

# Problem of Bad Controls

Prof. Tzu-Ting Yang  
楊子霆

Institute of Economics, Academia Sinica  
中央研究院經濟研究所

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## Bad Control Problem: Main Idea

# Bad Control Problem

- Controlling for additional covariates increases the likelihood that regression estimates have a causal interpretation
- **Bad control problem:** More controls are not always better
  - Bad controls are **variables that could themselves be outcomes, which are also affected by treatment**
- **The bad control problem is a version of selection bias**

# Bad Control Problem

- We should **NOT include bad controls** into regression or matching process even if including them can change estimated coefficients of treatment effect
- Good controls are variables that is **pre-determined**
  - **The value of variables have been determined before getting treatment**
  - Whether the variables are pre-determined or not, depending on timing of treatment
  - **Examples:**
    - The effect of master degree
    - **Pre-determined variables:** Gender, age, birth place, father's education, mother's education

# Bad Control Problem and Selection Bias

## Example

- We are interested in the effect of a college degree on earnings.
- People can work in two occupations:
  - White collar ( $W_i = 1$ )
  - Blue collar ( $W_i = 0$ )
- Occupation is highly correlated with both education (treatment) and earnings (outcome)
  - Occupation is a potential omitted variable, should we include it into our regression ?
  - Should we look at the effect of college degree on earnings for those within an occupation (e.g. white collar) ?

# Bad Control Problem and Selection Bias

## Example

- Note that a college degree also increases the chance of getting a high-paying white collar job.
- That is, occupational choices are also affected by treatment (get college degree): **Bad Controls**

# Bad Control Problem and Selection Bias

## Example

- Comparisons of earnings by college degree status within an occupation are no longer apples-to-apples comparison
  - Those who have college degree and white color jobs
  - Those who do not have college degree but still have white color jobs
  - Two groups are different types of people (e.g. different ability)
- Even if college degree completion is randomly assigned

# Bad Control Problem and Selection Bias

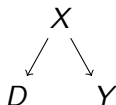
## Intuition

- If our goal was to estimate the causal effect of college degree on earnings, it would be a bad idea to control for occupation
- The reason is that one of the main ways that education can affect one's earning is through changing occupation
- If our regression controls for occupation, we might shut down this channel and underestimate the effect of college degree
  - The causal effect of college degree on earnings given the occupation does not change



# Good Controls

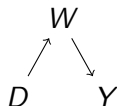
## Example



- $X$  is the confounding factor and good control variable
- If you want to estimate the (total) effect of treatment  $D$ , you should control for all confounding factors  $X$

# Bad Controls

## Example



- $W$  is the mediator and bad control variable
- If you want to estimate the (total) effect of treatment  $D$ , you should NOT control for mediator  $W$

## Bad Control Problem: Formal Illustration

# Bad Control Problem and Selection Bias

## Formal Illustration

- The realization of earnings  $Y_i$  and occupations  $W_i$  is determined by college graduation status  $D_i$

$$Y_i = Y_i^1 D_i + Y_i^0 (1 - D_i)$$

$$W_i = W_i^1 D_i + W_i^0 (1 - D_i)$$

- $D_i$ : a dummy that indicate whether individual  $i$  gets college degree or not

$$D_i = \begin{cases} 1 & \text{if individual } i \text{ gets college degree} \\ 0 & \text{otherwise.} \end{cases}$$

# Bad Control Problem and Selection Bias

## Formal Illustration

- Potential outcomes for earnings:
  - $Y_i^1$ : Potential earnings for an individual  $i$  getting college degree
  - $Y_i^0$ : Potential earnings for an individual  $i$  not getting college degree

# Bad Control Problem and Selection Bias

## Formal Illustration

- Potential outcomes for occupation:
  - $W_i^1$ : Potential occupation for an individual  $i$  getting college degree
  - $W_i^0$ : Potential occupation for an individual  $i$  not getting college degree
- $W_i^d$ : a dummy that indicate whether individual  $i$  have white collar job or not

$$W_i^1 = \begin{cases} 1 & \text{if individual } i \text{ with college degree becomes white collar} \\ 0 & \text{if individual } i \text{ with college degree becomes blue collar} \end{cases}$$

$$W_i^0 = \begin{cases} 1 & \text{if individual } i \text{ without college degree becomes white collar} \\ 0 & \text{if individual } i \text{ without college degree becomes blue collar} \end{cases}$$

# Bad Control Problem and Selection Bias

## Formal Illustration

- Assume that college degree completion  $D_i$  is randomly assigned
- So  $D_i$  is independent of all potential outcomes  $(Y_i^1, Y_i^0, W_i^1, W_i^0)$

# Bad Control Problem and Selection Bias

## Formal Illustration

- We have no trouble estimating the causal effect of  $D_i$  on  $Y_i$  since independence gives us ATE:

$$E[Y_i|D_i = 1] - E[Y_i|D_i = 0] = E[Y_i^1 - Y_i^0]$$

- In practice, we can estimate these ATE of getting college degree on earning by regressing  $Y_i$  on  $D_i$

$$Y_i = \delta + \alpha D_i + \epsilon_i$$



# Bad Control Problem and Selection Bias

## Formal Illustration

- We have no trouble estimating the causal effect of  $D_i$  on  $W_i$  since independence gives us ATE:

$$E[W_i|D_i = 1] - E[W_i|D_i = 0] = E[W_i^1 - W_i^0]$$

- Similarly, we can estimate these ATE of getting college degree on having white color job by regressing  $W_i$  on  $D_i$

$$W_i = \delta + \alpha D_i + \epsilon_i$$

# Bad Control Problem and Selection Bias

## Formal Illustration

- Bad controls means that a comparison of earnings  $Y_i$  **conditional on**  $W_i$  does NOT have a causal interpretation

$$Y_i = \delta + \alpha D_i + \beta W_i + \epsilon_i$$

- Consider the difference in mean earnings between college graduates and others conditional on working in a white collar job.
- We can compute this in a regression including  $W_i$  or by regressing  $Y_i$  on  $D_i$  in the sample where  $W_i = 1$

$$\begin{aligned}\alpha &= E[Y_i | W_i = 1, D_i = 1] - E[Y_i | W_i = 1, D_i = 0] \\ &= E[Y_i^1 | W_i^1 = 1, D_i = 1] - E[Y_i^0 | W_i^0 = 1, D_i = 0]\end{aligned}$$

# Bad Control Problem and Selection Bias

## Formal Illustration

- By independence of  $D_i$  and all potential outcomes  $(Y_i^1, Y_i^0, W_i^1, W_i^0)$

$$\begin{aligned} E[Y_i^1 | W_i^1 = 1, D_i = 1] - E[Y_i^0 | W_i^0 = 1, D_i = 0] \\ = E[Y_i^1 | W_i^1 = 1] - E[Y_i^0 | W_i^0 = 1] \end{aligned}$$

- **Including bad controls (i.e. occupation) leads to selection bias:**

$$\begin{aligned} E[Y_i^1 | W_i^1 = 1] - E[Y_i^0 | W_i^0 = 1] \\ = E[Y_i^1 | W_i^1 = 1] - E[Y_i^0 | W_i^1 = 1] + E[Y_i^0 | W_i^1 = 1] - E[Y_i^0 | W_i^0 = 1] \\ = \underbrace{E[Y_i^1 - Y_i^0 | W_i^1 = 1]}_{\text{Causal Effect}} + \underbrace{E[Y_i^0 | W_i^1 = 1] - E[Y_i^0 | W_i^0 = 1]}_{\text{Selection Bias}} \end{aligned}$$

# Bad Control Problem and Selection Bias

## Formal Illustration

$$\begin{aligned} & E[Y_i^1 | W_i^1 = 1] - E[Y_i^0 | W_i^0 = 1] \\ &= \underbrace{E[Y_i^1 - Y_i^0 | W_i^1 = 1]}_{\text{Causal Effect}} + \underbrace{E[Y_i^0 | W_i^1 = 1] - E[Y_i^0 | W_i^0 = 1]}_{\text{Selection Bias}} \end{aligned}$$

- Selection bias implies the potential outcome (earnings) is different for:
  - Those who have college degree and work at white-color jobs
  - Those who do not have college degree but work at white-color jobs
- Selection bias reflects the fact that college changes the composition of the pool of white collar workers

# Control-Based Causal Inference v.s. Design-Based Causal Inference

# Control-Based Causal Inference

- So far, we have learned several control-based causal inference methods
  - Matching, regression, or machine learning
- These methods are all based on CIA (**selection on observables**)
  - Assumed all confounding factors can be observed
  - Thus, we can eliminate selection bias by comparing the treated and untreated units with the similar observed characteristics

# Unobservable Omitted Variable

- Even if we can control all observed variable, selection bias might still exist due to **unobservable omitted variables**
  - That is, the treated and untreated units may be very different in some characteristics that we can NOT observe
  - In other words, this means CIA (**selection on observables**) is not valid
  - Thus, we can NOT eliminate selection bias by including more covariates into regression or matching process

# Design-Based Causal Inference

- Next four weeks, we will learn several methods to deal with unobservable omitted variables
  - Difference-in-differences design
  - Synthetic control method
  - Regression discontinuity design
- The above methods utilize an exogenous factor that drives change in treatment status to estimate the causal effect