

# EDSD - Shapley Decomposition (Exercises)

## Preparation

Install the following package from GitHub:

```
install.packages("remotes")
remotes::install_github("elbersb/shapley")
```

## Exercises – Part 1

1. Proof  $\bar{y}_2 - \bar{y}_1 = \Delta p + \Delta y$ .
2. How does the term  $\Delta y$  relate to standardization?
3. In R, use the `children` dataset to decompose the difference in overall rates using Kitagawa's method.

```
children <- data.frame(
  age = c("20 to 24", "25 to 29", "30 to 34", "35 to 39", "40 to 44"),
  n1 = c(27, 152, 224, 239, 211),
  rate1 = c(37.037, 19.079, 15.179, 5.021, 6.161),
  n2 = c(363, 208, 96, 59, 48),
  rate2 = c(90.083, 76.923, 56.250, 20.339, 10.417)
)
```

## Exercises - Part 2

1. What happens if the value function is additive in the factors? (e.g., let  $N = \{a, b, c\}$ , and  $v(N) = a + b + c$ ,  $v(\{a, c\}) = a + c$ ,  $v(\emptyset) = 0$ , etc.)

### Difficult take-home exercises (if you really want to!)

1. Proof that  $v(N) - v(\emptyset) = \varphi_1 + \varphi_2 + \dots + \varphi_m$ . (This is called the efficiency property.)
2. Proof  $\sum_{S \subseteq N \setminus \{k\}} \frac{|S|!(m-1-|S|)!}{m!} = 1$ . (This is to see that  $\varphi_i(N, v)$  is truly a weighted average, with the weights summing to 1.)

## Exercises - Part 3

1. Try the Shapley approach to Kitagawa's decomposition on your own. We defined  $v(\emptyset) = \sum_i p_{i1} y_{i1}$  and  $v(\{\Delta p, \Delta y\}) = \sum_i p_{i2} y_{i2}$ . What happens when you switch these definitions?
2. Rewrite example 3 such that the value function uses a data frame. Try the decomposition on the `austria_chile` data provided below (data from 1981, fertility is per 1,000).

```
austria_chile <- data.frame(
  factor = c("prop_unmarried", "nonm_fertility", "m_fertility"),
  `austria` = c(0.41952, 23.99823, 71.83691),
  `chile` = c(0.475, 50.82674, 115.73732)
)
```

3. Bongaarts (1978) expressed the total fertility rate (TFR) as the product of five factors: the total fecundity rate, and the indices of proportion married, noncontraception, induced abortion, and lactational infecundability. The dataset `bongaarts` contains data for South Korea, 1960 and 1970. Use the Shapley value approach to decompose the difference in the TFR between 1960 and 1970 into the contributions of the five factors.

```
bongaarts <- data.frame(
  factor = c("fecundity", "marriage", "noncontracept", "abortion", "lactation"),
  `1960` = c(16.573, 0.580, 0.760, 0.840, 0.660),
  `1970` = c(16.158, 0.720, 0.970, 0.970, 0.560)
)
```

## Additional exercises

1. Decompose the  $R^2$  of a regression model into the contributions of each variable.
2. Das Gupta (1993) provides a survey of many decomposition procedures used in demography. Pick a decomposition procedure for which he provides data and see whether the Shapley decomposition yields identical results.
3. The dataset `income` below provides information for five individuals on their market income, the tax they pay, the transfers they receive, and their final income (final income = market income + tax + transfer). The Gini index is an inequality measure: if everyone has the same income, the Gini is 0. If one person has all the income, the Gini approaches 1. Taxes and transfers often reduce the Gini, in this case by about 17%. Decompose this difference into the contribution of taxes and transfers.

```
# 100 persons, each has 1 => Gini 0
ineq::Gini(rep(100, 1))
```

```
## [1] 0
```

```
# one person has 100, 100 persons have zero => Gini of 0.99
ineq::Gini(c(100, rep(0, 100)))
```

```
## [1] 0.990099
```

```
income <- data.frame(
  MarketIncome = c(1, 20, 30, 40, 50),
  Tax1 = c(0, -1, -2, -3, -4),
  Tax2 = c(-5, -4, -3, -2, -1),
  Transfer = c(9, 7, 5, 3, 1),
  FinalIncome = c(5, 22, 30, 38, 46))

ineq::Gini(income[["MarketIncome"]])
```

```
## [1] 0.3347518
```

```
ineq::Gini(income[["FinalIncome"]])
```

```
## [1] 0.2780142
```