

IB Statistics

Martin von Hodenberg (mjv43@cam.ac.uk)

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§0 Introduction

Statistics can be defined as the science of *making informed decisions*. It can include:

1. Formal statistical inference
2. Design of experiments and studies
3. Visualisation of data
4. Communication of uncertainty and risk
5. Formal decision theory

In this course we will only focus on formal statistical inference.

Definition (Parametric inference)

Let X_1, \dots, X_n be iid. random variables. We will assume the distribution of X_1 belongs to some family with parameter $\theta \in \Theta$.

Example

We will give some examples of such families:

1. $X_1 \sim \text{Po}(\mu), \theta = \mu \in \Theta = (0, \infty)$.
2. $X_1 \sim N(\mu, \sigma^2) \quad N(\mu, \sigma^2) \in \Theta = \mathbb{R} \times (0, \infty)$.

We will use the observed $X = (X_1, \dots, X_n)$ to make inferences about θ such as:

1. Point estimate $\theta(X)$ of θ .
2. Interval estimate of θ : $(\theta_1(x), \theta_2(x))$
3. Testing hypotheses about θ : for example checking if there is evidence in X against the hypothesis $H_0 : \theta = 1$.

Remark. In general, we'll assume the distribution of the family X_1, \dots, X_n is known but the parameter is unknown. Some results (on mean square error, bias, Gauss-Markov theorem) will make weaker assumptions.

§0.1 Probability

First we will briefly recap IA Probability.

Let Ω be the **sample space** of outcomes in an experiment. A measurable subset of Ω is called an **event**. The set of events is denoted \mathcal{F} .

Random variables

Definition (Probability measure)

A probability measure $\mathbb{P} : \mathcal{F} \rightarrow [0, 1]$ satisfies:

1. $\mathbb{P}(\emptyset) = 0$
2. $\mathbb{P}(\Omega) = 1$
3. $\mathbb{P}(\bigcup_{i=1}^{\infty} A_i) = \sum_i \mathbb{P}(A_i)$ if (A_i) is a sequence of disjoint events.

Definition (Random variable)

A random variable is a (measurable) function $X : \Omega \rightarrow \mathbb{R}$.

Example

Tossing two coins has $\Omega = \{HH, HT, TH, TT\}$. Since Ω is countable, \mathcal{F} is the power set of Ω . We can define X to be the random variable that counts the number of heads. Then

$$X(HH) = 2, X(HT) = X(TH) = 1, X(TT) = 0.$$

Definition (Distribution function)

The distribution function of X is $F_X(x) = \mathbb{P}(X \leq x)$.

Definition (Discrete/continuous random variable)

A discrete random variable takes values in a countable set $S \subset \mathbb{R}$. Its probability mass function is

$$p_X(x) = \mathbb{P}(X = x).$$

A random variable X has a continuous distribution if it has a probability density function $f_X(x)$ which satisfies

$$\mathbb{P}(X \in A) = \int_A f_X(x) dx,$$

for measurable sets A .

Definition (Expectation/variance)

The expectation of X is

$$\mathbb{E}(X) = \begin{cases} \sum_{x \in X} xp_X(x) & X \text{ is discrete} \\ \int_{-\infty}^{\infty} xf_X(x)dx & X \text{ is continuous} \end{cases}$$

If $g: \mathbb{R} \rightarrow \mathbb{R}$, then for a continuous r.v

$$\mathbb{E}(g(X)) = \int_{-\infty}^{\infty} g(x)f_X(x)dx.$$

The variance of X is

$$\text{Var}(X) = \mathbb{E}[(X - \mathbb{E}(X))^2].$$

Definition (Independence)

We say X_1, \dots, X_n are independent if for all x_1, \dots, x_n we have

$$\mathbb{P}(X_1 \leq x_1, \dots, X_n \leq x_n) = \mathbb{P}(X_1 \leq x_1) \dots \mathbb{P}(X_n \leq x_n).$$

If X_1, \dots, X_n have pdfs or pmfs f_{X_1}, \dots, f_{X_n} then their joint pdf or pmf is

$$f_X(x) = \prod_i f_{X_i}(x_i).$$

If $Y = \max(X_1, \dots, X_n)$ independent, then

$$F_Y(y) = \mathbb{P}(Y \leq y) = \mathbb{P}(X_1 \leq y, \dots, X_n \leq y) = \prod_i F_{X_i}(y).$$

The pdf of Y (if it exists) is obtained by differentiating F_Y .

Linear transformations

Let $(a_1, \dots, a_n)^T = a \in \mathbb{R}^n$ be a constant.

$$\mathbb{E}(a_1X_1 + \dots + a_nX_n) = \mathbb{E}(a^T X) = a^T \mathbb{E}(X).$$

This gives linearity of expectation (does not require independence).

$$\text{Var}(a^T X) = \sum_{i,j} a_i a_j \underbrace{\text{Cov}(X_i, X_j)}_{=\mathbb{E}((X_i - \mathbb{E}(X_i))(X_j - \mathbb{E}(X_j)))} = a^T \text{Var}(X) a.$$

where the matrix $[\text{Var}(X)]_{ij} = \text{Cov}(X_i, X_j)$. This gives the "bilinearity of variance".

Standardised statistics

Let X_1, \dots, X_n be iid. with $\mathbb{E}(X_1) = \mu$, $\text{Var}(X_1) = \sigma^2$. We define $S_n = \sum_i X_i$ and $\overline{X_n} = \frac{S_n}{n}$ (the sample mean). By linearity

$$\mathbb{E}(\overline{X_n}) = \mu, \quad \text{Var}(\overline{X_n}) = \frac{\sigma^2}{n}.$$

Define $Z_n = \frac{S_n - n\mu}{n}$. Then $\mathbb{E}(Z_n) = 0$ and $\text{Var}(Z_n) = 1$.

Moment generating functions

Definition (Moment generating function)

The **moment generating function** (mgf) of a random variable X is the function

$$M_x(t) = \mathbb{E}(e^{tx}),$$

provided that it exists for t in some neighbourhood of 0.

This is the Laplace transform of the pdf. It relates to moments of the pdf, for example $M_x^{(n)}(0) = \mathbb{E}(X^n)$.

Under broad conditions $M_x = M_y \iff F_X = F_Y$. (The Laplace transform is invertible.) The mgf is also useful for finding distributions of sums of independent random variables:

Example

Let $X_1, \dots, X_n \sim \text{Po}(\mu)$. Then

$$M_{X_i}(t) = \mathbb{E}(e^{tX_i}) = \sum_{x=0}^{\infty} e^{tx} \frac{e^{-\mu} \mu^x}{x!} = e^{-\mu} \sum_{x=0}^{\infty} \frac{(e^t \mu)^x}{x!} = e^{-\mu(1-e^t)}.$$

What is M_{S_n} ? We have

$$M_{S_n}(t) = \mathbb{E}(e^{t(X_1 + \dots + X_n)}) = \prod_{i=1}^n e^{tX_i} = e^{-n\mu(1-e^t)}.$$

So we conclude $S_n \sim \text{Po}(n\mu)$.

Limits of random variables

The weak law of large numbers states that $\forall \varepsilon > 0$, as $n \rightarrow \infty$,

$$\mathbb{P}(|\overline{X_n} - \mu| > \varepsilon) \rightarrow 0.$$

The strong law of large numbers states that as $n \rightarrow \infty$,

$$\mathbb{P}(\overline{X_n} \rightarrow \mu) = 1.$$

The central limit theorem states that if we have the variable $Z_n = \frac{S_n - n\mu}{\sigma\sqrt{n}}$, then as $n \rightarrow \infty$ we have

$$\mathbb{P}(Z_n \leq z) \rightarrow \Phi(z) \quad \forall z \in \mathbb{R}.$$

where Φ is the distribution function of a $N(0, 1)$ random variable.

Conditional probability

Definition (Conditional probability)

If X, Y are discrete r.v's then

$$P_{X|Y}(x|y) = \frac{\mathbb{P}(X = x, Y = y)}{\mathbb{P}(Y = y)}.$$

If X, Y are continuous then the joint pdf of X, Y satisfies:

$$\mathbb{P}(X \leq x, Y \leq y) = \int_{-\infty}^x \int_{-\infty}^y f_{X,Y}(x', y') dy' dx'.$$

The conditional pdf of X given Y is

$$f_{x|y} = \frac{f_{X,Y}(x, y)}{\int_{-\infty}^{\infty} f_{X,Y}(x, y) dx}.$$

The conditional expectation of X given Y is

$$\mathbb{E}(X|Y) = \begin{cases} \sum_x x p_{X|Y}(x|Y) & \text{discrete} \\ \int x f_{X|Y}(x|Y) dx & \text{continuous} \end{cases}$$

Note this is itself a random variable, as it is a function of Y . We define $\text{Var}(X|Y)$ similarly.

There are several notable properties of conditional random variables:

- Tower property: $\mathbb{E}(\mathbb{E}(X|Y)) = \mathbb{E}(X)$.
- Law of total variance: $\text{Var}(X) = \mathbb{E}(\text{Var}(X|Y)) + \text{Var}(\mathbb{E}(X|Y))$.
- Change of variables (in 2D):

Let $(x, y) \mapsto (u, v)$ be a differentiable bijection $\mathbb{R}^2 \rightarrow \mathbb{R}^2$. Then

$$f_{U,V}(u, v) = f_{X,Y}(x(u, v), y(u, v)) |\det(J)|,$$

where $J = \frac{\partial(x, y)}{\partial(u, v)}$ is the Jacobian matrix we have seen before.

Example (mgf of the gamma distribution)

If $X_i \sim \Gamma(\alpha_i, \lambda)$ for $i = 1, \dots, n$ with X_1, \dots, X_n independent, then what is the distribution of $S_n = \sum_{i=1}^n X_i$?

$$M_{S_n}(t) = \prod_i M_{X_i}(t) = \begin{cases} \left(\frac{\lambda}{\lambda - t}\right)^{\sum_i \alpha_i} & t < \lambda \\ \infty & t > \lambda \end{cases}.$$

So S_n is $\Gamma(\sum_i \alpha_i, \lambda)$. We call the first parameter the "shape parameter", and the second one the "rate parameter". A consequence of what we have just done is that if $X \sim \Gamma(\alpha, \lambda)$, then for all $b > 0$ we have $bX \sim \Gamma(\alpha, \frac{\lambda}{b})$.

Special cases:

- $\Gamma(1, \lambda) = \text{Exp}(\lambda)$
- $\Gamma\left(\frac{k}{2}, \frac{1}{2}\right) = \chi_k^2$ (the chi-squared distribution with k degrees of freedom, i.e the distribution of a sum of k independent squared $N(0, 1)$ r.v's.)

§1 Estimation

Suppose X_1, \dots, X_n are iid observations with pdf or pmf $f_X(x|\theta)$ where θ is an unknown parameter in Θ . Let $X = (X_1, \dots, X_n)$.

Definition (Estimator)

An estimator is a statistic or function of the data $T(X) = \hat{\theta}$ which does not depend on θ , and is used to approximate the true parameter θ . The distribution of $T(X)$ is called its "sampling distribution".

Example

Let $X_1, \dots, X_n \sim N(\mu, 1)$ iid. Here $\hat{\mu} = \frac{1}{n} \sum_i X_i = \overline{X_n}$. The sampling distribution of $\hat{\mu}$ is $T(X) = N(\mu, \frac{1}{n})$.

Definition (Bias)

The bias of $\hat{\theta} = T(X)$ is

$$\text{bias}(\hat{\theta}) = \mathbb{E}_{\theta}(\hat{\theta}) - \theta.$$

Here \mathbb{E}_{θ} is the expectation in the model where $X_1, X_2, \dots, X_n \sim f_X(x|\theta)$.

Remark. In general the bias is a function of true parameter θ , even though it is not explicit in notation.

Definition (Unbiased estimator)

We say $\hat{\theta}$ is unbiased if $\text{bias}(\hat{\theta}) = 0$ for all values of the true parameter θ .

In our example, $\hat{\mu}$ is unbiased because

$$\mathbb{E}_{\mu}(\hat{\mu}) = \mathbb{E}_{\mu}(\overline{X_n}) = \mu \quad \forall \mu \in \mathbb{R}.$$

Definition (Mean squared error)

The mean squared error (mse) of θ is

$$\text{mse}(\hat{\theta}) = \mathbb{E}_{\theta} \left[(\hat{\theta} - \theta)^2 \right].$$

It tells us "how far" $\hat{\theta}$ is from θ "on average".

§1.1 Bias-variance decomposition

We expand the square in the definition of mse to get

$$\begin{aligned} \text{mse}(\hat{\theta}) &= \mathbb{E}_{\theta} \left[(\hat{\theta} - \theta)^2 \right] \\ &= \mathbb{E}_{\theta} \left((\hat{\theta} - \mathbb{E}_{\theta} \hat{\theta} - \theta)^2 \right) &= \text{Var}_{\theta}(\hat{\theta}) + \text{bias}^2(\hat{\theta}) \\ &\geq 0 \end{aligned}$$

There is a tradeoff between bias and variance. For example, let $X \sim \text{Bin}(n, \theta)$. Suppose n is known, and $\theta \in [0, 1]$ is our unknown parameter. We define $T_u = \frac{X}{n}$, i.e the

proportion of successes observed. Clearly T_u is unbiased since

$$\mathbb{E}_\theta(T_u) = \frac{E_\theta(X)}{n} = n\theta/n = \theta.$$

We can calculate

$$\text{mse}(T_u) = \text{Var}_\theta\left(\frac{X}{n}\right) = \frac{\text{Var}_\theta(X)}{n^2} = \frac{\theta(1-\theta)}{n}.$$

Consider another estimator $T_B = \frac{X+1}{n+2} = w\frac{X}{n} + (1-w)\frac{1}{2}$ for $w = \frac{n}{n+2}$. This is called a "fixed estimator". In this case we have

$$\text{bias}(T_B) = \mathbb{E}_\theta(T_B) - \theta = \mathbb{E}_\theta\left(\frac{X+1}{n+2}\right) - \theta = \frac{n}{n+2}\theta + \frac{1}{n+2} - \theta.$$

This is $\neq 0$ for all but one value of θ . Note that

$$\begin{aligned} \text{Var}_\theta(T_B) &= \frac{\text{Var}_\theta(X+1)}{(n+2)^2} \\ \implies \text{mse}(T_B) &= (1-w^2) \left(\frac{1}{2} - \theta\right)^2. \end{aligned}$$

Remark. In this example, there are regions where either estimator is better. Prior judgement on the true value of θ determines which estimator is better.

Unbiasedness is not necessarily desirable. Let's look at a pathological example:

Example

Suppose $X \sim \text{Po}(\lambda)$. We want to estimate $\theta = \mathbb{P}(X = 0)^2 = e^{-2\lambda}$. For some estimator $T(X)$ to be unbiased, we need

$$\mathbb{E}_\lambda(T(x)) = \sum_{x=0}^{\infty} T(x) \frac{\lambda^x e^{-\lambda}}{x!} = e^{-2\lambda} = \theta \iff \sum_{x=0}^{\infty} T(x) \frac{\lambda^x}{x!} = e^{-\lambda} = \sum_{x=0}^{\infty} (-1)^x \frac{\lambda^x}{x!}.$$

The only function $T : N \rightarrow \mathbb{R}$ satisfying this equality is $T(x) = (-1)^x$. This is clearly an absurd estimator.

§1.2 Sufficiency

Notation. From now on in the course we drop the θ subscript on expectations etc. in order to simplify notation.

Definition (Sufficiency)

A statistic $T(X)$ is sufficient for θ if the conditional distribution of X given $T(X)$ does not depend on θ .

Remark. θ can be a vector and $T(X)$ can also be vector-valued.

Example

Let X_1, \dots, X_n be iid. Bernoulli(θ) variables for some θ . Then

$$f_X(X|\theta) = \prod_{i=1}^n \theta^{x_i} (1-\theta)^{1-x_i} = \theta^{\sum x_i} (1-\theta)^{n-\sum x_i}.$$

This only depends on x through $T(X) = \sum x_i$. To check it's sufficient:

$$\begin{aligned} f_{X|T=t}(x|T=t) &= \frac{\mathbb{P}(X=x, T(x)=t)}{\mathbb{P}(T(x)=t)} \\ \text{If } \sum x_i = t, &= \frac{\theta^{\sum x_i} (1-\theta)^{n-\sum x_i}}{\mathbb{P}(T(x)=t)} \\ &= \frac{\theta^{\sum x_i} (1-\theta)^{n-\sum x_i}}{\binom{n}{t} \theta^t (1-\theta)^{n-t}} \text{ since } \sum X_i \sim \text{Bin}(n, \theta) \\ &= \binom{n}{t}^{-1} \end{aligned}$$

Therefore T is sufficient.

Theorem 1.2.1 (Factorisation criterion)

T is sufficient for θ iff $f_x(x|\theta) = g(T(x), \theta)h(x)$ for suitable functions g, h .

Proof. We will only prove this for the discrete case; the continuous case is similar.

Reverse implication: Suppose $f_x(x|\theta) = g(T(x), \theta)h(x)$. Then if $T(x) = t$, we have

$$\begin{aligned} f_{X|T=t}(x|T=t) &= \frac{\mathbb{P}(X=x, T(x)=t)}{\mathbb{P}(T(x)=t)} \\ &= \frac{g(t, \theta)h(x)}{\sum_{x': T(x')=t} g(t, \theta)h(x')} \\ &= \frac{h(x)}{\sum_{x': T(x')=t} h(x')}. \end{aligned}$$

This doesn't depend on θ so T is sufficient.

Forward implication: Suppose $T(X)$ is sufficient. Then we have

$$\begin{aligned} f_X(x|\theta) &= \mathbb{P}(X=x, T(X)=T(x)) \\ &= \underbrace{\mathbb{P}(X=x|T(X)=T(x))}_{h(x)} \underbrace{\mathbb{P}(T(X)=T(x))}_{g(T(X), \theta)}. \end{aligned}$$

By noting that $\mathbb{P}(X=x|T(X)=x)$ only depends on x by assumption and $\mathbb{P}(T(X)=T(x))$ only depends on x through $T(x)$, we are done. \square

Remark. This criterion makes our previous example much easier.

Let's look at another example.

Example

Let $X_1, \dots, X_n \sim U([0, \theta])$ be iid with $\theta > 0$. Then

$$f_X(x|\theta) = \prod_{i=1}^n \frac{1}{\theta} 1_{x_i \in [0, \theta]} = \prod_{i=1}^n \frac{1}{\theta^n} 1_{\min_i x_i \geq 0} 1_{\max_i x_i \leq \theta}.$$

Define $T(x) = \max_i x_i$. Then we can write

$$g(T(x), \theta) = \frac{1}{\theta^n} 1_{\max_i x_i \leq \theta}, \quad h(x) = 1_{\min_i x_i \geq 0}.$$

So $T(x)$ is sufficient.

§1.3 Minimal sufficiency

Sufficient statistics are **not** unique.

Remark. Any bijection applied to a sufficient statistic yields another sufficient statistic.

It's not hard to find sufficient statistics, for example $T(X) = X$ is a trivial sufficient statistic (that is useless!). Instead, we want statistics which give us 'maximal' compression of the data in X . This motivates our next definition.

Definition (Minimal sufficient statistic)

$T(X)$ is **minimal sufficient** if for every other sufficient statistic T' ,

$$T'(x) = T'(y) \implies x = y \quad \forall x, y \in X^n.$$

Note that it follows from this definition that minimal sufficient statistics are unique up to bijection.

Theorem 1.3.1

Suppose that $f_X(x|\theta)/f_X(y|\theta)$ is constant in θ iff $T(x) = T(y)$. Then T is minimal sufficient.

Proof. Let $x \overset{1}{\sim} y$ if $f_X(x|\theta)/f_X(y|\theta)$ is constant in θ . It's easily checked that this defines an equivalence relation. Similarly, let $x \overset{2}{\sim} y$ if $T(x) = T(y)$; this is also an equivalence relation. The hypothesis in the theorem states that the equivalence classes of $\overset{1}{\sim}$ and $\overset{2}{\sim}$ are the same.

We will construct a statistic T which is constant on the equivalence classes of $\overset{1}{\sim}$. For any value t of T let z_t be a representative from $\{x; T(x) = t\}$. Then

$$\begin{aligned} f_X(x|\theta) &= f_X(z_{T(x)}|\theta) = \frac{f_X(x|\theta)}{f_X(z_{T(x)}|\theta)} \\ &= g(T(x), \theta)h(x). \end{aligned}$$

Hence T is sufficient by the factorisation criterion. To prove T is minimal sufficient,

let S be any other sufficient statistic. By the factorisation criterion, there exist functions g_S, h_S such that

$$f_X(x|\theta) = g_S(S(x), \theta)h_S(x).$$

Now suppose $S(x) = S(y)$ for some x, y . Then

$$\frac{f_X(x|\theta)}{f_X(y|\theta)} = \frac{g_S(S(x), \theta)h_S(x)}{g_S(S(y), \theta)h_S(y)} = \frac{h_S(x)}{h_S(y)}.$$

which is constant in θ , so $x \stackrel{1}{\sim} y$. By the hypothesis, $x \stackrel{2}{\sim} y$ and $T(x) = T(y)$. \square

Example

Suppose $X_1, \dots, X_n \stackrel{\text{iid}}{\sim} N(\mu, \sigma^2)$. Then

$$\begin{aligned} \frac{f_x(\pi | \mu, \sigma^2)}{f_x(y | \mu, \sigma^2)} &= \frac{(2\pi\sigma^2)^{-n/2} \exp\left\{-\frac{1}{2\sigma^2} \sum_i (x_i - \mu)^2\right\}}{(2\pi\sigma^2)^{-n/2} \exp\left\{-\frac{1}{2\sigma^2} \sum_i (y_i - \mu)^2\right\}} \\ &= \exp\left\{-\frac{1}{2\sigma^2} \left(\sum_i x_i^2 - \sum_i y_i^2\right) + \frac{\mu}{\sigma^2} \left(\sum x_i - \sum y_i\right)\right\}. \end{aligned}$$

This is constant in (μ, σ^2) iff $\sum x_i^2 = \sum y_i^2$ and $\sum x_i = \sum y_i$. Hence $(\sum x_i^2, \sum x_i)$ is a minimal sufficient statistic. A more common minimal sufficient statistic is obtained by taking a bijection of $(\sum x_i^2, \sum x_i)$:

$$\begin{aligned} S(x) &= (\bar{x}_n, S_{xx}) \\ \bar{x}_n &= \frac{1}{n} \sum x_i \quad S_{xx} = \sum_i (x_i - \bar{x}_n)^2 \end{aligned}$$

In this example $\theta = (\mu, \sigma^2)$ has same dimension as $S(x)$. In general, they can be different.

§1.4 Rao-Blackwell theorem

We will now look at the Rao-Blackwell theorem. This theorem allows us to start from any estimator $\tilde{\theta}$, and then by conditioning on a sufficient statistic we get a better one.

Theorem 1.4.1 (Rao-Blackwell theorem)

Let T be a sufficient statistic for θ and define an estimator $\tilde{\theta}$ with $\mathbb{E}(\tilde{\theta}^2) < \infty$ for all θ . Define a new estimator

$$\hat{\theta} = \mathbb{E}(\tilde{\theta}(T(x))).$$

Then for all $\theta \in \Theta$,

$$\mathbb{E}((\hat{\theta} - \theta)^2) \leq \mathbb{E}((\tilde{\theta} - \theta)^2).$$

Furthermore, the inequality is strict unless $\tilde{\theta}$ is a function of $T(x)$.

Proof. By tower property of \mathbb{E} , we have

$$\mathbb{E}(\hat{\theta}) = \mathbb{E}(\mathbb{E}(\tilde{\theta}|T)) = \mathbb{E}(\tilde{\theta}).$$

By the conditional variance formula,

$$\begin{aligned}\text{Var}(\tilde{\theta}) &= \mathbb{E}(\text{Var}(\tilde{\theta}|T)) + \text{Var}(\mathbb{E}(\tilde{\theta}|T)) \\ &= \mathbb{E}(\text{Var}(\tilde{\theta}|T)) + \text{Var}(\hat{\theta}) \\ &\geq \text{Var}(\hat{\theta}).\end{aligned}$$

So by the bias-variance decomposition, $\text{mse } \tilde{\theta} \geq \text{mse } \hat{\theta}$. The inequality is strict unless $\text{Var}(\tilde{\theta}|T) = 0$ with probability 1, which requires $\tilde{\theta}$ is a function of T . \square

Remark. T must be sufficient, since otherwise $\hat{\theta}$ would be a function of θ , so it wouldn't be an estimator.

We will now look at a few examples to show how powerful this theorem can be.

Example

$X_1, \dots, X_n \stackrel{\text{iid}}{\sim} \text{Poi}(\lambda)$. Let $\theta = \mathbb{P}(X_1 = 0) = e^{-\lambda}$. Then

$$\begin{aligned}f_X(x|\lambda) &= \frac{e^{-n\lambda} \lambda^{\sum x_i}}{\prod_i x_i!} \\ \implies f_X(x|\theta) &= \frac{\theta^n (-\log \theta)^{\sum x_i}}{\prod_{i=1} x_i!} = g(\sum x_i, \theta) h(x)\end{aligned}$$

So $\sum x_i = T(x)$ is sufficient by factorisation.

Recall $\sum X_i \sim \text{Poi}(n\lambda)$. Let $\tilde{\theta} = 1_{X_1=0}$ (which only depends on X_1 , so it is a bad estimator). However, it is unbiased, which is desirable as the Rao-Blackwell process will then also yield an unbiased estimator. So let's calculate

$$\begin{aligned}\hat{\theta} &= \mathbb{E}(\tilde{\theta}|T = t) = \mathbb{P}(X_1 = 0 | \sum_{i=1}^n X_i = t) \\ &= \frac{\mathbb{P}(X_1 = 0, \sum_{i=1}^n X_i = t)}{\mathbb{P}(\sum_{i=1}^n X_i = t)}\end{aligned}$$

Example

Let X_1, \dots, X_n be iid. $U([0, \theta])$; want to estimate θ .

We previously saw that $T = \max_i X_i$ is sufficient. Let $\tilde{\theta} = 2X_1$, an unbiased estimator of θ . Then

$$\begin{aligned}\hat{\theta} &= \mathbb{E}(\tilde{\theta}|T = t) = 2\mathbb{E}(X_1 | \max_i X_i = t) \\ &= 2\mathbb{E}(X_1 | \max_i X_i = t, X_1 = \max_i X_i) \mathbb{P}(\max_i X_i = X_1 | \max_i X_i = t) + 2\mathbb{E}(X_1 | \max_i X_i = t, X_1 \neq \max_i X_i) \mathbb{P}(\max_i X_i \neq X_1 | \max_i X_i = t)\end{aligned}$$

$$\begin{aligned}
&= \frac{2t}{n} + \frac{2(n-1)}{n} \underbrace{\mathbb{E}(X_1 | X_1 < t, \max_{2 \leq i \leq n} X_i = t)}_{=t/2 \text{ as } X_1 | X_1 < t \sim U([0, t])} \\
&= \frac{n+1}{n} \max_i X_i.
\end{aligned}$$

By Rao-Blackwell $\text{mse}(\hat{\theta}) \leq \text{mse}(\tilde{\theta})$. Also, $\hat{\theta}$ is unbiased.

§1.5 Maximum likelihood estimation

Definition (Likelihood function/Maximum likelihood estimator)

Let X_1, \dots, X_n be iid. with pdf (or pmf) $f_X(\cdot|\theta)$. The **likelihood function** $L: \Theta \rightarrow \mathbb{R}$ is given by

$$L(\theta) = f_X(x|\theta) = \prod_{i=1}^n f_{X_i}(x_i|\theta).$$

(We take X to be fixed observations.) We further define the **log-likelihood**

$$l(\theta) = \log L(\theta) = \sum_{i=1}^n \log f_{X_i}(x_i|\theta).$$

A **maximum likelihood estimator** (mle) is an estimator that maximises L over Θ .

Example

Let $X_1, \dots, X_n \sim^{iid} \text{Ber}(p)$. Then we have

$$\begin{aligned}
l(p) &= \sum_{i=1}^n X_i \log p + (1 - X_i) \log(1 - p) \\
&= \log p \left(\sum X_i \right) + \log(1 - p) \left(n - \sum X_i \right) \\
\Rightarrow \frac{dl}{dp} &= \frac{\sum X_i}{p} + \frac{n - \sum X_i}{1 - p}
\end{aligned}$$

This is > 0 iff $p = \frac{1}{n} \sum X_i = \overline{X_i}$. We have $\mathbb{E}(\overline{X_i}) = \frac{n}{n} \mathbb{E}(X_1) = p$. So the mle $\hat{p} = \overline{X_i}$ is unbiased.

Now let's try a more involved example.

Example

Let $X_1, \dots, X_n \sim^{iid} N(\mu, \sigma^2)$. Then we have

$$l(\mu, \sigma^2) = -\frac{n}{2} \log(2\pi) - \frac{n}{2} \log(\sigma^2) - \frac{1}{2\sigma^2} \sum_i (X_i - \mu)^2.$$

This is maximised when $\frac{\partial l}{\partial \mu} = \frac{\partial l}{\partial \sigma^2} = 0$. But $\frac{\partial l}{\partial \mu} = \frac{1}{\sigma^2} \sum_{i=1}^n (X_i - \mu)$ so is equal to 0

iff

$$\mu = \hat{X}_n = \frac{1}{n} \sum X_i.$$

for all $\sigma^2 > 0$. We also have that $\frac{\partial l}{\partial \sigma^2} = -\frac{n}{2\sigma^2} + \frac{1}{2\sigma^4} \sum_{i=1}^n (X_i - \mu)^2$. If we set $\mu = \bar{X}_n$, $\frac{\partial l}{\partial \sigma^2} = 0$ iff

$$\sigma^2 = \frac{1}{n} \sum_{i=1}^n (X_i - \hat{X}_n)^2 = \frac{S_{xx}}{n}.$$

Hence the mle is $(\hat{\mu}, \hat{\sigma}^2) = (\bar{X}_n, \frac{S_{xx}}{n})$. We can check $\hat{\mu}$ is unbiased. Later in the course we will see that

$$\frac{S_{xx}}{\sigma^2} = \frac{n\hat{\sigma}^2}{\sigma^2} \sim \chi_{n-1}^2.$$

Therefore $\mathbb{E}(\sigma^2) = \frac{\sigma^2}{n} \mathbb{E}(\chi_{n-1}^2) = \frac{n-1}{n} \sigma^2 \neq \sigma^2$. Hence $\hat{\sigma}^2$ is biased. But as $n \rightarrow \infty$ the bias converges to 0, so we say $\hat{\sigma}^2$ is **asymptotically unbiased**.

The next example will focus on an example where the mle is discontinuous, and doesn't behave as nicely.

Example

Let X_1, \dots, X_n be iid. $U([0, \theta])$. Recall the estimator we derived, $\hat{\theta} = \frac{n+1}{n} \max_i X_i$. The mle is

$$L(\theta) = \frac{1}{\theta^n} 1_{\max_i X_i \leq \theta}.$$

Hence the mle is $\hat{\theta}^{\text{mle}} = \max_i X_i$. As $\hat{\theta}$ is unbiased, $\hat{\theta}^{\text{mle}}$ is **not** unbiased.

§1.5.1 Properties of the mean likelihood estimator

1. If T is sufficient for θ , then the mle is a function of T . Recall

$$L(\theta) = g(T, \theta)h(X).$$

So the maximiser of L only depends on X through T .

2. If we parameterise θ in some way, say $\phi = H(\theta)$ where H is a bijection, and $\hat{\theta}$ is the mle for θ , then $H(\hat{\theta})$ is the mle for ϕ .
3. Asymptotic normality: Under regularity conditions, as $n \rightarrow \infty$ the statistic $\sqrt{n}(\hat{\theta} - \theta)$ is approx $N(0, \Sigma)$, i.e for some 'nice' set A we have

$$\mathbb{P}(\sqrt{n}(\hat{\theta} - \theta) \in A) \xrightarrow{n \rightarrow \infty} \mathbb{P}(Z \in A), \quad \text{where } Z \sim N(0, \Sigma).$$

The limiting covariance matrix Σ is a known function of L . In some sense it is the 'best' or 'smallest' variance that any estimator can achieve asymptotically. See Part II Principles of Statistics for more on this.

4. When the mle is not available analytically in closed form, in real-world applications it is often found numerically (see Part IB Numerical Analysis).