1   Point Estimation

1.1   Evaluating Estimators

$$\text{MSE}_{\hat{\Theta}}(\theta) = \mathbb{E}_{\theta}(\hat{\Theta} - \theta)^2$$
$$= \mathbb{E}_{\theta}(\hat{\Theta} - \mathbb{E}_{\theta}(\hat{\Theta}) + \mathbb{E}_{\theta}(\hat{\Theta}) - \theta)^2$$
$$= \mathbb{E}_{\theta}\left(\hat{\Theta} - \mathbb{E}_{\theta}(\hat{\Theta})\right)^2 + \left(\mathbb{E}_{\theta}(\hat{\Theta}) - \theta\right)^2$$
$$= \mathbb{V}_{\theta}(\hat{\Theta}) + (B_{\hat{\Theta}}(\theta))^2$$

So Mean Squared Error (MSE) is equal to the Variance of the estimator $\hat{\Theta}$ plus the squared bias of the estimator $\hat{\Theta}$.

Suppose $X_1, X_2, \ldots, X_n \overset{iid}{\sim} \text{Unif}[0, \theta]$, where $\theta > 0$ is the unkown parameter. Then find the following;

- $\hat{\Theta} = \max(X_1, X_2, \ldots, X_n)$.

- Check for the unbiasedness and consistency of $\hat{\Theta}$.

- Determine the $\text{MSE}_{\hat{\Theta}}(\theta) \quad \forall \theta$.

We can easily see that the estimator is not unbiased because we are taking the maximum possible value of one particular sample, but $\max(X_1, \ldots, X_n) \leq \theta$ then it's expected value will always fall short of θ.

More Precisely, we want to find

$$\mathbb{E}_{\theta}(\max(X_1, \ldots, X_n))$$

Now,

$$F_{\hat{\Theta}}(x) = Pr_{\theta}(\max(X_1, \ldots, X_n) \leq x)$$
$$= (Pr_{\theta}(X_1 \leq x))^n$$
$$= \left(\frac{x}{\theta}\right)^n$$
$$f_{\hat{\Theta}}(x) = \frac{nx^{n-1}}{\theta^n}, \quad 0 \leq x \leq \theta$$

So,

$$\mathbb{E}_{\theta}(\max(X_1, X_2, \ldots, X_n)) = \int_0^{\theta} x \cdot \frac{nx^{n-1}}{\theta^n}\mathrm{d}x$$
$$= \left(\frac{n}{n+1}\right)\theta$$

Which is clearly less than θ and therefore our estimator $\hat{\Theta}$ is not unbiased.

Now to check for Consistency we want to show that,

$$\lim_{n \to \infty} \mathbb{P}_\theta \left(|\max(X_1, X_2, \ldots, X_n) - \theta| > \epsilon \right) = 0$$

Now,

$$\mathbb{P}_\theta \left(|\max(X_1, X_2, \ldots, X_n) - \theta| > \epsilon \right) = \mathbb{P}_\theta \left(\theta - \max(X_1, X_2, \ldots, X_n) > \epsilon \right)$$
$$= \mathbb{P}_\theta \left(\max(X_1, X_2, \ldots, X_n) < \theta - \epsilon \right) = \left(\frac{\theta - \epsilon}{\theta} \right)^n$$

Then,

$$\lim_{n \to \infty} \left(\frac{\theta - \epsilon}{\theta} \right)^n = 0$$

and therefore are estimator $\hat{\Theta}$ is consistent.

Now to find the MSE we have to first find the variance of our esstimator, i.e., $\mathbb{V}_\theta(\max(X_1, X_2, \ldots, X_n))$ and then $\left(B_{\hat{\Theta}}(\theta)\right)^2$;

$$\mathbb{V}_\theta = \mathbb{E}_\theta \left[\hat{\Theta}^2 \right] - \left(\mathbb{E}_\theta \left[\hat{\Theta} \right] \right)^2$$
$$= \int_0^\theta x^2 \cdot \frac{nx^{n-1}}{\theta^n} \mathrm{d}x - \left[\int_0^\theta x \cdot \frac{nxn - 1}{\theta^n} \mathrm{d}x \right]^2$$
$$= \frac{n\theta^2}{(n+1)^2(n+2)}$$

and,

$$\left(B_{\hat{\Theta}}(\theta)\right)^2 = (\mathbb{E}_\theta[\hat{\Theta} - \theta])^2$$
$$= (\mathbb{E}_\theta[\hat{\Theta}] - \mathbb{E}_\theta[\theta])^2$$
$$= \frac{\theta^2}{(n+1)^2}$$

Therefore,

$$\mathrm{MSE}_{\hat{\Theta}}(\theta) = \mathbb{V}_\theta(\hat{\Theta}) + \left(B_{\hat{\Theta}}(\theta)\right)^2$$
$$= \frac{2\theta^2}{(n+1)(n+2)}$$

When comparing two estimators such as $\hat{\Theta}_1$ and $\hat{\Theta}_2$, $\hat{\Theta}_1$ is better than $\hat{\Theta}_2$ if;
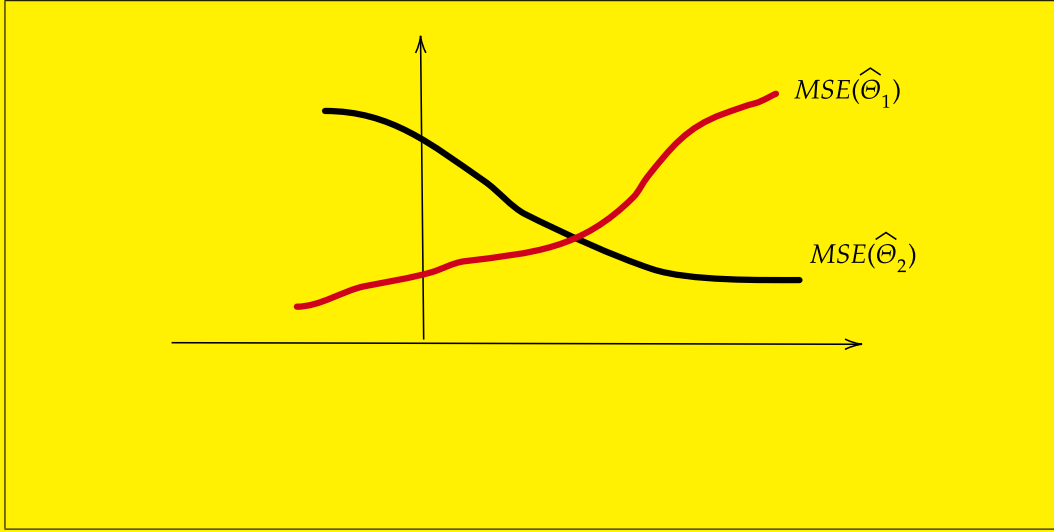
Figure 1: Comparing Mean Squared Errors

- $\text{MSE}_{\hat{\Theta}_1}(\theta) \leq \text{MSE}_{\hat{\Theta}_2}(\theta) \quad \forall\ \theta$

- $\text{MSE}_{\hat{\Theta}_1}(\theta) < \text{MSE}_{\hat{\Theta}_2}(\theta) \quad \text{for some } \theta$

Question: Suppose $X_1, X_2, \ldots, X_n$ are iid with $\mathbb{E}(X_i) = \mu(< \infty)$ and $Var(X_i) = \sigma^2(< \infty)$, Compare the MSE of these estimators for μ

- $m_1 = X_1$

- $m_2 = \frac{X_1 + X_2}{2}$

- $m_n = \frac{X_1 + X_2 + \ldots + X_n}{n}$

Note that all of them have the same expected values, i.e., $\mathbb{E}(m_1) = \mathbb{E}(m_2) = \ldots = \mathbb{E}(m_n) = \mu$.

$$\text{MSE}(m_1) = \sigma^2$$
$$\text{MSE}(m_2) = \frac{\sigma^2}{2}$$
$$\text{MSE}(m_n) = \frac{\sigma^2}{n}$$

so the MSE grows smaller as n increases.

1.2   Maximum Likelihood Estimator

$X_1, X_2, \ldots, X_n$ are iid random variables from some population $f(x; \theta)$ where θ is the unkown parameter we want to estimate.

Tak Obseravation $X_1, X_2, \ldots, X_n$ and find the joint density of them which will be the product of the marginals, we call this joint density a Likelihood function,

$$\mathcal{L}(\theta; x_1, x_2, \ldots, x_n) = f(x_1; \theta) f(x_2; \theta) \cdots f(x_n; \theta)$$

then we can solve the following;

$$\max_{\theta} \quad \mathcal{L}(\theta)$$

the solution to the above problem is $\hat{\Theta}_{MLE}$.

Now,

Suppose $X_1, X_2, \ldots, X_n$ are iid Bern(p),then estimate p using MLE;

$$\mathcal{L}(p; x_1, \ldots, x_n) = p^{\sum_{i=1}^{n} x_i}(1 - p)^{n - \sum_{i=1}^{n} x_i}$$

we want to maximise the above but we can take an increasing transformation and solve the following,

$$\max_{p} \quad \ln(\mathcal{L}(p; x_1, \ldots, x_n)) = \left(\sum_{i=1}^{n} x_i\right)(\ln(p)) + \left(n - \sum_{i=1}^{n} x_i\right)(\ln(1 - p))$$

$$\text{differentiating w.r.t p;} \quad \frac{\sum_{i=1}^{n} x_i}{p} - \frac{n - \sum_{i=1}^{n} x_i}{1 - p} = 0$$

$$\implies \sum_{i=1}^{n} x_i - p \sum_{i=1}^{n} x_i = np - p \sum_{i=1}^{n} x_i$$

$$= \hat{p}_{MLE} = \frac{\sum_{i=1}^{n} x_i}{n}$$

So in this case it turns out to be jsut the sample mean.

Question: Suppose $X_1, X_2, \ldots, X_n \overset{iid}{\sim} \mathcal{N}(\mu, 1)$, where μ is unknown, find $\hat{\mu}_{MLE}$.

$$\mathcal{L}(\mu; x_1, x_2, \ldots, x_n) = f(x_1; \mu) f(x_2; \mu) \cdots f(x_n; \mu)$$

$$\mathcal{L}(\mu) = \prod_{i=1}^{n} f_{X_i}(x_i; \mu) = \left(\frac{1}{\sqrt{2\pi}}\right)^n \exp\left(-\frac{1}{2} \sum_{i=1}^{n} (x_i - \mu)^2\right)$$

$$\ell(\mu) = \log \mathcal{L}(\mu) = -\frac{n}{2} \log(2\pi) - \frac{1}{2} \sum_{i=1}^{n} (x_i - \mu)^2$$

$$\frac{d\ell(\mu)}{d\mu} = \frac{d}{d\mu}\left(-\frac{1}{2} \sum_{i=1}^{n} (x_i - \mu)^2\right) = \sum_{i=1}^{n} (x_i - \mu) = 0$$

$$\Rightarrow n\mu = \sum_{i=1}^{n} x_i$$

$$\hat{\mu_{MLE}} = \frac{1}{n} \sum_{i=1}^{n} X_i$$

This is the sample mean, which makes intuitive sense as the best estimator of the population mean μ .