

EC709 PS1

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Note

I can't actually figure out how to export glmnet or locfit results to a latex table so I'm just describing them in this document. All results can be found in code.R or on https://github.com/everettstamm1/EC709_PS1

1 Question 1

1.1 Part 1

Omitted.

1.2 Part 2

From the slides, recall that

$$\hat{g}_h(x) = e_1'(X'WX)^{-1}X'WY$$

Where e_1 is $(r+1) \times 1$ vector with 1 in the first entry and zeros elsewhere and $W = \text{diag}(K_h(x - X_1), \dots, K_h(x - X_n))$. Add and subtract a $g_0 = (g_0(X_1), \dots, g_0(X_n))'$ to this and square to get MSE:

$$MSE = E[(\hat{g}_h(x) - g_0(x))^2 | X_i] = e_1'(X'WX)^{-1}X'W\Sigma W X(X'WX)^{-1}e_1 + \left(e_1'(X'WX)^{-1}X'Wg_0 - g_0(x)\right)^2$$

Where the first term is the variance and the second is the bias squared. Also Σ is an $N \times N$ diagonal matrix of the sample variances: $\Sigma = \text{diag}(\sigma^2(X_1), \dots, \sigma^2(X_n))$

Not get Taylor approximation of $g(X_i)$

$$g(X_i) \approx g_0(x) + g_0'(x)(X_i - x) + (1/2)g_0''(x)(X_i - x)^2$$

Rename $r_i = (1/2)g_0''(x)(X_i - x)^2 = g_0(X_i) - g_0(x) - g_0'(x)(X_i - x)$. Thus we can rewrite:

$$g_0(X_i) = g_0(x) - g_0'(x)(X_i - x) + r_i$$

Since $Xe_1 = (1, \dots, 1)'$ and $Xe_2 = (X_1 - x, \dots, X_n - x)'$, we can write the above in vector form:

$$g_0 = Xe_1g_0(x) - Xe_2g_0'(x) + r$$

And substitute into the equation for bias

$$\begin{aligned} \text{Bias} &= e_1'(X'WX)^{-1}X'Wg_0 - g_0(x) = \\ &= e_1'(X'WX)^{-1}X'W(Xe_1g_0(x) - Xe_2g_0'(x) + r) - g_0(x) = e_1'(X'WX)^{-1}X'Wr \end{aligned}$$

Now we need a corollary: from the "weighted average" section of the notes we can see that

$$S_j = W((x - X^j)^j)/h^j \sum_i K_h(x - X_i) \left(\frac{x - X_i}{h}\right)^j$$

Multiply, divide, do a change of variables $u = (x - x_i)/h$ and take the expectation to get that

$$E[S_j/(nh^j)] = \mu_j f_0(x) + o(1)$$

For $\mu_j = \int u^j K(u) du$. Note that the asymptotic variance of this can be shown to have

$$\text{Var}(S_j/(nh^j)) = E[(S_j/(nh^j))^2] - (E[S_j/(nh^j)])^2 \leq E[(S_j/(nh^j))^2] \leq \frac{1}{nh} \int u^{2j} K(u)^2 j_0(x - hu) du$$

The integral approaches some constant as $h \rightarrow 0$ and then $\frac{1}{nh} \rightarrow 0$ as $nh \rightarrow \infty$, so the variance approaches zero. So we have that

$$S_j/(nh^j) \rightarrow \mu_j f_0(x) + o(1)$$

Now let $H = \text{diag}(1, h)$, so we have

$$n^{-1}h^{-2}H^{-1}X'Wr = n^{-1}h^{-2}H^{-1}X'S_2(1/2)g_0''(x) \rightarrow (1/2)f_0(x) \begin{pmatrix} \mu_2 \\ 0 \end{pmatrix} g_0''(x)$$

We also have that as $h \rightarrow 0$ and $nh \rightarrow \infty$

$$n^{-1}H^{-1}X'WXH^{-1} = n^{-1} \begin{bmatrix} S_0 & h^{-1}S_1 \\ h^{-1}S_1 & h^{-2}S_2 \end{bmatrix} \rightarrow f_0(x) \begin{bmatrix} \mu_0 & \mu_1 \\ \mu_1 & \mu_2 \end{bmatrix} = f_0(x) \begin{bmatrix} 1 & 0 \\ 0 & \mu_2 \end{bmatrix}$$

Now rearrange the bias equation

$$\begin{aligned} e_1'(X'WX)^{-1}X'Wr &= e_1'h^2H^{-1}(n^{-1}H^{-1}X'WXH^{-1})^{-1}n^{-1}h^{-2}H^{-1}X'Wr \rightarrow e_1'h^2H^{-1}\left(f_0(x) \begin{bmatrix} 1 & 0 \\ 0 & \mu_2 \end{bmatrix}\right)^{-1}(1/2)f_0(x) \begin{pmatrix} \mu_2 \\ 0 \end{pmatrix} g_0''(x) = \\ &g_0''(x)(h^2/2)e_1'H^{-1}\frac{1}{\mu_2} \begin{bmatrix} \mu_2 & 0 \\ 0 & 1 \end{bmatrix} \begin{pmatrix} \mu_2 \\ 0 \end{pmatrix} = g_0''(x)(h^2/2)\mu_2 + o(1) \end{aligned}$$

Forgot the $o(1)$ along the way but here it is again.

Using what we learned for the bias, let's identify a new quantity:

$$Q_j = \frac{h}{n} \sum_i K(x - X_i)^2 \left(\frac{x - X_i}{h}\right)^j \sigma^2(x_i)$$

Thus with change of variables $u = (x - X_i)/h$

$$E[Q_j] = E[hK_h(x - X_i)^2 \left(\frac{x - X_i}{h}\right)^j \sigma^2(x_i)] = f_0(x)\sigma^2(x) \int u^j K(u)^2 du = f_0(x)\sigma^2(x)v_j$$

Turns out that

$$n^{-1}hH^{-1}X'W\Sigma WXH^{-1} = \begin{bmatrix} Q_0 & 0 \\ 0 & Q_2 \end{bmatrix}$$

So then the variance equation becomes

$$\begin{aligned} e_1'(X'WX)^{-1}X'W\Sigma WX(X'WX)^{-1}e_1 &= n^{-1}h^{-1}e_1'H^{-1}\left(\frac{H^{-1}X'WXH^{-1}}{n}\right)\left(\frac{hH^{-1}X'W\Sigma WXH^{-1}}{n}\right)\left(\frac{H^{-1}X'WXH^{-1}}{n}\right)H^{-1}e_1 \rightarrow \\ &n^{-1}h^{-1}e_1'(f_0(x) \begin{bmatrix} 1 & 0 \\ 0 & \mu_2 \end{bmatrix})^{-1} \begin{bmatrix} Q_0 & 0 \\ 0 & Q_2 \end{bmatrix} (f_0(x) \begin{bmatrix} 1 & 0 \\ 0 & \mu_2 \end{bmatrix})^{-1}e_1 = n^{-1}h^{-1}\frac{v_0\sigma^2(x)}{f_0(x)} + o(1) \end{aligned}$$

1.3 Part 3

Below is the table of simulated values.

Table 1

	h	kern.bias	kern.var	local.bias	local.var
1	0.050	0.013	0.142	0.018	0.150
2	0.100	0.015	0.120	0.011	0.143
3	0.150	0.014	0.100	0.012	0.137
4	0.200	0.010	0.079	0.019	0.136

1.4 Part 4

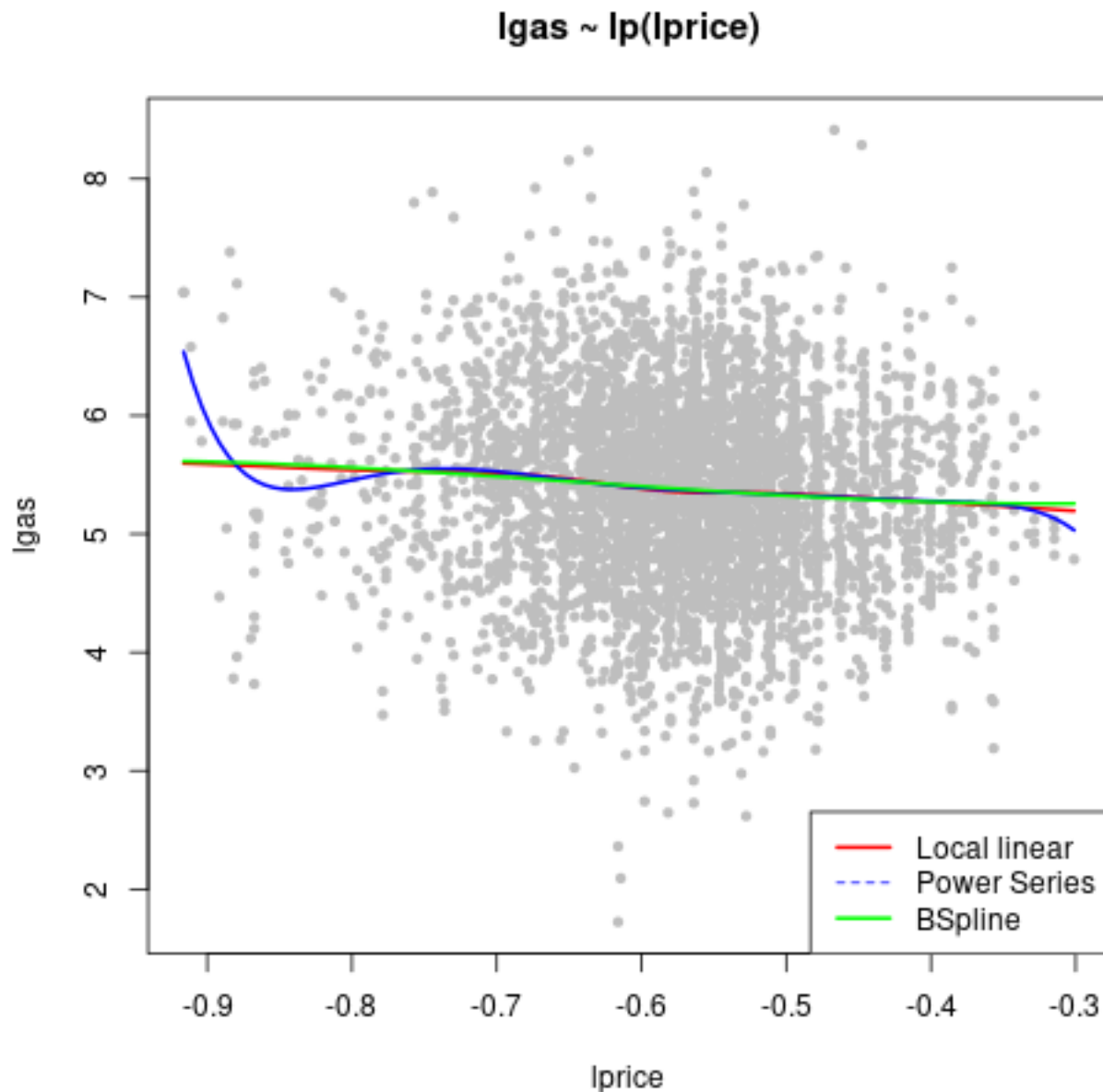
Asymptotic theory would predict the following for local linear regression:

$$E[Bias] = E[g_0''(x)(h^2/2)\mu_2] = E[\exp(X)(h^2/2)(1/5)] = (h^2/2)(1/5)(\exp(1) - \exp(0))$$

Thus for $h = (0.05, 0.1, 0.15, 0.2)$ we'd expect $Bias = (0.0004, 0.0017, 0.0039, 0.0067)$. Kinda makes sense that since we're holding n constant while $h \rightarrow 0$, the values get further from their true value. Similarly:

$$E[Variance] = E\left[\frac{1}{1000h} \frac{(3/5)\sigma^2(x)}{f_0(x)}\right] = \frac{1}{1000h} \frac{(3/5)0.5^2/12}{1}$$

Thus for $h = (0.05, 0.1, 0.15, 0.2)$ we'd expect $Variance = (0.00025, 0.000125, 0.000083, 0.0000625)$. Clearly we're very far off!



2 Question 2

2.1 Part 1

In code.R, I optimized the local linear regression over bandwidth values of (0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8) and the power and bspline regressions over 1-7 knots. The optimal values were 0.1 for local linear, 7 for power, and 1 for bspline.

2.2 Part 2

With the price set to 0.57. I get betas of 5.34, 5.36, and 5.37 with standard errors of 0.02 0.016, and 0.013 for local linear, power, and bspline regressions, respectively.

2.3 Part 3

Again in code.R, I optimized the local linear regression over bandwidth values of (0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8) and the power and bspline regressions over 1-7 knots. The optimal values were 0.1 for local linear, 7 for power, and 1 for bspline.

2.4 Part 4

In the standard lasso, the coefficient on log price is -0.554 , while in the two-way one it's fixed at zero. That said, there are coefficients of -0.253 , -0.057 , and 0.125 on the interaction of log price and driver, hhsize, and urban, respectively.

3 Question 3

Below is the prediction error for the 5 estimators. Clearly, there are benefits to cross validation, though surprisingly post lasso CV is higher than just the lasso CV.

Table 2

Statistic	N	Mean	St. Dev.	Min	Max
lasso_pe	500	5.917	0.829	3.657	9.089
post_lasso_pe	500	2.871	0.394	1.696	4.140
lassoCV_pe	500	0.258	0.130	0.039	0.934
post_lassoCV_pe	500	0.562	0.246	0.027	1.300
oracle_pe	500	0.061	0.036	0.006	0.278