Module 7: Simulations

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Simulation study

- Simulation: A numerical techniques for conducting experiments on the computer
- Monte Carlo simulation: Computer experiment involving random sampling from probability distributions

Why simulation?

To establish/validate the properties of statistical methods

- Exact analytical derivations of properties are **rarely** possible
- Large sample approximations to properties are **often possible**, but need to evaluate their relevance to (finite) sample sizes likely to be encountered in practice

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Moreover, analytical results may require **assumptions** (e.g., normality)

- But what happens when these assumptions are violated?
- Analytical results, even large sample ones, may not be possible

Considerations for simulation

- Is an estimator **biased** in finite samples? Is it still **consistent** under departures from assumptions? What is its **sampling variance**?
- How does it **compare** to competing estimators on the basis of bias, precision, etc.?

Considerations for simulation

- Is an estimator **biased** in finite samples? Is it still **consistent** under departures from assumptions? What is its **sampling variance**?
- How does it **compare** to competing estimators on the basis of bias, precision, etc.?
- Does a procedure for constructing a **confidence interval** for a parameter achieve the advertised **nominal level of coverage**?
- Does a **hypothesis testing** procedure attain the advertised **level** or **size**?
- If it does, what **power** is possible against different alternatives to the null hypothesis? Do different test procedures deliver different power?

Monte Carlo simulation

- Generate S independent data sets under the conditions of interest
- Compute the numerical value of the estimator/test statistic T (data) for each data set $\Rightarrow T_1, \ldots, T_S$
- If S is large enough, **summary statistics** across $T_1, \ldots, T_S$ should be good **approximations** to the true sampling properties of the estimator/test statistic under the conditions of interest

Simulations for properties of estimators

Example: Compare 3 estimators for the **mean** μ of a distribution based on i.i.d. draws $Y_1, \ldots, Y_n$

- Sample mean $T^{(1)}$
- Sample 20% trimmed mean $T^{(2)}$
- Sample median $T^{(3)}$

Simulations for properties of estimators (cont'd)

Simulation procedure: For a particular choice of μ, n, and true underlying distribution

- Generate independent draws $Y_1, \ldots, Y_n$ from the distribution
- Compute $T^{(1)}$, $T^{(2)}$, $T^{(3)}$
- Repeat S times
  $T_1^{(1)}, \ldots, T_S^{(1)}; \quad T_1^{(2)}, \ldots, T_S^{(2)}; \quad T_1^{(3)}, \ldots, T_S^{(3)}$
- Compute for $k = 1, 2, 3$

$$\widehat{\text{mean}} = S^{-1} \sum_{s=1}^{S} T_s^{(k)} = \bar{T}^{(k)}, \ \widehat{\text{bias}} = \bar{T}^{(k)} - \mu$$

$$\widehat{\mathrm{SD}} = \sqrt{(S-1)^{-1} \sum_{s=1}^{S} \left(T_s^{(k)} - \bar{T}^{(k)} \right)^2}$$

$$\widehat{\mathrm{MSE}} = S^{-1} \sum_{s=1}^{S} \left(T_s^{(k)} - \mu \right)^2 \approx \widehat{\mathrm{SD}}^2 + \widehat{\mathrm{bias}}^2$$

Simulations for properties of estimators (cont'd)

Another important property we care about is the **relative efficiency** (RE).

- If the estimators are unbiased,

$$RE = \frac{\text{var}\left(T^{(1)}\right)}{\text{var}\left(T^{(2)}\right)}$$

- If the estimators are biased,

$$RE = \frac{\text{MSE}\left(T^{(1)}\right)}{\text{MSE}\left(T^{(2)}\right)}$$

In either case $RE < 1$ means estimator 1 is preferred (estimator 2 is inefficient relative to estimator 1 in this sense)

Set up parameters

```r
set.seed(3)
S <- 1000
n <- 15
mu <- 1
sigma <- sqrt(5/3)

trimmean <- function(Y) mean(Y, 0.2)
```

Generate data

Note: for this very simple data generation, we can get the data in one step, no looping. In more complex statistical models, looping is often required.

```
generate.normal <- function(S, n, mu, sigma){
  dat <- matrix(rnorm(n*S, mu, sigma), ncol=n, byrow=T)
  out <- list(dat=dat)
  return(out)
}
```

```
out <- generate.normal(S, n, mu, sigma)
out_mean <- apply(out$dat, 1, mean)
out_trimmean <- apply(out$dat, 1, trimmean)
out_median <- apply(out$dat, 1, median)
```

View the simulated data

```
summary.sim <- data.frame(mean = out_mean,
                          trim = out_trimmean,
                          median = out_median)

head(summary.sim)
```

```
##       mean      trim    median
## 1 0.753935 0.7131731 1.0388898
## 2 0.643902 0.4580396 0.3745711
## 3 1.555288 1.6710299 1.9394763
## 4 0.517147 0.4826527 0.4118927
## 5 1.360281 1.4620501 1.3451583
## 6 1.359185 1.3955097 1.4949135
```

View the estimator properties

```
simsum <- function(dat, trueval){

   S <- nrow(dat)

   MCmean <- apply(dat,2,mean)
   MCbias <- MCmean-trueval
   MCrelbias <- MCbias/trueval
   MCstddev <- sqrt(apply(dat,2,var))
   MCMSE <- apply((dat-trueval)^2,2,mean)
#  MCMSE <- MCbias^2 + MCstddev^2   # alternative lazy calculation
   MCRE <- MCMSE[1]/MCMSE

   sumdat <- rbind(rep(trueval,3), S, MCmean, MCbias,
                   MCrelbias, MCstddev, MCMSE, MCRE)
   names <- c("true value","# sims","MC mean","MC bias","MC relative bias",
              "MC standard deviation","MC MSE","MC relative efficiency")
   ests <- c("Sample mean","Trimmed mean","Median")

   dimnames(sumdat) <- list(names,ests)
   round(sumdat,5)
}
```

View the estimator properties (cont'd)

```
results <- simsum(summary.sim, mu)
results
```

```
##                          Sample mean Trimmed mean     Median
## true value                   1.00000      1.00000    1.00000
## # sims                    1000.00000   1000.00000 1000.00000
## MC mean                      0.98515      0.98690    0.99173
## MC bias                     -0.01485     -0.01310   -0.00827
## MC relative bias            -0.01485     -0.01310   -0.00827
## MC standard deviation        0.33088      0.34800    0.39763
## MC MSE                       0.10959      0.12116    0.15802
## MC relative efficiency       1.00000      0.90456    0.69356
```

Performance of estimates of uncertainty

How well do estimated standard errors represent the true sampling variation?

- Compare the average of the estimated standard errors to MC standard deviation.
- For sample mean $\bar{Y}$,
  $SE(\bar{Y}) = \frac{s}{\sqrt{n}}, \quad s^2 = (n-1)^{-1} \sum_{j=1}^{n} \left(Y_j - \bar{Y}\right)^2$

```
results["MC standard deviation", "Sample mean"]
```

```
## [1] 0.33088
```

```
mean_se <- sqrt(apply(out$dat, 1, var)/n)
ave_mean_se <- mean(mean_se)
round(ave_mean_se, 3)
```

```
## [1] 0.329
```

Confidence interval

Based on the sample mean,

$$\left[\bar{Y} - t_{1-\alpha/2,n-1}\frac{s}{\sqrt{n}}, \bar{Y} + t_{1-\alpha/2,n-1}\frac{s}{\sqrt{n}}\right]$$

Does the interval achieve the nominal level of coverage $1-\alpha$?

```
t05 <- qt(0.975,n-1)

coverage <- sum((out_mean - t05*mean_se <= mu) &
            (out_mean + t05*mean_se >= mu))/S
coverage
```

```
## [1] 0.949
```