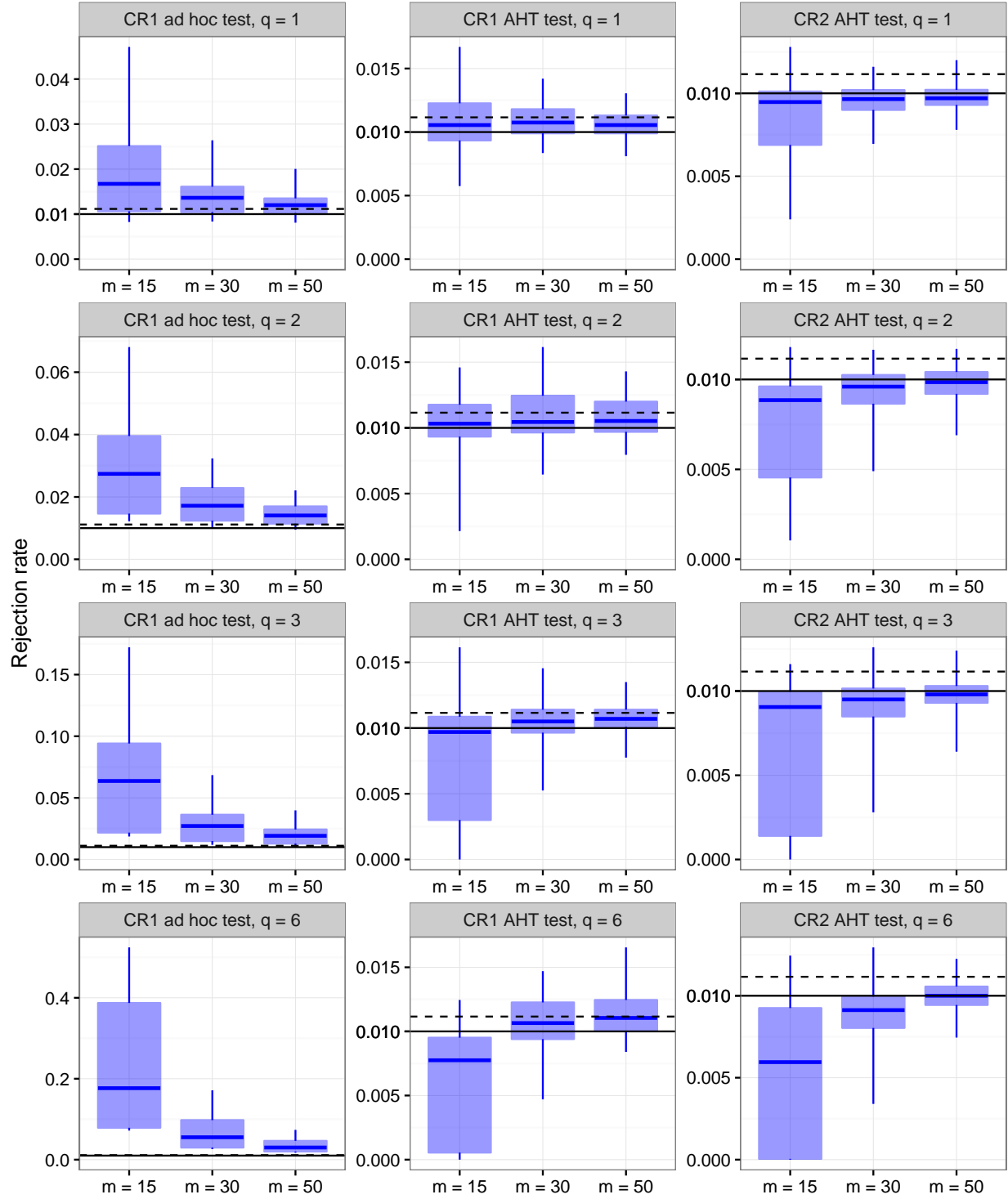Figure S1: Rejection rates of ad hoc and AHT tests for $\alpha = .005$, by dimension of hypothesis (q) and sample size (m).

Figure S2: Rejection rates of ad hoc and AHT tests for $\alpha = .01$, by dimension of hypothesis (q) and sample size (m).
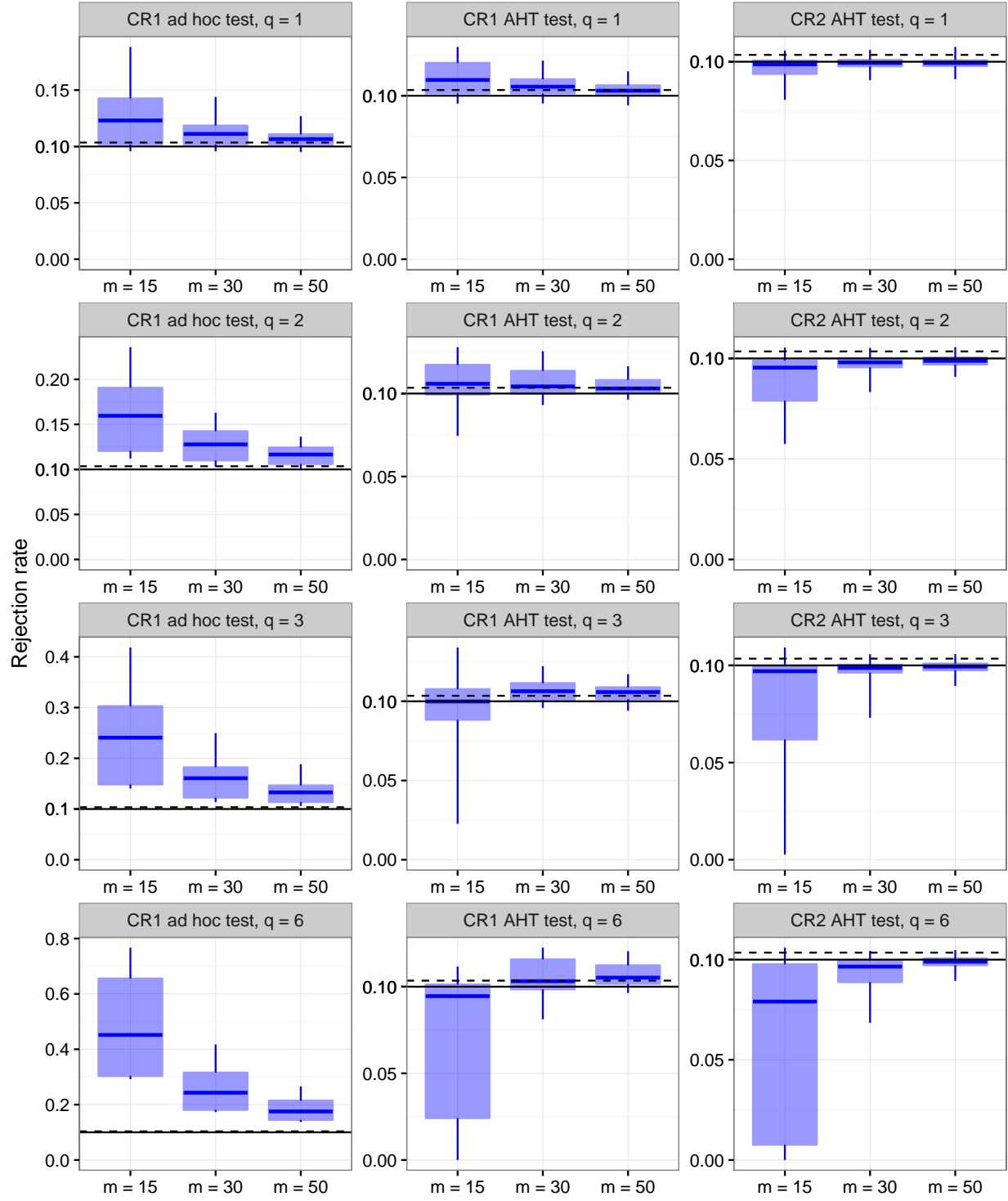
Figure S3: Rejection rates of ad hoc and AHT tests for $\alpha = .10$, by dimension of hypothesis (q) and sample size (m).
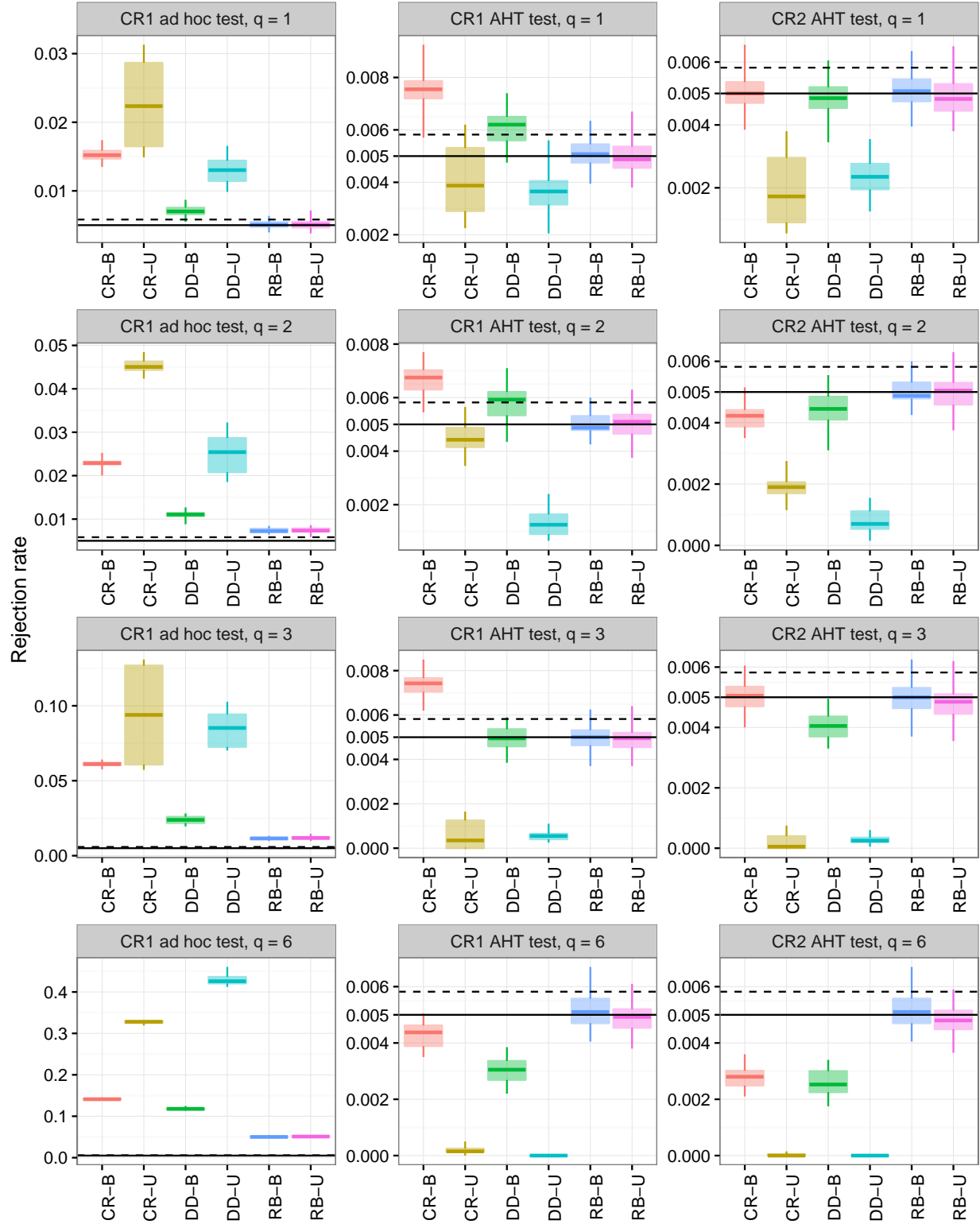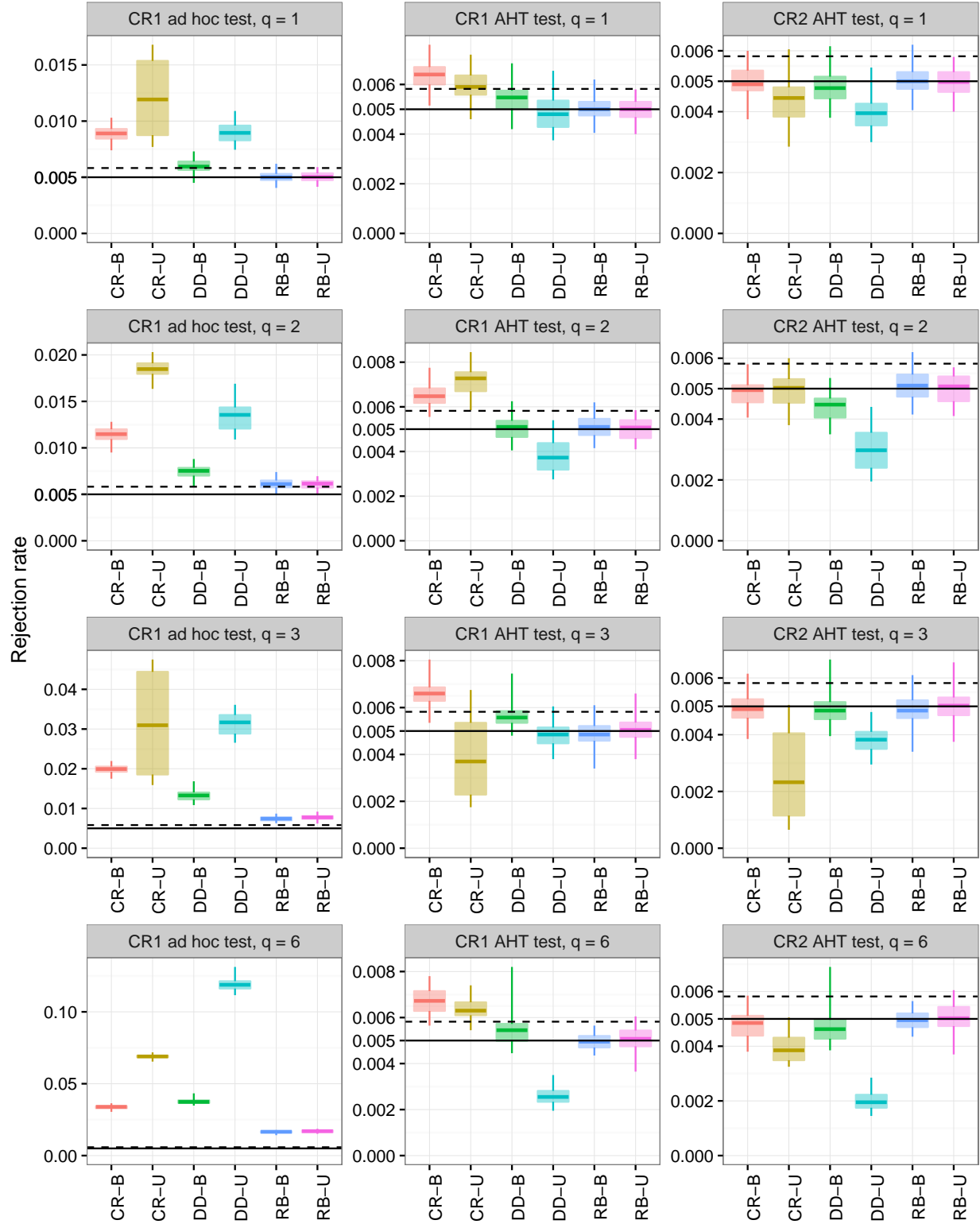
Figure S4: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .005$ and $m = 15$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
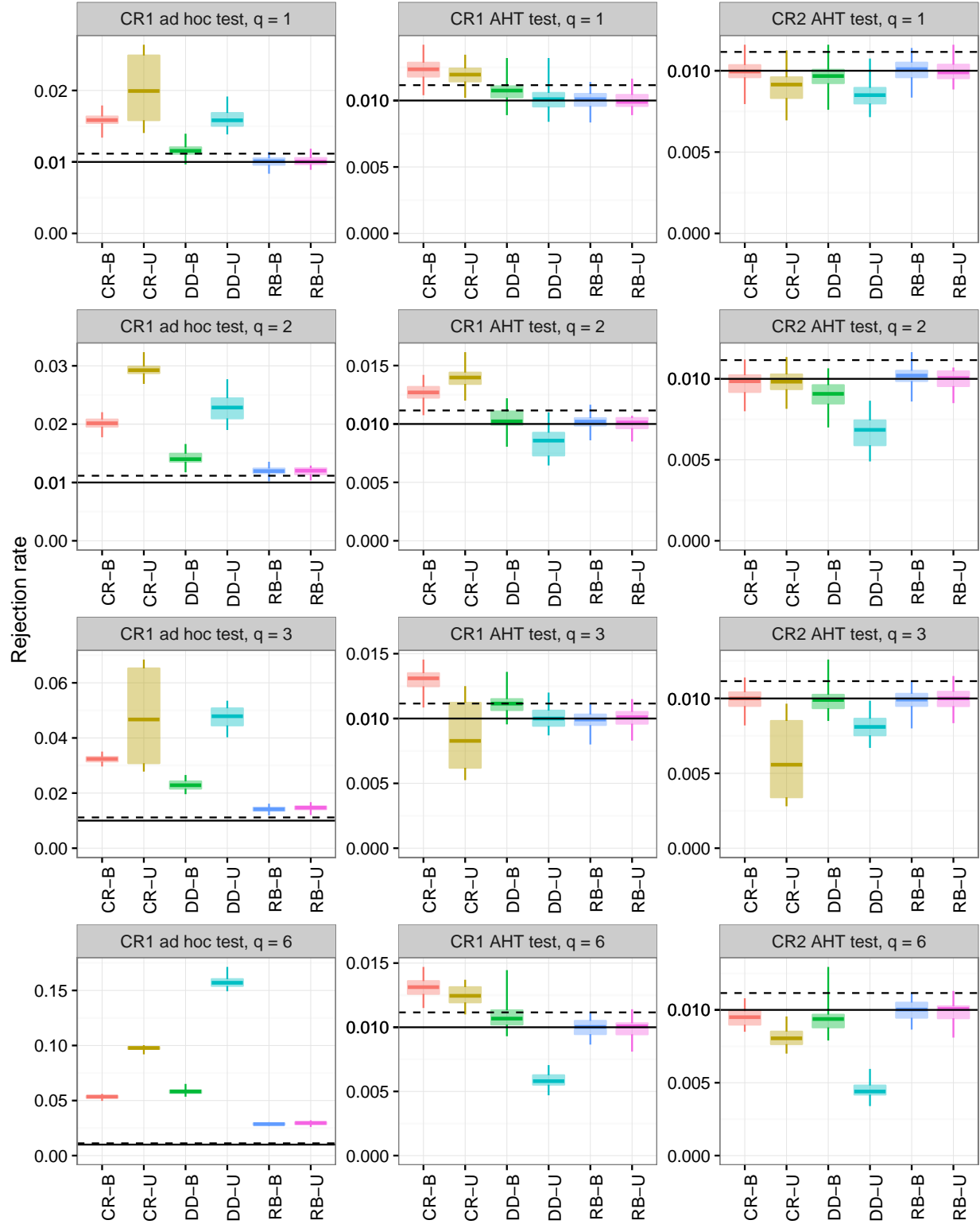
8
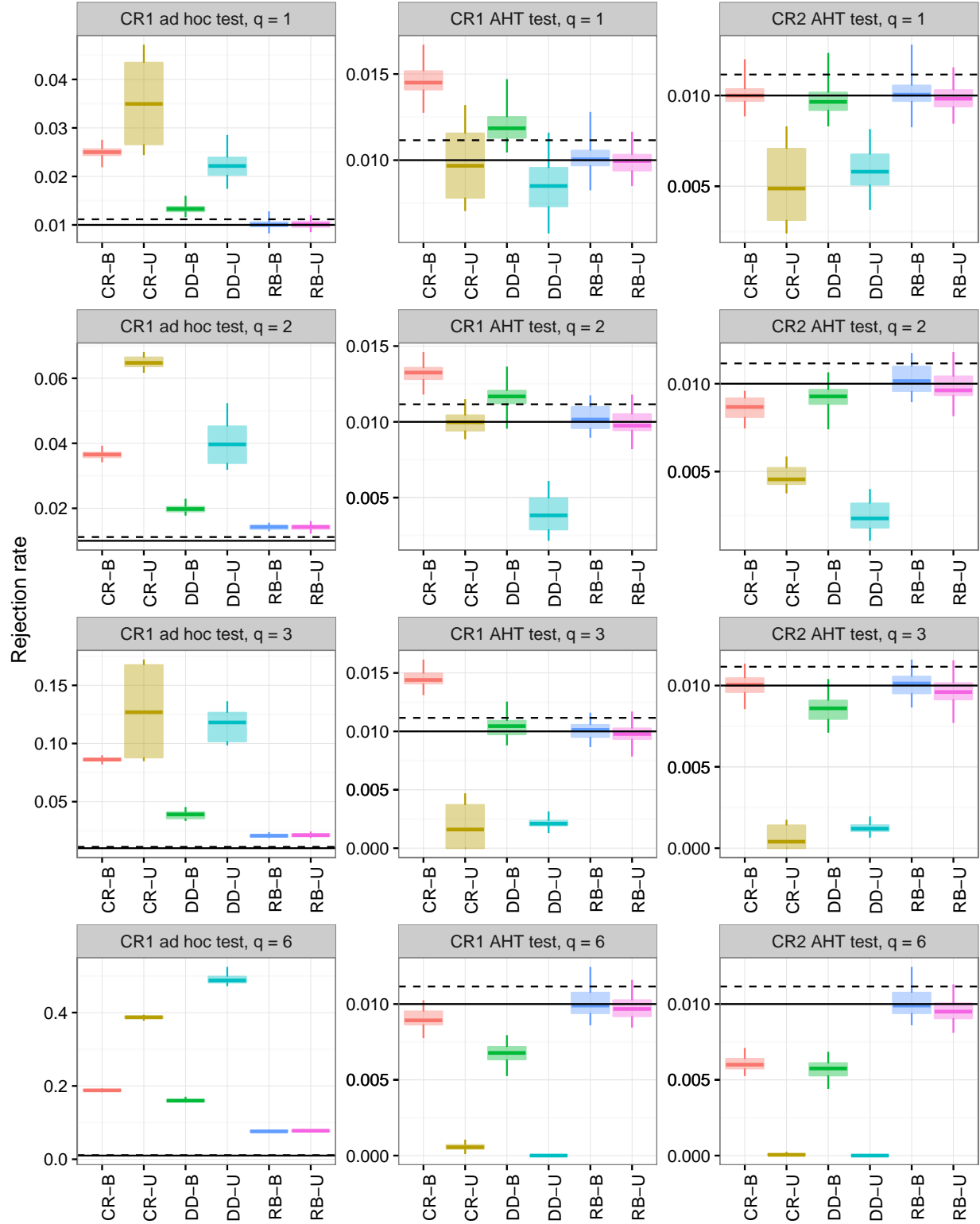
Figure S5: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .01$ and $m = 15$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
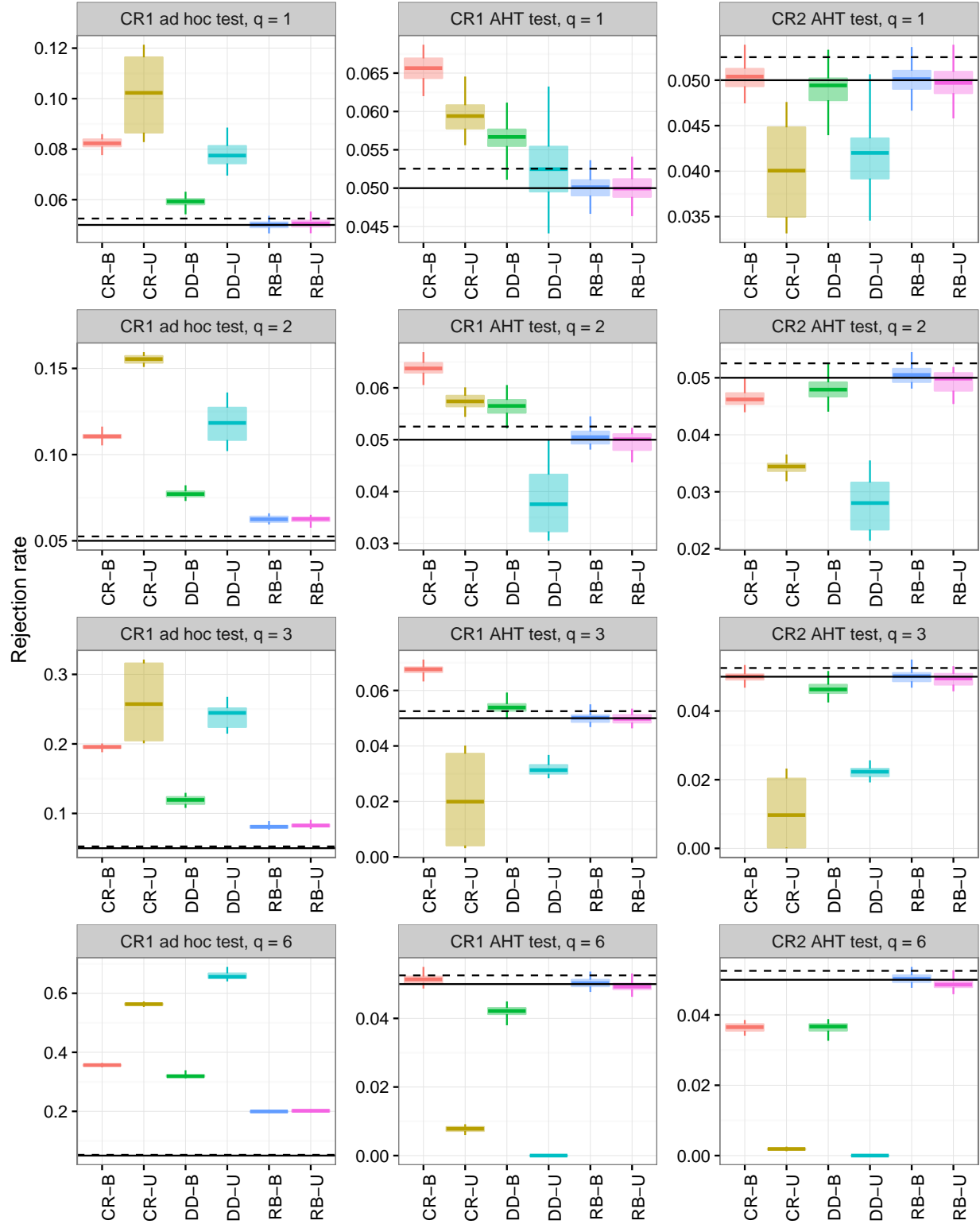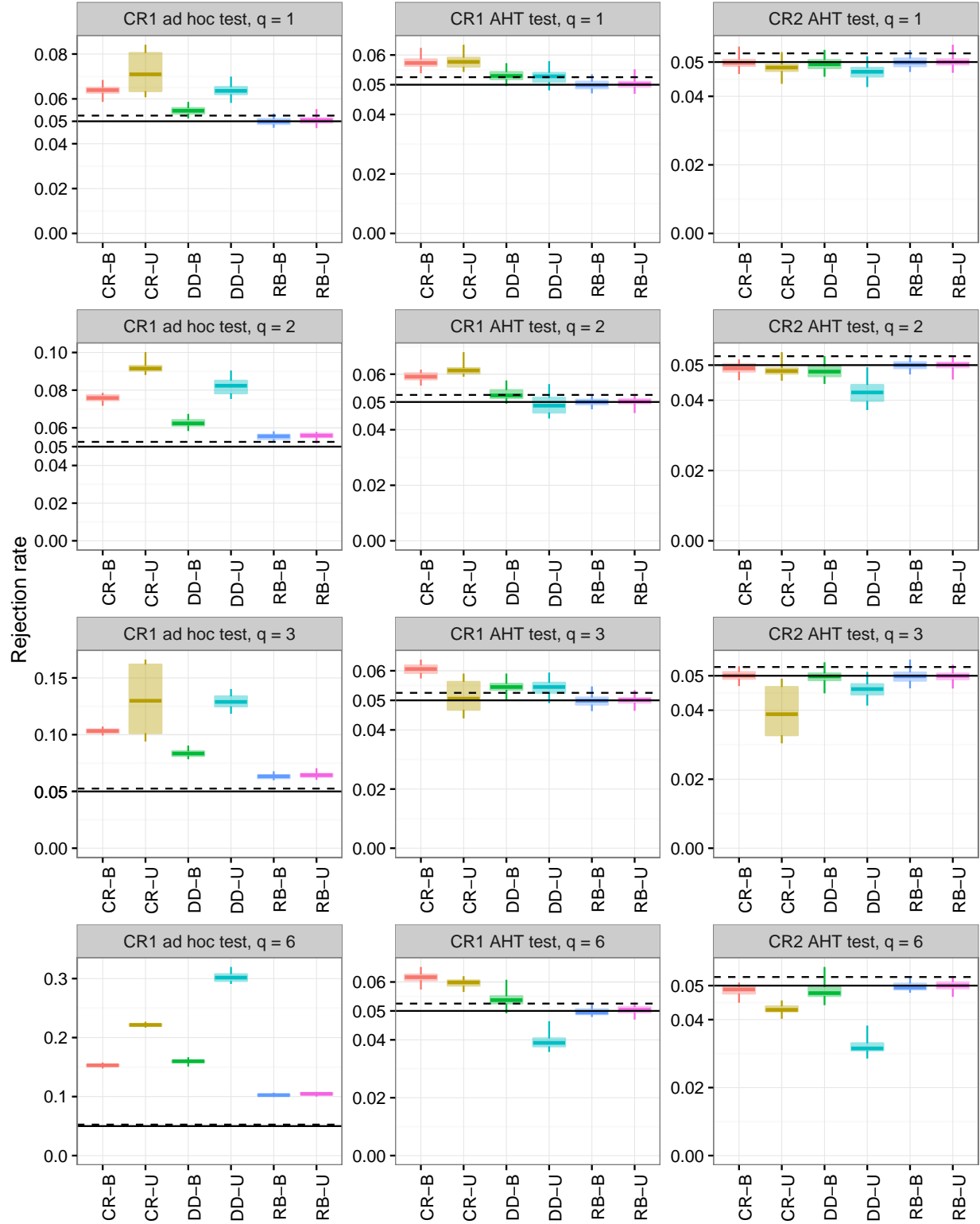
Figure S6: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .05$ and $m = 15$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
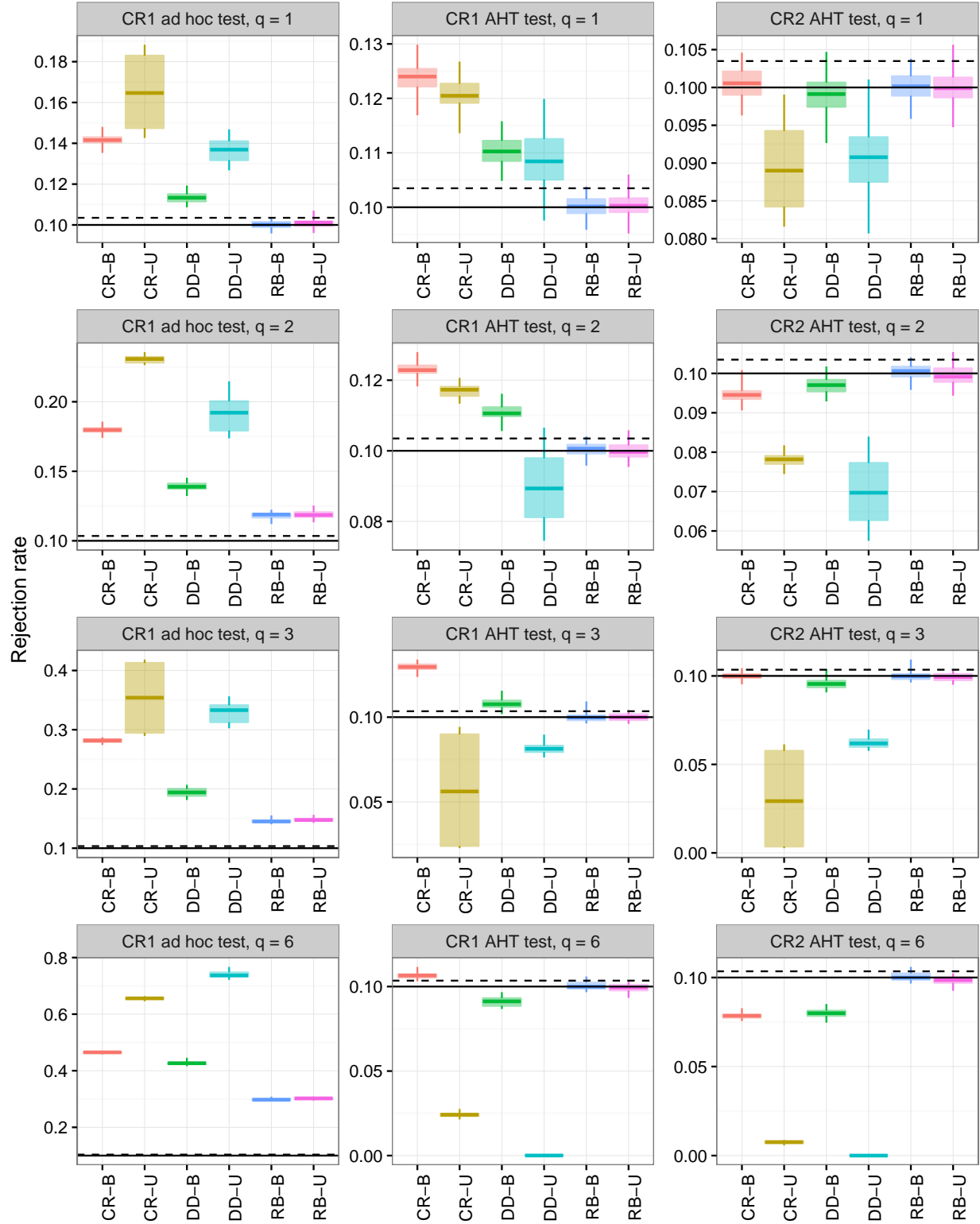
Figure S7: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .10$ and $m = 15$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
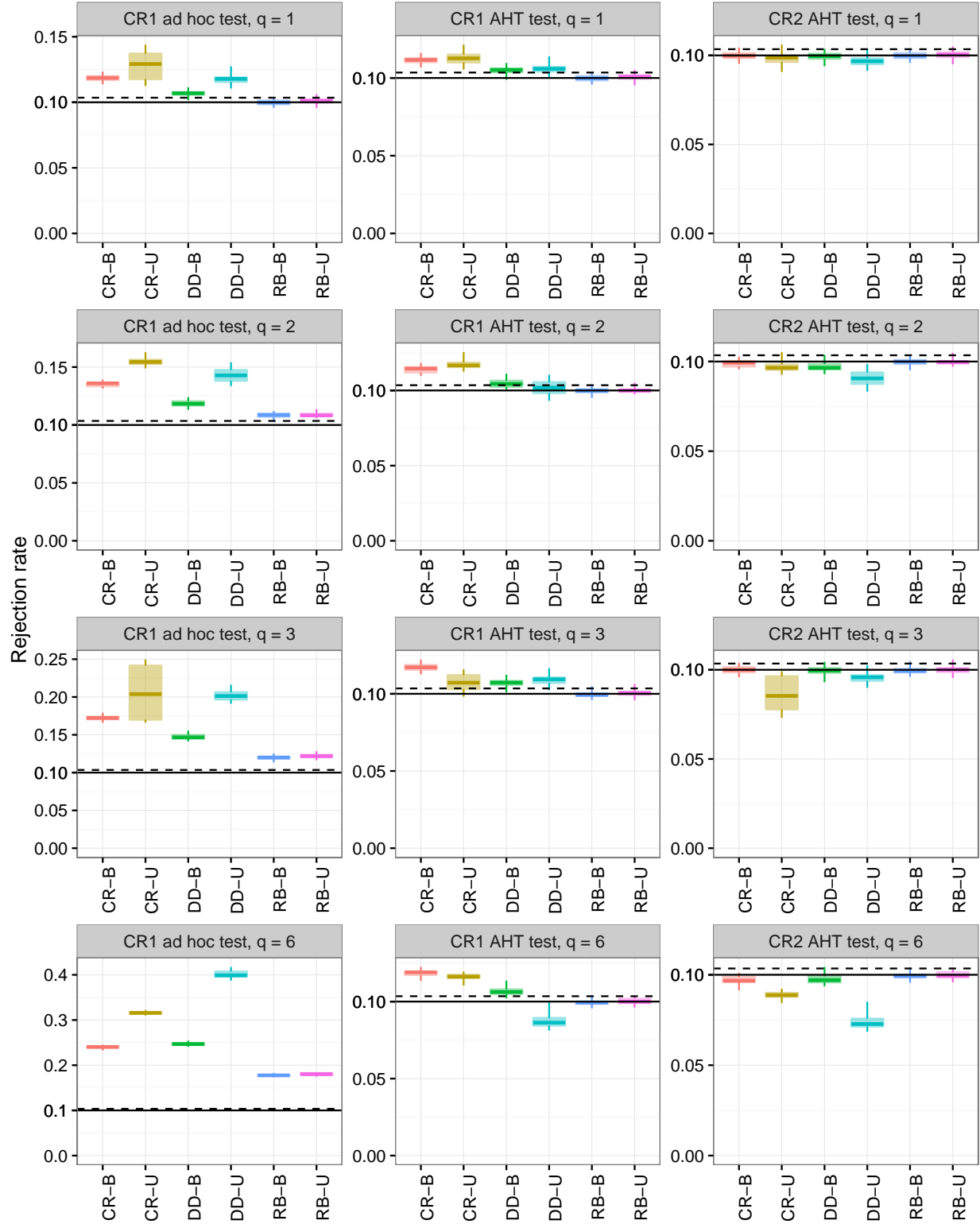
Figure S8: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .005$ and $m = 30$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
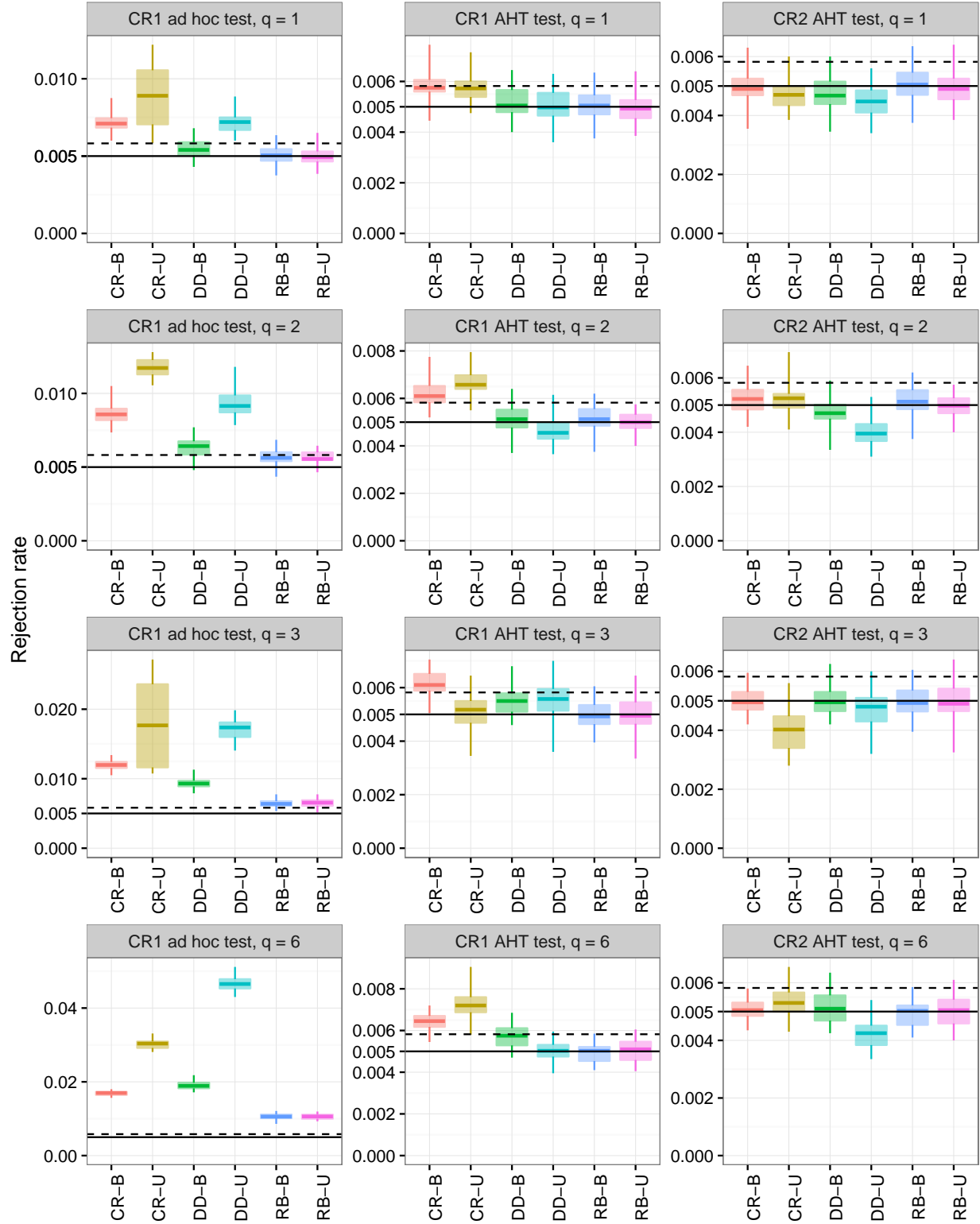
Figure S9: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .01$ and $m = 30$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.

Figure S10: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .05$ and $m = 30$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
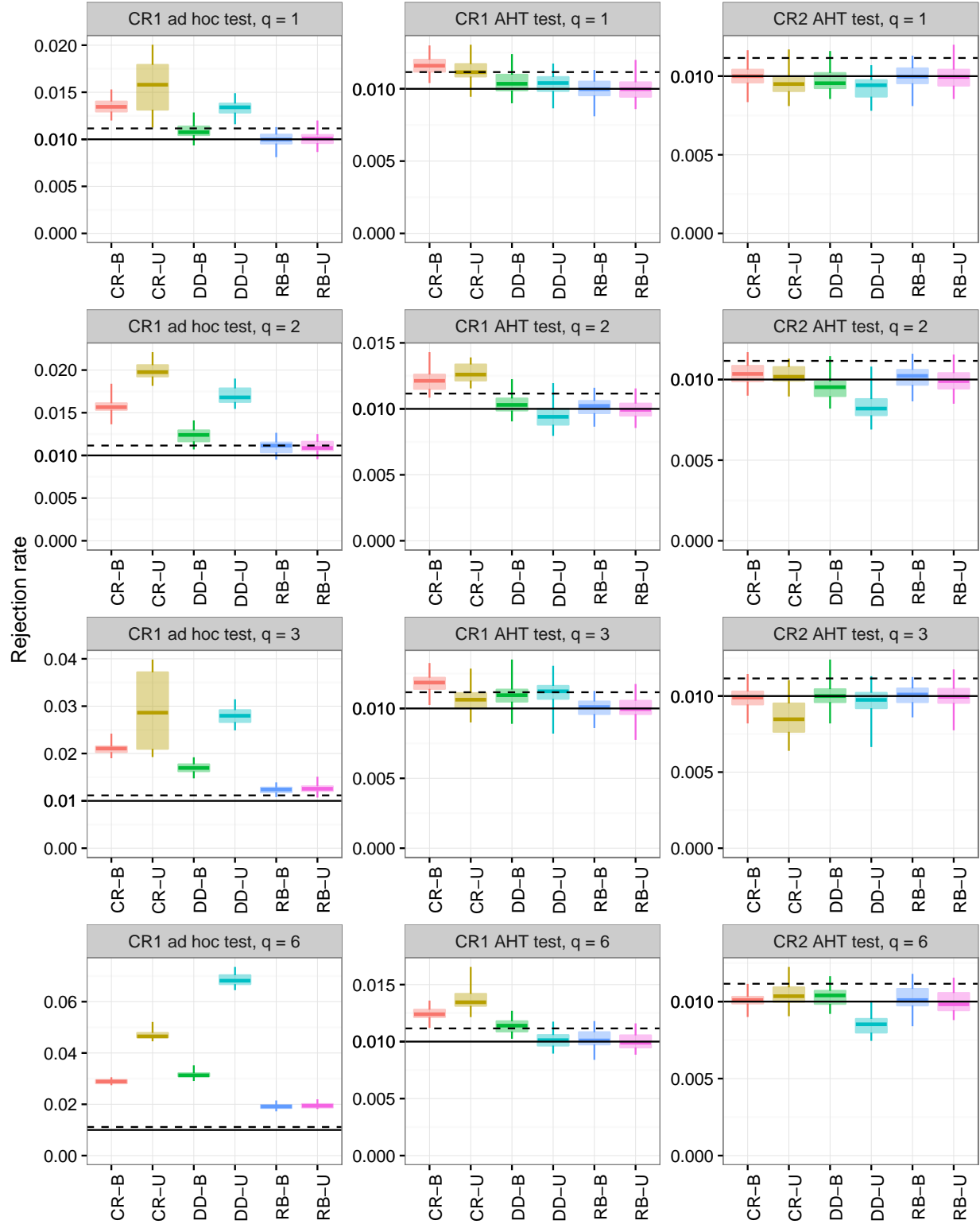
14

Figure S11: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .10$ and $m = 30$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
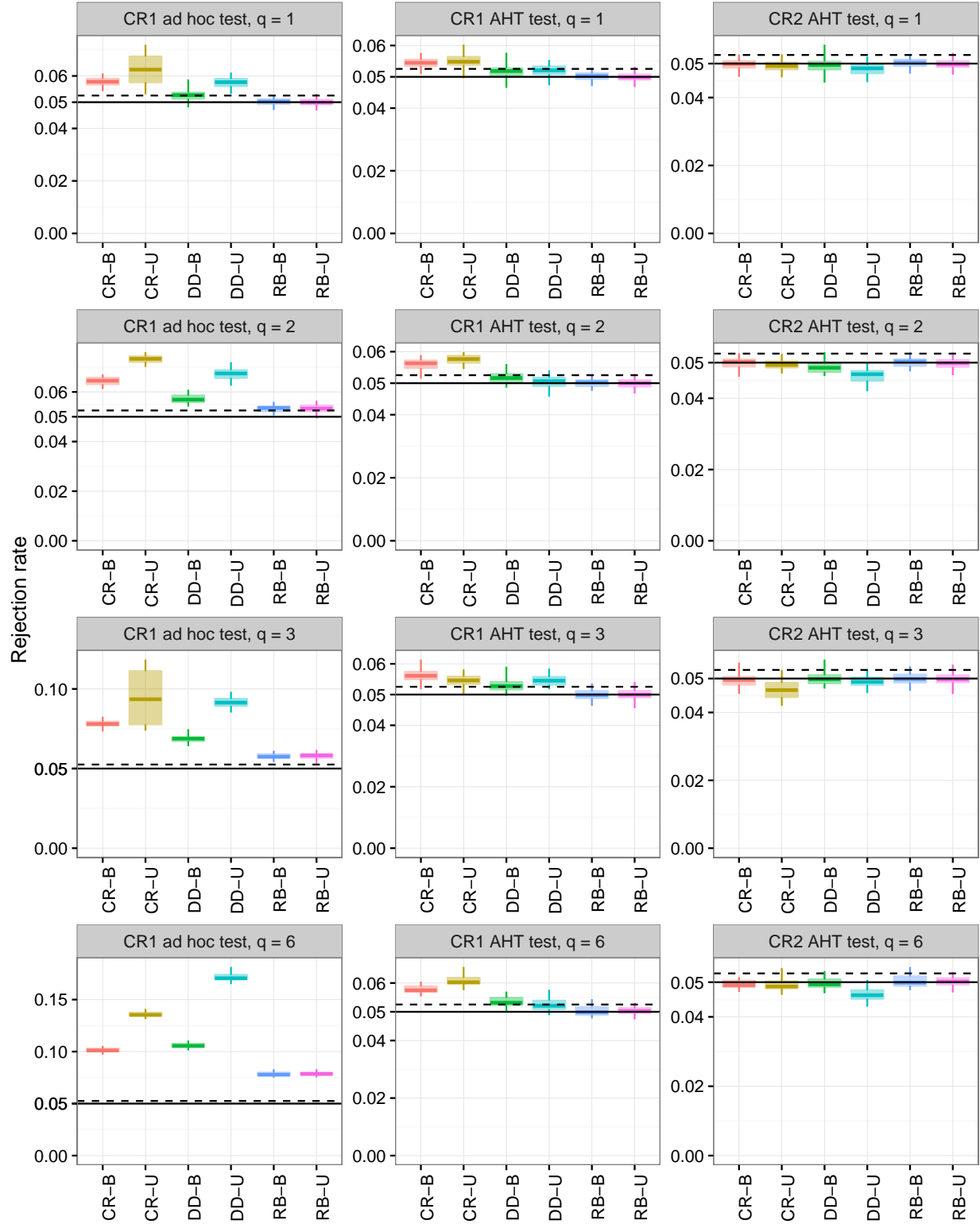
Figure S12: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .005$ and $m = 50$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
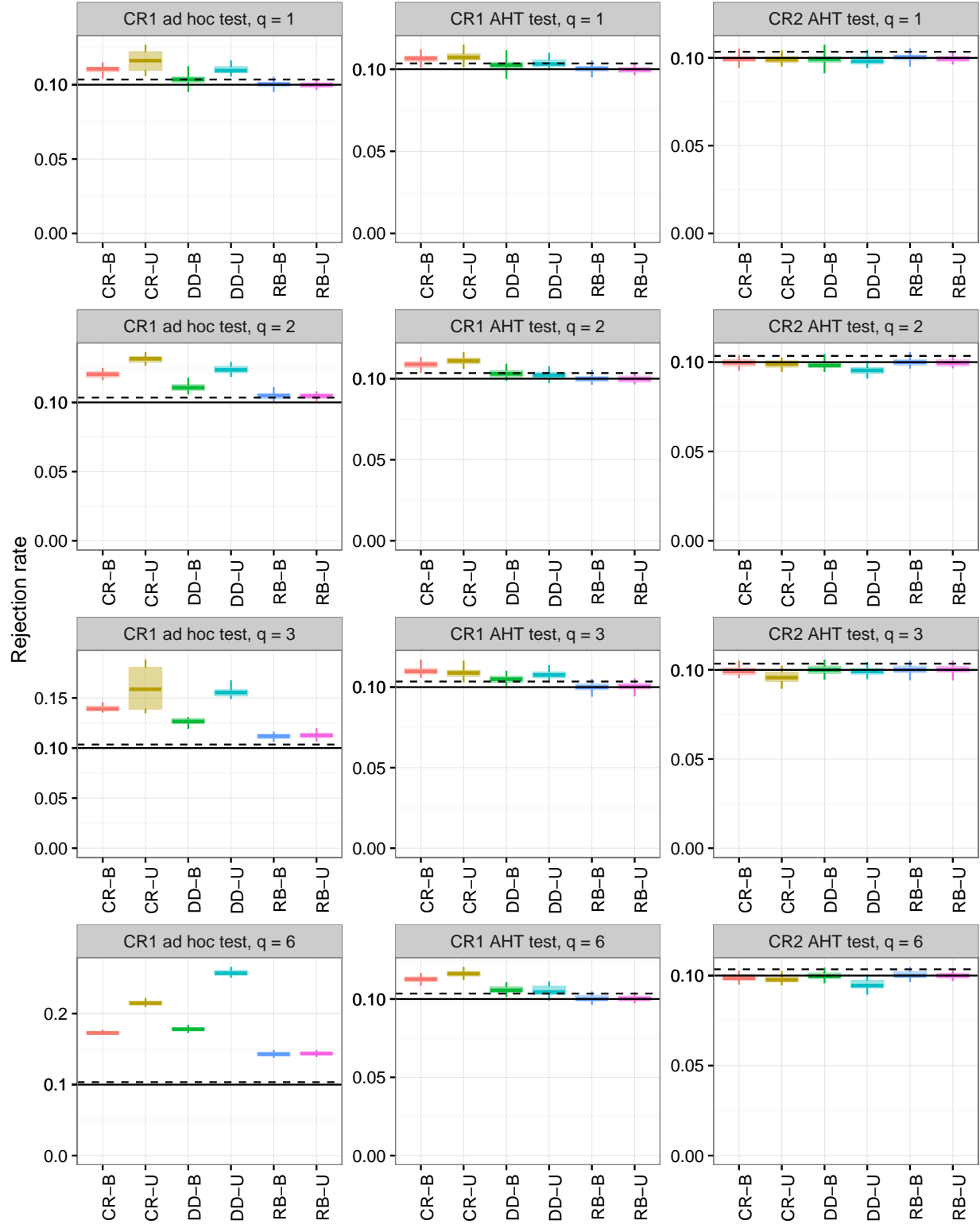
Figure S13: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .01$ and $m = 50$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.

Figure S14: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .05$ and $m = 50$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.
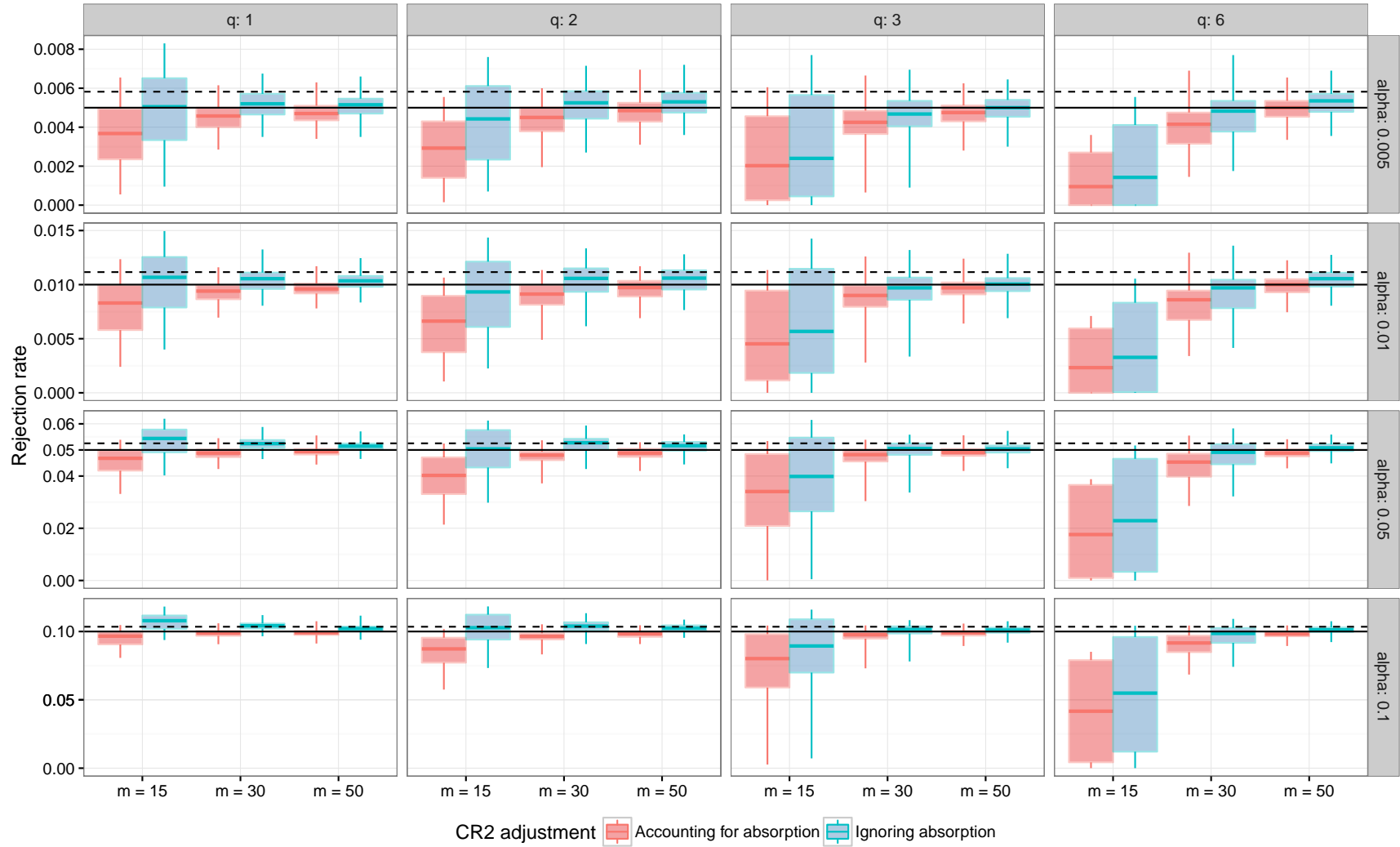
Figure S15: Rejection rates of ad hoc and AHT tests, by study design and dimension of hypothesis (q) for $\alpha = .10$ and $m = 50$. CR = cluster-randomized design; DD = difference-in-differences design; RB = randomized block design; B = balanced; U = unbalanced.

Figure S16: Rejection rates of AHT test using CR2, calculated with and without accounting for absorption of fixed effects, by sample size (m), dimension of hypothesis (q), and α-level. Results for the balanced and unbalanced randomized block designs are excluded because accounting for absorption of fixed effects has no consequence for these designs.
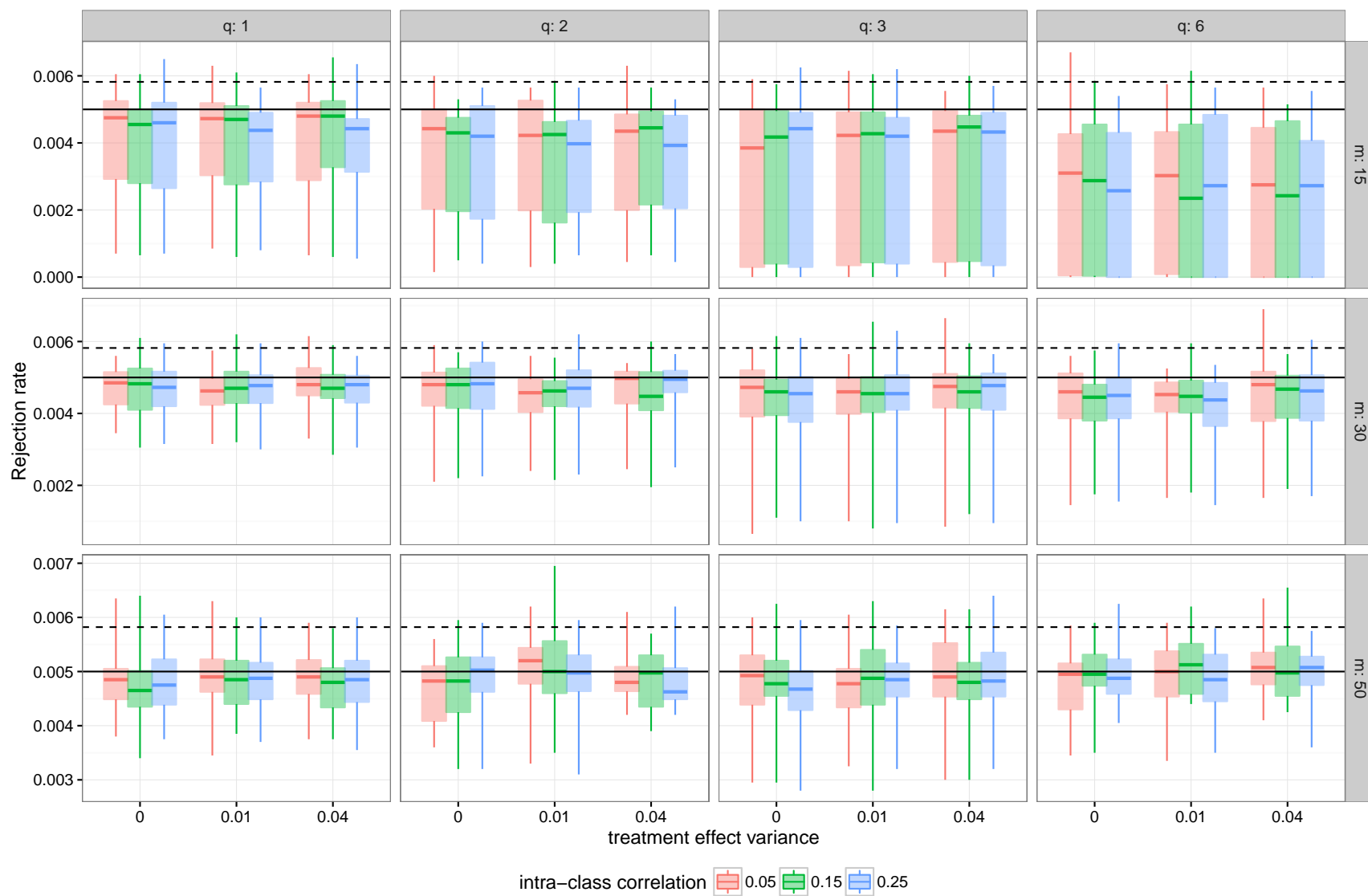
Figure S17: Rejection rates of CR2 AHT test, by treatment effect variance and intra-class correlation for $\alpha = .005$.
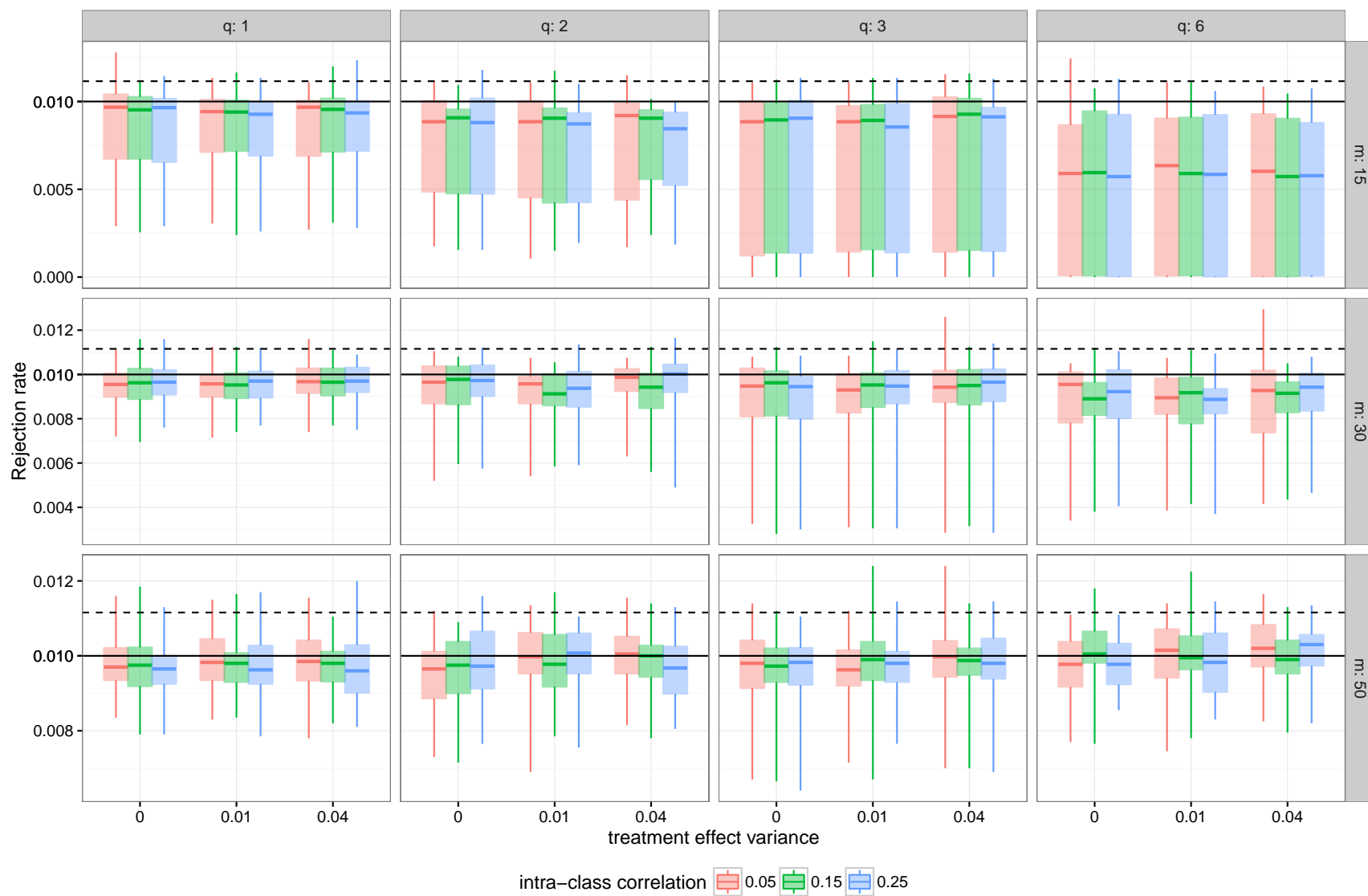
Figure S18: Rejection rates of CR2 AHT test, by treatment effect variance and intra-class correlation for $\alpha = .01$.
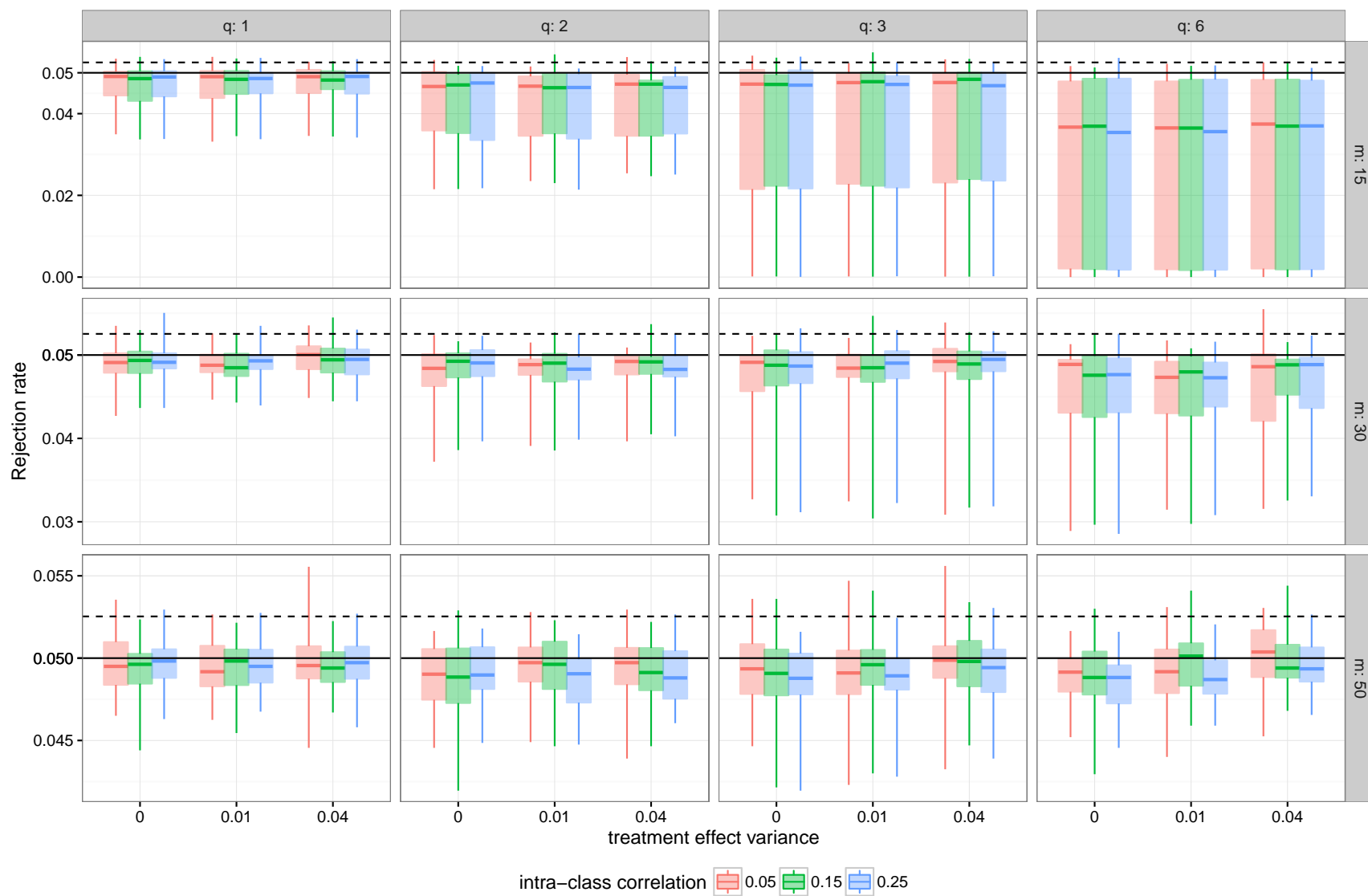
Figure S19: Rejection rates of CR2 AHT test, by treatment effect variance and intra-class correlation for $\alpha = .05$.
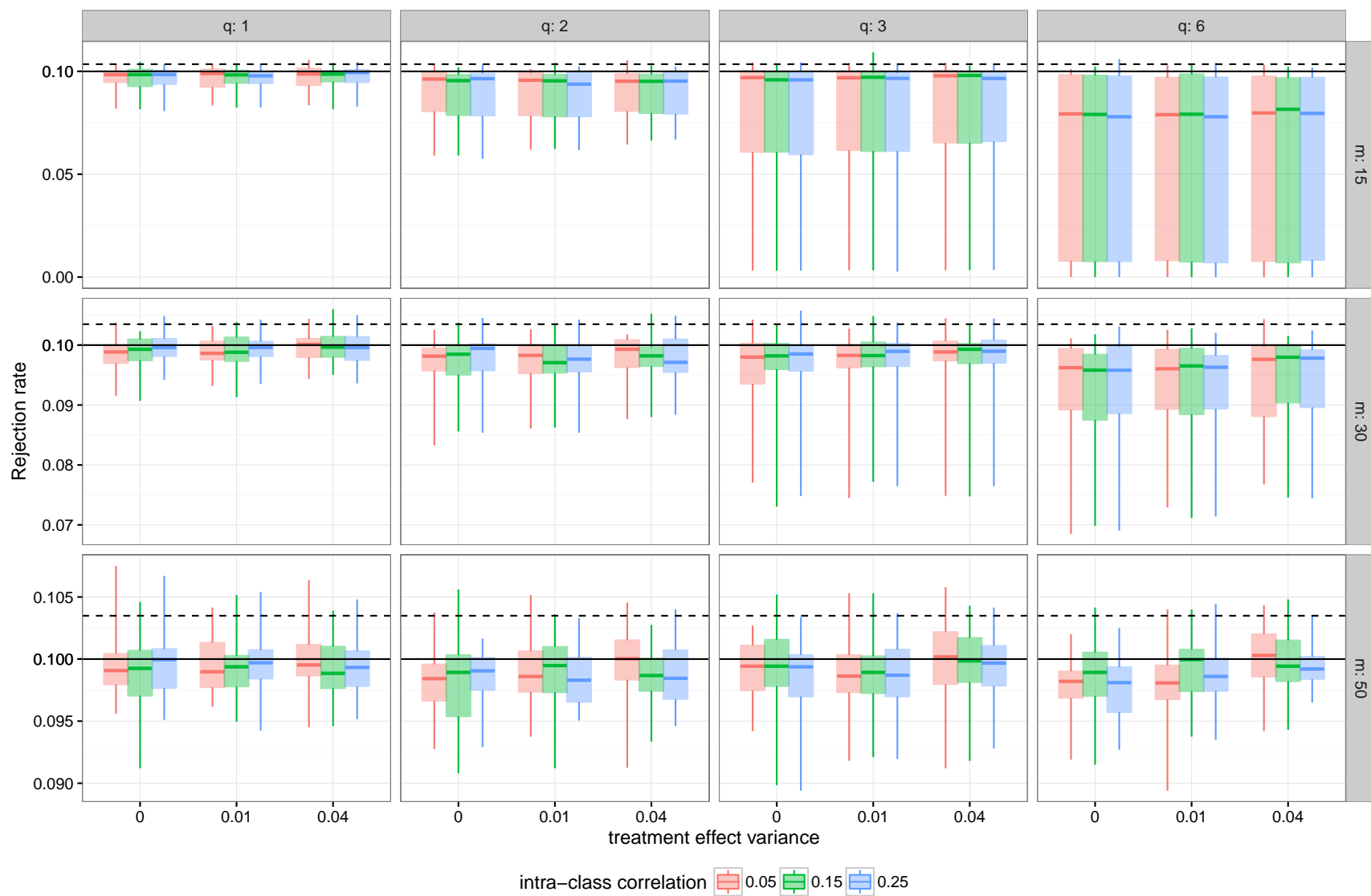
Figure S20: Rejection rates of CR2 AHT test, by treatment effect variance and intra-class correlation for $\alpha = .10$.

References

Henderson, H. V. and Searle, S. R. (1981), 'On deriving the inverse of a sum of matrices', *Siam Review* **23**(1), 53–60.