Title

xtreg postestimation — Postestimation tools for xtreg

Description

The following postestimation commands are of special interest after `xtreg`:

Command	Description
`xttest0`	Breusch and Pagan LM test for random effects

The following standard postestimation commands are also available:

Command	Description
`contrast`	contrasts and ANOVA-style joint tests of estimates
`estat ic`[1]	Akaike's and Schwarz's Bayesian information criteria (AIC and BIC)
`estat summarize`	summary statistics for the estimation sample
`estat vce`	variance–covariance matrix of the estimators (VCE)
`estimates`	cataloging estimation results
`forecast`[2]	dynamic forecasts and simulations
`hausman`	Hausman's specification test
`lincom`	point estimates, standard errors, testing, and inference for linear combinations of coefficients
`lrtest`	likelihood-ratio test
`margins`	marginal means, predictive margins, marginal effects, and average marginal effects
`marginsplot`	graph the results from margins (profile plots, interaction plots, etc.)
`nlcom`	point estimates, standard errors, testing, and inference for nonlinear combinations of coefficients
`predict`	predictions, residuals, influence statistics, and other diagnostic measures
`predictnl`	point estimates, standard errors, testing, and inference for generalized predictions
`pwcompare`	pairwise comparisons of estimates
`test`	Wald tests of simple and composite linear hypotheses
`testnl`	Wald tests of nonlinear hypotheses

[1] `estat ic` is not appropriate after `xtreg` with the `be`, `pa`, or `re` option.
[2] `forecast` is not appropriate with `mi` estimation results.

Special-interest postestimation commands

`xttest0`, for use after `xtreg, re`, presents the Breusch and Pagan (1980) Lagrange multiplier test for random effects, a test that $\text{Var}(\nu_i) = 0$.

Syntax for predict

For all but the population-averaged model

predict [*type*] *newvar* [*if*] [*in*] [, *statistic* nooffset]

Population-averaged model

predict [*type*] *newvar* [*if*] [*in*] [, *PA_statistic* nooffset]

statistic	Description
Main	
xb	$\mathbf{x}_j\mathbf{b}$, fitted values; the default
stdp	standard error of the fitted values
ue	$u_i + e_{it}$, the combined residual
* xbu	$\mathbf{x}_j\mathbf{b} + u_i$, prediction including effect
* u	u_i, the fixed- or random-error component
* e	e_{it}, the overall error component

Unstarred statistics are available both in and out of sample; type `predict ... if e(sample) ...` if wanted only for the estimation sample. Starred statistics are calculated only for the estimation sample, even when `if e(sample)` is not specified.

PA_statistic	Description
Main	
mu	probability of *depvar*; considers the `offset()`
rate	probability of *depvar*
xb	linear prediction
stdp	standard error of the linear prediction
score	first derivative of the log likelihood with respect to $\mathbf{x}_j\boldsymbol{\beta}$

These statistics are available both in and out of sample; type `predict ... if e(sample) ...` if wanted only for the estimation sample.

Menu for predict

Statistics > Postestimation > Predictions, residuals, etc.

Options for predict

Main

`xb` calculates the linear prediction, that is, $a + \mathbf{b}\mathbf{x}_{it}$. This is the default for all except the population-averaged model.

`stdp` calculates the standard error of the linear prediction. For the fixed-effects model, this excludes the variance due to uncertainty about the estimate of u_i.

`mu` and `rate` both calculate the predicted probability of *depvar*. `mu` takes into account the `offset()`, and `rate` ignores those adjustments. `mu` and `rate` are equivalent if you did not specify `offset()`. `mu` is the default for the population-averaged model.

`ue` calculates the prediction of $u_i + e_{it}$.

`xbu` calculates the prediction of $a + \mathbf{bx}_{it} + u_i$, the prediction including the fixed or random component.

`u` calculates the prediction of u_i, the estimated fixed or random effect.

`e` calculates the prediction of e_{it}.

`score` calculates the equation-level score, $u_j = \partial \ln L_j(\mathbf{x}_j\boldsymbol{\beta})/\partial(\mathbf{x}_j\boldsymbol{\beta})$.

`nooffset` is relevant only if you specified `offset(`*varname*`)` for `xtreg, pa`. It modifies the calculations made by `predict` so that they ignore the offset variable; the linear prediction is treated as $\mathbf{x}_{it}\mathbf{b}$ rather than $\mathbf{x}_{it}\mathbf{b} + \text{offset}_{it}$.

Syntax for xttest0

```
xttest0
```

Menu for xttest0

Statistics > Longitudinal/panel data > Linear models > Lagrange multiplier test for random effects

Remarks and examples

stata.com

▷ Example 1

Continuing with our `xtreg, re` estimation example (example 4) in `xtreg`, we can see that `xttest0` will report a test of $\nu_i = 0$. In case we have any doubts, we could type

```
. use http://www.stata-press.com/data/r13/nlswork
(National Longitudinal Survey.  Young Women 14-26 years of age in 1968)

. xtreg ln_w grade age c.age#c.age ttl_exp c.ttl_exp#c.ttl_exp
> tenure c.tenure#c.tenure 2.race not_smsa south, re theta
  (output omitted)

. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        ln_wage[idcode,t] = Xb + u[idcode] + e[idcode,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                ---------+-----------------------------
                 ln_wage |   .2283326       .4778416
                       e |   .0845002       .2906892
                       u |   .0665151       .2579053

        Test:   Var(u) = 0
                             chibar2(01) = 14779.98
                          Prob > chibar2 =   0.0000
```

◁

▷ Example 2

More importantly, after `xtreg, re` estimation, `hausman` will perform the Hausman specification test. If our model is correctly specified, and if ν_i is uncorrelated with $\mathbf{x}_{it}$, the (subset of) coefficients that are estimated by the fixed-effects estimator and the same coefficients that are estimated here should not statistically differ:

```
. xtreg ln_w grade age c.age#c.age ttl_exp c.ttl_exp#c.ttl_exp
> tenure c.tenure#c.tenure 2.race not_smsa south, re
  (output omitted)
. estimates store random_effects
. xtreg ln_w grade age c.age#c.age ttl_exp c.ttl_exp#c.ttl_exp
> tenure c.tenure#c.tenure 2.race not_smsa south, fe
  (output omitted)
. hausman . random_effects

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |       .       random_eff~s    Difference          S.E.
-------------+----------------------------------------------------------------
         age |    .0359987     .0368059       -.0008073        .0013177
  c.age#c.age |   -.000723    -.0007133       -9.68e-06        .0000184
     ttl_exp |    .0334668     .0290208        .0044459         .001711
 c.ttl_exp#~p |    .0002163     .0003049       -.0000886         .000053
      tenure |    .0357539     .0392519        -.003498        .0005797
 c.tenure#c~e |   -.0019701    -.0020035        .0000334        .0000373
    not_smsa |   -.0890108    -.1308252        .0418144        .0062745
       south |   -.0606309    -.0868922        .0262613        .0081345
------------------------------------------------------------------------------
                          b = consistent under Ho and Ha; obtained from xtreg
           B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(8) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =      149.43
                Prob>chi2 =      0.0000
```

We can reject the hypothesis that the coefficients are the same. Before turning to what this means, note that `hausman` listed the coefficients estimated by the two models. It did not, however, list `grade` and `2.race`. `hausman` did not make a mistake; in the Hausman test, we compare only the coefficients estimated by both techniques.

What does this mean? We have an unpleasant choice: we can admit that our model is misspecified—that we have not parameterized it correctly—or we can hold that our specification is correct, in which case the observed differences must be due to the zero correlation of ν_i and the $\mathbf{x}_{it}$ assumption.

◁

❑ Technical note

We can also mechanically explore the underpinnings of the test's dissatisfaction. In the comparison table from `hausman`, it is the coefficients on `not_smsa` and `south` that exhibit the largest differences. In equation (1′) of [XT] **xtreg**, we showed how to decompose a model into within and between effects. Let's do that with these two variables, assuming that changes in the average have one effect, whereas transitional changes have another:

```
. egen avgnsmsa = mean(not_smsa), by(id)
. generate devnsma = not_smsa -avgnsmsa
(8 missing values generated)
. egen avgsouth = mean(south), by(id)
. generate devsouth = south - avgsouth
(8 missing values generated)
. xtreg ln_w grade age c.age#c.age ttl_exp c.ttl_exp#c.ttl_exp tenure c.tenure#
> c.tenure 2.race avgnsm devnsm avgsou devsou
Random-effects GLS regression                   Number of obs      =     28091
Group variable: idcode                          Number of groups   =      4697
R-sq:  within  = 0.1723                         Obs per group: min =         1
       between = 0.4809                                        avg =       6.0
       overall = 0.3737                                        max =        15
                                                Wald chi2(12)      =   9319.56
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
```

ln_wage	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
grade	.0631716	.0017903	35.29	0.000	.0596627	.0666805
age	.0375196	.0031186	12.03	0.000	.0314072	.043632
c.age#c.age	-.0007248	.00005	-14.50	0.000	-.0008228	-.0006269
ttl_exp	.0286543	.0024207	11.84	0.000	.0239098	.0333989
c.ttl_exp# c.ttl_exp	.0003222	.0001162	2.77	0.006	.0000945	.0005499
tenure	.0394423	.001754	22.49	0.000	.0360044	.0428801
c.tenure# c.tenure	-.0020081	.0001192	-16.85	0.000	-.0022417	-.0017746
race						
black	-.0545936	.0102101	-5.35	0.000	-.074605	-.0345821
avgnsmsa	-.1833237	.0109339	-16.77	0.000	-.2047537	-.1618937
devnsma	-.0887596	.0095071	-9.34	0.000	-.1073931	-.070126
avgsouth	-.1011235	.0098789	-10.24	0.000	-.1204858	-.0817611
devsouth	-.0598538	.0109054	-5.49	0.000	-.081228	-.0384797
_cons	.2682987	.0495778	5.41	0.000	.171128	.3654694
sigma_u	.2579182					
sigma_e	.29068923					
rho	.44047745	(fraction of variance due to u_i)				

We will leave the reinterpretation of this model to you, except that if we were really going to sell this model, we would have to explain why the between and within effects are different. Focusing on residence in a non-SMSA, we might tell a story about rural people being paid less and continuing to get paid less when they move to the SMSA. Given our panel data, we could create variables to measure this (an indicator for moved from non-SMSA to SMSA) and to measure the effects. In our assessment of this model, we should think about women in the cities moving to the country and their relative productivity in a bucolic setting.

In any case, the Hausman test now is

```
. estimates store new_random_effects

. xtreg ln_w grade age c.age#c.age ttl_exp c.ttl_exp#c.ttl_exp
> tenure c.tenure#c.tenure 2.race avgnsm devnsm avgsou devsou, fe
  (output omitted)

. hausman . new_random_effects

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |       .       new_random~s    Difference          S.E.
-------------+----------------------------------------------------------------
         age |    .0359987     .0375196       -.0015209        .0013198
 c.age#c.age |    -.000723    -.0007248        1.84e-06        .0000184
     ttl_exp |    .0334668     .0286543        .0048124        .0017127
c.ttl_exp#~p |    .0002163     .0003222       -.0001059        .0000531
      tenure |    .0357539     .0394423       -.0036884        .0005839
c.tenure#c~e |   -.0019701    -.0020081         .000038        .0000377
     devnsma |   -.0890108    -.0887596       -.0002512         .000683
    devsouth |   -.0606309    -.0598538       -.0007771        .0007618
------------------------------------------------------------------------------
                         b = consistent under Ho and Ha; obtained from xtreg
          B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(8) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        92.52
                Prob>chi2 =       0.0000
```

We have mechanically succeeded in greatly reducing the χ^2, but not by enough. The major differences now are in the age, experience, and tenure effects. We already knew this problem existed because of the ever-increasing effect of experience. More careful parameterization work rather than simply including squares needs to be done.

❑

Methods and formulas

`xttest0` reports the Lagrange multiplier test for random effects developed by Breusch and Pagan (1980) and as modified by Baltagi and Li (1990). The model

$$y_{it} = \alpha + \mathbf{x}_{it}\boldsymbol{\beta} + \nu_{it}$$

is fit via OLS, and then the quantity

$$\lambda_{\rm LM} = \frac{(n\overline{T})^2}{2}\left(\frac{A_1^2}{(\sum_i T_i^2) - n\overline{T}}\right)$$

is calculated, where

$$A_1 = 1 - \frac{\sum_{i=1}^n (\sum_{t=1}^{T_i} v_{it})^2}{\sum_i \sum_t v_{it}^2}$$

The Baltagi and Li modification allows for unbalanced data and reduces to the standard formula

$$\lambda_{\text{LM}} = \begin{cases} \frac{nT}{2(T-1)} \left\{ \frac{\sum_i (\sum_t v_{it})^2}{\sum_i \sum_t v_{it}^2} - 1 \right\}^2, & \widehat{\sigma}_u^2 \geq 0 \\ 0 \qquad\qquad\qquad\qquad\qquad\quad , & \widehat{\sigma}_u^2 < 0 \end{cases}$$

when $T_i = T$ (balanced data). Under the null hypothesis, λ_{LM} is distributed as a 50:50 mixture of a point mass at zero and $\chi^2(1)$.

References

Baltagi, B. H., and Q. Li. 1990. A Lagrange multiplier test for the error components model with incomplete panels. *Econometric Reviews* 9: 103–107.

Breusch, T. S., and A. R. Pagan. 1980. The Lagrange multiplier test and its applications to model specification in econometrics. *Review of Economic Studies* 47: 239–253.

Hausman, J. A. 1978. Specification tests in econometrics. *Econometrica* 46: 1251–1271.

Sosa-Escudero, W., and A. K. Bera. 2008. Tests for unbalanced error-components models under local misspecification. *Stata Journal* 8: 68–78.

Verbeke, G., and G. Molenberghs. 2003. The use of score tests for inference on variance components. *Biometrics* 59: 254–262.

Also see

[XT] **xtreg** — Fixed-, between-, and random-effects and population-averaged linear models

[U] 20 Estimation and postestimation commands