26 Working with categorical data and factor variables

Contents
26.1 Continuous, categorical, and indicator variables
   26.1.1 Converting continuous variables to indicator variables
   26.1.2 Converting continuous variables to categorical variables
26.2 Estimation with factor variables
   26.2.1 Including factor variables
   26.2.2 Specifying base levels
   26.2.3 Setting base levels permanently
   26.2.4 Testing significance of a main effect
   26.2.5 Specifying indicator (dummy) variables as factor variables
   26.2.6 Including interactions
   26.2.7 Testing significance of interactions
   26.2.8 Including factorial specifications
   26.2.9 Including squared terms and polynomials
   26.2.10 Including interactions with continuous variables
   26.2.11 Parentheses binding
   26.2.12 Including indicators for single levels
   26.2.13 Including subgroups of levels
   26.2.14 Combining factor variables and time-series operators
   26.2.15 Treatment of empty cells
26.3 References

26.1 Continuous, categorical, and indicator variables

Although to Stata a variable is a variable, it is helpful to distinguish among three conceptual types:

- A **continuous variable** measures something. Such a variable might measure a person’s age, height, or weight; a city’s population or land area; or a company’s revenues or costs.

  The term “continuous” here is deliberately broad and includes variables that are discrete by convention (ages in years) or by definition (counts of people). Even for such variables, reported values are points on continuous scales with natural origins, and not arbitrary codes.

- A **categorical variable** identifies a group to which the thing belongs. You could categorize persons according to their race or ethnicity, cities according to their geographic location, or companies according to their industry. Sometimes, categorical variables are stored as strings.

- An **indicator variable** denotes whether something is true. For example, is a person a veteran, does a city have a mass transit system, or is a company profitable?

  Indicator variables are a special case of categorical variables. Consider a variable that records whether or not a person is employed. Examined one way, it is a categorical variable. A categorical variable identifies the group to which a thing belongs, and here the thing is a person and the basis for categorization is employment. Looked at another way, however, it is an indicator variable. It indicates whether the person is employed. In this example, and most others, there is much scope for a finer or otherwise different categorization, but bear with us.

  We can use the same logic on any categorical variable that divides the data into two groups. It is a categorical variable because it identifies whether an observation is a member of this or that group;
it is an indicator variable because it denotes the truth value of the statement “the observation is in this group”.

All indicator variables are categorical variables, but the opposite is not true. A categorical variable might divide the data into more than two groups. For clarity, let’s reserve the term categorical variable for variables that divide the data into more than two groups, and let’s use the term indicator variable for categorical variables that divide the data into exactly two groups.

Stata can convert continuous variables to categorical and indicator variables and categorical variables to indicator variables.

26.1.1 Converting continuous variables to indicator variables

Stata treats logical expressions as taking on the values true or false, which it identifies with the numbers 1 and 0; see [U] 13 Functions and expressions. For instance, if you have a continuous variable measuring a person’s age and you wish to create an indicator variable denoting persons aged 21 and over, you could type

```
. generate age21p = age>=21
```

The variable age21p takes on the value 1 for persons aged 21 and over and 0 for persons under 21.

Because age21p can take on only 0 or 1, it would be more economical to store the variable as a byte. Thus it would be better to type

```
. generate byte age21p = age>=21
```

This solution has a problem. The value of age21 is set to 1 for all persons whose age is missing because Stata defines missing to be larger than all other numbers. In our data, we might have no such missing ages, but it still would be safer to type

```
. generate byte age21p = age>=21 if age<.
```

That way, persons whose age is missing would also have a missing age21p.

Technical note

Put aside missing values and consider the following alternative to generate age21p = age>=21 that may have occurred to you:

```
. generate age21p = 1 if age>=21
```

That does not produce the desired result. This statement makes age21p 1 (true) for all persons aged 21 and above but makes age21p missing for everyone else.

If you followed this second approach, you would have to combine it with

```
. replace age21p = 0 if age<21
```
26.1.2 Converting continuous variables to categorical variables

Suppose that you wish to categorize persons into four groups on the basis of their age. You want a variable to denote whether a person is 21 or under, between 22 and 38, between 39 and 64, or 65 and above. Although most people would label these categories 1, 2, 3, and 4, there is really no reason to restrict ourselves to such a meaningless numbering scheme. Let’s call this new variable `agecat` and make it so that it takes on the topmost value for each group. Thus persons in the first group will be identified with an `agecat` of 21, persons in the second with 38, persons in the third with 64, and persons in the last (drawing a number out of the air) with 75. Here is a way to create the variable that will work, but it is not the best method for doing so:

```
. use https://www.stata-press.com/data/r16/agexmpl
. generate byte agecat=21 if age<=21
   (176 missing values generated)
. replace agecat=38 if age>21 & age<=38
   (148 real changes made)
. replace agecat=64 if age>38 & age<=64
   (24 real changes made)
. replace agecat=75 if age>64 & age<.
   (4 real changes made)
```

We created the categorical variable according to the definition by using the `generate` and `replace` commands. The only thing that deserves comment is the opening `generate`. We (wisely) told Stata to `generate` the new variable `agecat` as a byte, thus conserving memory.

We can create the same result with one command using the `recode()` function:

```
. use https://www.stata-press.com/data/r16/agexmpl, clear
. generate byte agecat=recode(age,21,38,64,75)
```

`recode()` takes three or more arguments. It examines the first argument (here `age`) against the remaining arguments in the list. It returns the first element in the list that is greater than or equal to the first argument or, failing that, the last argument in the list. Thus, for each observation, `recode()` asked if `age` was less than or equal to 21. If so, the value is 21. If not, is it less than or equal to 38? If so, the value is 38. If not, is it less than or equal to 64? If so, the value is 64. If not, the value is 75.

Most researchers typically make tables of categorical variables, so we will `tabulate` the result:

```
. tabulate agecat

<table>
<thead>
<tr>
<th>agecat</th>
<th>Freq.</th>
<th>Percent</th>
<th>Cum.</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>28</td>
<td>13.73</td>
<td>13.73</td>
</tr>
<tr>
<td>38</td>
<td>148</td>
<td>72.55</td>
<td>86.27</td>
</tr>
<tr>
<td>64</td>
<td>24</td>
<td>11.76</td>
<td>98.04</td>
</tr>
<tr>
<td>75</td>
<td>4</td>
<td>1.96</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>204</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>
```

Working with categorical data and factor variables

There is another way to convert continuous variables into categorical variables, and it is even more automated: `autocode()` works like `recode()`, except that all you tell the function is the range and the total number of cells that you want that range broken into:

```
. use https://www.stata-press.com/data/r16/agexmpl, clear
. generate agecat=autocode(age,4,18,65)
. tabulate agecat
```

<table>
<thead>
<tr>
<th>agecat</th>
<th>Freq.</th>
<th>Percent</th>
<th>Cum.</th>
</tr>
</thead>
<tbody>
<tr>
<td>29.75</td>
<td>82</td>
<td>40.20</td>
<td>40.20</td>
</tr>
<tr>
<td>41.5</td>
<td>96</td>
<td>47.06</td>
<td>87.25</td>
</tr>
<tr>
<td>53.25</td>
<td>16</td>
<td>7.84</td>
<td>95.10</td>
</tr>
<tr>
<td>65</td>
<td>10</td>
<td>4.90</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>204</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

In one instruction, we told Stata to break `age` into four evenly spaced categories from 18 to 65. When we `tabulate agecat`, we see the result. In particular, we see that the breakpoints of the four categories are 29.75, 41.5, 53.25, and 65. The first category contains everyone aged 29.75 years or less; the second category contains persons over 29.75 who are 41.5 years old or less; the third category contains persons over 41.5 who are 53.25 years old or less; and the last category contains all persons over 53.25.

Technical note

We chose the range 18–65 arbitrarily. Although you cannot tell from the table above, there are persons in this dataset who are under 18, and there are persons over 65. Those persons are counted in the first and last cells, but we have not divided the age range in the data evenly. We could split the full age range into four categories by obtaining the overall minimum and maximum ages (by typing `summarize`) and substituting the overall minimum and maximum for the 18 and 65 in the `autocode()` function:

```
. use https://www.stata-press.com/data/r16/agexmpl, clear
. summarize age
<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>age</td>
<td>204</td>
<td>31.57353</td>
<td>10.28986</td>
<td>2</td>
<td>66</td>
</tr>
</tbody>
</table>
. generate agecat2=autocode(age,4,2,66)
```

We could also sort the data into ascending order of `age` and tell Stata to construct four categories over the range `age[1]` (the minimum) to `age[_N]` (the maximum):

```
. use https://www.stata-press.com/data/r16/agexmpl, clear
. sort age
. generate agecat2=autocode(age,4,age[1],age[_N])
. tabulate agecat2
```

<table>
<thead>
<tr>
<th>agecat2</th>
<th>Freq.</th>
<th>Percent</th>
<th>Cum.</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>10</td>
<td>4.90</td>
<td>4.90</td>
</tr>
<tr>
<td>34</td>
<td>138</td>
<td>67.65</td>
<td>72.55</td>
</tr>
<tr>
<td>50</td>
<td>41</td>
<td>20.10</td>
<td>92.65</td>
</tr>
<tr>
<td>66</td>
<td>15</td>
<td>7.35</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>204</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>
26.2 Estimation with factor variables

Stata handles categorical variables as factor variables; see [U] 11.4.3 Factor variables. Categorical variables refer to the variables in your data that take on categorical values, variables such as sex, group, and region. Factor variables refer to Stata’s treatment of categorical variables. Factor variables create indicator variables for the levels (categories) of categorical variables and, optionally, for their interactions.

In what follows, the word level means the value that a categorical variable takes on. The variable employed might take on levels 0 and 1, with 0 representing not employed and 1 representing employed. We could say that employed is a two-level factor variable.

The regressors created by factor variables are called indicators or, more explicitly, virtual indicator variables. They are called virtual because the machinery for factor variables seldom creates new variables in your dataset, even though the indicators will appear just as if they were variables in your estimation results.

To be used as a factor variable, a categorical variable must take on nonnegative integer values. If you have variables with negative values, recode them; see [D] recode. If you have string variables, you can use egen’s group() function to recode them,

```
. egen newcatvar = group(mystringcatvar)
```

If you also specify the label option, egen will create a value label for the numeric code it produces so that your output will be subsequently more readable:

```
. egen newcatvar = group(mystringcatvar), label
```

Alternatively, you can use encode to convert string categorical variables to numeric ones:

```
. encode mystringcatvar, generate(newcatvar)
```

egen group(), label and encode do the same thing. We tend to use egen group(), label. See [D] egen and [D] encode.

In the unlikely event that you have a noninteger categorical variable, use the egen solution. More likely, however, is that you need to read [U] 26.1.2 Converting continuous variables to categorical variables.

Technical note

If you should ever need to create your own indicator variables from a string or numeric variable—and it is difficult to imagine why you would—type

```
. tabulate var, gen(newstub)
```

Typing that will create indicator variables named newstub1, newstub2, . . .; see [R] tabulate oneway.

We will be using linear regression in the examples that follow just because it is so easy to explain and to interpret. We could, however, just as well have used logistic regression, Heckman selectivity, or even Cox proportional-hazards regression with shared frailties. Stata’s factor-variable features work with nearly every estimation command.
26.2.1 Including factor variables

The fundamental building block of factor variables is the treatment of each factor variable as if it represented a collection of indicators, with one indicator for each level of the variable. To treat a variable as a factor variable, you add `i.` in front of the variable’s name:

```
use https://www.stata-press.com/data/r16/fvex, clear
(Artificial factor variables’ data)
regress y i.group age
```

In these data, variable `group` takes on the values 1, 2, and 3. Because we typed

```
regress y i.group age
```

rather than

```
regress y group age
```

instead of fitting the regression as a continuous function of `group`’s values, `regress` fit the regression on indicators for each level of `group` included as a separate covariate. In the left column of the coefficient table in the output, the numbers 2 and 3 identify the coefficients that correspond to the values of 2 and 3 of the `group` variable. Using the more precise terminology of [U] 11.4.3 Factor variables, the coefficients reported for 2 and 3 are the coefficients for virtual variables `2.group` and `3.group`, the indicator variables for `group`=2 and `group`=3.

If `group` took on the values 2, 10, 11, and 125 rather than 1, 2, and 3, then we would see 2, 10, 11, and 125 below `group` in the table, corresponding to virtual variables `2.group`, `10.group`, `11.group`, and `125.group`.

We can use as many sets of indicators as we need in a varlist. Thus we can type

```
regress y i.group i.sex i.arm ...
```

26.2.2 Specifying base levels

In the above results, `group`=1 was used as the base level and `regress` omitted reporting that fact in the output. Somehow, you are just supposed to know that, and usually you do. We can see base levels identified explicitly, however, if we specify the `baselevels` option, either at the time we estimate the model or, as we do now, when we replay results:
. regress, baselevels

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs</th>
<th>F(3, 2996)</th>
<th>Prob &gt; F</th>
<th>R-squared</th>
<th>Adj R-squared</th>
<th>Root MSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>42767.8126</td>
<td>3</td>
<td>14255.9375</td>
<td>3,000</td>
<td>31.67</td>
<td>0.0000</td>
<td>0.0307</td>
<td>0.0298</td>
<td>21.217</td>
</tr>
<tr>
<td>Residual</td>
<td>1348665.19</td>
<td>2,996</td>
<td>450.155272</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1391433.01</td>
<td>2,999</td>
<td>463.965657</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| y | Coef. | Std. Err. | t     | P>|t|   | [95% Conf. Interval] |
|---|-------|-----------|-------|-------|---------------------|
| group |       |           |       |       |                     |
| 1 | 0 (base) |     |       |       |                     |
| 2 | -2.395169 | .9497756 | -2.52 | 0.012 | -4.257447 / -.5328905 |
| 3 | .2966833 | 1.200423 | 0.25  | 0.805 | -2.057054 / 2.65042 |
| age | -.318005 | .039939 | -7.96 | 0.000 | -.3963157 / -.2396943 |
| _cons | 83.2149 | 1.963939 | 42.37 | 0.000 | 79.3641 / 87.06571 |

The smallest value of the factor variable is used as the base by default. Using the notation explained in [U] 11.4.3.2 Base levels, we can request another base level, such as `group = 2`, by typing

```
. regress y ib2.group age
```
or, such as the largest value of `group`,

```
. regress y ib(last).group age
```

Changing the base does not fundamentally alter the estimates in the sense that predictions from the model would be identical no matter which base levels we use. Changing the base does change the interpretation of coefficients. In the regression output above, the reported coefficients measure the differences from `group = 1`. Group 2 differs from group 1 by −2.4, and that difference is significant at the 5% level. Group 3 is not significantly different from group 1.

If we fit the above using `group = 3` as the base,

```
. regress y ib3.group age
```

(output omitted)

the coefficients on `group = 1` and `group = 2` would be −0.297 and −2.692. Note that the difference between group 2 and group 1 would still be −2.692 − (−0.296) = −2.4. Results may look different, but when looked at correctly, they are the same. Similarly, the significance of `group = 2` would now be 0.805 rather than 0.012, but that is because what is being tested is different. In the output above, the test against 0 is a test of whether group 2 differs from group 1. In the output that we omit, the test is whether group 2 differs from group 3. If, after running the `ib3.group` specification, we were to type

```
. test 2.group = 1.group
```

we would obtain the same 0.012 result. Similarly, after running the shown result, if we typed `test 3.group = 1.group`, we would obtain 0.805.

### 26.2.3 Setting base levels permanently

As explained directly above, you can temporarily change the base level by using the `ib` operator; also see [U] 11.4.3.2 Base levels. You can change the base level permanently by using the `fvset` command; see [U] 11.4.3.3 Setting base levels permanently.
26.2.4 Testing significance of a main effect

In the example we have been using,

```
   . use https://www.stata-press.com/data/r16/fvex
   . regress y i.group age
```

many disciplines refer to the coefficients on the set of indicators for `i.group` as a main effect. Because we have no interactions, the main effect of `i.group` refers to the effect of the levels of `group` taken as a whole. We can test the significance of the indicators by using `contrast` (see [R] contrast):

```
   . contrast group
   Contrasts of marginal linear predictions
  Margins : asbalanced

   df  |    F   |   P>F
  ---|-------|------
   group |  2  | 4.89 | 0.0076
   Denominator | 2996 |
```

When we specify the name of a factor variable used in the previous estimation command in the `contrast` command, it will perform a joint test on the effects of that variable. Here we are testing whether the coefficients for the group indicators are jointly zero. We reject the hypothesis.

26.2.5 Specifying indicator (dummy) variables as factor variables

We are using the model

```
   . use https://www.stata-press.com/data/r16/fvex
   . regress y i.group age
```

We are going to add `sex` to our model. Variable `sex` is a 0/1 variable in our data, a type of variable we call an indicator variable and which many people call a dummy variable. We could type

```
   . regress y sex i.group age
```

but we are going to type

```
   . regress y i.sex i.group age
```

It is better to include indicator variables as factor variables, which is to say, to include indicator variables with the `i.` prefix.

You will obtain the same estimation results either way, but by specifying `i.sex` rather than `sex`, you will communicate to postestimation commands that care that `sex` is not a continuous variable, and that will save you typing later should you use one of those postestimation commands. `margins` (see [R] margins) is an example of a postestimation command that cares.

Below we type `regress y i.sex i.group age`, and we will specify the `baselevels` option just to make explicit how `regress` is interpreting our request. Ordinarily, we would not specify the `baselevels` option.
. regress y i.sex i.group age, baselevels

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>214569.509</td>
<td>4</td>
<td>53642.3772</td>
<td>F(4, 2995) = 136.51</td>
</tr>
<tr>
<td>Residual</td>
<td>1176863.5</td>
<td>2,995</td>
<td>392.942737</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td>Total</td>
<td>1391433.01</td>
<td>2,999</td>
<td>463.965657</td>
<td>R-squared = 0.1542</td>
</tr>
</tbody>
</table>

| y       | Coef.   | Std. Err. | t     | P>|t|   | [95% Conf. Interval] |
|---------|---------|-----------|-------|-------|----------------------|
| sex     |         |           |       |       |                      |
| male    | 0       | (base)    |       |       |                      |
| female  | 18.44069| .8819175  | 20.91 | 0.000 | 16.711466 20.169911  |
| group   |         |           |       |       |                      |
| 1       | 0       | (base)    |       |       |                      |
| 2       | 5.178636| .9584485  | 5.40  | 0.000 | 3.299352 7.057919   |
| 3       | 13.45907| 1.286127  | 10.46 | 0.000 | 10.9372915.98085   |
| age     | -.3298831| .0373191 | -8.84 | 0.000 | -.4030567 -.2567094 |
| _cons   | 68.63586| 1.962901  | 34.97 | 0.000 | 64.7870972.48463   |

As with all factor variables, by default the first level of sex serves as its base, so the coefficient 18.4 measures the increase in \( y \) for sex = 1 as compared with sex = 0. In these data, sex = 1 represents females and sex = 0 represents males.

Notice that in the above output male and female were displayed rather than 0 and 1. The variable sex has the value label sexlab associated with it, so Stata used the value label in its output. Stata has three options, ofvlabel, fvwrap(#), and fvwrapon(word | width), that control how factor-variable value labels are displayed; see [\textit{R}] Estimation options.

26.2.6 Including interactions

We are using the model

. use https://www.stata-press.com/data/r16/fvex
. regress y i.sex i.group age

If we are not certain that the levels of group have the same effect for females as they do for males, we should add to our model interactions for each combination of the levels in sex and group. We would need to add indicators for

- \( \text{sex} = \text{male} \) and \( \text{group} = 1 \)
- \( \text{sex} = \text{male} \) and \( \text{group} = 2 \)
- \( \text{sex} = \text{male} \) and \( \text{group} = 3 \)
- \( \text{sex} = \text{female} \) and \( \text{group} = 1 \)
- \( \text{sex} = \text{female} \) and \( \text{group} = 2 \)
- \( \text{sex} = \text{female} \) and \( \text{group} = 3 \)

Doing this would allow each combination of sex and group to have a different effect on \( y \).

Interactions like those listed above are produced using the \# operator. We could type

. regress y i.sex i.group i.sex#i.group age
The # operator assumes that the variables on either side of it are factor variables, so we can omit the i. prefixes and obtain the same result by typing

```
. regress y i.sex i.group sex#group age
```

We must continue to specify the prefix on the main effects i.sex and i.group, however.

In the output below, we add the allbaselevels option to that. The allbaselevels option is much like baselevels, except allbaselevels lists base levels in interactions as well as in main effects. Specifying allbaselevels will make the output easier to understand the first time, and after that, you will probably never specify it again.

```
. regress y i.sex i.group sex#group age, allbaselevels
```

```
<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>217691.706</td>
<td>6</td>
<td>36281.9511</td>
<td>F(6, 2993) = 92.52</td>
</tr>
<tr>
<td>Residual</td>
<td>1173741.3</td>
<td>2,993</td>
<td>392.162145</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td>Total</td>
<td>1391433.01</td>
<td>2,999</td>
<td>463.965657</td>
<td>Adj R-squared = 0.1565</td>
</tr>
</tbody>
</table>

| y      | Coef.  | Std. Err. | t     | P>|t| [95% Conf. Interval] |
|--------|--------|-----------|-------|-----------------------|
| sex    |        |           |       |                       |
| male   | 0 (base) |          |       |                       |
| female | 21.71794 | 1.490858  | 14.57 | 0.000 | 18.79473 24.64115 |
| group  |        |           |       |                       |
| 1      | 0 (base) |          |       |                       |
| 2      | 8.420661 | 1.588696  | 5.30  | 0.000 | 5.305615 11.53571 |
| 3      | 16.47226 | 1.6724    | 9.85  | 0.000 | 13.19309 19.75143 |
| sex#group |        |           |       |                       |
| male#1 | 0 (base) |          |       |                       |
| male#2 | 0 (base) |          |       |                       |
| male#3 | 0 (base) |          |       |                       |
| female#1 | 0 (base) |          |       |                       |
| female#2 | -4.658322 | 1.918195 | -2.43 | 0.015 | -8.419436 -.8972081 |
| female#3 | -6.736936 | 2.967391 | -2.27 | 0.023 | -12.55527 -.9186038 |
| age    | -.3305546 | .0373032 | -8.86 | 0.000 | -.4036972 -.2574121 |
| _cons  | 65.97765  | 2.198032 | 30.02 | 0.000 | 61.66784 70.28745 |
```

Look at the sex#group term in the output. There are six combinations of sex and group, just as we expected. That four of the cells are labeled base and that only two extra coefficients were estimated should not surprise us, at least after we think about it. There are 3 × 2 sex#age groups, and thus 3 × 2 = 6 means to be estimated, and we indeed estimated six coefficients, including a constant, plus a seventh for continuous variable age. Now look at which combinations were treated as base. Treated as base were all combinations that were the base of sex, plus all combinations that were the base of group. The combination of sex = 0 (male) and group = 1 was omitted for both reasons, and the other combinations were omitted for one or the other reason.

We entered a two-way interaction between sex and group. If we believed that the effects of sex#group were themselves dependent on the treatment arm of an experiment, we would want the three-way interaction, which we could obtain by typing sex#group#arm. Stata allows up to eight-way interactions among factor variables and another eight-ways of interaction among continuous covariates.
Technical note

The virtual variables associated with the interaction terms have the names 1.sex#2.group and 1.sex#3.group.

26.2.7 Testing significance of interactions

We are using the model

```
. use https://www.stata-press.com/data/r16/fvex
. regress y i.sex i.group sex#group age
```

We can test the overall significance of the sex#group interaction by typing

```
. contrast sex#group
```

Contrasts of marginal linear predictions
Margins : asbalanced

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>F</th>
<th>P&gt;F</th>
</tr>
</thead>
<tbody>
<tr>
<td>sex#group</td>
<td>2</td>
<td>3.98</td>
<td>0.0188</td>
</tr>
<tr>
<td>Denominator</td>
<td>2993</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We can type the interaction term to be tested—sex#group—in the same way as we typed it to include it in the regression. The interaction is significant beyond the 5% level. That is not surprising because both interaction indicators were significant in the regression.

26.2.8 Including factorial specifications

We have the model

```
. use https://www.stata-press.com/data/r16/fvex
. regress y i.sex i.group sex#group age
```

The above model is called a factorial specification with respect to sex and group because sex and group appear by themselves and an interaction. Were it not for age being included in the model, we could call this model a full-factorial specification. In any case, Stata provides a shorthand for factorial specifications. We could fit the model above by typing

```
. regress y sex##group age
```

When you type A##B, Stata takes that to mean A B A#B.

When you type A##B##C, Stata takes that to mean A B C A#B A#C B#C A#B#C.

And so on. Up to eight-way interactions are allowed.

The ## notation is just a shorthand. Estimation results are unchanged. This time we will not specify the allbaselevels option:
26.2.9 Including squared terms and polynomials

# may be used to interact continuous variables if you specify the c. indicator in front of them. The command

```
.regress y age c.age#c.age
```

gives y as a quadratic function of age. Similarly,

```
.regress y age c.age#c.age c.age#c.age#c.age
```

fits a third-order polynomial.

Using the # operator is preferable to generating squared and cubed variables of age because when # is used, Stata understands the relationship between age and c.age#c.age and c.age#c.age#c.age. Postestimation commands can take advantage of this to produce smarter answers; see, for example, 

*Requirements for model specification* in [R] margins.

26.2.10 Including interactions with continuous variables

# and ## may be used to create interactions of categorical variables with continuous variables if the continuous variables are prefixed with c., such as sex#c.age in

```
.regress y i.sex age sex#c.age
.regress y sex##c.age
.regress y i.sex sex#c.age
```

The result of fitting the first of these models (equivalent to the second) is shown below. We include allbaselevels to make results more understandable the first time you see them.
The coefficient on the interaction (−0.022) is the difference in the slope of age for females (sex = 1) as compared with the slope for males. It is far from significant at any reasonable level, so we cannot distinguish the two slopes.

A different but equivalent parameterization of this model would be to omit the main effect of age, the result of which would be that we would estimate the separate slope coefficients of age for males and females:

It is now easier to see the slopes themselves, although the test of the equality of the slopes no longer appears in the output. We can obtain the comparison of slopes by using the `lincom` postestimation command:
As noted earlier, it can be difficult at first to know how to refer to individual parameters when you need to type them on postestimation commands. The solution is to replay your estimation results specifying the `coeflegend` option:

```
. regress, coeflegend

Source | SS        | df  | MS          | Number of obs = 3,000
       |           |     |            | F(3, 2996) = 139.91
Model  | 170983.675| 3   | 56994.5583  | Prob > F = 0.0000
Residual | 1220449.33| 2,996 | 407.35959 | R-squared = 0.1229
       |           |     |            | Adj R-squared = 0.1220
Total  | 1391433.01| 2,999 | 463.965657 | Root MSE = 20.183

```

The legend suggests that we type

```
. lincom _b[1.sex#c.age] - _b[0b.sex#c.age]
```

instead of `lincom 1.sex#c.age - 0.sex#c.age`. That is, the legend suggests that we bracket terms in `_b[]` and explicitly recognize base levels. The latter does not matter. Concerning bracketing, some commands allow you to omit brackets, and others do not. All commands will allow bracketing, which is why the legend suggests it.

### 26.2.11 Parentheses binding

Factor-variable operators can be applied to groups of variables if those variables are bound in parentheses. For instance, you can type

```
. regress y sex##(group c.age c.age#c.age)
```

rather than

```
. regress y i.sex i.group sex#group age sex#c.age c.age#c.age sex#c.age#c.age
```

Parentheses may be nested. The parenthetically bound notation does not let you specify anything you could not specify without it, but it can save typing and, as importantly, make what you type more understandable. Consider

```
. regress y i.sex i.group sex#group age sex#c.age c.age#c.age sex#c.age#c.age
. regress y sex##(group c.age c.age#c.age)
```

The second specification is shorter and easier to read. We can see that all the covariates have different parameters for males and females.
26.2.12 Including indicators for single levels

Consider the following regression of statewide marriage rates (marriages per 100,000) on the median age in the state of the United States:

```
use https://www.stata-press.com/data/r16/censusfv
(1980 Census data by state)
regress marriagert medage
```

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>148.944706</td>
<td>1</td>
<td>148.944706</td>
<td>F(1, 48) = 0.00</td>
</tr>
<tr>
<td>Residual</td>
<td>173402855</td>
<td>48</td>
<td>3612559.48</td>
<td>Prob &gt; F = 0.9949</td>
</tr>
<tr>
<td>Total</td>
<td>173403004</td>
<td>49</td>
<td>3538836.82</td>
<td>R-squared = 0.0000</td>
</tr>
</tbody>
</table>

| Variable | Coef. | Std. Err. | t | P>|t| | 95% Conf. Interval |
|---------|-------|-----------|---|-----|-------------------|
| medage  | 1.029541 | 160.3387 | 0.01 | 0.995 | -321.3531 to 323.4122 |
| _cons   | 1301.307 | 4744.027 | 0.27 | 0.785 | -8237.199 to 10839.81 |

There appears to be no effect of median age. We know, however, that couples from around the United States flock to Nevada to be married in Las Vegas, which biases our results. We would like to add a single indicator for the state of Nevada. We describe our data, see the value label for state is st, and then type `label list st` to discover the label for Nevada. We find it is 30; thus we can now type

```
regress marriagert medage i30.state
```

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>171657575</td>
<td>2</td>
<td>85828787.6</td>
<td>F(2, 47) = 2311.15</td>
</tr>
<tr>
<td>Residual</td>
<td>1745428.85</td>
<td>47</td>
<td>37136.784</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td>Total</td>
<td>173403004</td>
<td>49</td>
<td>3538836.82</td>
<td>R-squared = 0.9899</td>
</tr>
</tbody>
</table>

| Variable | Coef. | Std. Err. | t | P>|t| | 95% Conf. Interval |
|---------|-------|-----------|---|-----|-------------------|
| medage  | -61.23095 | 16.2825 | -3.76 | 0.000 | -93.98711 to -28.47479 |
| state   | 13255.81 | 194.9742 | 67.99 | 0.000 | 12863.57 to 13648.05 |
| _cons   | 2875.366 | 481.5533 | 5.97 | 0.000 | 1906.606 to 3844.126 |

These results are more reasonable.

There is a subtlety to specifying individual levels. Let’s add another indicator, this time for California. The following will not produce the desired results, and we specify the `baselevels` option to help you understand the issue. First, however, here is the result:
. regress marriagert medage i5.state i30.state, baselevels

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>171657575</td>
<td>2</td>
<td>85828787.6</td>
<td>F(2, 47) = 2311.15</td>
</tr>
<tr>
<td>Residual</td>
<td>1745428.85</td>
<td>47</td>
<td>37136.784</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R-squared = 0.9899</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Adj R-squared = 0.9895</td>
</tr>
<tr>
<td>Total</td>
<td>173403004</td>
<td>49</td>
<td>3538836.82</td>
<td>Root MSE = 192.71</td>
</tr>
</tbody>
</table>

| marriagert | Coef.    | Std. Err. | t   | P>|t|  | [95% Conf. Interval] |
|------------|----------|-----------|-----|------|----------------------|
| medage     | -61.23095 | 16.2825   | -3.76 | 0.000 | -93.98711 to -28.47479 |
| state      |          |           |      |      |                      |
| California | 0 (base) | 13255.81  | 194.9742 | 67.99 | 12863.57 to 13648.05 |
| Nevada     | 13252.3   | 195.7472  | 67.70 | 0.000 | 12858.28 to 13646.32  |
| _cons      | 2875.366  | 481.5533  | 5.97 | 0.000 | 1906.606 to 3844.126  |

Look at the result for state. Rather than obtaining a coefficient for 5.state as we expected, Stata instead chose to omit it as the base category.

Stata considers all the individual specifiers for a factor variable together as being related. In our command, we specified that we wanted i5.state and i30.state by typing

. regress marriagert medage i5.state i30.state

and Stata put that together as “include state, levels 5 and 30”. Then Stata applied its standard logic for dealing with factor variables: treat the smallest level as the base category.

To achieve the desired result, we need to tell Stata that we want no base, which we do by typing the “base none” (bn) modifier:

. regress marriagert medage i5bn.state i30.state

We need to specify bn only once, and it does not matter where we specify it. We could type

. regress marriagert medage i5.state i30bn.state

and we would obtain the same result. We can specify bn more than once:

. regress marriagert medage i5bn.state i30bn.state

The result of typing any one of these commands is

. regress marriagert medage i5bn.state i30.state, baselevels

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>171681987</td>
<td>3</td>
<td>57227328.9</td>
<td>F(3, 46) = 1529.59</td>
</tr>
<tr>
<td>Residual</td>
<td>1721017.33</td>
<td>46</td>
<td>37413.4203</td>
<td>Prob &gt; F = 0.0000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R-squared = 0.9901</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Adj R-squared = 0.9894</td>
</tr>
<tr>
<td>Total</td>
<td>173403004</td>
<td>49</td>
<td>3538836.82</td>
<td>Root MSE = 193.43</td>
</tr>
</tbody>
</table>

| marriagert | Coef.    | Std. Err. | t   | P>|t|  | [95% Conf. Interval] |
|------------|----------|-----------|-----|------|----------------------|
| medage     | -60.80985 | 16.35134  | -3.72 | 0.001 | -93.7234 to -27.8963 |
| state      |          |           |      |      |                      |
| California | -157.9413 | 195.5294  | -0.81 | 0.423 | -551.5214 to 235.6389 |
| Nevada     | 13252.3   | 195.7472  | 67.70 | 0.000 | 12858.28 to 13646.32  |
| _cons      | 2866.156  | 483.478   | 5.93 | 0.000 | 1892.965 to 3839.346  |
26.2.13 Including subgroups of levels

We just typed

```
. regress marriage rt medage i5bn.state i30.state
```

You can specify specific levels by using numlists. We could have typed

```
. regress marriage rt medage i(5 30)bn.state
```

By including `i(5 30)bn.state`, we have added indicators for levels 5 and 30 to the regression.

We can also specify levels within an interaction term. Consider the regression

```
. regress y i.arm i.agegroup arm#i(3/4)bn.agegroup
```

Although unusual, it is possible to include different levels of `agegroup` in the main effect and the interaction. In this case, all levels of `agegroup` are used in the main effect but only levels 3 and 4 of `agegroup` are included in the interaction term.

26.2.14 Combining factor variables and time-series operators

You can combine factor-variable operators with the time-series operators L. and F. to lag and lead factor variables. Terms like `iL.group` (or `Li.group`), `cL.age#cL.age` (or `Lc.age#Lc.age`), and `F.arm#L.group` are all legal as long as the data are `tsset` or `xtset`. See [U] 11.4.3.6 Using factor variables with time-series operators.

26.2.15 Treatment of empty cells

Consider the following data:

```
use https://www.stata-press.com/data/r16/estimability, clear
(margins estimability)
table sex group
```

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>male</td>
<td>2</td>
<td>9</td>
<td>27</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>female</td>
<td>9</td>
<td>9</td>
<td>3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In these data, there are no observations for `sex = female` and `group = 4`, and for `sex = female` and `group = 5`. Here is what happens when you use these data to fit an interacted model:
. regress y sex##group
  note: 1.sex#4.group identifies no observations in the sample
  note: 1.sex#5.group identifies no observations in the sample

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs</th>
<th>F(7, 61)</th>
<th>Prob &gt; F</th>
<th>Adj R-squared</th>
<th>Root MSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>839.550121</td>
<td>7</td>
<td>119.935732</td>
<td>69</td>
<td>4.88</td>
<td>0.0002</td>
<td>0.2852</td>
<td>4.9599</td>
</tr>
<tr>
<td>Residual</td>
<td>1500.65278</td>
<td>61</td>
<td>24.6008652</td>
<td>69</td>
<td>0.3588</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2340.2029</td>
<td>68</td>
<td>34.4147485</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| y | Coef. | Std. Err. | t | P>|t| | [95% Conf. Interval] |
|---|-------|-----------|---|------|----------------------|
| sex | female | -5.666667 | 3.877352 | -1.46 | 0.149 | -13.41991 | 2.086579 |
| group | 2 | -13.55556 | 3.877352 | -3.50 | 0.001 | -21.3088 | -5.80231 |
| | 3 | -13 | 3.634773 | -3.58 | 0.001 | -20.26818 | -5.731822 |
| | 4 | -12.875 | 3.921166 | -3.28 | 0.002 | -20.71586 | -5.034145 |
| | 5 | -11 | 4.959926 | -2.22 | 0.030 | -20.91798 | -1.082015 |
| sex#group | female#2 | 12.11111 | 4.527772 | 2.67 | 0.010 | 3.057271 | 21.16495 |
| | female#3 | 10 | 4.913786 | 2.04 | 0.046 | .1742775 | 19.82572 |
| | female#4 | 0 (empty) | | | | |
| | female#5 | 0 (empty) | | | | |
| _cons | 32 | 3.507197 | 9.12 | 0.000 | 24.98693 | 39.01307 |

Stata reports that the results for sex = female and group = 4 and for sex = female and group = 5 are empty; no coefficients can be estimated. The notes refer to 1.sex#4.group and 1.sex#5.group because level 1 corresponds to female.

Empty cells are of no concern when fitting models and interpreting results. If, however, you subsequently perform tests or form linear or nonlinear combinations involving any of the coefficients in the interaction, you should be aware that those tests or combinations may depend on how you parameterized your model. See Estimability of margins in [R] margins.

### 26.3 References
