Mis-Classified, Binary, Endogenous Regressors: Identification and Inference

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Additively Separable Model

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

- y – Outcome of interest
- h – Known or unknown function
- T^* – Unobserved, endogenous binary regressor
- T – Observed, mis-measured binary surrogate for T^*
- $\mathbf{x}$ – Exogenous covariates
- ε – Mean-zero error term

What is the Effect of T^*?

Re-write the Model

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

This Paper:

▶ Does a discrete instrument z (typically binary) identify $\beta(\mathbf{x})$?

▶ What assumptions are required for z and the surrogate T?

▶ How to carry out inference for a mis-classified regressor?

Example: Job Training Partnership Act (JTPA)

Heckman et al. (2000, QJE)

Randomized offer of job training, but about 30% of those *not* offered also obtain training and about 40% of those offered training don't attend. Estimate causal effect of *training* rather than *offer* of training.

- ▶ y – Log wage
- ▶ T^* – True training attendence
- ▶ T – Self-reported training attendance
- ▶ $\mathbf{x}$ – Individual characteristics
- ▶ z – Offer of job training

Related Literature

Continuous Regressor

Lewbel (1997, 2012), Schennach (2004, 2007), Chen et al. (2005), Hu & Schennach (2008), Song (2015), Hu et al. (2015)...

Binary, Exogenous Regressor

Aigner (1973), Bollinger (1996), Kane et al. (1999), Black et al. (2000), Frazis & Loewenstein (2003), Mahajan (2006), Lewbel (2007), Hu (2008), Molinari (2008)

Binary, Endogenous Regressor

Mahajan (2006), Shiu (2015), Ura (2015), Denteh et al. (2016)

"Baseline" Assumptions I – Model & Instrument

Additively Separable Model

$$y = c(\mathbf{x}) + \beta(\mathbf{x}) T^* + \varepsilon, \quad \mathbb{E}[\varepsilon] = 0$$

Valid & Relevant Instrument: $z \in \{0, 1\}$

- $\mathbb{P}(T^* = 1 | \mathbf{x}, z = 1) \neq \mathbb{P}(T^* = 1 | \mathbf{x}, z = 0)$
- $\mathbb{E}[\varepsilon | \mathbf{x}, z] = 0$
- $0 < \mathbb{P}(z = 1 | \mathbf{x}) < 1$

If T^* were observed, these conditions would identify β.

"Baseline" Assumptions II – Measurement Error

Notation: Mis-classification Rates

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

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

Mis-classification unaffected by z

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

Extent of Mis-classification

$\alpha_0(\mathbf{x}) + \alpha_1(\mathbf{x}) < 1 \quad$ (T is positively correlated with T^*)

Non-differential Mis-classification

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

Identification Results from the Literature

Mahajan (2006) Theorem 1, Frazis & Loewenstein (2003)

$\mathbb{E}[\varepsilon|\mathbf{x}, z, T^*] = 0$, plus "Baseline" $\implies \beta(\mathbf{x})$ identified

Requires (T^*, z) jointly exogenous.

Mahajan (2006) A.2

$\mathbb{E}[\varepsilon|\mathbf{x}, z, T^*, T] = \mathbb{E}[\varepsilon|\mathbf{x}, T^*]$, plus "Baseline" $\implies \beta(\mathbf{x})$ identified

Allows T^* endogenous, but we prove this claim is false.

Open Question

Do the baseline assumptions identify $\beta(\mathbf{x})$ when T^* is endogenous?

First-stage Probabilities & Mis-classification Bounds

Unobserved	Observed
$p_k^*(\mathbf{x}) \equiv \mathbb{P}(T^* = 1 \mid \mathbf{x}, z = k)$	$p_k(\mathbf{x}) \equiv \mathbb{P}(T = 1 \mid \mathbf{x}, z = k)$

Relationship

$$p_k^*(\mathbf{x}) = \frac{p_k(\mathbf{x}) - \alpha_0(\mathbf{x})}{1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})}, \quad k = 0, 1$$
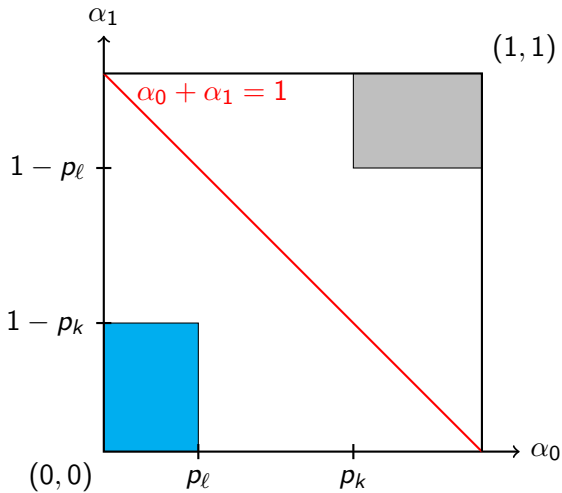
z does not affect (α_0, α_1); denominator $\neq 0$

Bounds for Mis-classification

$$\alpha_0(\mathbf{x}) \leq p_k(\mathbf{x}) \leq 1 - \alpha_1(\mathbf{x}), \quad k = 0, 1$$

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

$$\alpha_0 \leq \min_k \{p_k\}, \quad \alpha_1 \leq \min_k \{1 - p_k\}$$

Instrumental Variable Estimands

Unobserved

$$\beta(\mathbf{x}) = \frac{\mathbb{E}[y|\mathbf{x}, z=1] - \mathbb{E}[y|\mathbf{x}, z=0]}{p_1^*(\mathbf{x}) - p_0^*(\mathbf{x})}$$

Wald (Observed)

$$\frac{\mathbb{E}[y|\mathbf{x}, z=1] - \mathbb{E}[y|\mathbf{x}, z=0]}{p_1(\mathbf{x}) - p_0(\mathbf{x})} = \beta(\mathbf{x}) \left[\frac{p_1^*(\mathbf{x}) - p_0^*(\mathbf{x})}{p_1(\mathbf{x}) - p_0(\mathbf{x})} \right] = \frac{\beta(\mathbf{x})}{1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})}$$

$$\boxed{p_1^*(\mathbf{x}) - p_0^*(\mathbf{x}) = \frac{p_1(\mathbf{x}) - \alpha_0(\mathbf{x})}{1 - \alpha_0 - \alpha_1(\mathbf{x})} - \frac{p_0(\mathbf{x}) - \alpha_0(\mathbf{x})}{1 - \alpha_0 - \alpha_1(\mathbf{x})} = \frac{p_1(\mathbf{x}) - p_0(\mathbf{x})}{1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})}}$$

Partial Identification Bounds for $\beta(\mathbf{x})$

$$\beta(\mathbf{x}) = [1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})] \left[\frac{\mathbb{E}\left[y|\mathbf{x}, z=1\right] - \mathbb{E}\left[y|\mathbf{x}, z=0\right]}{p_1(\mathbf{x}) - p_0(\mathbf{x})} \right]$$

$$0 \leq \alpha_0 \leq \min_k\{p_k(\mathbf{x})\}, \quad 0 \leq \alpha_1 \leq \min_k\{1 - p_k(\mathbf{x})\}$$

No Mis-classification

$\alpha_0(\mathbf{x}) = \alpha_1(\mathbf{x}) = 0 \implies \beta(\mathbf{x}) = \text{Wald}$

Maximum Mis-classification

$\alpha_0(\mathbf{x}) = p_{\min}(\mathbf{x}), \, \alpha_1(\mathbf{x}) = 1 - p_{\max}(\mathbf{x})$

$$\implies 1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x}) = p_{\max}(\mathbf{x}) - p_{\min}(\mathbf{x}) = |p_1(\mathbf{x}) - p_0(\mathbf{x})|$$

$$\implies \beta(\mathbf{x}) = \text{sign}\left\{p_1(\mathbf{x}) - p_0(\mathbf{x})\right\} \times (\text{Reduced Form})$$

Partial Identification Bounds for $\beta(\mathbf{x})$

No Mis-classification

$\beta(\mathbf{x}) = \text{Wald}$

Maximum Mis-classification

$$\beta(\mathbf{x}) = \text{sign}\left\{p_1(\mathbf{x}) - p_0(\mathbf{x})\right\} \times (\text{Reduced Form})$$

$$= \text{sign}\left\{\text{Wald}\right\} \times |\text{Reduced Form}|$$

$\text{Wald} > 0 \iff \text{sign}\left\{p_1(\mathbf{x}) - p_0(\mathbf{x})\right\} = \text{sign}\left\{\text{Reduced Form}\right\}$

$\text{Wald} < 0 \iff \text{sign}\left\{p_1(\mathbf{x}) - p_0(\mathbf{x})\right\} \neq \text{sign}\left\{\text{Reduced Form}\right\}$

$\beta(\mathbf{x})$ has the same sign as the Wald and its magnitude is between that of Wald and Reduced Form.

Sharp Bounds

- Bounds from the preceding slide are known in the literature.

- We prove that they are *not* sharp under the baseline assumptions from above.

- $\mathbb{E}[\varepsilon|\mathbf{x}, T^*, T, z] = \mathbb{E}[\varepsilon|\mathbf{x}, T^*, z]$ restricts (α_0, α_1) hence β.

- Description of the sharp set is somewhat complicated ▸ Details

- Corollary: β is not point identified regardless of how many (discrete) values z takes on.

Point identification from slightly stronger assumptions?

Point Identification: 1st Ingredient

Reparameterization

$$\theta_1(\mathbf{x}) = \beta(\mathbf{x}) / \left[1 - \alpha_0(\mathbf{x}) - \alpha_1(\mathbf{x})\right]$$

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

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

$$\boxed{\beta(\mathbf{x}) = 0 \iff \theta_1(\mathbf{x}) = \theta_2(\mathbf{x}) = \theta_3(\mathbf{x}) = 0}$$

Lemma

Baseline Assumptions $\implies$ $\text{Cov}(y, z | \mathbf{x}) = \theta_1(\mathbf{x})\text{Cov}(z, T | \mathbf{x})$.

Point Identification: 2nd Ingredient

Assumption (♠)

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

Lemma

(Baseline) + (♠) $\implies$

$$\text{Cov}(y^2, z|\mathbf{x}) = 2\text{Cov}(yT, z|\mathbf{x})\theta_1(\mathbf{x}) - \text{Cov}(T, z|\mathbf{x})\theta_2(\mathbf{x})$$

Corollary

(Baseline) + (♠) + $[\beta(\mathbf{x}) \neq 0]$ $\implies$ $[\alpha_1(\mathbf{x}) - \alpha_0(\mathbf{x})]$ is identified.

Hence, $\beta(\mathbf{x})$ is identified if mis-classification is one-sided.

Point Identification: 1st Ingredient

Assumption (♣)

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

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

Lemma
(Baseline) + (♠) + (♣) $\implies$

$$\text{Cov}(y^3, z|\mathbf{x}) = 3\text{Cov}(y^2 T, z|\mathbf{x})\theta_1(\mathbf{x}) - 3\text{Cov}(yT, z|\mathbf{x})\theta_2(\mathbf{x}) + \text{Cov}(T, z|\mathbf{x})\theta_3(\mathbf{x})$$

Point Identification Result

Theorem

(Baseline) + ($\spadesuit$) + ($\clubsuit$) $\implies$ $\beta(\mathbf{x})$ is point identified. If $\beta(\mathbf{x}) \neq 0$, then $\alpha_0(\mathbf{x})$ and $\alpha_1(\mathbf{x})$ are likewise point identified.

Proof Sketch

1. $\beta(\mathbf{x}) = 0 \iff \theta_1(\mathbf{x}) = 0$ so suppose this is not the case.

2. Lemmas: full-rank linear system in $\theta_1(\mathbf{x}), \theta_2(\mathbf{x}), \theta_3(\mathbf{x})$ & observables.

3. Non-linear eqs. relating $\theta_1(\mathbf{x}), \theta_2(\mathbf{x}), \theta_3(\mathbf{x})$ to $\beta(\mathbf{x})$ and $\alpha_0(\mathbf{x}), \alpha_1(\mathbf{x})$. Show that solution exists and is unique.

Sufficient Conditions for ($\spadesuit$) and ($\clubsuit$)

(i) T is conditionally independent of (ε, z) given $(T^*, \mathbf{x})$

(ii) z is conditionally independent of ε given $\mathbf{x}$

Just-Identified System of Moment Equalities

Suppress dependence on **x** to simplify the notation from here on. . .

Collect Lemmas from Above:

$$\text{Cov}(y, z) - \text{Cov}(T, z)\theta_1 = 0$$

$$\text{Cov}(y^2, z) - 2\text{Cov}(yT, z)\theta_1 + \text{Cov}(T, z)\theta_2 = 0$$

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

Notation: Observed Data Vector

$$\mathbf{w}_i' = (T_i, y_i, y_i T_i, y_i^2, y_i^2 T_i, y_i^3)$$

Just-Identified System of Moment Equalities

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

$$\boldsymbol{\Psi} = \left[\begin{array}{ccc} \psi_1 & \psi_2 & \psi_3 \end{array}\right] \qquad\qquad \boldsymbol{\kappa} = (\kappa_1, \kappa_2, \kappa_3)' \equiv \text{``Intercepts''}$$

$$\psi_1' = \left[\begin{array}{cccccc} -\theta_1 & 1 & 0 & 0 & 0 & 0 \end{array}\right] \qquad \theta_1 = \beta/(1 - \alpha_0 - \alpha_1)$$

$$\psi_2' = \left[\begin{array}{cccccc} \theta_2 & 0 & -2\theta_1 & 1 & 0 & 0 \end{array}\right] \qquad \theta_2 = \theta_1^2\left[1 + \alpha_0 - \alpha_1\right]$$

$$\psi_3' = \left[\begin{array}{cccccc} -\theta_3 & 0 & 3\theta_2 & 0 & -3\theta_1 & 1 \end{array}\right] \quad \theta_3 = \theta_1^3\left[(1 - \alpha_0 - \alpha_1)^2 + 6\alpha_0(1 - \alpha_1)\right]$$

Weak Identification Problem

Moment conditions are uninformative about (α_0, α_1) when β is small.

Simulation DGP: $y = \beta T^* + \varepsilon$

Errors

$(\varepsilon, \eta) \sim$ jointly normal, mean 0, variance 1, correlation 0.5.

First-Stage

- Half of observations have $z = 1$, the rest have $z = 0$.
- $T^* = \mathbf{1}\{\gamma_0 + \gamma_1 z + \eta > 0\}$
- $\mathbb{P}(T^* = 0|z = 1) = \mathbb{P}(T^* = 1|z = 0) = 0.15$

Mis-classification

- $T|T^* = 0 \sim \text{Bernoulli}(\alpha_0)$
- $T|T^* = 1 \sim \text{Bernoulli}(1 - \alpha_1)$

α_0	α_1				β				
		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: Percentage of simulation replications for which the standard GMM CI fails to exist.

| | | | | | β | | | | |
α_0	α_1	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: Coverge of nominal 95% GMM CI, conditional on existence.

					β				
α_0	α_1	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: Median width of nominal 95% GMM CI, conditional on existence.

Non-standard Inference Problem

- β small $\Rightarrow$ moment equalities uninformative about (α_0, α_1)

- (α_0, α_1) could be on the boundary of the parameter space

- Partial identification bounds remain informative even if β is small or zero

- Same problem for other estimators from the literature but hasn't been pointed out...

Our Approach

Identification-robust inference combining equality and inequality moment conditions based on generalized moment selection (GMS)

Inference With Moment Equalities and Inequalities

Moment Conditions

$\mathbb{E}\left[m_j(\mathbf{w}_i, \vartheta_0)\right] \geq 0, \quad j = 1, \cdots, J$

$\mathbb{E}\left[m_j(\mathbf{w}_i, \vartheta_0)\right] = 0, \quad j = J+1, \cdots, J+K$

Test Statistic

$$T_n(\vartheta) = \sum_{j=1}^{J} \left[\frac{\sqrt{n}\,\bar{m}_{n,j}(\vartheta)}{\widehat{\sigma}_{n,j}(\vartheta)} \right]_-^2 + \sum_{j=J+1}^{J+K} \left[\frac{\sqrt{n}\,\bar{m}_{n,j}(\vartheta)}{\widehat{\sigma}_{n,j}(\vartheta)} \right]^2$$

$$[x]_- = \min\{x, 0\}$$

$$\bar{m}_{n,j}(\vartheta) = n^{-1} \sum_{i=1}^{n} m_j(\mathbf{w}_i, \vartheta)$$

$$\widehat{\sigma}_{n,j}^2(\vartheta) = \text{consistent est. of AVAR}\left[\sqrt{n}\,\bar{m}_{n,j}(\vartheta)\right]$$

Moment Inequalities: Part I

$\alpha_0(\mathbf{x}) \le p_k \le 1 - \alpha_1$ becomes $\mathbb{E}\left[m_{1k}^I(\mathbf{w}_i, \boldsymbol{\vartheta})\right] \ge \mathbf{0}$ for all k where

$$m_{1k}^I(\mathbf{w}_i, \boldsymbol{\vartheta}) \equiv \left[\begin{array}{c} \mathbf{1}(z_i = k)(T - \alpha_0) \\ \mathbf{1}(z_i = k)(1 - T_i - \alpha_1) \end{array} \right]$$

Moment Inequalities: Part II

For all k, we have $\mathbb{E}[m_{2k}^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}_k)] \geq 0$ where

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

and $\mathbf{q}_k \equiv (\underline{q}_{0k}, \overline{q}_{0k}, \underline{q}_{1k}, \overline{q}_{1k})'$ defined by $\mathbb{E}[h_k^I(\mathbf{w}_i, \boldsymbol{\vartheta}, \mathbf{q}_k)] = 0$ with

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

Inference via Generalized Moment Selection

Andrews & Soares (2010)

Moment Selection Step

If $\dfrac{\sqrt{n}\,\bar{m}_{n,j}(\vartheta_0)}{\hat{\sigma}_{n,j}(\vartheta_0)} > \sqrt{\log n}$ then drop inequality j

Critical Value

- $\sqrt{n}\,\bar{m}_n(\vartheta_0) \to_d$ normal limit with covariance matrix $\Sigma(\vartheta_0)$

- Use this to bootstrap the limit distribution of the test statistic.

Theoretical Guarantees

Uniformly valid test of $H_0: \vartheta = \vartheta_0$ regardless of whether ϑ_0 is identified.

Not asymptotically conservative.

Drawback

Joint test for the whole parameter vector but we're only interested in β

Bonferroni-Based Inference Procedure

Leverage Special Structure of Model

- β only enters MCs through $\theta_1 = \beta/(1 - \alpha_0 - \alpha_1)$
- Inference for θ_1 is standard if z is a strong IV.
- $(\boldsymbol{\kappa}, \mathbf{q})$ strongly identified under null for (α_0, α_1)

Procedure

1. Concentrate out $(\theta_1, \boldsymbol{\kappa}, \boldsymbol{q}) \implies$ joint GMS test for (α_0, α_1)
2. Invert $\implies (1 - \delta_1) \times 100\%$ confidence set for (α_0, α_1)
3. Project $\implies$ CI for $(1 - \alpha_0 - \alpha_1)$
4. Construct standard $(1 - \delta_2) \times 100\%$ IV CI for θ_1
5. Bonferroni $\implies (1 - \delta - \delta_2) \times 100\%$ CI for β

					β				
α_0	α_1	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: Coverage (1 - size) of nominal 97.5% GMS joint test for (α_0, α_1).

α_0	α_1	β							
		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: Coverage of nominal $> 95\%$ Bonferroni CI for β

α_0	α_1	β							
		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: Median width of nominal $> 95\%$ Bonferroni CI for β.

α_0	α_1	β							
		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: Median width of nominal $> 95\%$ Bonferroni CI for β.

α_0	α_1				β				
		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: Median width of nominal 95% GMM CI, conditional on existence.

α_0	α_1				β				
		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: Coverage of hybrid CI constructed from nominal 95% GMM and
> 95% Bonferroni intervals.

α_0	α_1	β							
		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: Median width of hybrid CI constructed from nominal 95% GMM and > 95% Bonferroni intervals.

Conclusion

- ▶ Endogenous, mis-measured binary treatment.

- ▶ Important in applied work but no solution in the literature.

- ▶ Usual (1st moment) IV assumption fails to identify β

- ▶ Derive sharp identified set.

- ▶ Stronger assumptions point identify β

- ▶ Identification-Robust Inference incorporating equality and inequality moment conditions.

Restrictions from Non-differential Mis-classification

Suppress **x** for simplicity

Notation

- $F_{tk} \equiv$ Observed conditional CDF of $y|(T = t, z = k)$

- $F_{tk}^{t^*} \equiv$ Unobserved conditional CDF of $y|(T^* = t^*, T = t, z = k)$

- $r_{tk} \equiv \mathbb{P}(T^* = 1 | T = t, z = k)$ observed given (α_0, α_1)

Law of Total Probability

$$F_{tk} = (1 - r_{tk})F_{tk}^0 + r_{tk}F_{tk}^1$$

Given (α_0, α_1) can we construct (F_{tk}^0, F_{tk}^1) to satisfy the mixture model?

Restrictions from Non-differential Mis-classification

Notation

- $r_{tk} \equiv \mathbb{P}(T^* = 1 | T = t, z = k)$ observed given (α_0, α_1)

- z_k as shorthand for $z = k$

Iterated Expectations over T^*

$$\mathbb{E}(y | T = 0, z_k) = (1 - r_{0k})\mathbb{E}(y | T^* = 0, T = 0, z_k) + r_{0k}\mathbb{E}(y | T^* = 1, T = 0, z_k)$$

$$\mathbb{E}(y | T = 1, z_k) = (1 - r_{1k})\mathbb{E}(y | T^* = 0, T = 1, z_k) + r_{1k}\mathbb{E}(y | T^* = 1, T = 1, z_k)$$

- (α_0, α_1) pin down r_{tk}

Restrictions from Non-differential Mis-classification

Notation

- $r_{tk} \equiv \mathbb{P}(T^* = 1 | T = t, z = k)$ observed given (α_0, α_1)

- z_k as shorthand for $z = k$

Iterated Expectations over T^* and Non-diff.

$$\mathbb{E}(y | T = 0, z_k) = (1 - r_{0k})\mathbb{E}(y | T^* = 0, z_k) + r_{0k}\mathbb{E}(y | T^* = 1, z_k)$$

$$\mathbb{E}(y | T = 1, z_k) = (1 - r_{1k})\mathbb{E}(y | T^* = 0, z_k) + r_{1k}\mathbb{E}(y | T^* = 1, z_k)$$

- (α_0, α_1) pin down r_{tk}

- Non-diff. $\implies (\alpha_0, \alpha_1)$ pin down $\mathbb{E}(y | T^* = t^*, z = k)$

- $\mathbb{E}(y | T^*, z = k)$ are the means of (F_{tk}^0, F_{tk}^1)

- Can we satisfy the mixture model?

Restrictions from Non-differential Mis-classification

Equivalent Problem

Given an observed CDF F and a probability p, do there exist CDFs (G, H) such that $F = (1-p)G + pH$ and the mean of H is μ?

Necessary and Sufficient Condition if F is Continuous

$$\int_{-\infty}^{F^{-1}(p)} x\, f(x)\, dx \leq p\mu \leq \int_{F^{-1}(1-p)}^{+\infty} x\, f(x)\, dx$$

Sharp Identified Set

Includes only those (α_0, α_1) at which the preceding condition is satisfied jointly for the mixtures $F_{tk} = (1 - r_{tk})F_{tk}^0 + r_{tk}F_{tk}^1$. ▸ Back