SUPPLEMENTARY MATERIAL for "Endogeneity kink threshold regression model with linear control function"

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This online supplement is composed of four parts. Section A contains the proof of Theorem 1-Time Series. Section B contains the proof of Theorem 2-panel. Section C shows the proof of Lemma 1. Section D gives the Monte Carlo simulation results for DGP2 an DGP4.

A Proof of Theorem 1-time series

We first show that $\sup_{\phi\in B\times\Gamma}|S_n(\phi)-S_n^*(\phi)|\xrightarrow{p}0$, which implies that minimizing $S_n(\phi)$ with respect to ϕ is equivalent to minimizing $S_n^*(\phi)$, where $S_n(\phi)$ and $S_n^*(\phi)$ are defined in (**??**) and Assumption T7, respectively. Then, closely following the mathematical proof of Hansen (2017), we can show that the optimization problem of $S_n^*(\phi)$ with respect to ϕ satisfies all the required conditions in Section 3.2 of Andrews (1994), which completes the proof of this theorem. Hence, below, we only need to prove $\sup_{\phi\in B\times\Gamma}|S_n(\phi)-S_n^*(\phi)|\xrightarrow{p}0$.

Now, we denote $P_\gamma=X(\gamma)[X'(\gamma)X(\gamma)]^{-1}X'(\gamma)$ and $P_\gamma^*=X^*(\gamma)[X^{*\prime}(\gamma)X^*(\gamma)]^{-1}X^{*\prime}(\gamma)$,

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where $X^*(\gamma)$ is defined in the same form as $X(\gamma)$ by replacing $x_t(\gamma)$ with $x_t^*(\gamma)$. For any $\phi \in B \times \Gamma$, we have

$$S_n(\phi) = \frac{1}{n}\sum_{t=1}^{n}\left[y_t - x_t'(\gamma)\theta\right]^2 = \frac{1}{n}y'\left(I_n - P_\gamma\right)y. \tag{A.1}$$

Let $X - \gamma_0\tau_n$ and $I_n(\gamma_0)(X - \gamma_0\tau_n)$ be the matrix form of $x_t - \gamma_0$ and $(x_t - \gamma_0)I(x_t \geq \gamma_0)$ respectively, where τ_n is an $n \times 1$ vector of ones, $I_n(\gamma_0) = \operatorname{diag}\{I(x_1 \geq \gamma_0), \cdots, I(x_n \geq \gamma_0)\}$. Also, let ε stack up ε_i, v stack up v_i, and $\hat{v}$ stack up $\hat{v}_i$ for $i = 1, \ldots, n$. Below, we decompose $S_n(\phi)$. By simple calculation, we have

$$y = X^*(\gamma_0)\theta_0 + \varepsilon = X(\gamma)\theta_0 + \left[X^*(\gamma) - X(\gamma)\right]\theta_0 + \left[X^*(\gamma_0) - X^*(\gamma)\right]\theta_0 + \varepsilon,$$

where we have

$$\begin{aligned} X^*(\gamma) - X(\gamma) &= \left[\mathbf{0}_{n\times 1}, \mathbf{0}_{n\times 1}, \mathbf{0}_{n\times \ell}, v - \hat{v}\right], \\ X^*(\gamma_0) - X^*(\gamma) &= \left[(\gamma - \gamma_0)\tau_n, I_n(\gamma_0)(X - \gamma_0\tau_n) - I_n(\gamma)(X - \gamma\tau_n), \mathbf{0}_{n\times \ell}, \mathbf{0}_{n\times(1+d_{z1})}\right]. \end{aligned}$$

Note that $X'(\gamma)(I_n - P_\gamma) = \mathbf{0}_{(k+d_{z1})\times n}$ and $\hat{\varepsilon} = (v - \hat{v})\beta_{40} + \varepsilon$, where $\hat{\varepsilon}$ stacks up $\widehat{\varepsilon}_i$ for $i = 1, \ldots, n$. Thus, we can show

$$\begin{aligned} S_n(\phi) &= \frac{1}{n}\left\{\tau_n(\gamma - \gamma_0)\beta_{10} + [I_n(\gamma_0)(X - \gamma_0\tau_n) - I_n(\gamma)(X - \gamma\tau_n)]\delta_0 + \hat{\varepsilon}\right\}'\left(I_n - P_\gamma\right) \times \\ &\quad \left\{\tau_n(\gamma - \gamma_0)\beta_{10} + [I_n(\gamma_0)(X - \gamma_0\tau_n) - I_n(\gamma)(X - \gamma\tau_n)]\delta_0 + \hat{\varepsilon}\right\} \\ &= \frac{1}{n}\hat{\varepsilon}'(I_n - P_\gamma)\hat{\varepsilon} + \frac{2}{n}\delta_0[I_n(\gamma)\tau_n(\gamma - \gamma_0) + d(\gamma_0,\gamma)(X - \gamma_0\tau_n)]'(I_n - P_\gamma)\hat{\varepsilon} \\ &\quad + \frac{1}{n}\delta_0^2[I_n(\gamma)\tau_n(\gamma - \gamma_0) + d(\gamma_0,\gamma)(X - \gamma_0\tau_n)]' \\ &\quad \times (I_n - P_\gamma)[I_n(\gamma)\tau_n(\gamma - \gamma_0) + d(\gamma_0,\gamma)(X - \gamma_0\tau_n)] \end{aligned} \tag{A.2}$$

where $d(\gamma_0, \gamma) = I_n(\gamma_0) - I_n(\gamma)$.

Next, we decompose $S_n^*(\phi)$. By simple calculation, we have

$$y = X^*(\gamma_0)\theta_0 + \varepsilon = X^*(\gamma)\theta_0 + [X^*(\gamma_0) - X^*(\gamma)]\theta_0 + \varepsilon.$$

As $X^{*\prime}(\gamma)(I_n - P_\gamma^*) = \mathbf{0}_{(k+d_{z1})\times n}$, we obtain

$$\begin{aligned} S_n^*(\phi) &= \frac{1}{n}\{\tau_n(\gamma-\gamma_0)\beta_{10} + [I_n(\gamma_0)(X-\gamma_0\tau_n) - I_n(\gamma)(X-\gamma\tau_n)]\delta_0 + \varepsilon\}'(I_n - P_\gamma^*) \times \\ &\quad \{\tau_n(\gamma-\gamma_0)\beta_{10} + [I_n(\gamma_0)(X-\gamma_0\tau_n) - I_n(\gamma)(X-\gamma\tau_n)]\delta_0 + \varepsilon\} \\ &= \frac{1}{n}\varepsilon'(I_n - P_\gamma^*)\varepsilon + \frac{2}{n}\delta_0[I_n(\gamma)\tau_n(\gamma-\gamma_0) + d(\gamma_0,\gamma)(X-\gamma_0\tau_n)]'(I_n - P_\gamma^*)\varepsilon \\ &\quad + \frac{1}{n}\delta_0^2[I_n(\gamma)\tau_n(\gamma-\gamma_0) + d(\gamma_0,\gamma)(X-\gamma_0\tau_n)]'(I_n - P_\gamma^*) \\ &\quad \times [I_n(\gamma)\tau_n(\gamma-\gamma_0) + d(\gamma_0,\gamma)(X-\gamma_0\tau_n)]. \end{aligned}$$

Subtracting (A.3) from (A.2), we have

$$\begin{aligned} & S_n(\phi) - S_n^*(\phi) \\ = \ & \frac{1}{n}(\hat{\varepsilon}'\hat{\varepsilon} - \varepsilon'\varepsilon) + \frac{2}{n}\delta_0[I_n(\gamma)\tau_n(\gamma-\gamma_0) + d(\gamma_0,\gamma)(X-\gamma_0\tau_n)]'(\hat{\varepsilon} - \varepsilon) \\ & -\frac{1}{n}\delta_0^2[I_n(\gamma)\tau_n(\gamma-\gamma_0) + d(\gamma_0,\gamma)(X-\gamma_0\tau_n)]'(P_\gamma - P_\gamma^*)[I_n(\gamma)\tau_n(\gamma-\gamma_0) + d(\gamma_0,\gamma)(X-\gamma_0\tau_n)] \\ & -\frac{1}{n}(\hat{\varepsilon}'P_\gamma\hat{\varepsilon} - \varepsilon'P_\gamma^*\varepsilon) + \frac{2}{n}\delta_0[I_n(\gamma)\tau_n(\gamma-\gamma_0) + d(\gamma_0,\gamma)(X-\gamma_0\tau_n)]'(P_\gamma^*\varepsilon - P_\gamma\hat{\varepsilon})\} \\ = \ & S_1 + 2S_2 - S_{31} - S_{32} + 2S_{33}. \end{aligned}$$

Below, we show that S_1, S_2, S_{31}, S_{32}, and S_{33} are all $o_p(1)$ uniformly over the domain of ϕ.

$\boldsymbol{S_1}$: Denoting $\hat{\pi} = [\hat{\pi}_x', \hat{\pi}_z']'$, $\pi_0 = [\pi_{x0}', \pi_{z0}']'$ and $\rho_t = [p_{xt}', p_{zt}']'$, we have $\hat{\pi} - \pi_0 = O_p(n^{-1/2})$ under Assumptions T2(b) and T5(b) and

$$\begin{aligned} S_1 &= \frac{1}{n}(\hat{\varepsilon}'\hat{\varepsilon} - \varepsilon'\varepsilon) \\ &= \frac{2}{n}\beta_{40}'(v-\hat{v})'\varepsilon + \frac{1}{n}\beta_{40}'(v-\hat{v})'(v-\hat{v})\beta_{40} \\ &= O_p(n^{-1/2}) + O_p(n^{-1}) = o_p(1), \end{aligned} \tag{A.3}$$

since $n^{-1}\varepsilon'\varepsilon = \sigma_\epsilon^2 + o_p(1)$ under Assumption T5 and

$$\|v-\hat{v}\|^2 = (\hat{\pi}-\pi_0)'\sum_{t=1}^n \rho_t\rho_t'(\hat{\pi}-\pi_0) \le n\|\hat{\pi}-\pi_0\|^2\lambda_{max}(n^{-1}\sum_{t=1}^n \rho_t\rho_t') = O_p(1) \tag{A.4}$$

under Assumption T2(b), where $\lambda_{max}(A)$ denotes the largest eigenvalue of a symmetric matrix A.

$\boldsymbol{S_2}$: By Assumptions T2 (a), T7 and applying $\frac{1}{n}\|\hat{\varepsilon}-\varepsilon\| = \frac{1}{n}\|(v-\hat{v})\beta_{40}\| \leq \frac{1}{n}\|\beta_{40}\|\,\|v-\hat{v}\| = O_p(n^{-1})$, for all $\gamma \in \Gamma$, we can show

$$S_2 = \frac{1}{n}\delta_0(\gamma-\gamma_0)\tau_n' I_n(\gamma)(\hat{\varepsilon}-\varepsilon)+\frac{1}{n}\delta_0(X-\gamma_0\tau_n)'d(\gamma_0,\gamma)(\hat{\varepsilon}-\varepsilon) = O_p(n^{-1/2})+O_p(n^{-1/2}) = o_p(1).$$

$\boldsymbol{S_{31}, S_{32}, S_{33}}$: By showing S_{31}, S_{32}, S_{33} are all $o_p(1)$ for any $\phi \in B \times \Gamma$, we only need to prove:

$$\max_{\gamma\in\Gamma}\frac{1}{n}\left\|\left[I_n(\gamma)\tau_n(\gamma-\gamma_0)+d(\gamma_0,\gamma)(X-\gamma_0\tau_n)\right]'\left[X(\gamma)-X^*(\gamma)\right]\right\| = o_p(1), \tag{A.5}$$

$$\max_{\gamma\in\Gamma}\frac{1}{n}\left\|\hat{\varepsilon}'X(\gamma)-\varepsilon'X^*(\gamma)\right\| = o_p(1), \tag{A.6}$$

$$\max_{\gamma\in\Gamma}\frac{1}{n}\left\|X'(\gamma)X(\gamma)-X^{*\prime}(\gamma)X^*(\gamma)\right\| = o_p(1). \tag{A.7}$$

First, applying (A.4), we have

$$\max_{\gamma\in\Gamma}\frac{1}{n}\left\|X(\gamma)-X^*(\gamma)\right\| = \frac{1}{n}\|\hat{v}-v\| = O_p(n^{-1}) = o_p(1). \tag{A.8}$$

Next, by Assumptions T2(a) and T7, we have

$$\begin{aligned}
&\max_{\gamma\in\Gamma}\frac{1}{n}\left\|\left[I_n(\gamma)\tau_n(\gamma-\gamma_0)+d(\gamma_0,\gamma)(X-\gamma_0\tau_n)\right]'\left[X(\gamma)-X^*(\gamma)\right]\right\| \\
&\leq \max_{\gamma\in\Gamma}\frac{1}{n}\left\|I_n(\gamma)\tau_n(\gamma-\gamma_0)+d(\gamma_0,\gamma)(X-\gamma_0\tau_n)\right\|\left\|X(\gamma)-X^*(\gamma)\right\| = O_p(n^{-1/2}) = o_p(1),
\end{aligned}$$

which verifies (A.5).

Next, we show (A.6). Applying triangle inequality gives

$$\begin{aligned}
&\max_{\gamma\in\Gamma}\frac{1}{n}\left\|\hat{\varepsilon}'X(\gamma)-\varepsilon'X^*(\gamma)\right\| \\
&\leq \max_{\gamma\in\Gamma}\frac{1}{n}\left\|\varepsilon'[X(\gamma)-X^*(\gamma)]\right\| + \max_{\gamma\in\Gamma}\frac{1}{n}\left\|\beta_{40}'(v-\hat{v})'X(\gamma)\right\| &\text{(A.9)}\\
&= \frac{1}{n}\left\|\varepsilon'(\hat{v}-v)\right\| + \max_{\gamma\in\Gamma}\frac{1}{n}\left\|\beta_{40}'(v-\hat{v})'X(\gamma)\right\| &\text{(A.10)}\\
&= O_p(n^{-1/2})+O_p(n^{-1/2}) = o_p(1),
\end{aligned}$$

where $\frac{1}{n}\|\varepsilon'(\hat{v}-v)\| = O_p(n^{-1/2})$ by (A.3), and $\max_{\gamma\in\Gamma}\frac{1}{n}\|(v-\hat{v})'X(\gamma)\| \le \frac{1}{n}\|v-\hat{v}\|\,\|X(\gamma)\| = O_p(n^{-1/2})$ by (A.4) and under Assumption T2.

Finally, by Assumption P2 and (A.8), we can show

$$\begin{aligned}
&\max_{\gamma\in\Gamma}\frac{1}{n}\|X'(\gamma)X(\gamma) - X^{*\prime}(\gamma)X^{*}(\gamma)\| \\
&= \max_{\gamma\in\Gamma}\frac{2}{n}\|(X-\gamma\tau_n)'(\hat{v}-v)\| + \max_{\gamma\in\Gamma}\frac{2}{n}\|[I_n(\gamma)(X-\gamma\tau_n)]'(\hat{v}-v)\| + \frac{2}{n}\|z'(\hat{v}-v)\| + \frac{1}{n}\|\hat{v}'\hat{v} - v'v\| \\
&= O_p(n^{-1/2}) + O_p(n^{-1/2}) + O_p(n^{-1/2}) + \frac{1}{n}\|\hat{v}\hat{v}' - vv'\|, \qquad \text{(A.11)}
\end{aligned}$$

where z is an $n\times\ell$ matrix, and $z = [z_1, z_2, ..., z_n]'$. Then, we only left to show $\frac{1}{n}\|\hat{v}'\hat{v} - v'v\| = o_p(1)$. Note that,

$$\begin{aligned}
\frac{1}{n}\|\hat{v}'\hat{v} - v'v\| &= \frac{1}{n}\|(\hat{v}-v)'(\hat{v}-v)\| + \frac{2}{n}\|(\hat{v}-v)'v\| \\
&= O_p(n^{-1}) + A, \qquad \text{(A.12)}
\end{aligned}$$

where, under Assumption T2, for any bounded v_t, we have

$$A = \frac{1}{n}\|(\hat{v}-v)'v\| \le \frac{1}{n}\|(\hat{v}-v)\|\,\|v\| = O_p(n^{-1/2}). \qquad \text{(A.13)}$$

Thus, combining (A.11),(A.12) with (A.13), we obtain

$$\frac{1}{n}\max_{\gamma\in\Gamma}\|X'(\gamma)X(\gamma) - X^{*\prime}(\gamma)X^{*}(\gamma)\| = o_p(1).$$

To sum up, we have $\sup_{\phi\in B\times\Gamma}|S_n(\phi) - S_n^*(\phi)| \xrightarrow{p} 0$, which completes the proof of Theorem 1-time series.

B Proof of Theorem 2-panel

Similar to the proof of Theorem 1-Time Series, we first prove $\sup_{\phi\in B\times\Gamma}|S_{NT}(\phi) - S_{NT}^*(\phi)| \xrightarrow{p} 0$, which implies that the minimizer of $S_{NT}(\phi)$ is also the minimizer of $S_{NT}^*(\phi)$, where $\phi = (\theta', \gamma)'$, and the definition of $S_{NT}(\phi)$ and $S_{NT}^*(\phi)$ are given by (**??**) and Assumption P7, respectively. Then, by showing that, for $\phi \in B \times \Gamma$, the optimization problem of $S^*_{NT}(\phi)$ satisfies all the four required conditions in Section 3.2 of Andrews (1994), we verify Theorem 1-panel.

We first show that $\sup_{\phi \in B \times \Gamma} |S_{NT}(\phi) - S^*_{NT}(\phi)| \xrightarrow{p} 0$.

Define $P(\gamma) = \Delta x(\gamma)[\Delta x(\gamma)'\Delta x(\gamma)]^{-1}\Delta x(\gamma)'$ and $P^*(\gamma)$ is in the same form of $P(\gamma)$ with $\Delta x(\gamma)$ being replaced by $\Delta x^*(\gamma)$, where $\Delta x(\gamma) = [\Delta x_{12}(\gamma), ..., \Delta x_{1T}(\gamma), ..., \Delta x_{N2}, ..., \Delta x_{NT}(\gamma)]'$ is an $[N(T-1)] \times (k + d_{z1})$ matrix, and $\Delta x^*(\gamma)$ equals $\Delta x(\gamma)$ with $\Delta x_{it}(\gamma)$ being replaced by $\Delta x^*_{it}(\gamma)$. Then, for any $\phi \in B \times \Gamma$, $S_{NT}(\phi)$ can be expressed as

$$S_{NT}(\phi) = \frac{1}{N(T-1)} \sum_{i=1}^{N} \sum_{t=2}^{T} (\Delta y_{it} - \Delta x_{it}(\gamma)'\theta)^2 = \frac{1}{N(T-1)} \Delta y' P(\gamma) \Delta y,$$

where $\Delta y = [\Delta y_{12}, ..., \Delta y_{1T}, ..., \Delta y_{N2}, ..., \Delta y_{NT}]'$ is an $[N(T-1)] \times 1$ vector. Note that, we can rewrite Δy as

$$\Delta y = \Delta x^*(\gamma_0)\theta_0 + \Delta\varepsilon = [\Delta x^*(\gamma_0) - \Delta x(\gamma)]\theta_0 + \Delta x(\gamma)\theta_0 + \Delta\varepsilon,$$

where $\Delta\varepsilon = [\Delta\varepsilon_{12}, ..., \Delta\varepsilon_{1T}, ..., \Delta\varepsilon_{N2}, ..., \Delta\varepsilon_{NT}]'$ an $[N(T-1)] \times 1$ vector.

As $\Delta x(\gamma)'[I_{NT} - P(\gamma)] = \mathbf{0}_{(1+d_{z1}) \times N(T-1)}$, we have

$$\begin{aligned} S_{NT}(\phi) &= \frac{1}{N(T-1)} \left\{[\Delta x^*(\gamma_0) - \Delta x(\gamma)]\theta_0 + \Delta\varepsilon\right\}' [I_N - P(\gamma)] \\ &\quad \times \left\{[\Delta x^*(\gamma_0) - \Delta x(\gamma)]\theta_0 + \Delta\varepsilon\right\}. \end{aligned}$$

where I_{NT} is an identity matrix with dimension $N(T-1)$.

Similarly, we can also decompose Δy as

$$\Delta y = \Delta x^*(\gamma_0)\theta_0 + \Delta\varepsilon = [\Delta x^*(\gamma_0) - \Delta x^*(\gamma)]\,\theta_0 + \Delta x^*(\gamma)\theta_0 + \Delta\varepsilon.$$

Since $\Delta x^{*\prime}(\gamma)[I_{NT} - P^*(\gamma)] = \mathbf{0}_{(k+d_{z1}) \times N(T-1)}$, we have

$$\begin{aligned} S^*_{NT}(\phi) &= \frac{1}{N(T-1)} \left\{[\Delta x^*(\gamma_0) - \Delta x^*(\gamma)]\theta_0 + \Delta\varepsilon\right\}' [I_{NT} - P^*(\gamma)] \\ &\quad \times \left\{[\Delta x^*(\gamma_0) - \Delta x^*(\gamma)]\theta_0 + \Delta\varepsilon\right\}. \end{aligned}$$

Therefore, we obtain

$$
\begin{aligned}
& S_{NT}(\phi) - S^*_{NT}(\phi) \\
= \; & \frac{1}{N(T-1)}\{[\Delta x^*(\gamma) - \Delta x(\gamma)]\theta_0\}'[I_{NT} - P(\gamma)]\{[\Delta x^*(\gamma) - \Delta x(\gamma)]\theta_0\} \\
& + \frac{1}{N(T-1)}\{[\Delta x^*(\gamma_0) - \Delta x^*(\gamma)]\theta_0 + \Delta\varepsilon\}'[P^*(\gamma) - P(\gamma)]\{[\Delta x^*(\gamma_0) - \Delta x^*(\gamma)]\theta_0 + \Delta\varepsilon\} \\
& + \frac{2}{N(T-1)}\{[\Delta x^*(\gamma) - \Delta x(\gamma)]\theta_0\}'[I_{NT} - P(\gamma)]\{[\Delta x^*(\gamma_0) - \Delta x^*(\gamma)]\theta_0 + \Delta\varepsilon\} \\
= \; & \mathcal{S}_1 + \mathcal{S}_2 + 2\mathcal{S}_3,
\end{aligned}
$$

where denoting $\Delta w = [\Delta w'_{12}, ..., \Delta w'_{1T}, \ldots, \Delta w'_{N2}, \ldots, \Delta w'_{NT}]'$ for $w = v$ and $\hat{v}$ and $\chi(\gamma) = [(X_{12} - \gamma\tau_2)'\mathbf{I}_{12}(\gamma), \ldots, (X_{1T} - \gamma\tau_2)'\mathbf{I}_{1T}(\gamma), \ldots, X_{N2} - \gamma\tau_2)'\mathbf{I}_{N2}(\gamma), \ldots, (X_{NT} - \gamma\tau_2)'\mathbf{I}_{NT}(\gamma)]'$, we have

$$
\begin{aligned}
\Delta x^*(\gamma) - \Delta x(\gamma) &= [\mathbf{0}_{N(T-1)\times 1}, \mathbf{0}_{N(T-1)\times 1}, \mathbf{0}_{N(T-1)\times 1}, \Delta v - \Delta\hat{v}], \\
\Delta x^*(\gamma_0) - \Delta x^*(\gamma) &= [\mathbf{0}_{N(T-1)\times 1}, \chi(\gamma_0) - \chi(\gamma), \mathbf{0}_{N(T-1)\times 1}, \mathbf{0}_{N(T-1)\times(1+d_{z1})}].
\end{aligned}
$$

Hence, we obtain

$$
\begin{aligned}
\mathcal{S}_1 &= \frac{1}{N(T-1)}\beta'_{40}(\Delta v - \Delta\hat{v})'(I_{NT} - P(\gamma))(\Delta v - \Delta\hat{v})\beta_{40} \\
&\leq \frac{1}{N(T-1)}\lambda_{max}(I_{NT} - P(\gamma))\beta'_{40}(\Delta v - \Delta\hat{v})'(\Delta v - \Delta\hat{v})\beta_{40} \\
&= O_p([N(T-1)]^{-1}) \qquad \text{(B.1)}
\end{aligned}
$$

since $I_{NT} - P(\gamma)$ is an idempotent matrix with $\lambda_{max}(I_{NT} - P(\gamma)) = 1$ and denoting $\hat{\Pi} = [\hat{\Pi}'_x, \hat{\Pi}'_z]'$, $\Pi_0 = [\Pi'_{x0}, \Pi'_{z0}]'$, and $\mathcal{P}_{it} = [p'_{x,it}, p'_{z,it}]'$, we have $\hat{\Pi} - \Pi_0 = O_p([N(T-1)]^{-1/2})$ under Assumptions P2(b) and P5(b) and

$$
\begin{aligned}
\|\Delta v - \Delta\hat{v}\|^2 &= (\hat{\Pi} - \Pi_0)' \sum_{i=1}^{N}\sum_{t=2}^{T} \Delta\mathcal{P}_{it}\Delta\mathcal{P}'_{it}(\hat{\Pi} - \Pi_0) \\
&\leq N(T-1)\left\|\hat{\Pi} - \Pi\right\|^2 \lambda_{max}\left(\frac{1}{N(T-1)}\sum_{i=1}^{N}\sum_{t=2}^{T}\Delta\mathcal{P}_{it}\Delta\mathcal{P}'_{it}\right) \\
&= O_p(1) \qquad \text{(B.2)}
\end{aligned}
$$

under Assumption P2(b).

Next, we consider

$$\begin{aligned}
\mathcal{S}_2 &= \frac{\delta_0^2}{N(T-1)}[\chi(\gamma_0)-\chi(\gamma)]'[P^*(\gamma)-P(\gamma)][\chi(\gamma_0)-\chi(\gamma)]+\frac{1}{N(T-1)}\Delta\varepsilon'[P^*(\gamma)-P(\gamma)]\Delta\varepsilon \\
&\quad +\frac{2\delta_0}{N(T-1)}[\chi(\gamma_0)-\chi(\gamma)]'[P^*(\gamma)-P(\gamma)]\Delta\varepsilon, \\
&\quad = S_{21}+S_{22}+2S_{23} \qquad \text{(B.3)}
\end{aligned}$$

where $\Delta\varepsilon=[\Delta\varepsilon_{12},...,\Delta\varepsilon_{1T},...,\Delta\varepsilon_{N2},...,\Delta\varepsilon_{NT}]'$. First, we establish S_{21}. Under Assumption P2(a), we have $\frac{1}{N(T-1)}\left\|\chi(\gamma_0)-\chi(\gamma)\right\|^2=O_p(1)$. Then, by Lemma-1 and Assumption P2, we have

$$\begin{aligned}
S_{21} &= \frac{\delta_0^2}{N(T-1)}\left|[\chi(\gamma_0)-\chi(\gamma)]'[P^*(\gamma)-P(\gamma)][\chi(\gamma_0)-\chi(\gamma)]\right|_{sp} \\
&\leq \frac{\delta_0^2}{N(T-1)}\left\|(\chi(\gamma_0)-\chi(\gamma))\right\|_{sp}^2\left\|P^*(\gamma)-P(\gamma)\right\|_{sp} \\
&= o_p(1) \qquad \text{(B.4)}
\end{aligned}$$

where $\left\|A\right\|_{sp}$ is the spectral norm of a square matrix A and $\left\|A\right\|_{sp}=\lambda_{max}^{1/2}(A'A)$. Then by Lemma-1 and closely following the proof of (B.4), we can show that $\mathcal{S}_{22}$ and $\mathcal{S}_{23}$ are also $o_p(1)$.

Last, by simple calculation, we can express $\mathcal{S}_3$ as

$$\begin{aligned}
\mathcal{S}_3 &= \frac{2\beta_{10}\delta_0}{N(T-1)}(\Delta v-\Delta\hat{v})'[I_{NT}-P(\gamma)][\chi(\gamma_0)-\chi(\gamma)+\Delta\varepsilon] \\
&= \frac{2\beta_{10}\delta_0}{N(T-1)}(\Delta v-\Delta\hat{v})'[\chi(\gamma_0)-\chi(\gamma)+\Delta\varepsilon]-\frac{2\beta_{10}\delta_0}{N(T-1)}(\Delta v-\Delta\hat{v})'P(\gamma)[\chi(\gamma_0)-\chi(\gamma)+\Delta\varepsilon] \\
&= \mathcal{S}_{31}-2\mathcal{S}_{32} \qquad \text{(B.5)}
\end{aligned}$$

where $\mathcal{S}_{31} = o_p(1)$ under Assumption P2 and

$$\begin{aligned}
\mathcal{S}_{32} &= \frac{2\beta_{10}\delta_0}{N(T-1)}(\Delta v - \Delta\hat{v})' P(\gamma)[\chi(\gamma_0) - \chi(\gamma) + \Delta\varepsilon] \\
&\leq 2\beta_{10}\delta_0 \max_{\gamma\in\Gamma}\left\| \frac{1}{N(T-1)}(\Delta v - \Delta\hat{v})'\Delta x(\gamma) \right\| \max_{\gamma\in\Gamma}\left\| [\frac{1}{N(T-1)}\Delta x(\gamma)'\Delta x(\gamma)]^{-1} \right\| \\
&\quad \times \max_{\gamma\in\Gamma}\left\| \frac{1}{N(T-1)}\Delta x(\gamma)'[\chi(\gamma_0) - \chi(\gamma) + \Delta\varepsilon] \right\| \\
&= o_p(1)O_p(1)o_p(1) \qquad \text{(B.6)}
\end{aligned}$$

by (C.4) in Lemma-1 and Assumption P2.

To sum up, we have $\sup_{\phi\in B\times\Gamma} |S_{NT}(\phi) - S^*_{NT}(\phi)| \xrightarrow{p} 0$.

Next, we show that the four conditions required by Section 4.3 Andrews (1994) also hold in our case. Denote $\frac{1}{N(T-1)}\sum_{i=1}^{N}\sum_{t=2}^{T} M_{it}(\phi)$ as the first order partial derivative of $S^*_{NT}(\phi)$ and the minimizer of $S^*_{NT}(\phi)$ is given by solving $\frac{1}{N(T-1)}\sum_{i=1}^{N}\sum_{t=2}^{T} M_{it}(\phi) = 0$. By definition, $M_{it}(\phi) = \Delta H_{it}(\phi)\Delta\varepsilon_{it}(\phi)$, and $\Delta\varepsilon_{it}(\phi) = \Delta y_{it} - \Delta x^{*\prime}_{it}(\gamma)\theta$. Under Assumption P7, the true threshold value γ_0 is the unique minimizer of $L^*(\theta^*(\gamma), \gamma)$. And, by Assumption P3, $\theta^*(\gamma)$ is uniquely defined for all $\gamma \in \Gamma$, where Γ is a compact set. Combining Assumptions T3 and T7, we have the true parameter ϕ_0 minimizes $L^*(\phi) = L^*(\theta, \gamma)$ and is the unique solution of $M(\phi_0) = E[M_{it}(\phi_0)] = 0$, where $L^*(\phi) = E[S^*_{NT}(\phi)]$. Following we establish the four conditions one by one.

Condition 1: $\hat{\phi} \xrightarrow{p} \phi_0$.

For the kink regression model, $\Delta x^*_{it}(\gamma)$ is continuous in γ and we have $\Delta\varepsilon_{it}(\phi) = \Delta y_{it} - \Delta x^{*\prime}_{it}(\gamma)\theta$. Therefore, $\Delta\varepsilon_{it}(\phi)$ and $\Delta\varepsilon_{it}(\phi)^2$ are continuous in ϕ. Using the Cauchy-Schwarz inequality, we have,

$$\Delta\varepsilon^2_{it}(\phi) \leq 2\Delta y^2_{it} + 2|x^{*\prime}_{it}(\gamma)\theta|^2 \leq 2\Delta y^2_{it} + 2\bar{\theta}^2 \left\|\Delta x^*_{it}(\gamma)\right\|^2, \qquad \text{(B.7)}$$

where $\bar{\theta} = \sup\{\|\theta\| : \theta \in B\}$ and is bounded under Assumption P6. Recall the definition of $\Delta x^*_{it}(\gamma)$, under Assumptions P2 and P7, we have the finite bound $\left\|\Delta x^*_{it}(\gamma)\right\|^2 \leq \Delta x^2_{it} +$

$2(x_{it}-\gamma)^2 + \Delta z_{it}'\Delta z_{it} + \Delta v_{it}'\Delta v_{it}$. Thus, for $\phi \in B\times\Gamma$, $E[\Delta\varepsilon_{it}^2(\phi)] = O(1)$. Applying Lemma 2.4 of Newey and Mcfadden (1994), we can show $\sup_{\phi\in B\times\Gamma}|S_{NT}^*(\phi) - L^*(\phi)| \xrightarrow{p} 0$ as $NT\to\infty$, where $L^*(\phi) = E[S_{NT}^*(\phi)]$.

Finally, by Assumptions P3, P6, and P7, $B\times\Gamma$ is compact and ϕ_0 is the unique minimizer of $L^*(\phi)$. Thus, we conclude the proof of Condition 1 by applying Theorem 2.1 of Newey and Mcfadden (1994).

Condition 2: $\frac{1}{\sqrt{N(T-1)}}\sum_{i=1}^N\sum_{t=2}^T \Delta H_{it}\Delta\varepsilon_{it} \xrightarrow{d} N(0,\mathcal{S})$.

Following Herrndorf (1984), we complete the proof for Condition 2 by applying the CLT for the strong mixing process under Assumptions P1 and P2.

Condition 3: $\mathcal{Q}(\phi)$ is continuous in ϕ for $\phi\in B\times\Gamma$ and $\mathcal{Q}(\phi_0)=\mathcal{Q}$, where

$$
\begin{aligned}
\mathcal{Q}(\phi) &= -\frac{\partial}{\partial\phi'}E[\Delta H_{it}(\phi)\Delta\varepsilon_{it}] = E[\Delta H_{it}(\phi)\Delta H_{it}'(\phi)] \\
&\quad +E\begin{pmatrix}
0 & 0 & 0 & 0 & 0 \\
0 & 0 & 0 & 0 & \Delta\varepsilon_{it}(\phi)[I(x_t\ge\gamma)-I(x_{i,t-1}\ge\gamma)] \\
0 & 0 & 0 & 0 & 0 \\
0 & 0 & 0 & 0 & 0 \\
0 & \Delta\varepsilon_{it}(\phi)[I(x_t\ge\gamma)-I(x_{i,t-1}\ge\gamma)] & 0 & 0 & 0
\end{pmatrix}
\end{aligned}
$$

Obviously, $\mathcal{Q}(\phi)$ is continuous w.r.t. θ. For γ, note that the parameter γ enters $\mathcal{Q}(\phi)$ through one of the following forms: $W_{i,t-D_1}I(x_{i,t-D_2}\ge\gamma)$, $x_{i,t-D_1}I(x_{it}\ge\gamma)I(x_{i,t-1}\ge\gamma)$, or $I(x_{it}\ge\gamma)I(x_{i,t-1}\ge\gamma)$, where $D_j\in\{0,1\}$, $j=1,2$ and $W_{i,t-D_j}$ can be any vector whose elements are pairwise products of $(1, y_{it}, y_{i,t-1}, x_{it}, x_{i,t-1}, z_{it}, z_{i,t-1}, v_{it}, v_{i,t-1})$. By Assumptions P2, P4 and applying the law of iterated expectation, we can show that $\mathcal{Q}(\phi)$ is also continuous w.r.t γ. By definition, the second term of $\mathcal{Q}(\phi)$ equals zero when we evaluate it at $\phi=\phi_0$, which implies $\mathcal{Q}(\phi_0)=\mathcal{Q}$. Hence, we conclude our proof for Condition 3.

Condition 4: $g_{NT}(\phi) = \frac{1}{\sqrt{N(T-1)}}\sum_{i=1}^N\sum_{t=2}^T(M_{it}(\phi)-M(\phi))$ is stochastic equicontinuous, where $M_{it}(\phi)=\Delta H_{it}(\phi)\Delta\varepsilon_{it}(\phi)$ and $M(\phi)=E[M_{it}(\phi)]$.

Note that θ enters $M_{it}(\phi)$ with linear or quadratic forms. Therefore, we only need to establish the stochastic equicontinuity w.r.t. γ. Hence, without loss of generality, we temporarily ignore θ and focus on γ in $M_{it}(\phi)$ and write $M_{it}(\phi)$ as $M_{it}(\gamma)$. Then, we have

$$\begin{aligned} M_{it}(\gamma) &= \Delta H_{it}(\gamma)\Delta\varepsilon_{it}(\gamma) \\ &= [\Delta x^*_{it}(\gamma)(\Delta y_{it} - \Delta x^{*\prime}_{it}(\gamma)\theta), \delta[I(x_{it} \geq \gamma) - I(x_{i,t-1} \geq \gamma)(\Delta y_{it} - \Delta x^{*\prime}_{it}(\gamma)\theta)]. \end{aligned} \tag{B.8}$$

Note that the parameter γ enters $M_{it}(\gamma)$ through one of the following forms: $W_{i,t-D_1}I(x_{i,t-D_2} \geq \gamma)$, $x_{i,t-D_1}I(x_{it} \geq \gamma)I(x_{i,t-1} \geq \gamma)$, or $I(x_{it} \geq \gamma)I(x_{i,t-1} \geq \gamma)$, where where $D_j \in \{0,1\}$, $j = 1,2$, which defined in Condition 3. Then we construct a bound which helps establishing Condition 4.

We denote $\mathbf{F}(.)$ as the cumulative distribution of x_{it}. Then, for any $\gamma_2 \geq \gamma_1$ and $\gamma_1, \gamma_2 \in \Gamma$, by Assumption P4 and employing Taylor expansion, we have $\mathbf{F}(\gamma_2) - \mathbf{F}(\gamma_1) \leq \bar{f}|\gamma_2 - \gamma_1|$. Thus, the bound equation for $W_{i,t-D_1}I(x_{i,t-D_2} \geq \gamma)$, $x_{i,t-D_1}I(x_{it} \geq \gamma)I(x_{i,t-1} \geq \gamma)$ and $I(x_{it} \geq \gamma)I(x_{i,t-1} \geq \gamma)$ are given as follows by applying the Hölder's inequality:

$$\begin{aligned} & E|W_{i,t-D_1}I(\gamma_1 \leq x_{i,t} \leq \gamma_2)I(\gamma_1 \leq x_{i,t-1} \leq \gamma_2)|^2 \\ & \leq E(|W_{i,t-D_1}|^{2r})^{1/r}(E|I(\gamma_1 \leq x_{it} \leq \gamma_2)|)^{1/q_1}(E|I(\gamma_1 \leq x_{i,t-1} \leq \gamma_2)|)^{1/q_2} \\ & \leq \mathcal{C}(\mathbf{F}(\gamma_2) - \mathbf{F}(\gamma_1))^{(1/q_1+1/q_2)} \\ & \leq \mathcal{C}\bar{f}^{(1/q_1+1/q_2)}|\gamma_2 - \gamma_1|^{(1/q_1+1/q_2)}, \end{aligned} \tag{B.9}$$

where $\frac{1}{q_1} + \frac{1}{q_2} + \frac{1}{r} = 1$ and $E(\|W_{i,t-D_1}\|^{2r})^{1/r} \leq \mathcal{C}$.

Following we establishing Condition 4 by applying Doukhan et al. (1995) Theorem 1. In our case, with martingale differences sequences, their condition (2.15) holds. Let γ_k be an equally spaced grid search point on Γ, where $k = 1, ..., \mathcal{N}$. Then, for any $\gamma \in \Gamma$, there exist a bracket such that $\min[M_{it}(\gamma_{k-1}), M_{it}(\gamma_k)] \leq M_{it}(\gamma) \leq \max[M_{it}(\gamma_{k-1}), M_{it}(\gamma_k)]$.

Denote μ as any positive number and $\mathcal{N}(\mu) = \mu^{-2/q}$. By the bound equation (B.9), we have $E\left\|M_{it}(\gamma_k) - M_{it}(\gamma_{k-1})\right\|^2 \leq \mathcal{C}\bar{f}^{1/q}|\gamma_k - \gamma_{k-1}|^{1/q} \leq O(\mathcal{N}(\mu)^{-q}) = O(\mu^2)$, where $O(\mathcal{N}(\mu)^{-1})$ is the distance between grid points and $\frac{1}{q} = \frac{1}{q_1} + \frac{1}{q_2}$. Thus, we have $\mathcal{N}(\mu)$ are the L^2 bracketing numbers and $H_2(\mu) = \ln \mathcal{N}(\mu) = |\log \mu|$ is the metric entropy for the class $\{m_{it}(\gamma)|\gamma \in \Gamma\}$. Combining this with Assumption P1 , we can apply Theorem 1 of Doukhan et al. (1995)[1] to establish the stochastic equicontinuity of g_{NT} w.r.t γ, which finish the proof of condition 4.

As Conditions 1-4 are proved above, it is sufficient for us to establish Theorem 1-panel.

C Lemma

Lemma 1 *Under Assumptions P2, P3, P5(b) and P7, we have* $\max_{\gamma\in\Gamma}\left\|P^*(\gamma) - P(\gamma)\right\|_{sp} = o_p(1)$.

Proof. By triangular inequality and simple calculations, we have

$$\begin{aligned}
& \max_{\gamma\in\Gamma}\left\|P(\gamma) - P^*(\gamma)\right\|_{sp} \\
= & \max_{\gamma\in\Gamma}\left\|\Delta x(\gamma)[\Delta x(\gamma)'\Delta x(\gamma)]^{-1}\Delta x(\gamma)' - \Delta x^*(\gamma)[\Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1}\Delta x^*(\gamma)'\right\|_{sp} \\
\leq & \max_{\gamma\in\Gamma}\left\|\Delta x(\gamma)\left\{[\Delta x(\gamma)'\Delta x(\gamma)]^{-1} - [\Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1}\right\}\Delta x(\gamma)'\right\|_{sp} \\
& + \max_{\gamma\in\Gamma}\left\|[\Delta x(\gamma) - \Delta x^*(\gamma)][\Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1}[\Delta x(\gamma) - \Delta x^*(\gamma)]'\right\|_{sp} \\
& + 2\max_{\gamma\in\Gamma}\left\|[\Delta x(\gamma) - \Delta x^*(\gamma)][\Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1}\Delta x^*(\gamma)'\right\|_{sp} \\
= & \mathcal{S}_{p1} + \mathcal{S}_{p2} + 2\mathcal{S}_{p3} = o_p(1). \qquad \text{(C.1)}
\end{aligned}$$

First, we verify that $\mathcal{S}_{p2}$ and $\mathcal{S}_{p3}$ are $o_p(1)$. Under Assumptions P2, P3 and P7, by equation

[1]Note that, by collecting the bounded condition we show above and the Assumption P1, condition (2.15) in Doukhan et al. (1995) is satisfied. Thus, Theorem 1 of Doukhan et al. (1995) holds here.

(B.2), we have

$$
\begin{aligned}
\mathcal{S}_{p2} &= \max_{\gamma\in\Gamma} \left\| [\Delta x(\gamma) - \Delta x^*(\gamma)][\Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1}[\Delta x(\gamma) - \Delta x^*(\gamma)]' \right\|_{sp} \\
&\leq \frac{1}{N(T-1)} \max_{\gamma\in\Gamma} \|\Delta x(\gamma) - \Delta x^*(\gamma)\| \max_{\gamma\in\Gamma} \left\| [\frac{1}{N(T-1)} \Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1} \right\|_{sp} \\
&\quad \times \max_{\gamma\in\Gamma} \|\Delta x(\gamma) - \Delta x^*(\gamma)\| \\
&= \frac{1}{N(T-1)} \|\Delta v - \Delta\hat{v}\|^2 \max_{\gamma\in\Gamma} \left\| [\frac{1}{N(T-1)} \Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1} \right\|_{sp} \\
&= O_p([N(T-1)]^{-1}) O_p(1) = o_p(1), \qquad \text{(C.2)}
\end{aligned}
$$

and

$$
\begin{aligned}
\mathcal{S}_{p3} &= \max_{\gamma\in\Gamma} \left\| [\Delta x(\gamma) - \Delta x^*(\gamma)][\Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1} \Delta x^*(\gamma)' \right\|_{sp} \\
&\leq \|\Delta\hat{v} - \Delta v\| \max_{\gamma\in\Gamma} \left\| [\frac{1}{N(T-1)} \Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1} \right\|_{sp} \max_{\gamma\in\Gamma} \frac{1}{N(T-1)} \|\Delta x^*(\gamma)\| \\
&= O_p(1) O_p(1) o_p(1) = o_p(1), \qquad \text{(C.3)}
\end{aligned}
$$

where we have

$$
\begin{aligned}
& \left\| [\frac{1}{N(T-1)} \Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1} \right\|_{sp} \\
= & \left\| [\frac{1}{N(T-1)} \Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1} \right\|_{sp} = \lambda_{min}^{-1} [\frac{1}{N(T-1)} \Delta x^*(\gamma)'\Delta x^*(\gamma)] \\
= & \lambda_{min}^{-1} \left(E[\Delta x^*_{it}(\gamma)\Delta x^{*\prime}_{it}(\gamma)] \right) + O_p\left(\left\| \frac{1}{N(T-1)} \Delta x^*(\gamma)'\Delta x^*(\gamma) - E[\Delta x^*_{it}(\gamma)\Delta x^{*\prime}_{it}(\gamma)] \right\| \right) \\
= & O_p(1). \qquad \text{(C.4)}
\end{aligned}
$$

by Assumption P3 and applying Weyl's theorem in Seber (2008). $\lambda_{min}(A)$ denotes the smallest eigenvalue of a symmetric matrix A. Next, we show $\mathcal{S}_{p1}$ is $o_p(1)$. Under Assumption P2, we have

$$
\begin{aligned}
\mathcal{S}_{p1} &= \max_{\gamma\in\Gamma} \left\| \Delta x(\gamma) \left\{ [\Delta x(\gamma)'\Delta x(\gamma)]^{-1} - [\Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1} \right\} \Delta x(\gamma)' \right\|_{sp} \\
&\leq \max_{\gamma\in\Gamma} \frac{1}{N(T-1)} \|\Delta x(\gamma)\|^2 N(T-1) \max_{\gamma\in\Gamma} \left\| [\Delta x(\gamma)'\Delta x(\gamma)]^{-1} - [\Delta x^*(\gamma)'\Delta x^*(\gamma)]^{-1} \right\|_{sp} \\
&= O_p(1) o_p(1) \qquad \text{(C.5)}
\end{aligned}
$$

whereby (C.4) and closely following the proof of Theorem 1-time series (A.11), (A.12) and (A.13), we obtain

$$
\begin{aligned}
& N(T-1)\max_{\gamma\in\Gamma}\left\|[\Delta x(\gamma)'\Delta x(\gamma)]^{-1}-[\Delta x^{*}(\gamma)'\Delta x^{*}(\gamma)]^{-1}\right\|_{sp} \\
= \;& N(T-1)\max_{\gamma\in\Gamma}\left\|[\Delta x(\gamma)'\Delta x(\gamma)]^{-1}\{[\Delta x(\gamma)'\Delta x(\gamma)]-[\Delta x^{*}(\gamma)'\Delta x^{*}(\gamma)]\}[\Delta x^{*}(\gamma)\Delta x^{*}(\gamma)]^{-1}\right\|_{sp} \\
\leq \;& \max_{\gamma\in\Gamma}\left\|[\frac{1}{N(T-1)}\Delta x(\gamma)'\Delta x(\gamma)]^{-1}\right\|_{sp}\max_{\gamma\in\Gamma}\frac{1}{N(T-1)}\left\|[\Delta x(\gamma)'\Delta x(\gamma)]-[\Delta x^{*}(\gamma)'\Delta x^{*}(\gamma)]\right\| \\
& \times\max_{\gamma\in\Gamma}\left\|[\frac{1}{N(T-1)}\Delta x^{*}(\gamma)\Delta x^{*}(\gamma)]^{-1}\right\|_{sp} \\
= \;& O_p(1)o_p(1)O_p(1)=o_p(1) \qquad\qquad \text{(C.6)}
\end{aligned}
$$

Given $\mathcal{S}_{p1}$, $\mathcal{S}_{p2}$ and $\mathcal{S}_{p3}$ are both $o_p(1)$, we have $\max_{\gamma\in\Gamma}\|P^{*}(\gamma)-P(\gamma)\|_{sp}=o_p(1)$.

D Monte Carlo simulation results for DGP2 and DGP4

Table 1: Estimation Results for DGP2

	MEAN-β_1 ($\beta_{10}=1$)	RMSE-β_1	MEAN-δ ($\delta_0=1$)	RMSE-δ	MEAN-β_3 ($\beta_{30}=1$)	RMSE-β_3	MEAN-γ ($\gamma_0=2$)	RMSE-γ
$\kappa=0.05$	NO CF							
T=100	1.025	0.0263	0.9999	0.0134	1.025	0.0253	2	0.0072
T=200	1.0252	0.0257	0.9997	0.0092	1.025	0.0251	2	0
T=300	1.025	0.0254	1.0001	0.0076	1.025	0.0251	2	0
T=400	1.025	0.0253	1.0001	0.0064	1.025	0.0251	2	0
$\kappa=0.05$	CF							
T=100	0.9973	0.0158	1	0.0036	0.9973	0.0144	2	0
T=200	0.9986	0.0092	1	0.0026	0.9987	0.0089	2	0
T=300	0.9991	0.007	1	0.0021	0.9989	0.0071	2	0
T=400	0.9993	0.0059	1	0.0018	0.9992	0.006	2	0
$\kappa=0.5$	NO CF							
T=100	1.2398	0.2639	1.0225	0.1387	1.2498	0.2529	2.0055	0.2354
T=200	1.2458	0.256	1.0061	0.0934	1.2498	0.2514	1.9966	0.1509
T=300	1.2475	0.2536	1.0061	0.0764	1.2502	0.2513	2.0004	0.1139
T=400	1.2475	0.2521	1.0046	0.0648	1.2502	0.251	1.9991	0.1003
$\kappa=0.5$	CF							
T=100	0.9718	0.1592	1.0011	0.037	0.9734	0.1439	1.9995	0.0581
T=200	0.9862	0.0929	1.0001	0.0261	0.9871	0.0888	2.0002	0.0392
T=300	0.9902	0.0709	1.0004	0.0209	0.9889	0.0709	1.9994	0.0283
T=400	0.9929	0.0593	1.0001	0.0181	0.9923	0.0599	2.0001	0.0205

NOTE: CF=Control function approach

Table 2: Estimation Results for DGP2(continue)

	MEAN-β_1 ($\beta_{10}=1$)	RMSE-β_1	MEAN-δ ($\delta_0=1$)	RMSE-δ	MEAN-β_3 ($\beta_{30}=1$)	RMSE-β_3	MEAN-γ ($\gamma_0=2$)	RMSE-γ
$\kappa=0.95$	NO CF							
T=100	1.4286	0.4884	1.0985	0.291	1.4745	0.4805	2.0119	0.496
T=200	1.4544	0.4791	1.0371	0.185	1.4747	0.4777	1.995	0.3374
T=300	1.4639	0.4776	1.026	0.1481	1.4754	0.4774	2.0036	0.2525
T=400	1.4646	0.4744	1.0184	0.1241	1.4754	0.4769	1.9957	0.2076
$\kappa=0.95$	CF							
T=100	0.9456	0.3031	1.0045	0.0702	0.9494	0.2735	2.0004	0.1086
T=200	0.9733	0.177	1.0015	0.0497	0.9756	0.1687	2.0009	0.0756
T=300	0.9809	0.1354	1.0017	0.0398	0.979	0.1347	1.9988	0.063
T=400	0.9861	0.1131	1.0008	0.0344	0.9853	0.1138	2.0004	0.0544
$\kappa=2$	NO CF							
T=100	1.8606	1.0037	1.2899	0.7563	1.9988	1.0113	2.0196	0.7939
T=200	1.905	0.9702	1.1844	0.4575	1.9992	1.0055	1.9949	0.6813
T=300	1.9323	0.9709	1.1381	0.3534	2.0009	1.005	1.995	0.5806
T=400	1.9453	0.9746	1.1051	0.292	2.0008	1.0039	1.9941	0.5139
$\kappa=2$	CF							
T=100	0.8766	0.6408	1.0267	0.1509	0.8935	0.576	2	0.2634
T=200	0.9411	0.3734	1.01	0.1048	0.9485	0.3551	2.0037	0.1688
T=300	0.958	0.2849	1.008	0.0839	0.9557	0.2836	1.9983	0.1342
T=400	0.969	0.2384	1.0049	0.0726	0.9691	0.2396	2.0002	0.1122

NOTE: CF=Control function approach

Table 3: Estimation Results for DGP4

		MEAN-β_1 ($\beta_{10}=1$)	RMSE-β_1	MEAN-δ ($\delta_0=1$)	RMSE-δ	MEAN-β_3 ($\beta_{30}=1$)	RMSE-β_3	MEAN-γ ($\gamma_0=2$)	RMSE-γ
NO CF	FD								
T=10	N=10	1.7416	0.9354	1.3258	0.8619	1.9018	0.9184	1.9902	0.8476
	N=20	1.7905	0.874	1.2138	0.4971	1.9009	0.9087	1.9916	0.7119
	N=30	1.8294	0.8789	1.149	0.3836	1.9001	0.9049	2.0128	0.6166
	N=40	1.8449	0.8812	1.1172	0.3118	1.8986	0.9024	2.0096	0.5386
T=20	N=10	1.7918	0.8753	1.208	0.4986	1.9042	0.9118	1.9933	0.7021
	N=20	1.8465	0.8823	1.119	0.3122	1.9018	0.9057	2.0081	0.5382
	N=30	1.8651	0.8883	1.0694	0.2445	1.8996	0.9021	1.9976	0.4546
	N=40	1.8752	0.89	1.0503	0.1984	1.9001	0.9019	2.0002	0.3741
T=30	N=10	1.823	0.8713	1.1592	0.3758	1.9019	0.9069	2.0049	0.6126
	N=20	1.8632	0.8854	1.0746	0.2411	1.9005	0.9028	2.0009	0.4428
	N=30	1.8758	0.8896	1.0469	0.1885	1.9007	0.9024	1.998	0.3572
	N=40	1.8851	0.8947	1.0329	0.1637	1.8994	0.9006	2.0015	0.2947
T=40	N=10	1.8471	0.8811	1.1107	0.3088	1.9008	0.9045	2.0049	0.5353
	N=20	1.8685	0.8845	1.0586	0.2051	1.8992	0.9011	1.993	0.3747
	N=30	1.8835	0.893	1.0318	0.1602	1.9003	0.9015	1.9987	0.2959
	N=40	1.8898	0.8962	1.0213	0.1372	1.9003	0.9012	1.9985	0.2416

NOTE: FD=first difference; CF=control function approach

Table 4: Estimation Results for DGP4(continue)

		MEAN-β_1 ($\beta_{10}=1$)	RMSE-β_1	MEAN-δ ($\delta_0=1$)	RMSE-δ	MEAN-β_3 ($\beta_{30}=1$)	RMSE-β_3	MEAN-γ ($\gamma_0=2$)	RMSE-γ
CF	FD								
T=10	N=10	0.9636	0.2427	1.0296	0.1492	0.9752	0.2144	2.0028	0.2642
	N=20	0.9831	0.1608	1.0093	0.098	0.9922	0.1437	1.9959	0.1591
	N=30	0.9875	0.1327	1.0035	0.0802	0.9919	0.1168	1.9979	0.1253
	N=40	0.9942	0.1113	1.0045	0.0671	0.9938	0.0993	2.0006	0.106
T=20	N=10	0.9845	0.1584	1.0072	0.0875	0.9895	0.1459	1.9958	0.1443
	N=20	0.9948	0.1103	1.0026	0.0615	0.9961	0.1015	2.0018	0.0959
	N=30	0.9964	0.0878	1.0017	0.0499	0.9976	0.0815	1.9994	0.0773
	N=40	0.9986	0.0764	1.0016	0.0426	0.9987	0.07	2.0007	0.0689
T=30	N=10	0.9918	0.1271	1.0031	0.0687	0.9929	0.1185	2.0003	0.1061
	N=20	0.997	0.0879	1.0019	0.0479	0.9972	0.0832	2.0004	0.075
	N=30	0.9967	0.0706	1.0009	0.039	0.9982	0.0667	1.9999	0.0629
	N=40	0.9975	0.0612	1.0011	0.0337	0.9967	0.0585	1.9985	0.0541
T=40	N=10	0.9926	0.1086	1.0026	0.0579	0.9962	0.1014	2.0002	0.0894
	N=20	0.9978	0.0752	1.0008	0.0398	0.9987	0.0711	2.0013	0.0647
	N=30	0.9996	0.0612	1.0011	0.0333	0.998	0.0573	2.001	0.0516
	N=40	0.9982	0.0536	1.0011	0.0287	0.9995	0.0493	2.0011	0.0455

NOTE: FD=first difference; CF=control function approach

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