

# Mis-classified, Binary, Endogenous Regressors: Identification and Inference\*

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## Abstract

This paper studies identification and inference for the effect of a mis-classified, binary, endogenous regressor when a discrete-valued instrumental variable is available. We begin by showing that the only existing point identification result for this model is incorrect. We go on to derive the sharp identified set under mean independence assumptions for the instrument and measurement error, and find that these fail to point identify the effect of interest. This motivates us to consider alternative and slightly stronger assumptions: we show that adding second and third moment independence assumptions suffices to identify the model. We then turn our attention to inference. We show that both our model, and related models from the literature that assume regressor exogeneity, suffer from weak identification when the effect of interest is small. To address this difficulty, we exploit the inequality restrictions that emerge from our derivation of the sharp identified set under mean independence only. These restrictions remain informative irrespective of the strength of identification. Combining these with the moment equalities that emerge from our identification result, we propose a robust inference procedure using tools from the moment inequality literature. Our method performs well in simulations, both for the exogenous and endogenous regressor case.

**Keywords:** Instrumental variables, Measurement error, Endogeneity, Weak identification, Moment inequalities

**JEL Codes:** C10, C18, C25, C26

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# 1 Introduction

Additively separable model

$$y = h(T^*, \mathbf{x}) + \varepsilon$$

where  $\varepsilon$  is a mean-zero error term,  $T^*$  is an endogenous binary regressor of interest and  $\mathbf{x}$  is a vector of exogenous controls. Since  $T^*$  is binary, we can re-write this as linear in  $T^*$  conditional on  $\mathbf{x}$

$$\begin{aligned} y &= c(\mathbf{x}) + \beta(\mathbf{x})T^* + \varepsilon \\ \beta(\mathbf{x}) &= h(1, \mathbf{x}) - h(0, \mathbf{x}) \\ c(\mathbf{x}) &= h(0, \mathbf{x}) \end{aligned}$$

Goal is to use an instrumental variable  $z$  to identify  $\beta(\mathbf{x})$  when we observe not  $T^*$  but a mis-measured binary surrogate  $T$ .

**How are we different from Ura?**

1. We maintain nondifferential measurement error assumption throughout; Ura's main purpose is to relax it.
2. We focus on an additively separable model; Ura explicitly studies at LATE setting
3. We obtain point and partial identification results; Ura present only partial identification results

**Old Introduction:** Many treatments of interest in applied work are binary. To take a particularly prominent example, consider treatment status in a randomized controlled trial. Even if the randomization is pristine, which yields a valid binary instrument (the offer of treatment), subjects may select into treatment based on unobservables, and given the many real-world complications that arise in the field, measurement error may be an important concern. This paper studies the use of a discrete instrumental variable to identify the causal effect of an endogenous, mis-measured, binary treatment in a model with additively separable errors. Specifically, we consider the following model

$$y = h(T^*, \mathbf{x}) + \varepsilon \tag{1}$$

where  $T^* \in \{0, 1\}$  is a mis-measured, endogenous treatment,  $\mathbf{x}$  is a vector of exogenous controls, and  $\varepsilon$  is a mean-zero error. Since  $T^*$  is potentially endogenous,  $\mathbb{E}[\varepsilon|T^*, \mathbf{x}]$  may

not be zero. Our goal is to non-parametrically estimate the average treatment effect (ATE) function

$$\tau(\mathbf{x}) = h(1, \mathbf{x}) - h(0, \mathbf{x}). \quad (2)$$

using a single discrete instrumental variable  $z \in \{z_k\}_{k=1}^K$ . We assume throughout that  $z$  is a relevant instrument for  $T^*$ , in other words

$$\mathbb{P}(T^* = 1|z_j, \mathbf{x}) \neq \mathbb{P}(T^* = 1|z_k, \mathbf{x}), \quad \forall k \neq j. \quad (3)$$

While the structural relationship involves  $T^*$ , we observe only a noisy measure  $T$ , polluted by non-differential measurement error. In particular, we assume that

$$\mathbb{P}(T = 1|T^* = 0, z, \mathbf{x}) = \alpha_0(\mathbf{x}) \quad (4)$$

$$\mathbb{P}(T = 0|T^* = 1, z, \mathbf{x}) = \alpha_1(\mathbf{x}) \quad (5)$$

where the mis-classification error rates  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$  can depend on  $\mathbf{x}$  but not  $z$ , and additionally that, conditional on true treatment status, observed treatment status provides no additional information about the error term. In other words, we assume that

$$\mathbb{E}[\varepsilon|T^*, T, z, \mathbf{x}] = \mathbb{E}[\varepsilon|T^*, z, \mathbf{x}]. \quad (6)$$

Although a relevant case for applied work, the setting we consider here has received little attention in the literature. The only existing result for the case of an endogenous treatment appears in an important paper by [Mahajan \(2006\)](#), who is primarily concerned with the case of an exogenous treatment. As we show below, [Mahajan's](#) identification result for the endogenous treatment case is incorrect. As far as we are aware, this leaves the problem considered in this paper completely unsolved.

We begin by showing that the proof in Appendix A.2 of [Mahajan \(2006\)](#) leads to a contradiction. Throughout his paper, [Mahajan \(2006\)](#) maintains an assumption (Assumption 4) which he calls the ‘‘Dependency Condition.’’ This assumption requires that the instrumental variable be relevant, namely that it generates variation in true treatment status. When extending his result for an exogenous treatment to the more general case of an endogenous one, however, he must impose an additional condition on the model (Equation 11), which turns out to violate the Dependency Condition. Since one cannot impose the condition in Equation 11 of [Mahajan \(2006\)](#), we go on to study the prospects for identification in this model more broadly. We consider two possibilities. First, since [Mahajan's](#) identification results require only a binary instrument, we borrow an idea from [Lewbel \(2007\)](#) and explore

whether expanding the support of the instrument yields identification based on moment equations similar to those used by [Mahajan \(2006\)](#). While allowing the instrument to take on additional values does increase the number of available moment conditions, we show that these moments cannot point identify the treatment effect, regardless of how many (finite) values the instrument takes on.

We then consider a new source of identifying information that arises from imposing stronger assumptions on the instrumental variable. If the instrument is not merely mean independent but in fact *statistically independent* of the regression error term, as in a randomized controlled trial or a true natural experiment, additional moment conditions become available. We show that adding a conditional second moment independence assumption on the instrument identifies the *difference* of mis-classification rates  $\alpha_1(\mathbf{x}) - \alpha_0(\mathbf{x})$ . Because these rates must equal each other when there is no mis-classification error, our result can be used to test a necessary condition for the absence of measurement error. It can also be used to construct simple and informative partial identification bounds for the treatment effect. When one of the mis-classification rates is known, this identifies the treatment effect. More generally, however, this is not the case. We go on to show that a conditional third moment independence assumption on the instrument point identifies both  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$  and hence the ATE function  $\tau(\mathbf{x})$ . Both our point identification and partial identification results require only a binary instrument, and lead to simple, closed-form method of moments estimators.

This project is still in progress. The present draft focuses on establishing identification in the simplest possible way: by directly solving a set of equations implied by conditional moment restrictions on  $\varepsilon$ . Additional results regarding efficient estimation and sharp bounds for  $\alpha_0, \alpha_1$  under weaker conditions on the instrumental variable are currently in progress. For some additional discussion of these results, see our conclusion below in Section 4.

The remainder of this paper is organized as follows. In section 2 we discuss the literature in relation to the problem considered here. Section 3 introduces notation and assumptions, and presents our main results. Section 4 concludes. All proofs appear in the Appendix.

**Old Literature Review:** Measurement error is a pervasive feature of economic data, motivating a long tradition of measurement error modelling in econometrics. The textbook case considers a continuous regressor (treatment) subject to classical measurement error in a linear model. In this setting, the measurement error is assumed to be unrelated to the true, unobserved, value of the treatment of interest. Regardless of whether this unobserved treatment is exogenous or endogenous, a single valid instrument suffices to identify its effect. When an instrument is unavailable, [Lewbel \(1997\)](#) shows that higher moment assumptions

can be used to construct one, provided that the mis-measured treatment is exogenous. When it is endogenous, [Lewbel \(2012\)](#) uses a heteroskedasticity assumption to obtain identification.

Departures from the linear, classical measurement error setting pose serious identification challenges. One strand of the literature considers relaxing the assumption of linearity while maintaining that of classical measurement error. [Schennach \(2004\)](#), for example, uses repeated measures of each mis-measured treatment to obtain identification, while [Schennach \(2007\)](#) uses an instrumental variable. Both papers consider the case of exogenous treatments.<sup>1</sup> More recently, [Song et al. \(2015\)](#) rely on a repeated measure of the mis-measured treatment and the existence of a set of additional regressors, conditional upon which the treatment of interest is unrelated to the unobservables, to obtain identification. Another strand of the literature considers relaxing the assumption of classical measurement error, by allowing the measurement error to be related to the true value of the unobserved treatment. [Chen et al. \(2005\)](#) obtain identification in a general class of moment condition models with mis-measured data by relying on the existence of an auxiliary dataset from which they can estimate the measurement error process. In contrast, [Hu and Shennach \(2008\)](#) and [Song \(2015\)](#) rely on an instrumental variable and an additional conditional location assumption on the measurement error distribution. More recently, [Hu et al. \(2015\)](#) use a continuous instrument to identify the ratio of partial effects of two continuous regressors, one measured with error, in a linear single index model.

Many treatments of interest in economics, however, are binary, and in this case classical measurement error is impossible. Because a true 1 can only be mis-measured as a 0 and a true 0 can only be mis-measured as a 1, the measurement error must be *negatively* correlated with the true treatment status ([Aigner, 1973](#); [Bollinger, 1996](#)). For this reason, even in a textbook linear model, the instrumental variables estimator can only remove the effect of endogeneity, not that of measurement error ([Frazis and Loewenstein, 2003](#)). Measurement error in a discrete variable is usually called mis-classification.<sup>2</sup> The simplest form of mis-classification is so-called *non-differential* measurement error. In this case, conditional on true treatment status, and possibly a set of exogenous covariates, the measurement error is assumed to be unrelated to all other variables in the system.

A number of papers have studied this problem without the use of instrumental variables under the assumption that the mis-measured binary treatment is exogenous. The first to address this problem was [Aigner \(1973\)](#), who characterized the asymptotic bias of the OLS estimator in this setting, and proposed a technique for correcting it using outside information

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<sup>1</sup>For comprehensive reviews of the challenges of addressing measurement error in non-linear models, see [Chen et al. \(2011\)](#) and [Schennach \(2013\)](#).

<sup>2</sup>For general results on the partial identification of discrete probability distributions using mis-classified observations, see [Molinari \(2008\)](#).

on the mis-classification process. Another early contribution by [Bollinger \(1996\)](#) provides partial identification bounds. More recently, [Chen et al. \(2008a\)](#) use higher moment assumptions to obtain identification in a linear regression model, and [Chen et al. \(2008b\)](#) extend these results to the non-parametric setting. [van Hasselt and Bollinger \(2012\)](#) and [Bollinger and van Hasselt \(2015\)](#) provide additional partial identification results.

Continuing under the assumption of an exogenous treatment, a number of other papers in the literature have considered the identifying power of an instrumental variable, or something like one. [Black et al. \(2000\)](#) and [Kane et al. \(1999\)](#) more-or-less simultaneously pointed out that when *two* alternative measures of treatment are available, both subject to non-differential measurement error, a non-linear GMM estimator can be used to recover the treatment effect. In essence, one measure serves as an instrument for the other although the estimator is quite different from IV.<sup>3</sup> Subsequently, [Frazis and Loewenstein \(2003\)](#) correctly note that an instrumental variable can take the place of one of the measures of treatment in a linear model with an exogenous treatment, allowing one to implement a variant of the GMM estimator proposed by [Black et al. \(2000\)](#) and [Kane et al. \(1999\)](#). However, as we will show below, the assumptions required to obtain this result are stronger than [Frazis and Loewenstein \(2003\)](#) appear to realize: the usual IV assumption that the instrument is mean independent of the regression error is insufficient for identification.

[Mahajan \(2006\)](#) extends the results of [Black et al. \(2000\)](#) and [Kane et al. \(1999\)](#) to a more general nonparametric regression setting using a binary instrument in place of one of the treatment measures. Although unaware of [Frazis and Loewenstein \(2003\)](#), [Mahajan \(2006\)](#) makes the correct assumption over the instrument and treatment to guarantee identification of the conditional mean function. When the treatment is in fact exogenous, this coincides with the treatment effect. [Hu \(2008\)](#) derives related results when the mis-classified discrete regressor may take on more than two values. [Lewbel \(2007\)](#) provides an identification result for the same model as [Mahajan \(2006\)](#) under different assumptions. In particular, the variable that plays the role of the “instrument” need not satisfy the exclusion restriction provided that it does not interact with the treatment and takes on at least three distinct values.

Much less is known about the case in which a binary, or discrete, treatment is not only mis-measured but endogenous. [Frazis and Loewenstein \(2003\)](#) briefly discuss the prospects for identification in this setting. Although they do not provide a formal proof they argue, in the context of their parametric linear model, that the treatment effect is unlikely to be

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<sup>3</sup>Ignoring covariates, the observable moments in this case are the joint probability distribution of the two binary treatment measures and the conditional means of the outcome variable given the two measures. Although the system is highly non-linear, it can be manipulated to yield an explicit solution for the treatment effect provided that the true treatment is exogenous.

identified unless one is willing to impose strong and somewhat unnatural conditions.<sup>4</sup> The first paper to provide a formal result for this case is [Mahajan \(2006\)](#). He extends his main result to the case of an endogenous treatment, providing an explicit proof of identification under the usual IV assumption in a model with additively separable errors. As we show below, however, [Mahajan's](#) proof is incorrect.

The results we derive here most closely relate to the setting considered in [Mahajan \(2006\)](#) in that we study non-parametric identification of the effect of a binary, endogenous treatment, using a discrete instrument. Unlike [Mahajan \(2006\)](#) we consider and indeed show the necessity of using higher-moment information to identify the causal effect of interest. Unlike [Kreider et al. \(2012\)](#), who partially identify the effects of food stamps on health outcomes of children under weak measurement error assumptions, we do not rely on auxiliary data. Unlike [Shiu \(2015\)](#), who considers a sample selection model with a discrete, mis-measured, endogenous regressor, we do not rely on a parametric assumption about the form of the first-stage. Finally unlike [Ura \(2015\)](#), who studies local average treatment effects under very general forms of mis-classification but presents only partial identification results, we point identify an average treatment effect under non-differential measurement error. Moreover, unlike the identification strategies from the existing literature described above, we do not rely upon continuity of the instrument, a large support condition, or restrictions on the relationship between the true, unmeasured treatment and its observed surrogate, subject to the condition that the measurement error process is non-differential.

## 2 Identification Results

### 2.1 Baseline Assumptions

As defined in the preceding section, our model is  $y = c(\mathbf{x}) + \beta(\mathbf{x})T^* + \varepsilon$ , where  $\varepsilon$  is a mean-zero error term, and the parameter of interest is  $\beta(\mathbf{x})$  – the effect of an unobserved, binary, endogenous regressor  $T^*$ . Suppose we observe a valid and relevant binary instrument  $z$ . We assume that the model and instrument satisfy the following conditions:

**Assumption 2.1.**

- (i)  $y = c(\mathbf{x}) + \beta(\mathbf{x})T^* + \varepsilon$  where  $T^* \in \{0, 1\}$  and  $\mathbb{E}[\varepsilon] = 0$ ;
- (ii)  $z \in \{0, 1\}$ , where  $0 < \mathbb{P}(z = 1|\mathbf{x}) < 1$ , and  $\mathbb{P}(T^* = 1|\mathbf{x}, z = 1) \neq \mathbb{P}(T^* = 1|\mathbf{x}, z = 0)$ ;

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<sup>4</sup>For example, one could consider using the results of [Hausman et al. \(1998\)](#), who study regressions with a mis-classified, discrete *outcome* variable, as a first-stage in an IV setting. In principle, this approach would fully identify the mis-classification error process. Using these results, however, requires either an explicit, nonlinear, parametric model for the first stage, or an identification at infinity argument.

$$(iii) \mathbb{E}[\varepsilon|\mathbf{x}, z] = 0.$$

Assumptions 2.1(ii) and (iii) are the standard instrument relevance and mean independence assumptions.<sup>5</sup> If  $T^*$  were observed, Assumption 2.1 would suffice to identify  $\beta(\mathbf{x})$ . Unfortunately we observe not  $T^*$  but a mis-classified binary surrogate  $T$ . Define the following mis-classification probabilities:

$$\alpha_0(\mathbf{x}, z) = \mathbb{P}(T = 1|T^* = 0, \mathbf{x}, z), \quad \alpha_1(\mathbf{x}, z) = \mathbb{P}(T = 0|T^* = 1, \mathbf{x}, z). \quad (7)$$

Following the existing literature for the case of an exogenous regressor (Black et al., 2000; Frazis and Loewenstein, 2003; Kane et al., 1999; Lewbel, 2007; Mahajan, 2006), we impose the following conditions on the mis-classification process.

**Assumption 2.2.**

$$(i) \alpha_0(\mathbf{x}, z) = \alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}, z) = \alpha_1(\mathbf{x})$$

$$(ii) \alpha_0(\mathbf{x}) + \alpha_1(\mathbf{x}) < 1$$

$$(iii) \mathbb{E}[\varepsilon|\mathbf{x}, z, T^*, T] = \mathbb{E}[\varepsilon|\mathbf{x}, z, T^*]$$

Assumption 2.2 (i) states that the mis-classification probabilities do not depend on  $z$ . As we maintain this assumption throughout, we drop the dependence of  $\alpha_0$  and  $\alpha_1$  on  $z$  and write  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$ . Assumption 2.2 (ii) restricts the extent of mis-classification and is equivalent to requiring that  $T$  and  $T^*$  be positively correlated. Assumption 2.2 (iii) is often referred to as “non-differential measurement error.” Intuitively, it maintains that  $T$  provides no additional information about  $\varepsilon$ , and hence  $y$ , given knowledge of  $(T^*, z, \mathbf{x})$ .

## 2.2 Point Identification Results from the Literature

Existing results from the literature – see for example Frazis and Loewenstein (2003) and Mahajan (2006) – establish that  $\beta(\mathbf{x})$  is point identified if Assumptions 2.1–2.2 are augmented to include the following condition:

**Assumption 2.3** (Joint Exogeneity).  $\mathbb{E}[\varepsilon|\mathbf{x}, z, T^*] = 0$ .

Assumption 2.3 strengthens the mean independence condition from Assumption 2.1 (iii) to hold *jointly* for  $T^*$  and  $z$ . By iterated expectations, this implies that  $T^*$  is exogenous, i.e.  $\mathbb{E}[\varepsilon|\mathbf{x}, T^*] = 0$ . If  $T^*$  is endogenous, Assumption 2.3 clearly fails. Mahajan (2006)

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<sup>5</sup>Point out that even though Assumption 2.1 (ii) refers to the unobserved  $T^*$ , under Assumptions 2.2 (i) and (ii) we have  $(p_k^* - p_\ell^*)(1 - \alpha_0 - \alpha_1) = p_k - p_\ell$  so it suffices for an *observed* first-stage to exist.



argues, however, that the following restriction, along with our Assumptions 2.1–2.2, suffices to identify  $\beta(\mathbf{x})$  when  $T^*$  may be endogenous:

**Assumption 2.4** (Mahajan (2006) Equation 11).  $\mathbb{E}[\varepsilon|\mathbf{x}, z, T^*, T] = \mathbb{E}[\varepsilon|\mathbf{x}, T^*]$ .

Assumption 2.4 does not require  $\mathbb{E}[\varepsilon|\mathbf{x}, T^*]$  to be zero, but maintains that it does not vary with  $z$ . We show in Appendix B, however, that under Assumptions 2.1–2.2, Assumption 2.4 can only hold if  $T^*$  is exogenous. If  $z$  is a valid instrument and  $T^*$  is endogenous, then Assumption 2.4 implies that there is no first-stage relationship between  $z$  and  $T^*$ . As such, identification in the case where  $T^*$  is endogenous is an open question.

## 2.3 Partial Identification

In this section we derive the sharp identified set under Assumptions 2.1–2.2 and show that  $\beta(\mathbf{x})$  is not point identified. To simplify the notation, define the following shorthand for the observed and unobserved first stage probabilities

$$p_k^*(\mathbf{x}) = \mathbb{P}(T^* = 1|\mathbf{x}, z = k) \quad (8)$$

$$p_k(\mathbf{x}) = \mathbb{P}(T = 1|\mathbf{x}, z = k). \quad (9)$$

We first state two lemmas that have appeared in various guises throughout the literature. These will be used repeatedly below.

**Lemma 2.1.** *Under Assumption 2.2 (i),*

$$\begin{aligned} [1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})] p_k^*(\mathbf{x}) &= p_k(\mathbf{x}) - \alpha_0(\mathbf{x}) \\ [1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})] [1 - p_k^*(\mathbf{x})] &= 1 - p_k(\mathbf{x}) - \alpha_1(\mathbf{x}) \end{aligned}$$

where the first-stage probabilities  $p_k^*(\mathbf{x})$  and  $p_k(\mathbf{x})$  are as defined in Equations 8–9.

**Lemma 2.2.** *Under Assumptions 2.1 and 2.2 (i)–(ii),*

$$\beta(\mathbf{x}) \text{Cov}(z, T|\mathbf{x}) = [1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})] \text{Cov}(y, z|\mathbf{x})$$

Lemma 2.1 relates the observed first-stage probabilities  $p_k(\mathbf{x})$  to their unobserved counterparts  $p_k^*(\mathbf{x})$  in terms of the mis-classification probabilities  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$ . By Assumption 2.2 (ii),  $1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x}) > 0$  so that Lemma 2.1 provides non-trivial bounds for  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$  in terms of the observed first-stage probabilities. Lemma 2.2 relates the instrumental variables (IV) estimand,  $\text{Cov}(y, z|\mathbf{x})/\text{Cov}(z, T)$ , to the mis-classification probabilities. Since

$1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x}) > 0$ , IV is biased *upwards* in the presence of mis-classification. Combining the two lemmas yields a well-known bound, namely that  $\beta(\mathbf{x})$  lies between the reduced form and IV estimators. Our first result shows that *without* Assumption 2.2 (non-differential measurement error) these bounds are sharp.

**Theorem 2.1.** *Under Assumptions 2.1 and 2.2 (i)–(ii), the sharp identified set is characterized by*

$$\mathbb{E}[y|\mathbf{x}, z = k] = c(\mathbf{x}) + \beta(\mathbf{x}) \left[ \frac{p_k(\mathbf{x}) - \alpha_0(\mathbf{x})}{1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})} \right] \quad (10)$$

and  $\alpha_0(\mathbf{x}) \leq p_k(\mathbf{x}) \leq 1 - \alpha_1(\mathbf{x})$  for  $k = 0, 1$  where  $p_k(\mathbf{x})$  is defined in Equation 9.

**Corollary 2.1.** *Under the conditions of Theorem 2.1 the sharp identified set for  $\beta(\mathbf{x})$  is the closed interval between  $\Delta^y(\mathbf{x})$  and  $\Delta^y(\mathbf{x})/\Delta^T(\mathbf{x})$  where  $\Delta^y(\mathbf{x}) \equiv \mathbb{E}(y|\mathbf{x}, z = 1) - \mathbb{E}(y|\mathbf{x}, z = 0)$  and  $\Delta^T(\mathbf{x}) = p_1(\mathbf{x}) - p_0(\mathbf{x})$ , with  $p_k(\mathbf{x})$  as defined in Equation 9 for  $k = 0, 1$ .*

Corollary 2.1 follows by taking differences of the expression for  $\mathbb{E}[y|\mathbf{x}, z = k]$  across  $k = 1$  and  $k = 0$ , and substituting the maximum and minimum value for  $\alpha_0(\mathbf{x}) + \alpha_1(\mathbf{x})$  consistent with the observed first-stage probabilities. When the mis-classification probabilities are known *a priori* to satisfy additional restrictions, these bounds can be tightened.<sup>6</sup> The following corollary collects results for two common cases: one-sided misclassification (either  $\alpha_0(\mathbf{x})$  or  $\alpha_1(\mathbf{x})$  equals zero), and symmetric mis-classification ( $\alpha_0(\mathbf{x}) = \alpha_1(\mathbf{x})$ ).

**Corollary 2.2.** *Under the conditions of Theorem 2.1, restrictions on the misclassification probabilities shrink the sharp identified set for  $\beta(\mathbf{x})$  to the closed interval between  $B\Delta^y(\mathbf{x})/\Delta^T(\mathbf{x})$  and  $\Delta^y(\mathbf{x})/\Delta^T(\mathbf{x})$  where*

$$(i) \ \alpha_0(\mathbf{x}) = 0 \text{ implies } B = \max_k \mathbb{P}(T = 1|\mathbf{x}, z = k)$$

$$(ii) \ \alpha_1(\mathbf{x}) = 0 \text{ implies } B = 1 - \min_k \mathbb{P}(T = 1|\mathbf{x}, z = k)$$

$$(iii) \ \alpha_0(\mathbf{x}) = \alpha_1(\mathbf{x}) \text{ implies } B = 1 - 2 \min \{ \min_k \mathbb{P}(T = 1|\mathbf{x}, z = k), 1 - \max_k \mathbb{P}(T = 1|\mathbf{x}, z = k) \}$$

for  $k = 0, 1$ , where  $\Delta^T(\mathbf{x})$  and  $\Delta^y(\mathbf{x})$  are as defined in Corollary 2.1.

Theorem 2.1 and Corollaries 2.1–2.2 do not impose Assumption 2.2 (iii) – non-differential measurement error. We now show that this assumption yields further restrictions on the misclassification probabilities  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$ . While these restrictions are more complicated to describe than those from Theorem 2.1, they are straightforward to implement in practice and can be extremely informative, as we will show in our simulation exercises below. To the best

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<sup>6</sup>Frazis and Loewenstein (2003) consider a model in which  $\alpha_0$  and  $\alpha_1$  do not depend on the exogenous covariates  $\mathbf{x}$ . In this case  $\alpha_0 \leq \mathbb{P}(T = 1|\mathbf{x}, z) \leq 1 - \alpha_1$  and they suggest minimizing the bounds over  $\mathbf{x}$ .

of our knowledge, the sharp bounds that we derive by adding Assumption 2.2 (iii) are new to the literature. Our result uses two additional conditions to simplify the proof of sharpness. First, we assume that  $y$  is continuously distributed. This is natural in an additively separable model and holds in our simulation examples below. Without this assumption, the bounds that we derive are still valid, but may not be sharp. Nevertheless, the reasoning from our proof can be generalized to cases in which  $y$  does not have a continuous support set. We also impose  $\mathbb{E}[y|\mathbf{x}, T = 0, z = k] \neq \mathbb{E}[y|\mathbf{x}, T = 1, z = k]$  for any  $k$ . This holds generically and is not essential to the proof: it merely simplifies the description of the identified set.

**Theorem 2.2.** *Suppose that the conditional distribution of  $y$  given  $(\mathbf{x}, T, z)$  is continuous for any values of the conditioning variables and  $\mathbb{E}[y|\mathbf{x}, T = 0, z = k] \neq \mathbb{E}[y|\mathbf{x}, T = 1, z = k]$  for all  $k$ . Then, under Assumptions 2.1 and 2.2, the sharp identified set is characterized by Equation 10 from Theorem 2.1 along with  $\alpha_0(\mathbf{x}) < p_k(\mathbf{x}) < 1 - \alpha_1(\mathbf{x})$  for  $k = 0, 1$  and*

$$\underline{\mu}_{tk} \left( \underline{q}_{tk}(\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}), \mathbf{x}), \mathbf{x} \right) \leq \mu_k(\alpha_0(\mathbf{x}), \mathbf{x}) \leq \bar{\mu}_{tk} \left( \bar{q}_{tk}(\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}), \mathbf{x}), \mathbf{x} \right)$$

for all pairs  $(t, k)$  where

$$\underline{\mu}_{tk}(q, \mathbf{x}) = \mathbb{E}[y \mid y \leq q, \mathbf{x}, T = t, z = k], \quad \bar{\mu}_{tk}(q, \mathbf{x}) = \mathbb{E}[y \mid y > q, \mathbf{x}, T = t, z = k]$$

$$\mu_k(\alpha_0(\mathbf{x}), \mathbf{x}) = \frac{p_k(\mathbf{x})\mathbb{E}[y|\mathbf{x}, z = k, T = 1] - \alpha_0(\mathbf{x})\mathbb{E}[y|\mathbf{x}, z = k]}{p_k(\mathbf{x}) - \alpha_0(\mathbf{x})}$$

and we define

$$\begin{aligned} \underline{q}_{tk}(\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}), \mathbf{x}) &= F_{tk}^{-1} \left( r_{tk}(\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}), \mathbf{x}) \mid \mathbf{x} \right) \\ \bar{q}_{tk}(\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}), \mathbf{x}) &= F_{tk}^{-1} \left( 1 - r_{tk}(\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}), \mathbf{x}) \mid \mathbf{x} \right) \end{aligned}$$

where  $F_{tk}^{-1}(\cdot|\mathbf{x})$  is the conditional quantile function of  $y$  given  $(\mathbf{x}, T = t, z = k)$ ,

$$\begin{aligned} r_{0k}(\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}), \mathbf{x}) &= \frac{\alpha_1(\mathbf{x})}{1 - p_k(\mathbf{x})} \left[ \frac{p_k(\mathbf{x}) - \alpha_0(\mathbf{x})}{1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})} \right] \\ r_{1k}(\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x}), \mathbf{x}) &= \frac{1 - \alpha_1(\mathbf{x})}{p_k(\mathbf{x})} \left[ \frac{p_k(\mathbf{x}) - \alpha_0(\mathbf{x})}{1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})} \right] \end{aligned}$$

and  $p_k(\mathbf{x})$  is defined in Equation 9.

The intuition for Theorem 2.2 is as follows. For simplicity, suppress dependence on  $\mathbf{x}$ .

Now, fix  $(T = t, z = k)$  and  $(\alpha_0, \alpha_1)$ . The observed distribution of  $y$  given  $(T = t, z = k)$ , call it  $F_{tk}$ , is a mixture of two unobserved distributions: the distribution of  $y$  given  $(T = 1, z = k, T^* = 1)$ , call it  $F_{tk}^1$ , and the distribution of  $y$  given  $(T = t, z = k, T^* = 0)$ , call it  $F_{tk}^0$ . The mixing probabilities are  $r_{tk}$  and  $1 - r_{tk}$  from the statement of Theorem 2.2 and are fully determined by  $(\alpha_0, \alpha_1)$  and  $p_k$ . Assumptions 2.1 (i) and 2.2 (ii) imply that the unobserved means  $\mathbb{E}[y|T^*, T, z]$  are fully determined by  $(\alpha_0, \alpha_1)$  given the observed means  $\mathbb{E}[y|T, z]$ . The question is whether it is possible, given the observed distribution  $F_{tk}$ , to construct  $F_{tk}^1$  and  $F_{tk}^0$  with the required values for  $\mathbb{E}[y|T^*, T, z]$  such that  $F_{tk} = r_{tk}F_{tk}^1 + (1 - r_{tk})F_{tk}^0$  for all combinations  $(t, k)$ . If not, then  $(\alpha_0, \alpha_1)$  does not belong to the identified set. Our proof provides necessary and sufficient conditions for such a mixture to exist at a given point  $(\alpha_0, \alpha_1)$ . We can then appeal to the reasoning from Theorem 2.1 to complete the argument. By ruling out values for  $\alpha_0$  and  $\alpha_1$ , Theorem 2.2 restricts  $\beta$  via Lemma 2.2. While these restrictions can be very informative in practice, they do not yield point identification.

**Corollary 2.3.** *Under Assumptions 2.1 and 2.2 the identified set for  $\beta(\mathbf{x})$  contains both the IV estimand  $\text{Cov}(y, z|\mathbf{x})/\text{Cov}(z, T|\mathbf{x})$  and the true coefficient  $\beta(\mathbf{x})$ .*

Corollary 2.3 follows by Lemma 2.2 because  $\alpha_0(\mathbf{x}) = \alpha_1(\mathbf{x}) = 0$  always belongs to the sharp identified set from Theorem 2.2. Non-differential measurement error cannot exclude the possibility that there is no mis-classification because in this case it is trivial to construct the required mixtures.

Although we focus throughout this paper on the case of a binary instrument, one might wonder whether point identification can be achieved by increasing the support of  $z$ , perhaps along the lines of Lewbel (2007). The answer turns out to be no. Suppose that we were to modify Assumptions 2.1 and 2.2 to hold for all values of  $z$  in some discrete support set. By Lemma 2.2, a binary instrument identifies  $\beta(\mathbf{x})$  up to knowledge of the mis-classification probabilities  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$ . It follows that *any* pair of values  $(k, \ell)$  in the support set of  $z$  identifies the same object. Accordingly, to identify  $\beta(\mathbf{x})$  it is necessary and sufficient to identify the mis-classification probabilities. A binary instrument fails to identify these probabilities because we can never exclude the possibility of zero mis-classification. The same is true of a discrete  $K$ -valued instrument. Increasing the support of  $z$  does, however, shrink the identified set by increasing the number of restrictions available. If  $z$  takes on more than two values, our results in Theorems 2.1–2.2 continue to apply if “ $k = 0, 1$ ” is replaced by “for all  $k$ .”

## 2.4 Point Identification

The results of the preceding section establish that  $\beta(\mathbf{x})$  is not point identified under Assumptions 2.1 and 2.2. In light of this, there are two possible ways to proceed: either one can report partial identification bounds based on our characterization of the sharp identified set from Theorem 2.2, or one can attempt to impose stronger assumptions to obtain point identification. In this section we consider the second possibility. We begin by defining the following functions of the model parameters:

$$\theta_1(\mathbf{x}) = \beta(\mathbf{x}) [1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})]^{-1} \quad (11)$$

$$\theta_2(\mathbf{x}) = [\theta_1(\mathbf{x})]^2 [1 + \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})] \quad (12)$$

$$\theta_3(\mathbf{x}) = [\theta_1(\mathbf{x})]^3 [\{1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})\}^2 + 6\alpha_0(\mathbf{x}) \{1 - \alpha_1(\mathbf{x})\}] \quad (13)$$

along with the observable quantities

$$\pi(\mathbf{x}) = \text{Cov}(T, z|\mathbf{x}), \quad \eta_j(\mathbf{x}) = \text{Cov}(y^j, z|\mathbf{x}), \quad \tau_j(\mathbf{x}) = \text{Cov}(Ty^j, z|\mathbf{x}) \quad (14)$$

for  $j = 1, 2, 3$ . Using this notation, Lemma 2.2 can be written as  $\eta_1(\mathbf{x}) = \pi(\mathbf{x})\theta_1(\mathbf{x})$ . Now consider the following additional assumption:

**Assumption 2.5.**  $\mathbb{E}[\varepsilon^2|\mathbf{x}, z] = \mathbb{E}[\varepsilon^2|\mathbf{x}]$

Assumption 2.5 is a *second moment* version of the standard mean exclusion restriction for the instrument  $z$  – Assumption 2.1 (iii). It requires that the conditional variance of the error term given the covariates  $\mathbf{x}$  does not depend on  $z$ . Notice that this assumption does not require homoskedasticity with respect to  $\mathbf{x}, T^*$  or  $T$ . Assumption 2.5 allows us to derive the following lemma:

**Lemma 2.3.** *Under Assumptions 2.1, 2.2 and 2.5,  $\eta_2(\mathbf{x}) = 2\tau_1(\mathbf{x})\theta_1(\mathbf{x}) - \pi(\mathbf{x})\theta_2(\mathbf{x})$ , where  $\pi(\mathbf{x}), \tau_1(\mathbf{x}), \eta_1(\mathbf{x})$  and  $\eta_2(\mathbf{x})$  are defined in Equation 14, and  $\theta_1(\mathbf{x}), \theta_2(\mathbf{x})$  in Equations 11–12.*

Lemma 2.2 identifies  $\theta_1(\mathbf{x})$ . Since  $\pi(\mathbf{x}) \neq 0$  by Assumption 2.1 (ii), we can solve for  $\theta_2(\mathbf{x})$  in terms of observables only, using Lemma 2.3. Given knowledge of  $\theta_1(\mathbf{x})$ , we can solve Equation 12 for the difference of mis-classification rates so long as  $\beta(\mathbf{x}) \neq 0$ .

**Corollary 2.4.** *Under Assumptions 2.1–2.2 and 2.5,  $\alpha_1(\mathbf{x}) - \alpha_0(\mathbf{x})$  is identified so long as  $\beta(\mathbf{x}) \neq 0$ .*

Corollary 2.4 identifies the difference of mis-classification error rates. Hence, under one-sided mis-classification,  $\alpha_0(\mathbf{x}) = 0$  or  $\alpha_1(\mathbf{x}) = 0$ , augmenting our baseline Assumptions

2.1–2.2 with Assumption 2.5 suffices to identify  $\beta(\mathbf{x})$ . Notice that  $\beta(\mathbf{x}) = 0$  if and only if  $\theta_1(\mathbf{x}) = 0$ . Thus,  $\beta(\mathbf{x})$  is still identified in the case where Corollary 2.4 fails to apply.

Assumption 2.5 does not suffice to identify  $\beta(\mathbf{x})$  without *a priori* restrictions on the mis-classification error rates. To achieve identification in the general case, we impose the following additional conditions:

**Assumption 2.6.**

$$(i) \quad \mathbb{E}[\varepsilon^2 | \mathbf{x}, z, T^*, T] = \mathbb{E}[\varepsilon^2 | \mathbf{x}, z, T^*]$$

$$(ii) \quad \mathbb{E}[\varepsilon^3 | \mathbf{x}, z] = \mathbb{E}[\varepsilon^3 | \mathbf{x}]$$

Assumption 2.6 (i) is a second moment version of the non-differential measurement error assumption, Assumption 2.2 (iii). It requires that, given knowledge of  $(\mathbf{x}, T^*, z)$ ,  $T$  provides no additional information about the variance of the error term. Note that Assumption 2.6 (i) does not require homoskedasticity of  $\varepsilon$  with respect to  $\mathbf{x}$  or  $T^*$ . Assumption 2.6 (ii) is a third moment version of Assumption 2.5. It requires that the conditional third moment of the error term given  $\mathbf{x}$  does not depend on  $z$ . This condition neither requires nor excludes skewness in the error term conditional on covariates: it merely states that the skewness is unaffected by the instrument.

While Assumptions 2.5 and 2.6 may appear unfamiliar, we consider them to be fairly natural in the context of an additively separable model in which one has already assumed that  $\mathbb{E}[\varepsilon | z] = 0$  and  $\mathbb{E}[\varepsilon | \mathbf{x}, z, T^*, T] = \mathbb{E}[\varepsilon | \mathbf{x}, z, T^*]$  – Assumptions 2.1 (iii) and 2.2 (iii) from above.<sup>7</sup> For example, if an applied researcher reports results both for an outcome in logs and levels, she has implicitly assumed *independence* rather than first moment exclusion. Assumptions 2.1 (iii), 2.5 and 2.6 (ii) are of course implied by  $\varepsilon \perp z | \mathbf{x}$  while Assumptions 2.2 (iii) and 2.6 (i) are implied by  $\varepsilon \perp T | (\mathbf{x}, T^*, z)$ . Of course, achieving identification via Assumptions 2.5–2.6 will involve using information beyond first moments and as such places higher demands on the data. Assumption 2.6 allows us to derive the following Lemma which, combined with Lemma 2.3, leads to point identification:

**Lemma 2.4.** *Under Assumptions 2.1–2.2 and 2.5–2.6,*

$$\eta_3(\mathbf{x}) = 3\tau_2(\mathbf{x})\theta_1(\mathbf{x}) - 3\tau_1(\mathbf{x})\theta_2(\mathbf{x}) + \pi(\mathbf{x})\theta_3(\mathbf{x})$$

where  $\pi(\mathbf{x})$ ,  $\tau_1(\mathbf{x})$ ,  $\eta_1(\mathbf{x})$ ,  $\eta_2(\mathbf{x})$ , and  $\eta_3(\mathbf{x})$  are defined in Equation 14, and  $\theta_1(\mathbf{x})$ ,  $\theta_2(\mathbf{x})$ ,  $\theta_3(\mathbf{x})$  are defined in Equations 11–12.

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<sup>7</sup>If one wishes to weaken our Assumption 2.1 (i) to allow for some form of unobserved heterogeneity, our higher moment assumptions may impose additional restrictions. We discuss this issue further in Appendix C

**Theorem 2.3.** *Under Assumptions 2.1–2.2 and 2.5–2.6  $\beta(\mathbf{x})$  is identified. If  $\beta(\mathbf{x}) \neq 0$ , then  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$  are likewise identified.*

Lemmas 2.2–2.4 yield a linear system of three equations in three unknowns. Under Assumption 2.1 (ii), the system has a unique solution so  $\theta_1(\mathbf{x})$ ,  $\theta_2(\mathbf{x})$  and  $\theta_3(\mathbf{x})$  are identified. The proof of Theorem 2.3 shows that, so long as  $\beta(\mathbf{x}) \neq 0$ , Equations 11–13 can be solved for  $\beta(\mathbf{x})$ ,  $\alpha_0(\mathbf{x})$  and  $\alpha_1(\mathbf{x})$ . If we relax Assumption 2.2 (ii) and assume  $\alpha_0(\mathbf{x}) + \alpha_1(\mathbf{x}) \neq 1$  only,  $\beta(\mathbf{x})$  is only identified up to sign.

### 3 Identification-Robust Inference

We now turn our attention to inference based on the identification results from above. As we explain below, inference under binary mis-classification is complicated by problems of weak identification and parameters on the boundary. For simplicity we fix the exogenous covariates at some specified level and suppress dependence on  $\mathbf{x}$  in the notation. This is appropriate if the covariates have a discrete support. We discuss how to incorporate covariates more generally in Section 3.6.

#### 3.1 The Non-standard Inference Problem

Lemmas 2.2–2.4 yield the following system of linear moment equalities in the reduced form parameters  $\boldsymbol{\theta} = (\theta_1, \theta_2, \theta_3)$  from Equations 11–13:

$$\begin{aligned} \text{Cov}(y, z) - \text{Cov}(T, z)\theta_1 &= 0 \\ \text{Cov}(y^2, z) - 2\text{Cov}(yT, z)\theta_1 + \text{Cov}(T, z)\theta_2 &= 0 \\ \text{Cov}(y^3, z) - 3\text{Cov}(y^2T, z)\theta_1 + 3\text{Cov}(yT, z)\theta_2 - \text{Cov}(T, z)\theta_3 &= 0 \end{aligned}$$

Non-linearity arises solely through the relationship between the reduced form parameters  $\boldsymbol{\theta}$  and the structural parameters  $(\alpha_0, \alpha_1, \beta)$ . To convert the preceding moment equations into unconditional moment equalities, we define the additional reduced form parameters  $\boldsymbol{\kappa} = (\kappa_1, \kappa_2, \kappa_3)$  as follows:

$$\begin{aligned} \kappa_1 &= c - \alpha_0\theta_1 \\ \kappa_2 &= c^2 + \sigma_{\varepsilon\varepsilon} + \alpha_0(\theta_2 - 2c\theta_1) \\ \kappa_3 &= c^3 + 3(c - \theta_1\alpha_0)\sigma_{\varepsilon\varepsilon} + \mathbb{E}[\varepsilon^3] - \alpha_0\theta_3 - 3c\alpha_0[\theta_1(c + \beta) - 2\theta_1^2(1 - \alpha_1)] \end{aligned}$$

Building on this notation, let

$$\boldsymbol{\psi}'_1 = (-\theta_1, 1, 0, 0, 0, 0), \quad \boldsymbol{\psi}'_2 = (\theta_2, 0, -2\theta_1, 1, 0, 0), \quad \boldsymbol{\psi}'_3 = (-\theta_3, 0, 3\theta_2, 0, -3\theta_1, 1) \quad (15)$$

and collect these in the matrix  $\boldsymbol{\Psi} = \begin{bmatrix} \boldsymbol{\psi}_1 & \boldsymbol{\psi}_2 & \boldsymbol{\psi}_3 \end{bmatrix}$ . Defining the observed data vector  $\mathbf{w}'_i = (T_i, y_i, y_i T_i, y_i^2, y_i^2 T_i, y_i^3)$  for observation  $i$ , we can re-write the moment equations as:

$$\mathbb{E} \left[ (\boldsymbol{\Psi}'(\boldsymbol{\theta}) \mathbf{w}_i - \boldsymbol{\kappa}) \otimes \begin{pmatrix} 1 \\ z_i \end{pmatrix} \right] = \mathbf{0}. \quad (16)$$

Equation 16 is a just-identified, linear system of moment equalities in the reduced form parameters  $(\boldsymbol{\theta}, \boldsymbol{\kappa})$  and yields explicit GMM estimators  $(\hat{\boldsymbol{\kappa}}, \hat{\boldsymbol{\theta}})$ . From Theorem 2.3, knowledge of  $\boldsymbol{\theta}$  suffices to identify  $\beta$ . From the definitions of  $\boldsymbol{\kappa}$  above and  $\boldsymbol{\theta}$  in Equations 11–13, however, the moment equalities from Equation 16 do not depend on  $(\alpha_0, \alpha_1)$  if  $\beta$  equals zero. By continuity, they are *nearly* uninformative about the mis-classification probabilities if  $\beta$  is small. But unless  $\beta = 0$ , knowledge of  $(\alpha_0, \alpha_1)$  is necessary to recover  $\beta$ , via Lemma 2.2. Thus, we face a weak identification problem.<sup>8</sup> Indeed, the GMM estimator of  $\hat{\beta}$  based on Equation 16 may even fail to exist. Using arguments from the proof of Theorem 2.3, this estimator is given by is

$$\hat{\beta} = \text{sign}(\hat{\theta}_1) \sqrt{3 \left( \hat{\theta}_2 / \hat{\theta}_1 \right)^2 - 2 \left( \hat{\theta}_3 / \hat{\theta}_1 \right)}$$

Under our assumptions,  $3(\theta_2/\theta_1)^2 > 2(\theta_3/\theta_1)$  provided that  $\beta \neq 0$ , but this may not be true of the sample analogue. Indeed, because  $\hat{\theta}_1$  appears in the denominator, the terms within the square root will be highly variable if  $\beta$  is small. Even if the GMM estimator exists, it may violate the partial identification bounds for  $(\alpha_0, \alpha_1)$  from Theorem 2.2, or imply that  $(\alpha_0, \alpha_1)$  are not valid probabilities. Importantly, the partial identification bounds remain informative even if  $\beta$  is small or zero: so long as Assumption 2.1 (ii) holds, the first-stage probabilities bound  $\alpha_0$  and  $\alpha_1$  from above.

Exactly the same inferential difficulties arise in the case where  $T^*$  and  $z$  are assumed to be jointly exogenous, as in Black et al. (2000); Frazis and Loewenstein (2003); Kane et al. (1999); Lewbel (2007); Mahajan (2006).<sup>9</sup> This issue, however, has received little attention in the literature. Kane et al. (1999) ensure that  $(\alpha_0, \alpha_1)$  are valid probabilities by employing a logit specification. Frazis and Loewenstein employ a pseudo-Bayesian approach to ensure

<sup>8</sup>This is essentially equivalent to the problem of estimating mixture probabilities when the means of the component distributions are very similar to each other.

<sup>9</sup>We provide details for Frazis and Loewenstein (2003) and Mahajan (2006) in Appendix D.



that  $\alpha_0$  and  $\alpha_1$  are valid probabilities, and to impose partial identification bounds related to those from our Theorem 2.1, i.e. without using the non-differential measurement error restrictions. Because they provide neither simulation evidence nor a theoretical justification for their procedure, however, it is unclear whether this method will yield valid Frequentist coverage. We are unaware of any papers in the related literature that discuss the weak identification problem arising when  $\beta$  is small.

### 3.2 Overview of the Inference Procedure

In the following sections we develop a procedure for uniformly valid inference in models with a mis-classified binary regressor. Our purpose is to construct a confidence interval for  $\beta$  that is robust to possible weak identification, respects the restricted parameter space for  $(\alpha_0, \alpha_1)$ , and incorporates both the information in the equality moment conditions from Equation 16 along with the partial identification bounds from Theorem 2.2.<sup>10</sup> As argued in the preceding section, our partial identification bounds remain informative even when the equality moment conditions contain essentially no information about  $\beta$ .

To carry out identification-robust inference combining equality and inequality moment conditions, we adopt the generalized moment selection (GMS) approach of Andrews and Soares (2010). This procedure provides a uniformly valid test of a *joint* null hypothesis for the full parameter vector. In our model, this includes the parameter of interest  $\beta$  along various nuisance parameters: the mis-classification probabilities  $\alpha_0$  and  $\alpha_1$ , the reduced form parameters  $\kappa$ , defined in Section 3.1, and a vector  $\mathbf{q}$  of parameters that enter the moment inequalities.<sup>11</sup> Under a given joint null hypothesis for  $(\beta, \alpha_0, \alpha_1)$ , however,  $\kappa$  and  $\mathbf{q}$  are strongly identified and lie on the interior their respective parameter spaces. Accordingly, in Section 3.4 we explain how to concentrate these parameters out of the GMS procedure, by deriving an appropriate correction to the asymptotic variance matrix for the test.<sup>12</sup>

This leaves us with a uniformly valid test of any joint null hypothesis for  $(\beta, \alpha_0, \alpha_1)$ . To construct a marginal confidence interval for  $\beta$  we proceed as follows. Suppose that  $z$  is a strong instrument. Then the usual IV estimator provides a valid confidence interval for the reduced form parameter  $\theta_1$ . By Lemma 2.2, knowledge of  $(1 - \alpha_0 - \alpha_1)$  suffices to determine  $\beta$  from  $\theta_1$ . Thus, a valid confidence interval for  $(1 - \alpha_0 - \alpha_1)$  can be combined with the IV interval for  $\theta_1$  to yield a corresponding interval for  $\beta$ , via a Bonferroni-type correction. To

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<sup>10</sup>Note that  $\beta = 0$  if and only if  $\theta_1 = 0$ . Thus, if one is merely interested in testing  $H_0: \beta = 0$ , one can ignore the mis-classification error problem and test  $H_0: \theta_1 = 0$  using the standard IV estimator and standard error, provided that  $z$  is a strong instrument.

<sup>11</sup>These are defined below in Section 3.3.

<sup>12</sup>Note that we cannot take the same approach to concentrate out  $\alpha_0$  and  $\alpha_1$  because the mis-classification probabilities may be weakly identified or lie on the boundary of their parameter space.

construct the required interval for  $(1 - \alpha_0 - \alpha_1)$ , we note from Equations 11–13 that  $\beta$  only enters the moment equality conditions in Equation 16 through  $\theta_1$ . But, again, inference for  $\theta_1$  is standard provided that  $z$  is a strong instrument. We can thus pre-estimate  $\theta_1$  along with  $\kappa$  and  $\mathbf{q}$ , yielding a uniformly valid GMS test of any joint null hypothesis for  $(\alpha_0, \alpha_1)$ . By inverting this test, we construct a joint confidence set for  $(\alpha_0, \alpha_1)$  which we then project to obtain a confidence interval  $(1 - \alpha_0 - \alpha_1)$ . Because the parameter space for  $(\alpha_0, \alpha_1)$  is bounded and two-dimensional, the projection step is computationally trivial.<sup>13</sup> If desired, one could also carry out a valid test of the null hypothesis that there is no mis-classification,  $\alpha_0 = \alpha_1 = 0$ , using the joint test for  $(\alpha_0, \alpha_1)$ . In the following sections we provide full details of our Bonferroni-based confidence interval procedure for  $\beta$ .

### 3.3 Moment Inequalities

As noted above, the partial identification bounds from Theorems 2.1 and 2.2 remain informative about  $(\alpha_0, \alpha_1)$  even when  $\beta$  is small. To incorporate them in our inference procedure, we first express them as unconditional moment inequalities. The bounds from Theorem 2.1 are given by

$$p_k - \alpha_0 \geq 0, \quad 1 - p_k - \alpha_1 \geq 0, \quad \text{for all } k$$

where the first-stage probabilities  $p_k$  are defined in Equation 9. We write these as

$$\mathbb{E} [m_1^I(\mathbf{w}_i, \boldsymbol{\vartheta})] \geq \mathbf{0}, \quad m_1^I(\mathbf{w}_i, \boldsymbol{\vartheta}) \equiv \begin{bmatrix} (1 - z_i)(T_i - \alpha_0) \\ (1 - z_i)(1 - T_i - \alpha_1) \\ z_i(T_i - \alpha_0) \\ z_i(1 - T_i - \alpha_1) \end{bmatrix} \quad (17)$$

The bounds derived in Theorem 2.2 by imposing assumption 2.2 (iii) are

$$\mu_k(\alpha_0) - \underline{\mu}_{tk}(\underline{q}_{tk}(\alpha_0, \alpha_1)) \geq 0, \quad \bar{\mu}_{tk}(\bar{q}_{tk}(\alpha_0, \alpha_1)) - \mu_k(\alpha_0) \geq 0, \quad \text{for all } t, k$$

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<sup>13</sup>We considered two alternatives to the Bonferroni-based inference procedure described here. The first constructs a marginal confidence interval for  $\beta$  by projecting a joint confidence set for  $(\beta, \alpha_1, \alpha_0)$ , i.e. *without* preliminary estimation of  $\theta_1$ . This method is more computationally demanding than our two-dimensional projection and involves a parameter space that is unbounded along the  $\beta$ -dimension. From a practical perspective, the relevant question is whether the reduction in conservatism from projecting a lower dimensional set is outweighed by the additional conservatism induced by the Bonferroni correction. In our experiments, the full three-dimensional projection and Bonferroni procedure produced broadly similar results: neither reliably dominated in terms of confidence interval width. Given its substantially lower computational burden, we prefer the Bonferroni procedure. We also experimented with two recently proposed methods for sub-vector inference: Kaido et al. (2016) and Bugni et al. (2017). In both cases we obtained significant size distortions, suggesting that our model may not satisfy the high-level regularity conditions required by these papers.

where  $\mu_k, \underline{\mu}_{tk}, \bar{\mu}_{tk}, \underline{q}_{tk}$  and  $\bar{q}_{tk}$  are defined in the statement of the Theorem. Expressing these as unconditional moment inequalities, we have

$$\mathbb{E}[m_2^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q})] \geq \mathbf{0}, \quad m_2^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) \equiv \begin{bmatrix} m_{2,00}^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) \\ m_{2,10}^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) \\ m_{2,01}^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) \\ m_{2,11}^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) \end{bmatrix} \quad (18)$$

where  $\mathbf{q} \equiv (\underline{q}_{00}, \bar{q}_{00}, \underline{q}_{10}, \bar{q}_{10}, \underline{q}_{01}, \bar{q}_{01}, \underline{q}_{11}, \bar{q}_{11})$  and we define

$$m_{2,0k}^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) \equiv \begin{bmatrix} y_i \mathbf{1}(z_i = k) \left\{ (T_i - \alpha_0) - \mathbf{1}(y_i \leq \underline{q}_{0k})(1 - T_i) \left( \frac{1 - \alpha_0 - \alpha_1}{\alpha_1} \right) \right\} \\ -y_i \mathbf{1}(z_i = k) \left\{ (T_i - \alpha_0) - \mathbf{1}(y_i > \bar{q}_{0k})(1 - T_i) \left( \frac{1 - \alpha_0 - \alpha_1}{\alpha_1} \right) \right\} \end{bmatrix} \quad (19)$$

$$m_{2,1k}^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) \equiv \begin{bmatrix} y_i \mathbf{1}(z_i = k) \left\{ (T_i - \alpha_0) - \mathbf{1}(y_i \leq \underline{q}_{1k}) T_i \left( \frac{1 - \alpha_0 - \alpha_1}{1 - \alpha_1} \right) \right\} \\ -y_i \mathbf{1}(z_i = k) \left\{ (T_i - \alpha_0) - \mathbf{1}(y_i > \bar{q}_{1k}) T_i \left( \frac{1 - \alpha_0 - \alpha_1}{1 - \alpha_1} \right) \right\} \end{bmatrix}. \quad (20)$$

Finally we define  $m^I = (m_1^I, m_2^I)'$ . Notice that the second set of inequalities,  $m_2^I$ , depends on unknown parameter  $\mathbf{q}$  which is in turn a function of  $(\alpha_0, \alpha_1)$ . In the next section we discuss how  $\mathbf{q}$  can be estimated under a given null hypothesis for  $(\alpha_0, \alpha_1)$ .

### 3.4 Accounting for Preliminary Estimation

Let  $\boldsymbol{\vartheta} = (\alpha_0, \alpha_1)$  and  $\boldsymbol{\gamma} = (\boldsymbol{\kappa}, \theta_1)$  where  $\theta_1$  is defined in Equation 11 and  $\boldsymbol{\kappa}$  in Section 3.1. Our moment conditions take the form

$$\mathbb{E}[m^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \mathbf{q}_0)] \geq \mathbf{0}, \quad \mathbb{E}[m^E(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \boldsymbol{\gamma}_0)] = \mathbf{0} \quad (21)$$

where  $m^I = (m_1^I, m_2^I)'$ , defined in Section 3.3, and

$$m^E(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \boldsymbol{\gamma}_0) = \begin{bmatrix} \{\boldsymbol{\psi}'_2(\theta_1, \alpha_0, \alpha_1) \mathbf{w}_i - \boldsymbol{\kappa}_2\} z_i \\ \{\boldsymbol{\psi}'_3(\theta_1, \alpha_0, \alpha_1) \mathbf{w}_i - \boldsymbol{\kappa}_3\} z_i \end{bmatrix}. \quad (22)$$

Notice that we now write  $\boldsymbol{\psi}_2$  and  $\boldsymbol{\psi}_3$ , defined in Equation 15, as explicit functions of  $(\theta_1, \alpha_0, \alpha_1)$ , using the definitions of  $(\theta_2, \theta_3)$  from Equations 12–13. To construct a GMS test of the null hypothesis  $H_0: \boldsymbol{\vartheta} = \boldsymbol{\vartheta}_0$  based on Equation 21, we require preliminary estimators  $\hat{\boldsymbol{\gamma}}(\boldsymbol{\vartheta}_0)$  and  $\hat{\mathbf{q}}(\boldsymbol{\vartheta}_0)$  that are consistent and asymptotically normal *under the null*. We now provide full details of the construction and derive the associated adjustment to the

asymptotic variance matrix.

Consider first the equality moment conditions  $m^E$ . For these we require preliminary estimators of  $\theta_1$ ,  $\kappa_2$ , and  $\kappa_3$ . Recall that  $\theta_1$  is simply the IV estimand: it can be consistently estimated directly from observations of  $(y, T, z)$  without knowledge of  $\alpha_0$  or  $\alpha_1$ . Note, moreover, from Equation 16 that  $\boldsymbol{\kappa}$  is simply a vector of *intercepts*. These can be directly estimated from observations of  $\mathbf{w}$  because  $\boldsymbol{\Psi}(\theta_1, \alpha_0, \alpha_1)$  is consistently estimable under the  $H_0: \boldsymbol{\vartheta} = \boldsymbol{\vartheta}_0$ : the hypothesis specifies  $\alpha_0$  and  $\alpha_1$  and IV provides a consistent estimator of  $\theta_1$ . Accordingly, define

$$h^E(\mathbf{w}_i, \boldsymbol{\vartheta}, \boldsymbol{\gamma}) = \begin{bmatrix} \boldsymbol{\Psi}'(\theta_1, \alpha_0, \alpha_1) \mathbf{w}_i - \boldsymbol{\kappa} \\ \{\boldsymbol{\psi}'_1(\theta_1) \mathbf{w}_i - \boldsymbol{\kappa}_1\} z_i \end{bmatrix}. \quad (23)$$

Under  $H_0: \boldsymbol{\vartheta} = \boldsymbol{\vartheta}_0$ , the just-identified GMM-estimator based on  $\mathbb{E}[h^E(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \boldsymbol{\gamma}_0)] = \mathbf{0}$  yields a consistent and asymptotically normal estimator of  $\boldsymbol{\gamma}_0$  under the usual regularity conditions.

Now consider the inequality moment conditions  $m^I$ . From Section 3.3 we see that  $\boldsymbol{\tau}$  only enters  $m^I$  through the second block of moment inequalities,  $m_2^I$ , which depend on  $\mathbf{q}$ . The elements of  $\mathbf{q}$  are the conditional quantiles  $\bar{q}_{tk}$  and  $\underline{q}_{tk}$  defined in Theorem 2.2. Under the assumption that  $y$  follows a continuous distribution, as maintained in Theorem 2.2, these can be expressed as conditional moment equalities as follows:

$$\begin{aligned} \mathbb{E} \left[ \mathbf{1}(y \leq \underline{q}_{tk}) | T = t, z = k \right] - r_{tk}(\alpha_0, \alpha_1) &= 0 \\ \mathbb{E} \left[ \mathbf{1}(y \leq \bar{q}_{tk}) | T = t, z = k \right] - (1 - r_{tk}(\alpha_0, \alpha_1)) &= 0 \end{aligned}$$

where  $r_{tk}$  is defined in Theorem 2.2 and  $t, k = 0, 1$ . Under  $H_0: \boldsymbol{\vartheta} = \boldsymbol{\vartheta}_0$ , a consistent estimator  $\hat{r}_{tk}$  of  $r_{tk}$  can be obtained directly from  $\hat{p}_k$ , the sample analogue of  $p_k$  based on iid observations of  $\mathbf{w}_i$ . In turn, the  $(\hat{r}_{tk})^{\text{th}}$  and  $(1 - \hat{r}_{tk})^{\text{th}}$  sample conditional quantiles of  $y$  provide consistent estimates of  $\underline{q}_{tk}$  and  $\bar{q}_{tk}$ .<sup>14</sup> Collecting these for all  $(t, k)$  gives  $\hat{\mathbf{q}}(\boldsymbol{\vartheta}_0)$ . Now, define

$$h^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) = \begin{bmatrix} h_0^I(\mathbf{w}, \boldsymbol{\vartheta}, \mathbf{q}) \\ h_1^I(\mathbf{w}, \boldsymbol{\vartheta}, \mathbf{q}) \end{bmatrix} \quad (24)$$

---

<sup>14</sup>Consistency of the sample quantiles requires  $0 < r_{tk} < 1$ . If  $r_{tk} = 0$  or 1 for some  $(t, k)$ , however, then the associated moment inequality is trivially satisfied and we no longer require estimates of  $\underline{q}_{tk}, \bar{q}_{tk}$ .

where

$$h_k^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}) = \begin{bmatrix} \mathbf{1}(y_i \leq \underline{q}_{0k})\mathbf{1}(z_i = k)(1 - T_i) - \left(\frac{\alpha_1}{1 - \alpha_0 - \alpha_1}\right) \mathbf{1}(z_i = k)(T_i - \alpha_0) \\ \mathbf{1}(y_i \leq \bar{q}_{0k})\mathbf{1}(z_i = k)(1 - T_i) - \left(\frac{1 - \alpha_0}{1 - \alpha_0 - \alpha_1}\right) \mathbf{1}(z_i = k)(1 - T_i - \alpha_1) \\ \mathbf{1}(y_i \leq \underline{q}_{1k})\mathbf{1}(z_i = k)T_i - \left(\frac{1 - \alpha_1}{1 - \alpha_0 - \alpha_1}\right) \mathbf{1}(z_i = k)(T_i - \alpha_0) \\ \mathbf{1}(y_i \leq \bar{q}_{1k})\mathbf{1}(z_i = k)T_i - \left(\frac{\alpha_0}{1 - \alpha_0 - \alpha_1}\right) \mathbf{1}(z_i = k)(1 - T_i - \alpha_1) \end{bmatrix}. \quad (25)$$

Under the null  $\widehat{\mathbf{q}}(\boldsymbol{\vartheta}_0)$  converges in probability to  $\mathbf{q}_0$ , which satisfies the just-identified collection of moment equalities  $\mathbb{E}[h^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \mathbf{q}_0)] = \mathbf{0}$ . Although  $h^I$  is a discontinuous function of  $\mathbf{q}$ , it is bounded for any fixed  $(\alpha_0, \alpha_1)$ . Moreover, since  $y|(T = t, z = k)$  is a continuous random variable,  $\mathbb{E}[h^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q})]$  is continuously differentiable with respect to  $\mathbf{q}$ . Hence,  $\widehat{\mathbf{q}}$  is asymptotically normal under mild regularity conditions.<sup>15</sup> To account for the effect of preliminary estimation of  $\mathbf{q}$  and  $\boldsymbol{\gamma}$  on the asymptotic variance matrix used in the GMS test, we rely on the following Lemma.

**Lemma 3.1.** *Let  $\bar{m}_{1,n}^I(\boldsymbol{\vartheta}) = n^{-1} \sum_{i=1}^n m_{1,n}^I(\mathbf{w}_i, \boldsymbol{\vartheta})$  and define  $\bar{m}_{2,n}^I, \bar{m}_n^E, \bar{h}_n^I, \bar{h}_n^E$  analogously. Further let  $\widehat{\boldsymbol{\gamma}}(\boldsymbol{\vartheta}_0) = \arg \min_{\boldsymbol{\gamma}} \|\bar{h}_n^E(\boldsymbol{\vartheta}_0, \boldsymbol{\gamma})\|$  and  $\|h_n^I(\boldsymbol{\vartheta}_0, \widehat{\mathbf{q}}(\boldsymbol{\vartheta}_0))\| \leq \inf_{\mathbf{q}} \|h_n^I(\boldsymbol{\vartheta}_0, \mathbf{q})\| + o_p(1)$ . Then, under standard regularity conditions*

$$\sqrt{n} \begin{bmatrix} \bar{m}_{1,n}^I(\boldsymbol{\vartheta}_0) \\ \bar{m}_{2,n}^I(\boldsymbol{\vartheta}_0, \widehat{\mathbf{q}}(\boldsymbol{\vartheta}_0)) \\ \bar{m}_n^E(\boldsymbol{\vartheta}_0, \widehat{\boldsymbol{\gamma}}(\boldsymbol{\vartheta}_0)) \end{bmatrix} \rightarrow_p \begin{bmatrix} \mathbf{I} & \mathbf{0} & \mathbf{0} & \mathbf{0} & \mathbf{0} \\ \mathbf{0} & \mathbf{I} & \mathbf{0} & B^I(\boldsymbol{\vartheta}_0, \mathbf{q}_0) & \mathbf{0} \\ \mathbf{0} & \mathbf{0} & \mathbf{I} & \mathbf{0} & B^E(\boldsymbol{\vartheta}_0, \boldsymbol{\gamma}_0) \end{bmatrix} \sqrt{n} \begin{bmatrix} \bar{m}_{1,n}^I(\boldsymbol{\vartheta}_0) \\ \bar{m}_{2,n}^I(\boldsymbol{\vartheta}_0, \mathbf{q}_0) \\ \bar{m}_n^E(\boldsymbol{\vartheta}_0, \boldsymbol{\gamma}_0) \\ \bar{h}_n^I(\boldsymbol{\vartheta}_0, \mathbf{q}_0) \\ \bar{h}_n^E(\boldsymbol{\vartheta}_0, \boldsymbol{\gamma}_0) \end{bmatrix}$$

where  $B^I(\boldsymbol{\vartheta}, \mathbf{q}) = (1 - \alpha_0 - \alpha_1) [\text{diag}(\mathbf{a})]^{-1} \mathbf{q}$  with

$$\mathbf{a}' = (\alpha_1, \alpha_1, 1 - \alpha_1, 1 - \alpha_1, \alpha_1, \alpha_1, 1 - \alpha_1, 1 - \alpha_1)$$

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and  $B^E(\boldsymbol{\vartheta}, \boldsymbol{\gamma}) = -M^E(H^E)^{-1}$ , with

$$M^E = \begin{bmatrix} 0 & -\mathbb{E}[z_i] & 0 & \left(\frac{\partial \psi_2}{\partial \theta_1}\right)' \mathbb{E}[\mathbf{w}_i z_i] \\ 0 & 0 & -\mathbb{E}[z_i] & \left(\frac{\partial \psi_3}{\partial \theta_1}\right)' \mathbb{E}[\mathbf{w}_i z_i] \end{bmatrix}, \quad H^E = \begin{bmatrix} -1 & 0 & 0 & \left(\frac{\partial \psi_1}{\partial \theta_1}\right)' \mathbb{E}[\mathbf{w}_i] \\ 0 & -1 & 0 & \left(\frac{\partial \psi_2}{\partial \theta_1}\right)' \mathbb{E}[\mathbf{w}_i] \\ 0 & 0 & -1 & \left(\frac{\partial \psi_3}{\partial \theta_1}\right)' \mathbb{E}[\mathbf{w}_i] \\ -\mathbb{E}[z_i] & 0 & 0 & \left(\frac{\partial \psi_1}{\partial \theta_1}\right)' \mathbb{E}[\mathbf{w}_i z_i] \end{bmatrix}.$$

Lemma 3.1 relates the sample analogues  $\bar{m}_{2,n}^I$  and  $\bar{m}_n^E$  evaluated at the preliminary estimators  $\hat{\mathbf{q}}(\boldsymbol{\vartheta}_0)$  and  $\hat{\boldsymbol{\gamma}}(\boldsymbol{\vartheta}_0)$  to their counterparts evaluated at the true parameter values  $\mathbf{q}_0$  and  $\boldsymbol{\gamma}_0$ . The estimator  $\hat{\boldsymbol{\gamma}}(\boldsymbol{\vartheta}_0)$  exactly solves  $h_n^E(\boldsymbol{\vartheta}_0, \boldsymbol{\gamma}) = 0$  while  $\hat{\mathbf{q}}(\boldsymbol{\vartheta}_0)$ , constructed as described immediately before the statement of the Lemma, *approximately* solves  $\bar{h}_n^I(\boldsymbol{\vartheta}_0, \mathbf{q}) = 0$ . A few lines of matrix algebra show that the determinant of  $H^E$  equals  $\text{Cov}(z, T)$ . Hence,  $B^E$  is well-defined if  $z$  is a relevant instrument. The matrix  $B^I$  is likewise well-defined provided that  $\alpha \neq 0$  and the elements of  $\mathbf{q}_0$  are computed for probabilities strictly between zero and one. If either of these conditions fails, however, some of the moment inequalities in  $m_2^I$  are trivially satisfied and can be dropped (see Footnote 14). After removing the corresponding elements of  $\mathbf{q}_0$  and  $\mathbf{a}$ ,  $B^I$  becomes well-defined. The regularity conditions required for Lemma 3.1 are mild. The result relies on a number of mean-value expansions:  $\bar{h}_n^E(\boldsymbol{\vartheta}_0, \boldsymbol{\gamma}_0)$  and  $\bar{m}_n^E(\boldsymbol{\vartheta}_0, \boldsymbol{\gamma}_0)$  are expanded around  $\boldsymbol{\gamma} = \hat{\boldsymbol{\gamma}}(\boldsymbol{\vartheta}_0)$  while  $\mathbb{E}[h^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \mathbf{q}_0)]$  and  $\mathbb{E}[m_2^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \mathbf{q}_0)]$  are expanded around  $\mathbf{q} = \hat{\mathbf{q}}(\boldsymbol{\vartheta}_0)$ . These expansions, in turn, rely on the fact that  $\mathbf{q}$  and  $\boldsymbol{\gamma}$  are interior to their respective parameter spaces and the relevant functions are all continuously differentiable in our example.

We now have all the ingredients required to construct an asymptotic variance matrix for the GMS test that accounts for preliminary estimation of  $\boldsymbol{\gamma}$  and  $\mathbf{q}$ . Let  $m' = (m_1', m_2', m^E')$ ,  $h' = (h^I, h^E')$ , and define the shorthand  $\boldsymbol{\tau}'_0 = (\boldsymbol{\gamma}'_0, \mathbf{q}'_0)$  and  $\hat{\boldsymbol{\tau}}'_0 = (\hat{\boldsymbol{\gamma}}'(\boldsymbol{\vartheta}_0), \hat{\mathbf{q}}'(\boldsymbol{\vartheta}_0))$ . Given a collection of iid observations  $(\mathbf{w}_1, \dots, \mathbf{w}_n)$ , we have

$$\sqrt{n} \begin{bmatrix} \bar{m}_n(\boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0) \\ \bar{h}_n(\boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0) \end{bmatrix} \rightarrow_d N(\mathbf{0}, \mathcal{V}(\boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0)), \quad \mathcal{V}(\boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0) = \text{Var} \begin{bmatrix} m(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0) \\ h(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0) \end{bmatrix} \quad (26)$$

under  $H_0: \boldsymbol{\vartheta} = \boldsymbol{\vartheta}_0$ , by an appropriate central limit theorem. What we require for the test, however, is the asymptotic variance matrix of  $\sqrt{n} \bar{m}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0)$ . Combining Equation 26 with Lemma 3.1, we obtain

$$\text{Avar}(\sqrt{n} \bar{m}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0)) = \Xi(\boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0) \mathcal{V}(\boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0) \Xi'(\boldsymbol{\vartheta}_0, \boldsymbol{\tau}_0) \quad (27)$$

with

$$\Xi(\boldsymbol{\vartheta}, \boldsymbol{\tau}) = \begin{bmatrix} \mathbf{I} & B(\boldsymbol{\vartheta}, \boldsymbol{\tau}) \end{bmatrix}, \quad B(\boldsymbol{\vartheta}, \boldsymbol{\tau}) = \begin{bmatrix} \mathbf{0} & \mathbf{0} \\ B^I(\boldsymbol{\vartheta}, \mathbf{q}) & \mathbf{0} \\ \mathbf{0} & B^E(\boldsymbol{\vartheta}, \boldsymbol{\gamma}) \end{bmatrix} \quad (28)$$

where  $B^I(\cdot, \cdot)$  and  $B^E(\cdot, \cdot)$  are defined in Lemma 3.1. Finally, we construct a consistent estimator  $\hat{\Sigma}_n(\boldsymbol{\vartheta}_0)$  of the asymptotic variance matrix of  $\sqrt{n} \bar{m}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0)$  under the null:

$$\hat{\Sigma}_n(\boldsymbol{\vartheta}_0) \equiv \Xi(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0) \hat{\mathcal{V}}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}) \Xi'(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0) \quad (29)$$

where

$$\hat{\mathcal{V}}_n(\boldsymbol{\vartheta}, \boldsymbol{\tau}) \equiv \frac{1}{n} \sum_{i=1}^n \begin{bmatrix} m(\mathbf{w}_i, \boldsymbol{\vartheta}, \boldsymbol{\tau}) - \bar{m}_n(\boldsymbol{\vartheta}, \boldsymbol{\tau}) \\ h(\mathbf{w}_i, \boldsymbol{\vartheta}, \boldsymbol{\tau}) - \bar{h}_n(\boldsymbol{\vartheta}, \boldsymbol{\tau}) \end{bmatrix} \begin{bmatrix} m(\mathbf{w}_i, \boldsymbol{\vartheta}, \boldsymbol{\tau}) - \bar{m}_n(\boldsymbol{\vartheta}, \boldsymbol{\tau}) \\ h(\mathbf{w}_i, \boldsymbol{\vartheta}, \boldsymbol{\tau}) - \bar{h}_n(\boldsymbol{\vartheta}, \boldsymbol{\tau}) \end{bmatrix}'. \quad (30)$$

In the following section we provide a step-by-step description of our inference procedure.

### 3.5 Details of Inference Procedure

First define notation, test statistic, etc. I cut and pasted the following from above, where it formerly appeared.

Before proceeding, we introduce some notation. Let

$$\mathbb{E} [m_j^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0)] \geq \mathbf{0} \quad j = 1, \dots, J_I; \quad \mathbb{E} [m_j^E(\mathbf{w}_i, \boldsymbol{\vartheta}_0)] = \mathbf{0} \quad j = J_I + 1, \dots, J \quad (31)$$

where  $\boldsymbol{\vartheta}_0$  is the true parameter vector,  $m_j^I$  corresponds to the  $j$ th inequality moment condition,  $m_j^E$  corresponds to the  $j$ th equality moment condition,  $J$  denotes the total number of moment conditions,  $J_I$  denotes the number of moment equalities, and  $J_E = J - J_I$  denotes the number of equality moment conditions. Further define

$$\bar{m}_n(\boldsymbol{\vartheta}) = \begin{bmatrix} \bar{m}_n^I(\boldsymbol{\vartheta}) \\ \bar{m}_n^E(\boldsymbol{\vartheta}) \end{bmatrix}, \quad \bar{m}_n^I(\boldsymbol{\vartheta}) = \begin{bmatrix} \bar{m}_{n,1}^I(\boldsymbol{\vartheta}) \\ \vdots \\ \bar{m}_{n,J_I}^I(\boldsymbol{\vartheta}) \end{bmatrix}, \quad \bar{m}_n^E(\boldsymbol{\vartheta}) = \begin{bmatrix} \bar{m}_{n,J_I+1}^E(\boldsymbol{\vartheta}) \\ \vdots \\ \bar{m}_{n,J}^E(\boldsymbol{\vartheta}) \end{bmatrix} \quad (32)$$

where  $\bar{m}_{n,j}^I(\boldsymbol{\vartheta}) = n^{-1} \sum_{i=1}^n m_j^I(\mathbf{w}_i, \boldsymbol{\vartheta})$  and  $\bar{m}_{n,j}^E$  is defined analogously. Finally, let  $\Sigma(\boldsymbol{\vartheta})$  denote the asymptotic variance matrix of  $\sqrt{n} \bar{m}_n(\boldsymbol{\vartheta})$ , with  $j$ th diagonal element  $\sigma_j^2(\boldsymbol{\vartheta})$  along with the corresponding sample analogues  $\hat{\Sigma}_n(\boldsymbol{\vartheta})$  and  $\hat{\sigma}_j^2(\boldsymbol{\vartheta})$ .

namely the modified method of moments (MMM) statistic

$$T_n(\boldsymbol{\vartheta}) = \sum_{j=1}^{J_1} \min \left\{ 0, \left( \frac{\sqrt{n} \bar{m}_n^I(\boldsymbol{\vartheta})}{\hat{\sigma}_n(\boldsymbol{\vartheta})} \right)^2 \right\} + \sum_{j=J_1+1}^J \left( \frac{\sqrt{n} \bar{m}_n^E(\boldsymbol{\vartheta})}{\hat{\sigma}_n(\boldsymbol{\vartheta})} \right)^2. \quad (33)$$

In particular, when approximating the asymptotic distribution of  $T_n$  under the null  $H_0: \boldsymbol{\vartheta} = \boldsymbol{\vartheta}_0$ , we drop any inequality moment condition  $m_j^I$  for which  $\sqrt{n}[\bar{m}_n(\boldsymbol{\vartheta}_0)/\hat{\sigma}_n(\boldsymbol{\vartheta}_0)] > \sqrt{\log(n)}$ .<sup>16</sup>

Refer to the places where each of the  $m$  functions is defined above

$$\bar{m}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0) = \frac{1}{n} \sum_{i=1}^n \begin{bmatrix} m^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \hat{\mathbf{q}}_0) \\ m^E(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \hat{\boldsymbol{\gamma}}_0) \end{bmatrix}, \quad m^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \hat{\mathbf{q}}) = \begin{bmatrix} m_1^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0) \\ m_2^I(\mathbf{w}_i, \boldsymbol{\vartheta}_0, \hat{\mathbf{q}}_0) \end{bmatrix} \quad (34)$$

Explain about the counts of inequalities and equalities:  $J_I, J_E$  etc.

$$S(\mathbf{x}, \mathbf{y}) = \sum_j \min \{0, x_j^2\} + \mathbf{y}'\mathbf{y} \quad (35)$$

$$\bar{\boldsymbol{\nu}}_n^I =, \quad \bar{\boldsymbol{\nu}}_n^E =$$

**Algorithm 3.1** (GMS Test for  $\alpha_0$  and  $\alpha_1$  ).

Inputs: null hypothesis  $H_0: \boldsymbol{\vartheta} = \boldsymbol{\vartheta}_0$  for  $(\alpha_0, \alpha_1)$ , normal draws  $\zeta_1, \dots, \zeta_R \sim \text{iid } N(\mathbf{0}_J, \mathbf{I}_J)$

1. Calculate the variance matrix estimator:  $\hat{\Sigma}_n(\boldsymbol{\vartheta}_0)$ 
  - (i) Calculate  $\hat{\boldsymbol{\tau}}_0 = (\hat{\mathbf{q}}_0', \hat{\boldsymbol{\gamma}}_0')'$  where  $\hat{\boldsymbol{\gamma}}_0 = \hat{\boldsymbol{\gamma}}(\boldsymbol{\vartheta}_0)$  and  $\hat{\mathbf{q}}_0 = \hat{\mathbf{q}}(\boldsymbol{\vartheta}_0)$  from Section 3.4.
  - (ii) Calculate  $\Xi(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0)$  using Equation 28.
  - (iii) Calculate  $\hat{\mathcal{V}}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0)$  using Equation 30.
  - (iv) Set  $\hat{\Sigma}_n(\boldsymbol{\vartheta}_0) = \Xi(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0) \hat{\mathcal{V}}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0) \Xi'(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0)$
2. Calculate the test statistic  $T_n(\boldsymbol{\vartheta}_0)$ :
  - (i) Calculate  $\bar{m}_n^I(\boldsymbol{\vartheta}_0, \hat{\mathbf{q}}_0)$  and  $\bar{m}_n^E(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\gamma}}_0)$  from Equation 34.
  - (ii) Set  $T_n(\boldsymbol{\vartheta}_0) = S\left(\sqrt{n} \bar{m}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0), \hat{\Sigma}_n(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0)\right)$ , using  $S(\cdot, \cdot)$  from Equation 35.
3. Determine which of the moment inequalities are far from binding:

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<sup>16</sup>Full details appear in Section 3.5 below.



- (i) For each  $j = 1, \dots, J_I$  calculate the t-statistic  $t_{n,j} = \sqrt{n} \bar{m}_j^I(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0) / \hat{\sigma}_{n,j}(\boldsymbol{\vartheta}_0, \hat{\boldsymbol{\tau}}_0)$
- (ii)
- 4. Approximate the sampling distribution of  $T_n(\boldsymbol{\vartheta}_0)$  under the null:
  - (i)
- 5. Calculate the p-value of the test:

$$\hat{p}(\boldsymbol{\vartheta}_0) = \frac{1}{R} \sum_{r=1}^R \mathbf{1} \{T_n^{*(r)}() > T_n\}$$

**Algorithm 3.2** (Bonferroni Confidence Interval for  $\beta$ ).

1. First get the joint set for  $\alpha_0, \alpha_1$  by a grid search, using the GMS test described in the other algorithm
2. Do projection to get the set for  $1 - \alpha_0 - \alpha_1$
3. Construct the Bonferroni interval

**Theorem 3.1.** *Inference procedure gives valid coverage. First argue that GMS test gives uniformly valid inference and that we have a valid confidence interval for  $\theta_1$ . Then the Bonferroni interval gives us what we require for  $\beta$ . The statement of the result should refer to iid observations, the Lemma about preliminary estimation, and A3 of Andrews & Soares.*

Say a few more things about Bonferroni such as how you can't reject  $\beta = 0$  unless the IV interval excludes this.

### 3.6 Incorporating Covariates

Just give a quick overview of how one can handle them more generally. There several routes: one is to be more restrictive and do what FL do. The other is to try to be fully nonparametric. There's a paper by Andrews that gives some more details. This is likely to be complicated in general. There may be a "halfway house" using a semiparametric model. Perhaps look at what Lewbel said about this. This Section should really just be a paragraph or so.

## 4 Simulation Study

- Describe simulation DGP and reference the sections in the paper upon which our calculations are based.
- GMM does a bad job for small  $\beta$  but a good job for large  $\beta$ . Note that we have changed our convention so we report coverage and width conditional on the interval existing!
- GMS test for  $(\alpha_0, \alpha_1)$  uniformly controls size except for a small distortion at  $\beta = 3, \alpha_0 = 0.1$  that we can't explain.
- Now show the Bonferroni results:
  - Uniformly controls size
  - There is basically no conservatism in the zero measurement error case
  - This comes from using the non-diff bounds (refer to the picture). Notice how these turn out to be very informative. They can only be informative from below, however, since  $\alpha_0 = \alpha_1 = 0$  is always in the sharp identified set without our higher moment assumptions.
  - When measurement error isn't zero, the method is conservative.
  - In the small  $\beta$  cases, the conservatism is really a “feature” rather than a bug because there you are effectively not identified so we're really looking at an identified set.
  - The conservatism is severe when  $\beta$  is large and there is a lot of measurement error. The widths of the intervals are huge, although they do shrink with sample size. In contrast, GMM is working fine here.
  - GMS doesn't seem to be able to “detect” the case where inference is standard. Interesting question that doesn't seem to have been studied much about transitioning between partial and point identification (or weak and strong identification). We think the source of the conservatism is that we have an ellipse with a small variance in the beta direction and a large one in the alpha directions, so any kind of joint interval that we project will be very conservative for  $\beta$ . Maybe try to make a picture of this?
  - Propose two-step procedure to address the conservatism when  $\beta$  is large. Explain the basic idea and show that it works perfectly and is essentially a free lunch. There is one slight size distortion at  $n = 1000, \beta = 1, \alpha_0 = \alpha_1 = 0.3$  but it

disappears when  $n = 2000$ . Even small distortion at  $\beta = 3, \alpha_0 = \alpha_1 = 0$  for both  $n = 1000, 2000$ .

## 5 Coverage and Width of Confidence Intervals

### 5.1 Endogenous Regressor

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |    |     |    |    |
|------------|------------|---------|------|-----|------|----|-----|----|----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1  | 1.5 | 2  | 3  |
| 0.0        | 0.0        | 90      | 90   | 90  | 91   | 90 | 91  | 90 | 90 |
|            | 0.1        | 91      | 93   | 94  | 94   | 94 | 94  | 90 | 89 |
|            | 0.2        | 92      | 93   | 94  | 94   | 94 | 94  | 92 | 90 |
|            | 0.3        | 93      | 93   | 94  | 94   | 94 | 93  | 92 | 91 |
| 0.1        | 0.0        | 92      | 93   | 93  | 94   | 94 | 93  | 90 | 87 |
|            | 0.1        | 93      | 95   | 96  | 97   | 97 | 96  | 92 | 87 |
|            | 0.2        | 95      | 96   | 97  | 98   | 97 | 96  | 92 | 87 |
|            | 0.3        | 96      | 98   | 98  | 98   | 98 | 95  | 92 | 88 |
| 0.2        | 0.0        | 93      | 93   | 93  | 93   | 93 | 93  | 92 | 89 |
|            | 0.1        | 95      | 96   | 98  | 98   | 97 | 95  | 93 | 89 |
|            | 0.2        | 97      | 97   | 98  | 98   | 97 | 95  | 92 | 89 |
|            | 0.3        | 98      | 98   | 98  | 98   | 97 | 95  | 93 | 91 |
| 0.3        | 0.0        | 93      | 94   | 94  | 94   | 94 | 93  | 92 | 91 |
|            | 0.1        | 97      | 97   | 98  | 98   | 97 | 95  | 93 | 89 |
|            | 0.2        | 98      | 98   | 98  | 98   | 97 | 94  | 93 | 91 |
|            | 0.3        | 99      | 99   | 99  | 98   | 98 | 96  | 95 | 94 |

**Table 1:** Coverage (1 - size) of 90% GMS joint test for  $\alpha_0$  and  $\alpha_1$ :  $n = 1000$ . Based on 10000 simulation replications.

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |    |     |    |    |
|------------|------------|---------|------|-----|------|----|-----|----|----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1  | 1.5 | 2  | 3  |
| 0.0        | 0.0        | 90      | 90   | 90  | 91   | 90 | 91  | 90 | 90 |
|            | 0.1        | 91      | 93   | 94  | 94   | 94 | 94  | 90 | 89 |
|            | 0.2        | 92      | 93   | 94  | 94   | 94 | 94  | 92 | 90 |
|            | 0.3        | 93      | 93   | 94  | 94   | 94 | 93  | 92 | 91 |
| 0.1        | 0.0        | 92      | 93   | 93  | 94   | 94 | 93  | 90 | 87 |
|            | 0.1        | 93      | 95   | 96  | 97   | 97 | 96  | 92 | 87 |
|            | 0.2        | 95      | 96   | 97  | 98   | 97 | 96  | 92 | 87 |
|            | 0.3        | 96      | 98   | 98  | 98   | 98 | 95  | 92 | 88 |
| 0.2        | 0.0        | 93      | 93   | 93  | 93   | 93 | 93  | 92 | 89 |
|            | 0.1        | 95      | 96   | 98  | 98   | 97 | 95  | 93 | 89 |
|            | 0.2        | 97      | 97   | 98  | 98   | 97 | 95  | 92 | 89 |
|            | 0.3        | 98      | 98   | 98  | 98   | 97 | 95  | 93 | 91 |
| 0.3        | 0.0        | 93      | 94   | 94  | 94   | 94 | 93  | 92 | 91 |
|            | 0.1        | 97      | 97   | 98  | 98   | 97 | 95  | 93 | 89 |
|            | 0.2        | 98      | 98   | 98  | 98   | 97 | 94  | 93 | 91 |
|            | 0.3        | 99      | 99   | 99  | 98   | 98 | 96  | 95 | 94 |

**Table 2:** Coverage (1 - size) of 90% GMS joint test for  $\alpha_0$  and  $\alpha_1$ :  $n = 2000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |    |     |    |    |
|------------|------------|---------|------|-----|------|----|-----|----|----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1  | 1.5 | 2  | 3  |
| 0.0        | 0.0        | 95      | 95   | 95  | 96   | 96 | 96  | 95 | 95 |
|            | 0.1        | 96      | 97   | 97  | 97   | 97 | 97  | 95 | 94 |
|            | 0.2        | 96      | 97   | 98  | 98   | 97 | 97  | 96 | 95 |
|            | 0.3        | 97      | 97   | 97  | 98   | 97 | 97  | 96 | 95 |
| 0.1        | 0.0        | 96      | 97   | 97  | 97   | 97 | 97  | 95 | 93 |
|            | 0.1        | 97      | 98   | 99  | 99   | 99 | 98  | 96 | 92 |
|            | 0.2        | 98      | 99   | 99  | 99   | 99 | 98  | 96 | 93 |
|            | 0.3        | 99      | 99   | 99  | 99   | 99 | 98  | 96 | 94 |
| 0.2        | 0.0        | 97      | 97   | 97  | 97   | 97 | 96  | 96 | 94 |
|            | 0.1        | 98      | 99   | 99  | 99   | 99 | 98  | 96 | 94 |
|            | 0.2        | 99      | 99   | 99  | 99   | 99 | 98  | 96 | 94 |
|            | 0.3        | 99      | 100  | 100 | 99   | 99 | 98  | 97 | 95 |
| 0.3        | 0.0        | 97      | 97   | 97  | 97   | 97 | 96  | 96 | 95 |
|            | 0.1        | 99      | 99   | 99  | 99   | 99 | 98  | 97 | 94 |
|            | 0.2        | 99      | 99   | 99  | 99   | 99 | 98  | 97 | 96 |
|            | 0.3        | 100     | 100  | 100 | 99   | 99 | 98  | 98 | 97 |

**Table 3:** Coverage (1 - size) of 95% GMS joint test for  $\alpha_0$  and  $\alpha_1$ :  $n = 1000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |    |     |    |    |
|------------|------------|---------|------|-----|------|----|-----|----|----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1  | 1.5 | 2  | 3  |
| 0.0        | 0.0        | 95      | 95   | 95  | 96   | 96 | 96  | 95 | 95 |
|            | 0.1        | 96      | 97   | 97  | 97   | 97 | 97  | 95 | 94 |
|            | 0.2        | 96      | 97   | 98  | 98   | 97 | 97  | 96 | 95 |
|            | 0.3        | 97      | 97   | 97  | 98   | 97 | 97  | 96 | 95 |
| 0.1        | 0.0        | 96      | 97   | 97  | 97   | 97 | 97  | 95 | 93 |
|            | 0.1        | 97      | 98   | 99  | 99   | 99 | 98  | 96 | 92 |
|            | 0.2        | 98      | 99   | 99  | 99   | 99 | 98  | 96 | 93 |
|            | 0.3        | 99      | 99   | 99  | 99   | 99 | 98  | 96 | 94 |
| 0.2        | 0.0        | 97      | 97   | 97  | 97   | 97 | 96  | 96 | 94 |
|            | 0.1        | 98      | 99   | 99  | 99   | 99 | 98  | 96 | 94 |
|            | 0.2        | 99      | 99   | 99  | 99   | 99 | 98  | 96 | 94 |
|            | 0.3        | 99      | 100  | 100 | 99   | 99 | 98  | 97 | 95 |
| 0.3        | 0.0        | 97      | 97   | 97  | 97   | 97 | 96  | 96 | 95 |
|            | 0.1        | 99      | 99   | 99  | 99   | 99 | 98  | 97 | 94 |
|            | 0.2        | 99      | 99   | 99  | 99   | 99 | 98  | 97 | 96 |
|            | 0.3        | 100     | 100  | 100 | 99   | 99 | 98  | 98 | 97 |

**Table 4:** Coverage (1 - size) of 95% GMS joint test for  $\alpha_0$  and  $\alpha_1$ :  $n = 2000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |      |      |      |      |      |      |
|------------|------------|---------|------|------|------|------|------|------|------|
|            |            | 0       | 0.25 | 0.5  | 0.75 | 1    | 1.5  | 2    | 3    |
| 0.0        | 0.0        | 97.7    | 97.7 | 97.6 | 97.7 | 98.0 | 98.0 | 97.4 | 97.9 |
|            | 0.1        | 98.0    | 98.7 | 98.8 | 99.1 | 98.8 | 98.4 | 97.1 | 96.4 |
|            | 0.2        | 98.4    | 98.5 | 98.9 | 98.9 | 98.8 | 98.6 | 98.0 | 97.0 |
|            | 0.3        | 98.5    | 98.8 | 98.8 | 99.0 | 98.7 | 98.4 | 97.8 | 97.5 |
| 0.1        | 0.0        | 98.1    | 98.5 | 98.3 | 98.8 | 98.8 | 98.4 | 96.8 | 95.7 |
|            | 0.1        | 98.6    | 99.1 | 99.5 | 99.6 | 99.6 | 98.8 | 97.7 | 95.2 |
|            | 0.2        | 99.0    | 99.3 | 99.7 | 99.8 | 99.7 | 98.9 | 97.5 | 95.7 |
|            | 0.3        | 99.4    | 99.7 | 99.8 | 99.8 | 99.6 | 99.0 | 98.2 | 96.7 |
| 0.2        | 0.0        | 98.6    | 98.5 | 98.6 | 98.9 | 98.7 | 98.2 | 97.7 | 97.0 |
|            | 0.1        | 99.0    | 99.5 | 99.7 | 99.7 | 99.4 | 99.0 | 98.1 | 96.5 |
|            | 0.2        | 99.5    | 99.7 | 99.8 | 99.7 | 99.4 | 99.0 | 97.8 | 96.8 |
|            | 0.3        | 99.7    | 99.8 | 99.8 | 99.8 | 99.5 | 99.0 | 98.7 | 97.7 |
| 0.3        | 0.0        | 98.7    | 98.7 | 98.8 | 98.7 | 98.7 | 98.2 | 98.1 | 97.6 |
|            | 0.1        | 99.4    | 99.6 | 99.6 | 99.7 | 99.4 | 98.9 | 98.3 | 96.8 |
|            | 0.2        | 99.8    | 99.8 | 99.7 | 99.8 | 99.5 | 99.1 | 98.5 | 97.8 |
|            | 0.3        | 100.0   | 99.9 | 99.9 | 99.8 | 99.6 | 99.5 | 99.1 | 98.8 |

**Table 5:** Coverage (1 - size) of 97.5% GMS joint test for  $\alpha_0$  and  $\alpha_1$ :  $n = 1000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |      |      |      |      |      |      |
|------------|------------|---------|------|------|------|------|------|------|------|
|            |            | 0       | 0.25 | 0.5  | 0.75 | 1    | 1.5  | 2    | 3    |
| 0.0        | 0.0        | 97.7    | 97.7 | 97.6 | 97.7 | 98.0 | 98.0 | 97.4 | 97.9 |
|            | 0.1        | 98.0    | 98.7 | 98.8 | 99.1 | 98.8 | 98.4 | 97.1 | 96.4 |
|            | 0.2        | 98.4    | 98.5 | 98.9 | 98.9 | 98.8 | 98.6 | 98.0 | 97.0 |
|            | 0.3        | 98.5    | 98.8 | 98.8 | 99.0 | 98.7 | 98.4 | 97.8 | 97.5 |
| 0.1        | 0.0        | 98.1    | 98.5 | 98.3 | 98.8 | 98.8 | 98.4 | 96.8 | 95.7 |
|            | 0.1        | 98.6    | 99.1 | 99.5 | 99.6 | 99.6 | 98.8 | 97.7 | 95.2 |
|            | 0.2        | 99.0    | 99.3 | 99.7 | 99.8 | 99.7 | 98.9 | 97.5 | 95.7 |
|            | 0.3        | 99.4    | 99.7 | 99.8 | 99.8 | 99.6 | 99.0 | 98.2 | 96.7 |
| 0.2        | 0.0        | 98.6    | 98.5 | 98.6 | 98.9 | 98.7 | 98.2 | 97.7 | 97.0 |
|            | 0.1        | 99.0    | 99.5 | 99.7 | 99.7 | 99.4 | 99.0 | 98.1 | 96.5 |
|            | 0.2        | 99.5    | 99.7 | 99.8 | 99.7 | 99.4 | 99.0 | 97.8 | 96.8 |
|            | 0.3        | 99.7    | 99.8 | 99.8 | 99.8 | 99.5 | 99.0 | 98.7 | 97.7 |
| 0.3        | 0.0        | 98.7    | 98.7 | 98.8 | 98.7 | 98.7 | 98.2 | 98.1 | 97.6 |
|            | 0.1        | 99.4    | 99.6 | 99.6 | 99.7 | 99.4 | 98.9 | 98.3 | 96.8 |
|            | 0.2        | 99.8    | 99.8 | 99.7 | 99.8 | 99.5 | 99.1 | 98.5 | 97.8 |
|            | 0.3        | 100.0   | 99.9 | 99.9 | 99.8 | 99.6 | 99.5 | 99.1 | 98.8 |

**Table 6:** Coverage (1 - size) of 97.5% GMS joint test for  $\alpha_0$  and  $\alpha_1$ :  $n = 2000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |    |     |   |   |
|------------|------------|---------|------|-----|------|----|-----|---|---|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1  | 1.5 | 2 | 3 |
| 0.0        | 0.0        | 27      | 33   | 30  | 14   | 1  | 0   | 0 | 0 |
|            | 0.1        | 27      | 32   | 29  | 13   | 2  | 0   | 0 | 0 |
|            | 0.2        | 26      | 33   | 32  | 15   | 4  | 0   | 0 | 0 |
|            | 0.3        | 26      | 34   | 30  | 17   | 5  | 0   | 0 | 0 |
| 0.1        | 0.0        | 26      | 32   | 31  | 14   | 2  | 0   | 0 | 0 |
|            | 0.1        | 26      | 36   | 32  | 16   | 4  | 0   | 0 | 0 |
|            | 0.2        | 27      | 35   | 31  | 18   | 8  | 0   | 0 | 0 |
|            | 0.3        | 25      | 35   | 32  | 21   | 11 | 1   | 0 | 0 |
| 0.2        | 0.0        | 26      | 33   | 30  | 15   | 3  | 0   | 0 | 0 |
|            | 0.1        | 26      | 33   | 30  | 19   | 6  | 0   | 0 | 0 |
|            | 0.2        | 26      | 35   | 33  | 22   | 12 | 1   | 0 | 0 |
|            | 0.3        | 26      | 35   | 33  | 26   | 15 | 3   | 0 | 0 |
| 0.3        | 0.0        | 26      | 32   | 32  | 16   | 6  | 0   | 0 | 0 |
|            | 0.1        | 24      | 35   | 33  | 21   | 11 | 1   | 0 | 0 |
|            | 0.2        | 26      | 32   | 35  | 27   | 15 | 4   | 0 | 0 |
|            | 0.3        | 26      | 35   | 35  | 28   | 21 | 7   | 2 | 0 |

**Table 7:** Percentage of simulation replications for which the standard GMM confidence interval fails to exist, either because the point estimate is NaN or the asymptotic covariance matrix is numerically singular ( $n = 1000$ ). Based on 2000 simulation replications.

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |    |     |   |   |
|------------|------------|---------|------|-----|------|----|-----|---|---|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1  | 1.5 | 2 | 3 |
| 0.0        | 0.0        | 25      | 36   | 29  | 7    | 0  | 0   | 0 | 0 |
|            | 0.1        | 28      | 36   | 29  | 7    | 0  | 0   | 0 | 0 |
|            | 0.2        | 28      | 37   | 28  | 10   | 1  | 0   | 0 | 0 |
|            | 0.3        | 27      | 36   | 28  | 12   | 2  | 0   | 0 | 0 |
| 0.1        | 0.0        | 27      | 36   | 27  | 10   | 0  | 0   | 0 | 0 |
|            | 0.1        | 26      | 36   | 29  | 9    | 1  | 0   | 0 | 0 |
|            | 0.2        | 28      | 38   | 29  | 13   | 2  | 0   | 0 | 0 |
|            | 0.3        | 24      | 36   | 31  | 15   | 5  | 0   | 0 | 0 |
| 0.2        | 0.0        | 26      | 36   | 30  | 9    | 1  | 0   | 0 | 0 |
|            | 0.1        | 25      | 37   | 29  | 12   | 2  | 0   | 0 | 0 |
|            | 0.2        | 27      | 38   | 32  | 17   | 4  | 0   | 0 | 0 |
|            | 0.3        | 25      | 39   | 34  | 20   | 9  | 1   | 0 | 0 |
| 0.3        | 0.0        | 26      | 37   | 30  | 10   | 2  | 0   | 0 | 0 |
|            | 0.1        | 25      | 38   | 31  | 16   | 4  | 0   | 0 | 0 |
|            | 0.2        | 27      | 38   | 34  | 19   | 9  | 0   | 0 | 0 |
|            | 0.3        | 27      | 36   | 36  | 23   | 13 | 2   | 0 | 0 |

**Table 8:** Percentage of simulation replications for which the standard GMM confidence interval fails to exist, either because the point estimate is NaN or the asymptotic covariance matrix is numerically singular ( $n = 2000$ )

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |    |     |    |    |
|------------|------------|---------|------|-----|------|----|-----|----|----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1  | 1.5 | 2  | 3  |
| 0.0        | 0.0        | 72      | 62   | 62  | 80   | 92 | 95  | 94 | 95 |
|            | 0.1        | 72      | 62   | 63  | 79   | 92 | 95  | 96 | 95 |
|            | 0.2        | 73      | 61   | 61  | 77   | 90 | 96  | 96 | 96 |
|            | 0.3        | 73      | 59   | 62  | 76   | 88 | 95  | 96 | 95 |
| 0.1        | 0.0        | 73      | 63   | 60  | 78   | 91 | 95  | 96 | 96 |
|            | 0.1        | 73      | 58   | 59  | 77   | 90 | 95  | 95 | 94 |
|            | 0.2        | 73      | 59   | 61  | 75   | 86 | 95  | 95 | 94 |
|            | 0.3        | 74      | 59   | 58  | 71   | 82 | 94  | 96 | 96 |
| 0.2        | 0.0        | 74      | 62   | 60  | 78   | 91 | 95  | 96 | 96 |
|            | 0.1        | 73      | 60   | 61  | 74   | 87 | 95  | 96 | 94 |
|            | 0.2        | 73      | 58   | 57  | 70   | 81 | 93  | 95 | 95 |
|            | 0.3        | 73      | 58   | 56  | 66   | 78 | 92  | 95 | 96 |
| 0.3        | 0.0        | 74      | 62   | 60  | 76   | 89 | 95  | 96 | 96 |
|            | 0.1        | 75      | 59   | 58  | 71   | 82 | 93  | 96 | 95 |
|            | 0.2        | 74      | 61   | 56  | 65   | 78 | 90  | 96 | 96 |
|            | 0.3        | 73      | 58   | 55  | 64   | 71 | 88  | 93 | 96 |

**Table 9:** Coverage of nominal 95% GMM Intervals with  $n = 1000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |    |     |    |    |
|------------|------------|---------|------|-----|------|----|-----|----|----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1  | 1.5 | 2  | 3  |
| 0.0        | 0.0        | 74      | 54   | 63  | 87   | 95 | 94  | 96 | 95 |
|            | 0.1        | 72      | 54   | 62  | 86   | 94 | 95  | 95 | 96 |
|            | 0.2        | 72      | 53   | 64  | 85   | 94 | 95  | 95 | 94 |
|            | 0.3        | 73      | 54   | 64  | 81   | 94 | 95  | 95 | 94 |
| 0.1        | 0.0        | 73      | 54   | 65  | 83   | 94 | 95  | 94 | 96 |
|            | 0.1        | 74      | 55   | 64  | 84   | 93 | 95  | 95 | 95 |
|            | 0.2        | 72      | 52   | 63  | 80   | 93 | 96  | 95 | 95 |
|            | 0.3        | 75      | 53   | 59  | 77   | 90 | 95  | 95 | 95 |
| 0.2        | 0.0        | 74      | 54   | 61  | 84   | 93 | 96  | 95 | 94 |
|            | 0.1        | 74      | 54   | 63  | 81   | 92 | 96  | 95 | 96 |
|            | 0.2        | 73      | 52   | 60  | 75   | 90 | 96  | 96 | 95 |
|            | 0.3        | 74      | 50   | 57  | 72   | 86 | 95  | 96 | 96 |
| 0.3        | 0.0        | 74      | 53   | 61  | 83   | 92 | 97  | 95 | 95 |
|            | 0.1        | 75      | 52   | 60  | 78   | 90 | 95  | 96 | 96 |
|            | 0.2        | 73      | 52   | 57  | 73   | 85 | 95  | 96 | 96 |
|            | 0.3        | 73      | 53   | 54  | 69   | 80 | 93  | 96 | 96 |

**Table 10:** Coverage of nominal 95% GMM Intervals with  $n = 2000$



| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |      |      |      |      |      |      |
|------------|------------|---------|------|------|------|------|------|------|------|
|            |            | 0       | 0.25 | 0.5  | 0.75 | 1    | 1.5  | 2    | 3    |
| 0.0        | 0.0        | 19.07   | 3.44 | 1.86 | 1.32 | 0.87 | 0.47 | 0.37 | 0.35 |
|            | 0.1        | 17.52   | 3.47 | 1.92 | 1.41 | 1    | 0.61 | 0.51 | 0.46 |
|            | 0.2        | 17.41   | 3.51 | 1.9  | 1.45 | 1.1  | 0.76 | 0.65 | 0.58 |
|            | 0.3        | 18.23   | 3.34 | 1.92 | 1.48 | 1.24 | 0.91 | 0.79 | 0.7  |
| 0.1        | 0.0        | 17.13   | 3.51 | 1.86 | 1.38 | 0.97 | 0.61 | 0.51 | 0.46 |
|            | 0.1        | 17.88   | 3.33 | 1.85 | 1.45 | 1.13 | 0.78 | 0.67 | 0.6  |
|            | 0.2        | 17.37   | 3.36 | 1.95 | 1.54 | 1.24 | 0.97 | 0.85 | 0.75 |
|            | 0.3        | 18.07   | 3.33 | 1.98 | 1.63 | 1.41 | 1.17 | 1.04 | 0.92 |
| 0.2        | 0.0        | 17.79   | 3.39 | 1.92 | 1.45 | 1.11 | 0.75 | 0.65 | 0.58 |
|            | 0.1        | 18.98   | 3.43 | 1.96 | 1.54 | 1.26 | 0.97 | 0.84 | 0.75 |
|            | 0.2        | 18.25   | 3.26 | 1.92 | 1.64 | 1.45 | 1.2  | 1.06 | 0.95 |
|            | 0.3        | 19.03   | 3.31 | 2.02 | 1.75 | 1.66 | 1.49 | 1.33 | 1.19 |
| 0.3        | 0.0        | 18.27   | 3.48 | 1.87 | 1.5  | 1.25 | 0.9  | 0.79 | 0.7  |
|            | 0.1        | 19.4    | 3.41 | 1.96 | 1.63 | 1.43 | 1.18 | 1.04 | 0.92 |
|            | 0.2        | 18.22   | 3.56 | 1.96 | 1.74 | 1.67 | 1.49 | 1.35 | 1.19 |
|            | 0.3        | 17.56   | 3.55 | 2.13 | 1.96 | 1.86 | 1.86 | 1.74 | 1.55 |

**Table 11:** Median Width of nominal 95% GMM Intervals with  $n = 1000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |      |      |      |      |      |      |
|------------|------------|---------|------|------|------|------|------|------|------|
|            |            | 0       | 0.25 | 0.5  | 0.75 | 1    | 1.5  | 2    | 3    |
| 0.0        | 0.0        | 17.4    | 2.42 | 1.47 | 1    | 0.62 | 0.33 | 0.27 | 0.24 |
|            | 0.1        | 16.56   | 2.51 | 1.49 | 1.06 | 0.7  | 0.43 | 0.36 | 0.33 |
|            | 0.2        | 16.33   | 2.4  | 1.53 | 1.13 | 0.81 | 0.53 | 0.46 | 0.41 |
|            | 0.3        | 17.06   | 2.52 | 1.57 | 1.19 | 0.91 | 0.65 | 0.56 | 0.5  |
| 0.1        | 0.0        | 17.2    | 2.5  | 1.53 | 1.05 | 0.71 | 0.43 | 0.36 | 0.33 |
|            | 0.1        | 17.48   | 2.5  | 1.53 | 1.15 | 0.83 | 0.56 | 0.48 | 0.43 |
|            | 0.2        | 16.32   | 2.45 | 1.57 | 1.2  | 0.97 | 0.69 | 0.6  | 0.53 |
|            | 0.3        | 18.37   | 2.43 | 1.51 | 1.3  | 1.1  | 0.84 | 0.73 | 0.65 |
| 0.2        | 0.0        | 17.64   | 2.5  | 1.49 | 1.13 | 0.8  | 0.54 | 0.46 | 0.41 |
|            | 0.1        | 18.25   | 2.47 | 1.58 | 1.22 | 0.96 | 0.69 | 0.6  | 0.54 |
|            | 0.2        | 17.02   | 2.4  | 1.57 | 1.31 | 1.13 | 0.86 | 0.76 | 0.67 |
|            | 0.3        | 18.05   | 2.39 | 1.61 | 1.43 | 1.33 | 1.09 | 0.95 | 0.85 |
| 0.3        | 0.0        | 17.72   | 2.43 | 1.53 | 1.19 | 0.91 | 0.65 | 0.56 | 0.5  |
|            | 0.1        | 18.8    | 2.46 | 1.55 | 1.32 | 1.11 | 0.84 | 0.74 | 0.65 |
|            | 0.2        | 18.24   | 2.45 | 1.61 | 1.45 | 1.3  | 1.08 | 0.96 | 0.85 |
|            | 0.3        | 17.43   | 2.55 | 1.67 | 1.62 | 1.57 | 1.4  | 1.24 | 1.1  |

**Table 12:** Median Width of nominal 95% GMM Intervals with  $n = 2000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |     |     |     |     |
|------------|------------|---------|------|-----|------|-----|-----|-----|-----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1   | 1.5 | 2   | 3   |
| 0.0        | 0.0        | 96      | 97   | 97  | 96   | 97  | 97  | 95  | 96  |
|            | 0.1        | 97      | 99   | 99  | 99   | 99  | 100 | 100 | 99  |
|            | 0.2        | 98      | 99   | 99  | 100  | 100 | 100 | 100 | 100 |
|            | 0.3        | 97      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
| 0.1        | 0.0        | 97      | 99   | 99  | 99   | 100 | 100 | 100 | 98  |
|            | 0.1        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.2        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.3        | 97      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
| 0.2        | 0.0        | 97      | 99   | 99  | 100  | 100 | 100 | 100 | 100 |
|            | 0.1        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.2        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.3        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
| 0.3        | 0.0        | 97      | 99   | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.1        | 97      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.2        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.3        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |

**Table 13:** Coverage of nominal  $> 95\%$  Bonferroni Intervals with  $n = 1000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |     |     |     |     |
|------------|------------|---------|------|-----|------|-----|-----|-----|-----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1   | 1.5 | 2   | 3   |
| 0.0        | 0.0        | 96      | 97   | 96  | 97   | 96  | 96  | 95  | 95  |
|            | 0.1        | 97      | 98   | 99  | 100  | 100 | 100 | 100 | 99  |
|            | 0.2        | 97      | 99   | 99  | 100  | 100 | 100 | 100 | 100 |
|            | 0.3        | 97      | 99   | 100 | 100  | 100 | 100 | 100 | 100 |
| 0.1        | 0.0        | 97      | 99   | 99  | 99   | 100 | 100 | 100 | 99  |
|            | 0.1        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.2        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.3        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
| 0.2        | 0.0        | 97      | 99   | 99  | 100  | 100 | 100 | 100 | 99  |
|            | 0.1        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.2        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.3        | 98      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
| 0.3        | 0.0        | 97      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.1        | 97      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.2        | 97      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |
|            | 0.3        | 97      | 100  | 100 | 100  | 100 | 100 | 100 | 100 |

**Table 14:** Coverage of nominal  $> 95\%$  Bonferroni Intervals with  $n = 2000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |      |      |      |      |      |      |
|------------|------------|---------|------|------|------|------|------|------|------|
|            |            | 0       | 0.25 | 0.5  | 0.75 | 1    | 1.5  | 2    | 3    |
| 0.0        | 0.0        | 0.4     | 0.41 | 0.43 | 0.43 | 0.43 | 0.42 | 0.41 | 0.41 |
|            | 0.1        | 0.45    | 0.47 | 0.54 | 0.59 | 0.63 | 0.7  | 0.75 | 0.86 |
|            | 0.2        | 0.51    | 0.54 | 0.65 | 0.76 | 0.85 | 0.95 | 1.01 | 1.17 |
|            | 0.3        | 0.58    | 0.62 | 0.79 | 0.95 | 1.07 | 1.17 | 1.24 | 1.48 |
| 0.1        | 0.0        | 0.45    | 0.47 | 0.54 | 0.59 | 0.63 | 0.7  | 0.76 | 0.88 |
|            | 0.1        | 0.51    | 0.54 | 0.66 | 0.77 | 0.86 | 1.03 | 1.18 | 1.46 |
|            | 0.2        | 0.58    | 0.63 | 0.8  | 0.98 | 1.12 | 1.38 | 1.55 | 1.88 |
|            | 0.3        | 0.67    | 0.75 | 1    | 1.25 | 1.46 | 1.74 | 1.94 | 2.4  |
| 0.2        | 0.0        | 0.51    | 0.54 | 0.65 | 0.76 | 0.86 | 0.96 | 1.02 | 1.19 |
|            | 0.1        | 0.58    | 0.63 | 0.81 | 0.99 | 1.14 | 1.42 | 1.64 | 2.08 |
|            | 0.2        | 0.67    | 0.75 | 1.01 | 1.29 | 1.54 | 1.97 | 2.33 | 2.9  |
|            | 0.3        | 0.81    | 0.91 | 1.3  | 1.7  | 2.09 | 2.73 | 3.13 | 3.9  |
| 0.3        | 0.0        | 0.58    | 0.62 | 0.8  | 0.95 | 1.09 | 1.18 | 1.25 | 1.5  |
|            | 0.1        | 0.68    | 0.74 | 1.01 | 1.26 | 1.49 | 1.84 | 2.13 | 2.78 |
|            | 0.2        | 0.81    | 0.91 | 1.3  | 1.7  | 2.11 | 2.8  | 3.4  | 4.48 |
|            | 0.3        | 1.01    | 1.16 | 1.74 | 2.35 | 2.93 | 4.17 | 5.2  | 6.85 |

**Table 15:** Median Width of nominal  $> 95\%$  Bonferroni Intervals with  $n = 1000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |      |      |      |      |      |      |
|------------|------------|---------|------|------|------|------|------|------|------|
|            |            | 0       | 0.25 | 0.5  | 0.75 | 1    | 1.5  | 2    | 3    |
| 0.0        | 0.0        | 0.29    | 0.3  | 0.31 | 0.31 | 0.31 | 0.3  | 0.29 | 0.29 |
|            | 0.1        | 0.32    | 0.35 | 0.4  | 0.44 | 0.48 | 0.53 | 0.55 | 0.61 |
|            | 0.2        | 0.36    | 0.41 | 0.51 | 0.59 | 0.65 | 0.67 | 0.69 | 0.81 |
|            | 0.3        | 0.41    | 0.48 | 0.64 | 0.76 | 0.81 | 0.8  | 0.85 | 1.01 |
| 0.1        | 0.0        | 0.32    | 0.35 | 0.4  | 0.44 | 0.48 | 0.53 | 0.56 | 0.62 |
|            | 0.1        | 0.36    | 0.41 | 0.51 | 0.6  | 0.69 | 0.82 | 0.88 | 1.02 |
|            | 0.2        | 0.41    | 0.48 | 0.64 | 0.79 | 0.91 | 1.04 | 1.08 | 1.27 |
|            | 0.3        | 0.48    | 0.59 | 0.82 | 1.02 | 1.16 | 1.25 | 1.33 | 1.61 |
| 0.2        | 0.0        | 0.36    | 0.41 | 0.51 | 0.59 | 0.65 | 0.67 | 0.7  | 0.82 |
|            | 0.1        | 0.41    | 0.48 | 0.65 | 0.79 | 0.92 | 1.09 | 1.21 | 1.52 |
|            | 0.2        | 0.48    | 0.59 | 0.83 | 1.05 | 1.24 | 1.49 | 1.61 | 1.96 |
|            | 0.3        | 0.57    | 0.73 | 1.09 | 1.43 | 1.69 | 1.9  | 2.08 | 2.6  |
| 0.3        | 0.0        | 0.41    | 0.48 | 0.64 | 0.77 | 0.82 | 0.78 | 0.84 | 1.02 |
|            | 0.1        | 0.48    | 0.59 | 0.83 | 1.03 | 1.18 | 1.36 | 1.57 | 2.06 |
|            | 0.2        | 0.57    | 0.73 | 1.1  | 1.43 | 1.71 | 2.11 | 2.45 | 3.18 |
|            | 0.3        | 0.72    | 0.95 | 1.5  | 2.03 | 2.53 | 3.15 | 3.56 | 4.56 |

**Table 16:** Median Width of nominal  $> 95\%$  Bonferroni Intervals with  $n = 2000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |     |     |    |    |
|------------|------------|---------|------|-----|------|-----|-----|----|----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1   | 1.5 | 2  | 3  |
| 0.0        | 0.0        | 96      | 97   | 97  | 96   | 97  | 97  | 95 | 93 |
|            | 0.1        | 97      | 99   | 99  | 99   | 99  | 98  | 96 | 95 |
|            | 0.2        | 98      | 99   | 99  | 100  | 100 | 97  | 96 | 96 |
|            | 0.3        | 97      | 100  | 100 | 100  | 99  | 96  | 96 | 96 |
| 0.1        | 0.0        | 97      | 99   | 99  | 99   | 100 | 98  | 97 | 95 |
|            | 0.1        | 98      | 100  | 100 | 100  | 100 | 96  | 96 | 96 |
|            | 0.2        | 98      | 100  | 100 | 100  | 99  | 96  | 96 | 95 |
|            | 0.3        | 97      | 100  | 100 | 100  | 97  | 95  | 96 | 96 |
| 0.2        | 0.0        | 97      | 99   | 99  | 100  | 100 | 96  | 96 | 96 |
|            | 0.1        | 98      | 100  | 100 | 100  | 99  | 96  | 96 | 96 |
|            | 0.2        | 98      | 100  | 100 | 100  | 96  | 95  | 95 | 96 |
|            | 0.3        | 98      | 100  | 100 | 98   | 95  | 95  | 95 | 96 |
| 0.3        | 0.0        | 97      | 99   | 100 | 100  | 100 | 95  | 96 | 97 |
|            | 0.1        | 97      | 100  | 100 | 100  | 97  | 94  | 96 | 96 |
|            | 0.2        | 98      | 100  | 100 | 98   | 94  | 94  | 96 | 96 |
|            | 0.3        | 98      | 100  | 99  | 96   | 92  | 94  | 95 | 96 |

**Table 17:** Coverage of two-step CI constructed from nominal 95% GMM and nominal  $> 95\%$  Bonferroni intervals:  $n = 1000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |     |      |     |     |    |    |
|------------|------------|---------|------|-----|------|-----|-----|----|----|
|            |            | 0       | 0.25 | 0.5 | 0.75 | 1   | 1.5 | 2  | 3  |
| 0.0        | 0.0        | 96      | 97   | 96  | 97   | 96  | 96  | 95 | 93 |
|            | 0.1        | 97      | 98   | 99  | 100  | 100 | 98  | 97 | 96 |
|            | 0.2        | 97      | 99   | 99  | 100  | 100 | 97  | 96 | 95 |
|            | 0.3        | 97      | 99   | 100 | 100  | 99  | 96  | 96 | 96 |
| 0.1        | 0.0        | 97      | 99   | 99  | 99   | 100 | 98  | 96 | 95 |
|            | 0.1        | 98      | 100  | 100 | 100  | 100 | 96  | 96 | 97 |
|            | 0.2        | 98      | 100  | 100 | 100  | 99  | 96  | 96 | 97 |
|            | 0.3        | 98      | 100  | 100 | 99   | 97  | 95  | 96 | 96 |
| 0.2        | 0.0        | 97      | 99   | 99  | 100  | 100 | 97  | 96 | 95 |
|            | 0.1        | 98      | 100  | 100 | 100  | 98  | 96  | 96 | 97 |
|            | 0.2        | 98      | 100  | 100 | 100  | 96  | 96  | 96 | 96 |
|            | 0.3        | 98      | 100  | 100 | 97   | 95  | 95  | 96 | 96 |
| 0.3        | 0.0        | 97      | 100  | 100 | 100  | 99  | 98  | 97 | 96 |
|            | 0.1        | 97      | 100  | 100 | 100  | 96  | 95  | 96 | 97 |
|            | 0.2        | 97      | 100  | 100 | 97   | 94  | 96  | 96 | 97 |
|            | 0.3        | 97      | 100  | 100 | 94   | 94  | 95  | 96 | 96 |

**Table 18:** Coverage of two-step CI constructed from nominal 95% GMM and nominal  $> 95\%$  Bonferroni intervals:  $n = 2000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |      |      |      |      |      |      |
|------------|------------|---------|------|------|------|------|------|------|------|
|            |            | 0       | 0.25 | 0.5  | 0.75 | 1    | 1.5  | 2    | 3    |
| 0.0        | 0.0        | 0.4     | 0.41 | 0.43 | 0.43 | 0.43 | 0.42 | 0.4  | 0.35 |
|            | 0.1        | 0.45    | 0.47 | 0.54 | 0.59 | 0.63 | 0.67 | 0.52 | 0.46 |
|            | 0.2        | 0.51    | 0.54 | 0.65 | 0.76 | 0.84 | 0.82 | 0.65 | 0.58 |
|            | 0.3        | 0.58    | 0.62 | 0.79 | 0.95 | 1.05 | 0.96 | 0.79 | 0.7  |
| 0.1        | 0.0        | 0.45    | 0.47 | 0.54 | 0.59 | 0.63 | 0.67 | 0.51 | 0.46 |
|            | 0.1        | 0.51    | 0.54 | 0.66 | 0.77 | 0.86 | 0.92 | 0.69 | 0.61 |
|            | 0.2        | 0.58    | 0.63 | 0.8  | 0.97 | 1.11 | 1.17 | 0.87 | 0.75 |
|            | 0.3        | 0.67    | 0.75 | 1    | 1.25 | 1.4  | 1.4  | 1.06 | 0.92 |
| 0.2        | 0.0        | 0.51    | 0.54 | 0.65 | 0.76 | 0.85 | 0.83 | 0.65 | 0.58 |
|            | 0.1        | 0.58    | 0.63 | 0.81 | 0.99 | 1.12 | 1.18 | 0.86 | 0.75 |
|            | 0.2        | 0.67    | 0.75 | 1.01 | 1.29 | 1.48 | 1.56 | 1.08 | 0.95 |
|            | 0.3        | 0.81    | 0.91 | 1.3  | 1.67 | 1.95 | 1.77 | 1.35 | 1.2  |
| 0.3        | 0.0        | 0.58    | 0.62 | 0.8  | 0.95 | 1.07 | 0.95 | 0.8  | 0.7  |
|            | 0.1        | 0.68    | 0.74 | 1.01 | 1.26 | 1.43 | 1.48 | 1.06 | 0.93 |
|            | 0.2        | 0.81    | 0.91 | 1.3  | 1.66 | 1.98 | 1.94 | 1.37 | 1.19 |
|            | 0.3        | 1.01    | 1.16 | 1.73 | 2.24 | 2.71 | 2.33 | 1.78 | 1.55 |

**Table 19:** Median width of two-step CI constructed from nominal 95% GMM and nominal > 95% Bonferroni intervals:  $n = 1000$

| $\alpha_0$ | $\alpha_1$ | $\beta$ |      |      |      |      |      |      |      |
|------------|------------|---------|------|------|------|------|------|------|------|
|            |            | 0       | 0.25 | 0.5  | 0.75 | 1    | 1.5  | 2    | 3    |
| 0.0        | 0.0        | 0.29    | 0.3  | 0.31 | 0.31 | 0.31 | 0.3  | 0.29 | 0.25 |
|            | 0.1        | 0.32    | 0.35 | 0.4  | 0.44 | 0.48 | 0.48 | 0.36 | 0.33 |
|            | 0.2        | 0.36    | 0.41 | 0.51 | 0.59 | 0.65 | 0.57 | 0.46 | 0.41 |
|            | 0.3        | 0.41    | 0.48 | 0.64 | 0.76 | 0.79 | 0.68 | 0.56 | 0.5  |
| 0.1        | 0.0        | 0.32    | 0.35 | 0.4  | 0.44 | 0.48 | 0.48 | 0.37 | 0.33 |
|            | 0.1        | 0.36    | 0.41 | 0.51 | 0.6  | 0.68 | 0.65 | 0.48 | 0.43 |
|            | 0.2        | 0.41    | 0.48 | 0.64 | 0.78 | 0.89 | 0.83 | 0.61 | 0.54 |
|            | 0.3        | 0.48    | 0.59 | 0.82 | 1.02 | 1.09 | 0.98 | 0.75 | 0.65 |
| 0.2        | 0.0        | 0.36    | 0.41 | 0.51 | 0.59 | 0.65 | 0.58 | 0.46 | 0.41 |
|            | 0.1        | 0.41    | 0.48 | 0.65 | 0.79 | 0.9  | 0.89 | 0.61 | 0.54 |
|            | 0.2        | 0.48    | 0.59 | 0.83 | 1.05 | 1.2  | 1.22 | 0.77 | 0.67 |
|            | 0.3        | 0.57    | 0.73 | 1.09 | 1.4  | 1.58 | 1.53 | 0.97 | 0.85 |
| 0.3        | 0.0        | 0.41    | 0.48 | 0.64 | 0.77 | 0.8  | 0.69 | 0.56 | 0.5  |
|            | 0.1        | 0.48    | 0.59 | 0.83 | 1.02 | 1.13 | 1.19 | 0.75 | 0.65 |
|            | 0.2        | 0.57    | 0.73 | 1.1  | 1.4  | 1.62 | 1.79 | 0.97 | 0.85 |
|            | 0.3        | 0.72    | 0.95 | 1.49 | 1.93 | 2.36 | 1.58 | 1.25 | 1.1  |

**Table 20:** Median width of two-step CI constructed from nominal 95% GMM and nominal > 95% Bonferroni intervals:  $n = 2000$

## 6 Conclusion

### A Proofs

**Lemma A.1** (Lemma for Appendix only with Bayes' Rule). *For mis-classification probabilities*

$$\begin{aligned} P(T^* = 1|T = 1, Z = k) &= P(T = 1|T^* = 1) \left( \frac{p_k^*}{p_k} \right) = (1 - \alpha_1) \left( \frac{p_k^*}{p_k} \right) \\ P(T^* = 1|T = 0, Z = k) &= P(T = 0|T^* = 1) \left( \frac{p_k^*}{1 - p_k} \right) = \alpha_1 \left( \frac{p_k^*}{1 - p_k} \right) \\ P(T^* = 0|T = 1, Z = k) &= P(T = 1|T^* = 0) \left( \frac{1 - p_k^*}{p_k} \right) = \alpha_0 \left( \frac{1 - p_k^*}{p_k} \right) \\ P(T^* = 0|T = 0, Z = k) &= P(T = 0|T^* = 0) \left( \frac{1 - p_k^*}{1 - p_k} \right) = (1 - \alpha_0) \left( \frac{1 - p_k^*}{1 - p_k} \right) \end{aligned}$$

**Proof of Lemma 2.1.** The result follows from a simple calculation using the law of total probability.  $\square$

**Proof of Lemma 2.2.** Immediate since  $\text{Cov}(T, y|\mathbf{x}) = [1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})] \text{Cov}(T^*, z|\mathbf{x})$  by Lemma 2.1.  $\square$

**Proof of Theorem 2.1.** Throughout this argument we suppress dependence on  $\mathbf{x}$  for simplicity. Define  $p_k = \mathbb{P}(T = 1|z = k)$  and  $p_k^* = \mathbb{P}(T^* = 1|z_k)$ .

We first show that so long as  $\alpha_0 \leq p_k \leq 1 - \alpha_1$  then we can construct a valid joint probability distribution for  $(T^*, T, z)$  that satisfies our assumptions. First decompose the joint probability mass function as

$$p(T^*, T, z) = p(T|T^*, z)p(T^*|z)p(z).$$

By Assumption 2.2 (ii),  $p(T|T^*, z) = p(T|T^*)$  and thus  $\alpha_0$  and  $\alpha_1$  fully determine  $p(T|T^*, z)$ . Under the proposed bounds,  $\alpha_0$  and  $\alpha_1$  are clearly valid probabilities. Since  $p(z)$  is observed, it thus suffices to ensure that  $p(T^*|z)$  is a valid probability mass function. By the law of total probability and Assumption 2.2 (ii),

$$p_k^* = \frac{p_k - \alpha_0}{1 - \alpha_0 - \alpha_1}.$$

and  $0 \leq p_k^* \leq 1$  if and only if  $\alpha_0 \leq p_k \leq 1 - \alpha_1$ . Since  $(p_k - p_\ell) = (p_k^* - p_\ell^*)(1 - \alpha_0 - \alpha_1)$ , provided that  $p_k - p_\ell \neq 0$  we have  $p_k^* \neq p_\ell^*$ .

We now show how to construct a valid conditional distribution for  $y$  given  $(T^*, T, z)$  that satisfies our assumptions if  $\beta(p_k - \alpha_0) = (1 - \alpha_0 - \alpha_1)[\mathbb{E}(y|z_k) - c]$  for all  $k$ . Define

$$\begin{aligned} r_{tk} &\equiv \mathbb{P}(T^* = 1|T = t, z = k) & F_t(\tau) &\equiv \mathbb{P}(y \leq \tau|z = k) \\ F_{tk}(\tau) &\equiv \mathbb{P}(y \leq \tau|T = t, z = k) & F_{tk}^{t^*}(\tau) &\equiv \mathbb{P}(y \leq \tau|T^* = t^*, T = t, z = k) \\ G_k(\tau) &\equiv \mathbb{P}(\varepsilon \leq \tau|z = k) & G_{tk}^{t^*}(\tau) &\equiv \mathbb{P}(\varepsilon \leq \tau|T^* = t^*, T = t, z = k). \end{aligned}$$

Assumption 2.1 (i) implies a relationship between  $G_{tk}^{t^*}$  and  $F_{tk}^{t^*}$  for each  $t^*$ , namely

$$G_{tk}^0(\tau) = F_{tk}^0(\tau + c), \quad G_{tk}^1(\tau) = F_{tk}^1(\tau + c + \beta) \quad (36)$$

and thus we see that

$$G_k(\tau) = r_{1k}p_k F_{1k}^1(\tau + c + \beta) + r_{0k}(1 - p_k)F_{0k}^1(\tau + c + \beta) \\ + (1 - r_{1k})p_k F_{1k}^0(\tau + c) + (1 - r_{0k})(1 - p_k)F_{0k}^0(\tau + c) \quad (37)$$

applying the law of total probability and Bayes' rule. Moreover, again applying the law of total probability,

$$F_{tk}(\tau) = r_{tk}F_{tk}^1(\tau) + (1 - r_{tk})F_{tk}^0(\tau) \quad (38)$$

for all  $t, k \in \{0, 1\}$ , and by Bayes' rule,

$$r_{1k} = \frac{(1 - \alpha_1)p_k^*}{p_k}, \quad r_{0k} = \frac{\alpha_1 p_k^*}{1 - p_k}. \quad (39)$$

There are four cases, corresponding to different possibilities for the  $r_{tk}$ .

**Case I:**  $r_{1k} = 0, r_{0k} \neq 0$  By Equation 39, this requires  $\alpha_1 = 1$  which is ruled out by Assumption 2.2 (ii).

**Case II:**  $r_{0k} = r_{1k} = 0$  By Equation 39, this requires  $p_k^* = 0$  which in turn requires  $p_k = \alpha_0$ . Moreover, by Equation 38 we have  $F_{tk}^0 = F_{tk}$ , while  $F_{tk}^1$  is undefined. Substituting into Equation 37,

$$G_k(\tau) = p_k F_{1k}(\tau + c) + (1 - p_k)F_{0k}(\tau + c) = F_k(\tau + c)$$

Now, since  $F_k(\tau + c)$  is the conditional CDF of  $y - c$  given that  $z = k$ , and  $G_k$  is the conditional CDF of  $\varepsilon$  given  $z = k$ , we see that Assumption 2.1 (i) is satisfied if and only if  $\mathbb{E}(y|z = k) = c$ . But since  $p_k = \alpha_0$  in this case,  $c = c + \beta(p_k - \alpha_0)/(1 - \alpha_0 - \alpha_1)$ .

**Case III:**  $r_{1k} \neq 0, r_{0k} = 0$  By Equation 39 this requires  $\alpha_1 = 0$  and  $p_k^* \neq 0$ . By Equation 38 we have  $F_{0k}^0 = F_{0k}$  and since  $r_{1k} \neq 1$ , we can solve to obtain

$$F_{1k}^1(\tau) = \frac{1}{r_{1k}} [F_{1k}(\tau) - (1 - r_{1k})F_{1k}^0(\tau)]$$

Substituting into Equation 37, we obtain

$$G_k(\tau) = [(1 - p_k)F_{0k}(\tau + c) + p_k F_{1k}(\tau + c + \beta)] \\ + p_k(1 - r_{1k}) [F_{1k}^0(\tau + c) - F_{1k}^0(\tau + c + \beta)]$$

Now,  $F_{0k}(\tau + c)$  is the conditional CDF of  $(y - c)$  given  $(T = 0, z = k)$  while  $F_{1k}(\tau + c + \beta)$  is the conditional CDF of  $(y - c - \beta)$  given  $(T = 1, z = k)$ . Similarly,  $F_{1k}^0(\tau + c)$  is the conditional CDF of  $\varepsilon$  given  $(T^* = 0, T = 1, z = k)$  while  $F_{1k}^0(\tau + c + \beta)$  is the conditional CDF of  $(\varepsilon - \beta)$  given  $(T^* = 0, T = 1, z = k)$ . Since  $G_k(\tau)$  is the conditional CDF of  $\varepsilon$  given  $z = k$ , we see that Assumption 2.1 (iii) is satisfied if and only if

$$0 = (1 - p_k)\mathbb{E}(y - c|T = 0, z = k) + p_k\mathbb{E}(y - c - \beta|T = 1, z = k) \\ + p_k(1 - r_{1k}) [\mathbb{E}(\varepsilon|T^* = 0, T = 1, z = k) - \mathbb{E}(\varepsilon - \beta|T^* = 0, T = 1, z = k)]$$

Rearranging, this is equivalent to

$$\mathbb{E}(y|z = k) = c + (1 - \alpha_1)\beta \left( \frac{p_k - \alpha_0}{1 - \alpha_0 - \alpha_1} \right) = c + \beta \left( \frac{p_k - \alpha_0}{1 - \alpha_0 - \alpha_1} \right)$$

since  $\alpha_1 = 0$  in this case. As explained above,  $F_{0k}^0 = F_{0k}$  in the present case while  $F_{0k}^1$  is undefined. We are free to choose any distributions for  $F_{1k}^0$  and  $F_{1k}^1$  that satisfy Equation 38, for example  $F_{1k}^0 = F_{1k}^1 = F_{1k}$ .

**Case IV:**  $r_{1k} \neq 0, r_{0k} \neq 0$  In this case, we can solve Equation 38 to obtain

$$F_{tk}^1(\tau) = \frac{1}{r_{tk}} [F_{tk}(\tau) - (1 - r_{tk})F_{tk}^0(\tau)]$$

Substituting this into Equation 37, we have

$$\begin{aligned} G_k(\tau) = & F_k(\tau + c + \beta) + p_k(1 - r_{1k}) [F_{1k}^0(\tau + c) - F_{1k}^0(\tau + c + \beta)] \\ & + (1 - p_k)(1 - r_{0k}) [F_{0k}^0(\tau + c) - F_{0k}^0(\tau + c + \beta)] \end{aligned}$$

using the fact that  $F_k(\tau) = p_k F_{1k}(\tau) + (1 - p_k) F_{0k}(\tau)$ . Now,  $F_k(\tau + c + \beta)$  is the conditional CDF of  $(y - c - \beta)$  given  $z = k$ , while  $F_{tk}^0(\tau + c)$  is the conditional CDF of  $\varepsilon$  given  $(T = t, z = k)$  and  $F_{tk}^0(\tau + c + \beta)$  is the conditional CDF of  $(\varepsilon - \beta)$  given  $(T = t, z = k)$ . Since  $G_k(\tau)$  is the conditional CDF of  $\varepsilon$  given  $z = k$ , we see that Assumption 2.1 (iii) is satisfied if and only if

$$\begin{aligned} 0 &= \mathbb{E}[y - c - \beta|z = k] + p_k(1 - r_{1k}) [\mathbb{E}(\varepsilon|T^* = 0, T = 1, z = k) - \mathbb{E}(\varepsilon - \beta|T^* = 0, T = 1, z = k)] \\ &\quad + (1 - p_k)(1 - r_{0k}) [\mathbb{E}(\varepsilon|T^* = 0, T = 0, z = k) - \mathbb{E}(\varepsilon - \beta|T^* = 0, T = 0, z = k)] \\ 0 &= \mathbb{E}[y - c - \beta|z = k] + \beta [p_k(1 - r_{1k}) + (1 - p_k)(1 - r_{0k})] \end{aligned}$$

But since  $[p_k(1 - r_{1k}) + (1 - p_k)(1 - r_{0k})] = (1 - p_k^*)$  and  $p_k^* = (p_k - \alpha_0)/(1 - \alpha_0 - \alpha_1)$ , this simplifies to

$$\mathbb{E}[y|z = k] = c + \beta \left( \frac{p_k - \alpha_0}{1 - \alpha_0 - \alpha_1} \right).$$

Thus, in this case we are free to choose *any* distributions for  $F_{tk}^0$  and  $F_{tk}^1$  that satisfy Equation 38. For example we could take  $F_{tk}^0 = F_{tk}^1 = F_{tk}$ .  $\square$

**Proof of Corollary 2.1.** Follows by plugging in the largest and smallest possible values for  $\alpha_0 + \alpha_1$  and taking the difference of the expressions for  $\mathbb{E}[y|z = k]$   $\square$

**Proof of Theorem 2.2.** Under Assumption 2.1 (i) and Assumption 2.2 (iii), we obtain  $\mathbb{E}(y|T^*, T, z) = \mathbb{E}(y|T^*, z)$ . Hence, by iterated expectations

$$\begin{aligned} \mathbb{E}(y|T = 0, z = k) &= (1 - r_{0k})\mathbb{E}(y|T^* = 0, z = k) + r_{0k}\mathbb{E}(y|T^* = 1, z = k) \\ \mathbb{E}(y|T = 1, z = k) &= (1 - r_{1k})\mathbb{E}(y|T^* = 0, z = k) + r_{1k}\mathbb{E}(y|T^* = 1, z = k) \end{aligned}$$

where  $r_{tk}$  is defined as in the proof of Theorem 2.1. This is system of two linear equations in two unknowns:  $\mathbb{E}(y|T^* = 0, z = k)$  and  $\mathbb{E}(y|T^* = 1, z = k)$ . After some algebra, we find that the determinant is

$$r_{1k} - r_{0k} = \left[ \frac{p_k - \alpha_0}{1 - \alpha_0 - \alpha_1} \right] \left[ \frac{1 - p_k - \alpha_1}{p_k(1 - p_k)} \right]$$



and thus a unique solution exists provided that  $\alpha_0 \neq p_k$  and  $\alpha_1 \neq 1 - p_k$ . By our assumption that  $\mathbb{E}[y|T = 0, z = k] \neq \mathbb{E}[y|T = 1, z = k]$ , the system has no solution when the determinant condition fails. Thus, Assumption 2.2 (iii) rules out  $\alpha_0 = p_k$  and  $\alpha_1 = 1 - p_k$ . Solving,

$$\begin{aligned}\mu_k^0 &\equiv \mathbb{E}(y|T^* = 0, z = k) = \left( \frac{1}{1 - p_k - \alpha_1} \right) [(1 - p_k)\mathbb{E}(y|T = 0, z_k) - \alpha_1\mathbb{E}(y|z = k)] \\ \mu_k^1 &\equiv \mathbb{E}(y|T^* = 1, z = k) = \left( \frac{1}{p_k - \alpha_0} \right) [p_k\mathbb{E}(y|T = 1, z_k) - \alpha_0\mathbb{E}(y|z = k)]\end{aligned}$$

Given  $(\alpha_0, \alpha_1)$ , we see that  $r_{tk}$ ,  $\mu_k^0$ , and  $\mu_k^1$  are fixed. The question is whether, for a given pair  $(\alpha_0, \alpha_1)$  and observed CDFs  $F_{tk}$ , we can construct valid CDFs  $F_{tk}^0, F_{tk}^1$  such that

$$\int_{\mathbb{R}} \tau F_{tk}^0(d\tau) = \mu_k^0, \quad \int_{\mathbb{R}} \tau F_{tk}^1(d\tau) = \mu_k^1, \quad F_{tk}(\tau) = r_{tk}F_{tk}^1(\tau) + (1 - r_{tk})F_{tk}^0(\tau)$$

where  $F_{tk}$  and  $F_{tk}^{t*}$  are as defined in the proof of Theorem 2.2. For a given pair  $(t, k)$ , there are two cases:  $0 < r_{tk} < 1$  and  $r_{tk} \in \{0, 1\}$ .

**Case I:**  $r_{tk} \in \{0, 1\}$  Suppose that  $r_{tk} = 1$ . Then,  $\mu_k^1 = \mathbb{E}[y|T = t, z = k]$  so we can simply set  $F_{tk}^1 = F_{tk}$ . In this case  $F_{tk}^0$  is undefined. If instead  $r_{tk} = 0$ , then  $\mu_k^0 = \mathbb{E}[y|T = t, z = k]$  so we can simply set  $F_{tk}^0 = F_{tk}$ . In this case  $F_{tk}^1$  is undefined.

**Case II:**  $0 < r_{tk} < 1$  Define

$$\begin{aligned}m_{tk}(\xi) &= \mathbb{E}[y|y \in I_{tk}(\xi), T = t, z = k] \\ I_{tk}(\xi) &= [F_{tk}^{-1}(1 - \xi - r_{tk}), F_{tk}^{-1}(1 - \xi)]\end{aligned}$$

for  $t, k = 0, 1$  where  $0 \leq \xi \leq 1 - r_{tk}$  and  $F_{tk}^{-1}$  is the quantile function of  $y$  given  $(T = t, z = k)$ . We see that  $m_{tk}$  is a decreasing function of  $\xi$  that attains its maximum at  $\xi = 0$  and minimum at  $\xi = 1 - r_{tk}$ . Define these extrema as  $\underline{m}_{tk} = m_{tk}(1 - r_{tk})$  and  $\overline{m}_{tk} = m_{tk}(0)$ .

Suppose first that  $\mu_k^1$  does *not* lie in the interval  $[\underline{m}_{tk}, \overline{m}_{tk}]$ . We show that it is impossible to construct valid CDFs  $F_{tk}^0$  and  $F_{tk}^1$  that satisfy  $F_{tk}(\tau) = r_{tk}F_{tk}^1(\tau) + (1 - r_{tk})F_{tk}^0(\tau)$  where  $F_{tk}$  and  $F_{tk}^{t*}$  are as defined in the proof of Theorem 2.2. Since  $r_{tk} \neq 1$ , we can solve the expression for  $F_{tk}$  to yield  $F_{tk}^0(\tau) = [F_{tk}(\tau) - r_{tk}F_{tk}^1(\tau)] / (1 - r_{tk})$ . Hence, since  $r_{tk} \neq 0$ , the requirement that  $0 \leq F_{tk}^0(\tau) \leq 1$  implies

$$\frac{F_{tk}(\tau) - (1 - r_{tk})}{r_{tk}} \leq F_{tk}^1(\tau) \leq \frac{F_{tk}(\tau)}{r_{tk}} \quad (40)$$

Now define

$$\begin{aligned}\underline{F}_{tk}^1(\tau) &= \min \{1, F_{tk}(\tau)/r_{tk}\} \\ \overline{F}_{tk}^1(\tau) &= \max \{0, F_{tk}(\tau)/r_{tk} - (1 - r_{tk})/r_{tk}\}\end{aligned}$$

Combining Equation 40 with the requirement that  $0 \leq F_{tk}^1(\tau) \leq 1$ , we see that

$$\overline{F}_{tk}^1(\tau) \leq F_{tk}^1(\tau) \leq \underline{F}_{tk}^1(\tau)$$

Hence  $\overline{F}_{tk}^1$  first-order stochastically dominates  $F_{tk}^1$  which in turn first-order stochastically dominates

$\underline{F}_{tk}^1$ . It follows that

$$\int \tau \underline{F}_{tk}^1(d\tau) \leq \int \tau F_{tk}^1(d\tau) \leq \int \tau \overline{F}_{tk}^1(d\tau)$$

But notice that

$$\underline{m}_{tk} = \int \tau \underline{F}_{tk}^1(d\tau), \quad \mu_k^1 = \int \tau F_{tk}^1(d\tau), \quad \overline{m}_{tk} = \int \tau \overline{F}_{tk}^1(d\tau)$$

so we have  $\underline{m}_{tk} \leq \mu_k^1 \leq \overline{m}_{tk}$  which contradicts  $\mu_k^1 \notin [\underline{m}_{tk}, \overline{m}_{tk}]$ .

Now suppose that  $\mu_k^1 \in [\underline{m}_{tk}, \overline{m}_{tk}]$ . Since  $y$  is assumed to follow a continuous distribution conditional on  $(T, z)$ ,  $m_{tk}$  is continuous on its domain and takes on all values in  $[\underline{m}_{tk}, \overline{m}_{tk}]$  by the intermediate value theorem. Thus, there exists a  $\xi^*$  such that  $m_{tk}(\xi^*) = \mu_k^1$ . Now let  $f_{tk}(\tau) = dF_{tk}(\tau)/d\tau$  which is non-negative by the assumption that  $y$  is continuously distributed. Define the densities

$$f_{tk}^1(\tau) = \frac{f_{tk}(\tau) \times \mathbf{1}\{\tau \in I_{tk}(\xi^*)\}}{r_{tk}}, \quad f_{tk}^0(\tau) = \frac{f_{tk}(\tau) \times \mathbf{1}\{\tau \in I_{tk}^C(\xi^*)\}}{1 - r_{tk}}.$$

Clearly  $f_{tk}^1 \geq 0$  and  $f_{tk}^0 \geq 0$ . Integrating,

$$\begin{aligned} \int_{\mathbb{R}} f_{tk}^1(\tau) d\tau &= \frac{1}{r_{tk}} \int_{I_{tk}(\xi^*)} f_{tk}(\tau) d\tau = 1 \\ \int_{\mathbb{R}} f_{tk}^0(\tau) d\tau &= \frac{1}{1 - r_{tk}} \int_{I_{tk}^C(\xi^*)} f_{tk}(\tau) d\tau = 1 \end{aligned}$$

where  $I_{tk}^C$  is the complement of  $I_{tk}$ . And, by construction

$$r_{tk} \int_A f_{tk}^1(\tau) d\tau + (1 - r_{tk}) \int_A f_{tk}^0(\tau) d\tau = \int_A f_{tk}(\tau) d\tau$$

for any set  $A$ . Finally,

$$\int_{\mathbb{R}} \tau f_{tk}^1(\tau) d\tau = \frac{1}{r_{tk}} \int_{I_{tk}(\xi^*)} \tau f_{tk}(\tau) d\tau = m(\xi^*) = \mu_{tk}.$$

Some discussion putting all of the pieces together and explaining what the identified set looks like. In particular, what are the “edge” cases? Can’t rule out  $\alpha_0 = \alpha_1 = 0$ .

□

**Proof of Lemma 2.3.** Throughout this argument we suppress dependence on  $\mathbf{x}$  for simplicity. By Assumption 2.1 (i) and the basic properties of covariance,

$$\begin{aligned} \eta_2 &= \beta^2 \text{Cov}(T^*, z) + 2\beta [c \text{Cov}(T^*, z) + \text{Cov}(T^* \varepsilon, z)] + 2c \text{Cov}(\varepsilon, z) + \text{Cov}(\varepsilon^2, z) \\ \tau_1 &= c\pi + \text{Cov}(T\varepsilon, z) + \beta \text{Cov}(TT^*, z) \end{aligned}$$

using the fact that  $T^*$  is binary. Now, by Assumptions 2.1 (iii) and 2.5 we have  $\text{Cov}(\varepsilon, z) = \text{Cov}(\varepsilon^2, z) = 0$ . And, using Assumptions 2.2 (i) and (ii), one can show that  $\text{Cov}(TT^*, z) = (1 -$

$\alpha_1)\text{Cov}(T^*, z)$  and  $\text{Cov}(T^*, z) = \pi/(1 - \alpha_0 - \alpha_1)$ . Hence,

$$\begin{aligned}\eta_2 &= \theta_1 (\beta + 2c) \pi + 2\beta \text{Cov}(T^* \varepsilon, z) \\ 2\tau_1 \theta_1 - \pi \theta_2 &= [2\theta_1 c + 2\theta_1^2 (1 - \alpha_1) - \theta_2] \pi + 2\theta_1 \text{Cov}(T \varepsilon, z)\end{aligned}$$

but since  $\theta_2 = \theta_1^2 [(1 - \alpha_1) + \alpha_0]$ , we see that  $[2\theta_1^2 (1 - \alpha_1) - \theta_2] = \theta_1 \beta$ . Thus, it suffices to show that  $\beta \text{Cov}(T^* \varepsilon, z) = \theta_1 \text{Cov}(T \varepsilon, z)$ . This equality is trivially satisfied when  $\beta = 0$ , so suppose that  $\beta \neq 0$ . In this case it suffices to show that  $(1 - \alpha_0 - \alpha_1) \text{Cov}(T^* \varepsilon, z) = \text{Cov}(T \varepsilon, z)$ . Define  $m_{tk}^* = \mathbb{E}[\varepsilon | T^* = t, z = k]$  and  $p_k^* = \mathbb{P}(T^* = 1 | z = k)$ . Then, by iterated expectations, Bayes' rule, and Assumption 2.2 (iii)

$$\begin{aligned}\text{Cov}(T^* \varepsilon, z) &= q(1 - q) (p_1^* m_{11}^* - p_0^* m_{10}^*) \\ \text{Cov}(T \varepsilon, z) &= q(1 - q) \{ (1 - \alpha_1) [p_1^* m_{11}^* - p_0^* m_{10}^*] + \alpha_0 [(1 - p_1^*) m_{01}^* - (1 - p_0^*) m_{00}^*] \}\end{aligned}$$

But by Assumption 2.1 (iii),  $\mathbb{E}[\varepsilon | z = k] = m_{1k}^* p_k^* + m_{0k}^* (1 - p_k^*) = 0$  and thus we obtain  $m_{0k}^* (1 - p_k^*) = -m_{1k}^* p_k^*$ . Therefore  $(1 - \alpha_0 - \alpha_1) \text{Cov}(T^* \varepsilon, z) = \text{Cov}(T \varepsilon, z)$  as required.  $\square$

**Proof of Lemma 2.4.** Throughout this argument we suppress dependence on  $\mathbf{x}$  for simplicity. Since  $T^*$  is binary, it follows from the basic properties of covariance that,

$$\begin{aligned}\eta_3 &= \text{Cov}[(c + \varepsilon)^3, z] + 3\beta \text{Cov}[(c + \varepsilon)^2 T^*, z] + 3\beta^2 \text{Cov}[(c + \varepsilon) T^*, z] + \beta^3 \text{Cov}(T^*, z) \\ \tau_2 &= \text{Cov}[(c + \varepsilon)^2 T, z] + 2\beta \text{Cov}[(c + \varepsilon) T T^*, z] + \beta^2 \text{Cov}(T T^*, z)\end{aligned}$$

By Assumptions 2.1 (iii), 2.5, and 2.6 (ii),  $\text{Cov}[(c + \varepsilon)^3, z] = 0$ . Expanding,

$$\begin{aligned}\eta_3 &= 3\beta \text{Cov}(T^* \varepsilon^2, z) + (3\beta^2 + 6c\beta) \text{Cov}(T^* \varepsilon, z) + (\beta^3 + 3c\beta^2 + 3c^2\beta) \text{Cov}(T^*, z) \\ \tau_2 &= c^2 \text{Cov}(T, z) + \beta(\beta + 2c) \text{Cov}(T T^*, z) + \text{Cov}(T \varepsilon^2, z) + 2c \text{Cov}(T \varepsilon, z) + 2\beta \text{Cov}(T T^* \varepsilon, z)\end{aligned}$$

Now, define  $s_{tk}^* = \mathbb{E}[\varepsilon^2 | T^* = t, z = k]$  and  $p_k^* = \mathbb{P}(T^* = 1 | z = k)$ . By iterated expectations, Bayes' rule, and Assumption 2.6 (i),

$$\begin{aligned}\text{Cov}(T^* \varepsilon^2, z) &= q(1 - q) (p_1^* s_{11}^* - p_0^* s_{10}^*) \\ \text{Cov}(T \varepsilon^2, z) &= q(1 - q) \{ (1 - \alpha_1) [p_1^* s_{11}^* - p_0^* s_{10}^*] + \alpha_0 [(1 - p_1^*) s_{01}^* - (1 - p_0^*) s_{00}^*] \}\end{aligned}$$

By Assumption 2.5,  $\mathbb{E}[\varepsilon^2 | z = 1] = \mathbb{E}[\varepsilon^2 | z = 0]$  and thus, by iterated expectations we have  $p_1^* s_{11}^* - p_0^* s_{10}^* = -[(1 - p_1^*) s_{01}^* - (1 - p_0^*) s_{00}^*]$  which implies

$$\text{Cov}(T \varepsilon^2, z) = (1 - \alpha_0 - \alpha_1) \text{Cov}(T^* \varepsilon^2, z). \quad (41)$$

Similarly by iterated expectations and Assumptions 2.2 (i)–(ii)

$$\text{Cov}(T T^* \varepsilon, z) = q(1 - q) (1 - \alpha_1) (p_1^* m_{1k}^* - p_0^* m_{10}^*) = (1 - \alpha_1) \text{Cov}(T^* \varepsilon, z) \quad (42)$$

where  $m_{tk}^*$  is defined as in the proof of Lemma 2.3. As shown in the proof of Lemma 2.3,

$$\begin{aligned}\text{Cov}(T T^*, z) &= (1 - \alpha_1) \text{Cov}(T^*, z) \\ \text{Cov}(T^*, z) &= \pi / (1 - \alpha_0 - \alpha_1) \\ \text{Cov}(T^* \varepsilon, z) &= \text{Cov}(T \varepsilon, z) / (1 - \alpha_0 - \alpha_1)\end{aligned}$$

and combining these equalities with Equations 41 and 42, it follows that

$$\begin{aligned}\tau_2 &= 2[(1 - \alpha_1)(c + \beta) - c\alpha_0] \text{Cov}(T^*\varepsilon, z) + [(1 - \alpha_1)(c + \beta)^2 - c^2\alpha_0] \text{Cov}(T^*, z) \\ &\quad + (1 - \alpha_0 - \alpha_1) \text{Cov}(T^*\varepsilon^2, z) \\ \tau_1 &= (1 - \alpha_0 - \alpha_1) \text{Cov}(T^*\varepsilon, z) + [(1 - \alpha_1)(c + \beta) - c\alpha_0] \text{Cov}(T^*, z)\end{aligned}$$

using  $\tau_1 = c\pi + \text{Cov}(T\varepsilon, z) + \beta \text{Cov}(TT^*, z)$  as shown in the proof of Lemma 2.3. Thus,

$$3\tau_2\theta_1 - 3\tau_1\theta_2 + \pi\theta_3 = K_1 \text{Cov}(T^*\varepsilon^2, z) + K_2 \text{Cov}(T^*\varepsilon, z) + K_3 \text{Cov}(T^*, z)$$

where

$$\begin{aligned}K_1 &\equiv 3\theta_1(1 - \alpha_0 - \alpha_1) \\ K_2 &\equiv 6\theta_1[(1 - \alpha_1)(c + \beta) - c\alpha_0] - 3\theta_2(1 - \alpha_0 - \alpha_1) \\ K_3 &\equiv 3\theta_1[(1 - \alpha_1)(c + \beta)^2 - c^2\alpha_0] - 3\theta_2[(1 - \alpha_1)(c + \beta) - c\alpha_0] + \theta_3(1 - \alpha_0 - \alpha_1)\end{aligned}$$

Clearly  $K_1 = 3\beta$ . Substituting the definitions of  $\theta_1, \theta_2$ , and  $\theta_3$  from Equations 11–13, tedious but straightforward algebra likewise shows that  $K_2 = 3\beta^2 + 6c\beta$  and  $K_3 = \beta^3 + 3c\beta^2 + 3c^2\beta$ . Therefore the coefficients of  $\eta_3$  equal those of  $3\tau_2 - 3\tau_1\theta_2 + \pi\theta_3$  and the result follows.  $\square$

**Proof of Theorem 2.3.** For ease of notation we suppress dependence on  $\mathbf{x}$  throughout. Collecting the results of Lemmas 2.2–2.4, we have

$$\begin{aligned}\eta_1 &= \pi\theta_1 \\ \eta_2 &= 2\tau_1\theta_1 - \pi\theta_2 \\ \eta_3 &= 3\tau_2\theta_1 - 3\tau_1\theta_2 + \pi\theta_3\end{aligned}$$

which is a linear system in  $\theta_1, \theta_2, \theta_3$  with determinant  $-\pi^3$ . Since  $\pi \neq 0$  by assumption 2.1 (ii),  $\theta_1, \theta_2$  and  $\theta_3$  are identified. Now, so long as  $\beta \neq 0$ , we can rearrange Equations 12 and 13 to obtain

$$A = \theta_2/\theta_1^2 = 1 + (\alpha_0 - \alpha_1) \tag{43}$$

$$B = \theta_3/\theta_1^3 = (1 - \alpha_0 - \alpha_1)^2 + 6\alpha_0(1 - \alpha_1) \tag{44}$$

Equation 43 gives  $(1 - \alpha_1) = A - \alpha_0$ . Hence  $(1 - \alpha_0 - \alpha_1) = A - 2\alpha_0$  and  $\alpha_0(1 - \alpha_1) = \alpha_0(A - \alpha_0)$ . Substituting into Equation 44 and simplifying,  $(A^2 - B) + 2A\alpha_0 - 2\alpha_0^2 = 0$ . Substituting for  $\alpha_0$  analogously yields a quadratic in  $(1 - \alpha_1)$  with *identical* coefficients. It follows that one root of  $(A^2 - B) + 2Ar - 2r^2 = 0$  is  $\alpha_0$  and the other is  $1 - \alpha_1$ . Solving,

$$r = \frac{A}{2} \pm \sqrt{3A^2 - 2B} = \frac{1}{\theta_1^2} \left( \frac{\theta_2}{2} \pm \sqrt{3\theta_2^2 - 2\theta_1\theta_3} \right). \tag{45}$$

By Equations 12 and 13,

$$\begin{aligned}3\theta_2^2 - 2\theta_1\theta_3 &= 3[\theta_1^2(1 + \alpha_0 - \alpha_1)]^2 - 2\theta_1\{\theta_1^3[(1 - \alpha_0 - \alpha_1)^2 + 6\alpha_0(1 - \alpha_1)]\} \\ &= \theta_1^4\{3(1 + \alpha_0 - \alpha_1)^2 - 2[(1 - \alpha_0 - \alpha_1)^2 + 6\alpha_0(1 - \alpha_1)]\}.\end{aligned}$$

Expanding the first term we find that

$$\begin{aligned} 3(1 + \alpha_0 - \alpha_1)^2 &= 3 [1 + 2(\alpha_0 - \alpha_1) + (\alpha_0 - \alpha_1)^2] \\ &= 3 + 6\alpha_0 - 6\alpha_1 + 3\alpha_0^2 + 3\alpha_1^2 - 6\alpha_0\alpha_1 \end{aligned}$$

and expanding the second

$$\begin{aligned} 2 [(1 - \alpha_0 - \alpha_1)^2 + 6\alpha_0(1 - \alpha_1)] &= 2 [1 - 2(\alpha_0 + \alpha_1) + (\alpha_0 + \alpha_1)^2 + 6\alpha_0 - 6\alpha_0\alpha_1] \\ &= 2 + 8\alpha_0 - 4\alpha_1 + 2\alpha_0^2 + 2\alpha_1^2 - 8\alpha_0\alpha_1. \end{aligned}$$

Therefore

$$\begin{aligned} 3\theta_2^2 - 2\theta_1\theta_3 &= \theta_1^4 \{1 - 2\alpha_0 - 2\alpha_1 + \alpha_0^2 - \alpha_1^2 + 2\alpha_0\alpha_1\} \\ &= \theta_1^4 [(1 - \alpha_0 - \alpha_1)^2] \end{aligned}$$

which is strictly greater than zero since  $\theta_1 \neq 0$  and  $\alpha_0 + \alpha_1 \neq 0$ . It follows that both roots of the quadratic are real. Moreover,  $3\theta_2^2/\theta_1^4 - 2\theta_3/\theta_1^3$  identifies  $(1 - \alpha_0 - \alpha_1)^2$ . Substituting into Equation 11, it follows that  $\beta$  is identified up to sign. If  $\alpha_0 + \alpha_1 < 1$  then  $\text{sign}(\beta) = \text{sign}(\theta_1)$  so that both the sign and magnitude of  $\beta$  are identified. If  $\alpha_0 + \alpha_1 > 1$  then  $1 - \alpha_1 > \alpha_0$  so  $(1 - \alpha_1)$  is the larger root of  $(A^2 - B) + 2Ar - 2r^2 = 0$  and  $\alpha_0$  is the smaller root.  $\square$

## B Mahajan's Approach

Here we show that Mahajan's proof of identification for an endogenous treatment is incorrect. The problem is subtle so we give his argument in full detail. We continue to suppress dependence on the exogenous covariates  $\mathbf{x}$ .

The first step of Mahajan's argument is to show that if one could recover the conditional mean function of  $y$  given  $T^*$ , then a valid and relevant binary instrument would suffice to identify the treatment effect.

**Assumption B.1** (Mahajan A2). *Suppose that  $y = c + \beta T^* + \varepsilon$  where*

- (i)  $\mathbb{E}[\varepsilon|z] = 0$
- (ii)  $\mathbb{P}(T^* = 1|z_k) \neq \mathbb{P}(T^* = 1|z_\ell)$  for all  $k \neq \ell$
- (iii)  $\mathbb{P}(T = 1|T^* = 0, z) = \alpha_0$ ,  $\mathbb{P}(T = 0|T^* = 1, z) = \alpha_1$
- (iv)  $\alpha_0 + \alpha_1 \neq 1$
- (v)  $\beta \neq 0$

**Lemma B.1** (Mahajan A2). *Under Assumption B.1, knowledge of the mis-classification error rates  $\alpha_0, \alpha_1$  suffices to identify  $\beta$ .*

In his Theorem 1, Mahajan (2006) proves that  $\alpha_0, \alpha_1$  can in fact be identified under the following assumptions.<sup>17</sup>

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<sup>17</sup>Technically, one additional assumption is required, namely that the conditional mean of  $y$  given  $T^*$  and any covariates would be identified if  $T^*$  were observed.

**Assumption B.2** (Mahajan A1). Define  $\nu = y - \mathbb{E}[y|T^*]$  so that by construction we have  $\mathbb{E}[\nu|T^*] = 0$ . Assume that

(i)  $\mathbb{E}[\nu|T^*, T, z] = 0$ .<sup>18</sup>

(ii)  $\mathbb{P}(T^* = 1|z_k) \neq \mathbb{P}(T^* = 1|z_\ell)$  for all  $k \neq \ell$

(iii)  $\mathbb{P}(T = 1|T^* = 0, z) = \alpha_0$ ,  $\mathbb{P}(T = 0|T^* = 1, z) = \alpha_1$

(iv)  $\alpha_0 + \alpha_1 < 1$

(v)  $\mathbb{E}[y|T^* = 0] \neq \mathbb{E}[y|T^* = 1]$

**Lemma B.2** (Mahajan Theorem 1). Under Assumptions ???, the error rates  $\alpha_0, \alpha_1$  are identified as is the conditional mean function  $\mathbb{E}[y|T^*]$ .

Notice that the identification of the error rates in Lemma ??? does not depend on the interpretation of the conditional mean function  $\mathbb{E}[y|T^*]$ . If  $T^*$  is an exogenous treatment, the conditional mean coincides with the treatment effect; if it is endogenous, this is not the case. Either way, the meaning of  $\alpha_0, \alpha_1$  is unchanged: these parameters simply characterize the mis-classification process. Based on this observation, Mahajan (2006) claims that he can rely on Lemma ??? to identify  $\alpha_0, \alpha_1$  and thus the causal effect  $\beta$  when the treatment is endogenous via Lemma ???. To do this, he must build a bridge between Assumption ??? and Assumption ??? that allows  $T^*$  to be endogenous. Mahajan (2006) does this by imposing one additional assumption: Equation 11 in his paper.

**Assumption B.3** (Mahajan Equation 11). Let  $y = c + \beta T^* + \varepsilon$  where  $\mathbb{E}[\varepsilon|T^*]$  may not be zero and suppose that

$$\mathbb{E}[\varepsilon|T^*, T, z] = \mathbb{E}[\varepsilon|T^*].$$

**Lemma B.3.** Suppose that  $y = c + \beta T^* + \varepsilon$  where  $\mathbb{E}[\varepsilon|z] = 0$  and define the unobserved projection error  $\nu = y - \mathbb{E}[y|T^*]$ . Then Assumption ??? implies that  $\mathbb{E}[\nu|T^*, T, z] = 0$ , which is Assumption ???.

To summarize, Mahajan's claim is equivalent to the proposition that under Assumptions ???  $\beta$  is identified even if  $T^*$  is endogenous. although Lemmas ??? are all correct, Mahajan's claim is not.<sup>19</sup> While Assumption ??? does guarantee that Assumption ??? holds, when combined with Assumption ??? it also implies that ??? fails if  $T^*$  is endogenous. The failure of Assumption ??? in turn leads to a division by zero in the solution to the linear system following Mahajan's displayed Equation 26: the system no longer has a unique solution so identification fails.<sup>20</sup>

**Proposition B.1** (Lack of a First Stage). Suppose that Assumptions ??? hold and  $\mathbb{E}[\varepsilon|T^*] \neq 0$ . Then  $\mathbb{P}(T^* = 1|z_1) = \mathbb{P}(T^* = 1|z_2)$ , violating Assumption ???.

<sup>18</sup>This is Mahajan's Equation (I).

<sup>19</sup>Our Lemma ??? does not in fact appear in Mahajan (2006), but it is an implicit step in his proof in Appendix A2.

<sup>20</sup>Notice that the root of the problem is the attempt to use *one* instrument to solve both the measurement error and endogeneity problems. In a setting where one had a second mis-measured surrogate for  $T^*$  in addition to an instrument that is conditionally mean independent of  $\varepsilon$  one could use the second surrogate as an instrument for the first to estimate  $\alpha_0$  and  $\alpha_1$  via Lemma ??? and then use the additional instrumental variable to estimate  $\beta/(1 - \alpha_0 - \alpha_1)$  via the familiar Wald IV estimator. This is effectively the approach used by Battistin et al. (2014) to evaluate the returns to schooling in a setting with multiple misreported measures of educational qualifications.

**Proof.** By the Law of Iterated Expectations,

$$\mathbb{E}[\varepsilon|T^*, z] = \mathbb{E}_{T|T^*, z} [\mathbb{E}(\varepsilon|T^*, T, z)] = \mathbb{E}_{T|T^*, z} [\mathbb{E}(\varepsilon|T^*)] = \mathbb{E}[\varepsilon|T^*] \quad (46)$$

where the second equality follows from Assumption 2.4 and the final equality comes from the fact that  $\mathbb{E}[\varepsilon|T^*]$  is  $(T^*, z)$ -measurable. Using our notation from above let  $u = c + \varepsilon$  and define  $m_{tk}^* = \mathbb{E}[u|T^* = t, z = z_k]$ . Since  $c$  is a constant, by Equation ??? we see that  $m_{01}^* = m_{02}^*$  and  $m_{11}^* = m_{12}^*$ . Now, by Assumption ??? we have  $\mathbb{E}[\varepsilon|z] = 0$  so that  $\mathbb{E}[u|z_1] = \mathbb{E}[u|z_2] = c$ . Again using iterated expectations,

$$\begin{aligned} \mathbb{E}[u|z_1] &= \mathbb{E}_{T^*|z_1} [\mathbb{E}(u|T^*, z_1)] = (1 - p_1^*)m_{01}^* + p_1^*m_{11}^* = c \\ \mathbb{E}[u|z_2] &= \mathbb{E}_{T^*|z_2} [\mathbb{E}(u|T^*, z_2)] = (1 - p_2^*)m_{02}^* + p_2^*m_{12}^* = c \end{aligned}$$

The preceding two equations, combined with  $m_{01}^* = m_{02}^*$  and  $m_{11}^* = m_{12}^*$  imply that  $p_1^* = p_2^*$  unless  $m_{01}^* = m_{11}^* = m_{02}^* = m_{12}^* = c$ . But this four-way equality is ruled out by the assumption that  $\mathbb{E}[\varepsilon|T^*] \neq 0$ .  $\square$

To understand the economic intuition behind Proposition ???, consider a simple example in which we randomize the offer of a job training program to a sample of workers to study the impact on future earnings. In this context  $z$  indicates whether a particular individual is *offered* job training by the experimenter while  $T^*$  indicates whether she actually *obtains* job training from any source, inside or outside of the experiment. We observe not  $T^*$  but a self-report  $T$  that is measured with error. In this example  $u$  contains all of the unobservable factors that determine an individual's wage.

Assumption ??? allows for endogenous treatment receipt:  $\mathbb{E}[u|T^* = 1]$  may be different from  $\mathbb{E}[u|T^* = 0]$ . We might expect, for example, that individuals who obtain job training are more motivated than those who do not, and hence earn higher wages on average. However, Assumption ??? imposes that  $\mathbb{E}[u|T^* = t, z_1] = \mathbb{E}[u|T^* = t, z_2]$  for  $t = 0, 1$ . This has two implications. First, it means that, among those who do not obtain job training, the average value of  $u$  is the same for those who were offered training and those who were not. Second, it means that, among those who *did* obtain job training, the average value of  $u$  is the same for those who were offered training and those who were not. In other words, Assumption ??? requires that there is *no selection on unobservables*. This is exactly the opposite of what we would expect in the job training setting. For example, individuals who are offered job training but refuse it, are likely to be very different from those who are not offered training and fail to obtain it from an outside source. And herein lies the problem: Assumption ??? simultaneously allows endogeneity and rules out selection. Given that the offer of job training is randomly assigned, and hence a valid instrument, the only way to avoid a contradiction is if there is no first stage: the fraction of individuals who take up job training cannot depend on the offer of training.

## C Unobserved Heterogeneity

Although our results allow arbitrary observed heterogeneity, additive separability places restrictions on unobserved heterogeneity. Although it is not the main focus of our paper, unlike Ura, briefly comment on how these results can be interpreted, say, in a LATE context. First, the bounds stuff all goes through (???) provided one is willing to make the LATE assumptions. Higher moment restrictions do impose restrictions. Can say what happens with the second moment assumption since we already derived this: it's a restriction on the variance of the potential outcome distributions, conditional on  $\mathbf{x}$ .

### C.0.1 Derivations from the Notes

**Is there a LATE interpretation of our results?** Let  $J \in \{a, c, d, n\}$  index an individual's *type*: always-taker, complier, defier, or never-taker. Let  $\pi_a, \pi_c, \pi_d, \pi_n$  denote the population proportions of always-takers, compliers, defiers, and never-takers. The unconfounded type assumption is  $P(J = j|z = 1) = P(J = j|z = 0)$ . Combined with the law of total probability, this gives

$$\begin{aligned} p_1^* &= P(T^* = 1|z = 1) = \pi_a + \pi_c \\ 1 - p_1^* &= P(T^* = 0|z = 1) = \pi_d + \pi_n \\ p_0^* &= P(T^* = 1|z = 0) = \pi_d + \pi_a \\ 1 - p_0^* &= P(T^* = 0|z = 0) = \pi_n + \pi_c \end{aligned}$$

Imposing no-defiers,  $\pi_d = 0$ , these expressions simplify to

$$\begin{aligned} p_1^* &= \pi_a + \pi_c \\ 1 - p_1^* &= \pi_n \\ p_0^* &= \pi_a \\ 1 - p_0^* &= \pi_n + \pi_c \end{aligned}$$

Solving for  $\pi_c$ , we see that

$$\begin{aligned} \pi_c &= p_1^* - p_0^* \\ \pi_a &= p_0^* \\ \pi_n &= 1 - p_1^* \end{aligned}$$

Now, let  $Y(1)$  indicate the potential outcome when  $T^* = 1$  and  $Y(0)$  indicate the potential outcome when  $T^* = 0$ . The standard LATE assumptions (no defiers, mean exclusion, unconfounded type) imply

$$\begin{aligned} \mathbb{E}(Y|T^* = 1, z = 1) &= \left(\frac{p_0^*}{p_1^*}\right) \mathbb{E}[Y(1)|J = a] + \left(\frac{p_1^* - p_0^*}{p_1^*}\right) \mathbb{E}[Y(1)|J = c] \\ \mathbb{E}(Y|T^* = 0, z = 0) &= \left(\frac{p_1^* - p_0^*}{1 - p_0^*}\right) \mathbb{E}[Y(0)|J = c] + \left(\frac{1 - p_1^*}{1 - p_0^*}\right) \mathbb{E}[Y(0)|J = n] \\ \mathbb{E}(Y|T^* = 1, z = 0) &= \mathbb{E}[Y(1)|J = a] \\ \mathbb{E}(Y|T^* = 0, z = 1) &= \mathbb{E}[Y(0)|J = n] \end{aligned}$$



## LATE Version of Theorem 2 from original Draft

$$\begin{aligned}\Delta \overline{yT} &= \mathbb{E}(yT|z=1) - \mathbb{E}(yT|z=0) \\ &= (1 - \alpha_1) [p_1^* \mathbb{E}(y|T^* = 1, z=1) - p_0^* \mathbb{E}(y|T^* = 1, z=0)] \\ &\quad + \alpha_0 [(1 - p_1^*) \mathbb{E}(y|T^* = 0, z=1) - (1 - p_0^*) \mathbb{E}(y|T^*, z=0)]\end{aligned}$$

So we find that

$$\begin{aligned}\Delta \overline{yT} &= (p_1^* - p_0^*) \{ (1 - \alpha_1) \mathbb{E}[Y(1)|J=c] - \alpha_0 \mathbb{E}[Y(0)|J=c] \} \\ &= (1 - \alpha_1) \left\{ \frac{\mathbb{E}[Y(1) - Y(0)|J=c]}{1 - \alpha_0 - \alpha_1} (p_1 - p_0) \right\} + (p_1 - p_0) \mathbb{E}[Y(0)|J=c]\end{aligned}$$

Recall that the analogous expression in the homogeneous treatment effect case is

$$\begin{aligned}\Delta \overline{yT} &= (1 - \alpha_1) \mathcal{W} (p_1 - p_0) + \mu_{10}^* \\ &= (1 - \alpha_1) \left( \frac{\beta}{1 - \alpha_0 - \alpha_1} \right) (p_1 - p_0) + (p_1 - \alpha_0) m_{11}^* - (p_0 - \alpha_0) m_{10}^*\end{aligned}$$

while the expression for the difference of variances is

$$\Delta \overline{y^2} = \beta \mathcal{W} (p_1 - p_0) + 2 \mathcal{W} \mu_{10}^*$$

From above we see that the analogue of  $\mu_{10}^*$  in the heterogeneous treatment effects setting is  $(p_1 - p_0) \mathbb{E}[Y(0)|J=c]$  and since the LATE is  $\mathbb{E}[Y(1) - Y(0)|J=c]$ , the analogue of  $\mathcal{W}$  is

$$\frac{\mathbb{E}[Y(1) - Y(0)|J=c]}{1 - \alpha_0 - \alpha_1}$$

so *if* we could establish that

$$\Delta \overline{y^2} = \left( \frac{p_1 - p_0}{1 - \alpha_0 - \alpha_1} \right) \mathbb{E}[Y(1) - Y(0)|J=c] \cdot \mathbb{E}[Y(1) + Y(0)|J=c]$$

in the heterogeneous treatment effects case, the proof of Theorem 2 would go through immediately. Now, if we assume an exclusion restriction on the *second* moment of  $y$  an argument almost identical to the standard LATE derivation gives

$$\Delta \overline{y^2} = \frac{\mathbb{E}[Y^2(1) - Y^2(0)|J=c]}{p_1^* - p_0^*} = \left( \frac{p_1 - p_0}{1 - \alpha_0 - \alpha_1} \right) \mathbb{E}[Y^2(1) - Y^2(0)|J=c]$$

so we see that the necessary and sufficient condition for our proof to go through is

$$\mathbb{E}[Y^2(1) - Y^2(0)|J=c] = \mathbb{E}[Y(1) - Y(0)|J=c] \cdot \mathbb{E}[Y(1) + Y(0)|J=c]$$

Rearranging, this in turn is equivalent to

$$\text{Var}[Y(1)|J=c] = \text{Var}[Y(0)|J=c]$$

# D Moment Conditions for Mahajan and FL

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