sureg — Zellner's seemingly unrelated regression

Syntax

Basic syntax

`sureg` (*depvar*$_1$ *varlist*$_1$) (*depvar*$_2$ *varlist*$_2$) ... (*depvar*$_N$ *varlist*$_N$)

[*if*] [*in*] [*weight*]

Full syntax

`sureg` ([*eqname*$_1$:]*depvar*$_{1a}$ [*depvar*$_{1b}$ ...=]*varlist*$_1$ [, `noconstant`])

([*eqname*$_2$:]*depvar*$_{2a}$ [*depvar*$_{2b}$ ...=]*varlist*$_2$ [, `noconstant`])

...

([*eqname*$_N$:]*depvar*$_{Na}$ [*depvar*$_{Nb}$ ...=]*varlist*$_N$ [, `noconstant`])

[*if*] [*in*] [*weight*] [, *options*]

Explicit equation naming (*eqname*:) cannot be combined with multiple dependent variables in an equation specification.

options	Description
Model	
isure	iterate until estimates converge
constraints(*constraints*)	apply specified linear constraints
df adj.	
small	report small-sample statistics
dfk	use small-sample adjustment
dfk2	use alternate adjustment
Reporting	
level(#)	set confidence level; default is level(95)
corr	perform Breusch–Pagan test
nocnsreport	do not display constraints
display_options	control column formats, row spacing, line width, display of omitted variables and base and empty cells, and factor-variable labeling
Optimization	
optimization_options	control the optimization process; seldom used
noheader	suppress header table from above coefficient table
notable	suppress coefficient table
coeflegend	display legend instead of statistics

varlist$_1$, ..., *varlist*$_N$ may contain factor variables; see **[U] 11.4.3 Factor variables**. You must have the same levels of factor variables in all equations that have factor variables.

*depvar*s and the *varlist*s may contain time-series operators; see **[U] 11.4.4 Time-series varlists**.

bootstrap, by, fp, jackknife, rolling, and statsby are allowed; see **[U] 11.1.10 Prefix commands**.

Weights are not allowed with the bootstrap prefix; see **[R] bootstrap**.

aweights are not allowed with the jackknife prefix; see **[R] jackknife**.

aweights and fweights are allowed; see **[U] 11.1.6 weight**.

noheader, notable, and coeflegend do not appear in the dialog box.

See **[U] 20 Estimation and postestimation commands** for more capabilities of estimation commands.

Menu

Statistics > Linear models and related > Multiple-equation models > Seemingly unrelated regression

Description

sureg fits seemingly unrelated regression models (Zellner 1962; Zellner and Huang 1962; Zellner 1963). The acronyms SURE and SUR are often used for the estimator.

Options

Model

`isure` specifies that `sureg` iterate over the estimated disturbance covariance matrix and parameter estimates until the parameter estimates converge. Under seemingly unrelated regression, this iteration converges to the maximum likelihood results. If this option is not specified, `sureg` produces two-step estimates.

`constraints(`*constraints*`)`; see [R] **estimation options**.

df adj.

`small` specifies that small-sample statistics be computed. It shifts the test statistics from chi-squared and z statistics to F statistics and t statistics. Although the standard errors from each equation are computed using the degrees of freedom for the equation, the degrees of freedom for the t statistics are all taken to be those for the first equation.

`dfk` specifies the use of an alternate divisor in computing the covariance matrix for the equation residuals. As an asymptotically justified estimator, `sureg` by default uses the number of sample observations (n) as a divisor. When the `dfk` option is set, a small-sample adjustment is made and the divisor is taken to be $\sqrt{(n-k_i)(n-k_j)}$, where k_i and k_j are the numbers of parameters in equations i and j, respectively.

`dfk2` specifies the use of an alternate divisor in computing the covariance matrix for the equation residuals. When the `dfk2` option is set, the divisor is taken to be the mean of the residual degrees of freedom from the individual equations.

Reporting

`level(`*#*`)`; see [R] **estimation options**.

`corr` displays the correlation matrix of the residuals between equations and performs a Breusch–Pagan test for independent equations; that is, the disturbance covariance matrix is diagonal.

`nocnsreport`; see [R] **estimation options**.

display_options: `noomitted`, `vsquish`, `noemptycells`, `baselevels`, `allbaselevels`, `nofvlabel`, `fvwrap(`*#*`)`, `fvwrapon(`*style*`)`, `cformat(`*%fmt*`)`, `pformat(`*%fmt*`)`, `sformat(`*%fmt*`)`, and `nolstretch`; see [R] **estimation options**.

Optimization

optimization_options control the iterative process that minimizes the sum of squared errors when `isure` is specified. These options are seldom used.

`iterate(`*#*`)` specifies the maximum number of iterations. When the number of iterations equals *#*, the optimizer stops and presents the current results, even if the convergence tolerance has not been reached. The default value of `iterate()` is the current value of `set maxiter` (see [R] **maximize**), which is `iterate(16000)` if `maxiter` has not been changed.

`trace` adds to the iteration log a display of the current parameter vector

`nolog` suppresses the display of the iteration log.

`tolerance(`*#*`)` specifies the tolerance for the coefficient vector. When the relative change in the coefficient vector from one iteration to the next is less than or equal to *#*, the optimization process is stopped. `tolerance(1e-6)` is the default.

The following options are available with sureg but are not shown in the dialog box:

noheader suppresses display of the table reporting F statistics, R-squared, and root mean squared error above the coefficient table.

notable suppresses display of the coefficient table.

coeflegend; see [R] estimation options.

Remarks and examples

stata.com

Seemingly unrelated regression models are so called because they appear to be joint estimates from several regression models, each with its own error term. The regressions are related because the (contemporaneous) errors associated with the dependent variables may be correlated. Chapter 5 of Cameron and Trivedi (2010) contains a discussion of the seemingly unrelated regression model and the feasible generalized least-squares estimator underlying it.

▷ Example 1

When we fit models with the same set of right-hand-side variables, the seemingly unrelated regression results (in terms of coefficients and standard errors) are the same as fitting the models separately (using, say, regress). The same is true when the models are nested. Even in such cases, sureg is useful when we want to perform joint tests. For instance, let us assume that we think

$$\texttt{price} = \beta_0 + \beta_1\texttt{foreign} + \beta_2\texttt{length} + u_1$$

$$\texttt{weight} = \gamma_0 + \gamma_1\texttt{foreign} + \gamma_2\texttt{length} + u_2$$

Because the models have the same set of explanatory variables, we could estimate the two equations separately. Yet, we might still choose to estimate them with sureg because we want to perform the joint test $\beta_1 = \gamma_1 = 0$.

We use the small and dfk options to obtain small-sample statistics comparable with regress or mvreg.

```
. use http://www.stata-press.com/data/r13/auto
(1978 Automobile Data)
. sureg (price foreign length) (weight foreign length), small dfk
Seemingly unrelated regression
```

Equation	Obs	Parms	RMSE	"R-sq"	F-Stat	P
price	74	2	2474.593	0.3154	16.35	0.0000
weight	74	2	250.2515	0.8992	316.54	0.0000

	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
price						
foreign	2801.143	766.117	3.66	0.000	1286.674	4315.611
length	90.21239	15.83368	5.70	0.000	58.91219	121.5126
_cons	-11621.35	3124.436	-3.72	0.000	-17797.77	-5444.93
weight						
foreign	-133.6775	77.47615	-1.73	0.087	-286.8332	19.4782
length	31.44455	1.601234	19.64	0.000	28.27921	34.60989
_cons	-2850.25	315.9691	-9.02	0.000	-3474.861	-2225.639

These two equations have a common set of regressors, and we could have used a shorthand syntax to specify the equations:

```
. sureg (price weight = foreign length), small dfk
```

Here the results presented by `sureg` are the same as if we had estimated the equations separately:

```
. regress price foreign length
  (output omitted )
. regress weight foreign length
  (output omitted )
```

There is, however, a difference. We have allowed u_1 and u_2 to be correlated and have estimated the full variance–covariance matrix of the coefficients. `sureg` has estimated the correlations, but it does not report them unless we specify the `corr` option. We did not remember to specify `corr` when we fit the model, but we can redisplay the results:

```
. sureg, notable noheader corr

Correlation matrix of residuals:

         price  weight
 price  1.0000
weight  0.5840  1.0000

Breusch-Pagan test of independence: chi2(1) =    25.237, Pr = 0.0000
```

The `notable` and `noheader` options prevented `sureg` from redisplaying the header and coefficient tables. We find that, for the same cars, the correlation of the residuals in the `price` and `weight` equations is 0.5840 and that we can reject the hypothesis that this correlation is zero.

We can test that the coefficients on `foreign` are jointly zero in both equations—as we set out to do—by typing `test foreign`; see [R] **test**. When we type a variable without specifying the equation, that variable is tested for zero in all equations in which it appears:

```
. test foreign
 ( 1)  [price]foreign = 0
 ( 2)  [weight]foreign = 0

       F(  2,   142) =   17.99
            Prob > F =    0.0000
```

◁

▷ Example 2

When the models do not have the same set of explanatory variables and are not nested, `sureg` may lead to more efficient estimates than running the models separately as well as allowing joint tests. This time, let us assume that we believe

$$\texttt{price} = \beta_0 + \beta_1\texttt{foreign} + \beta_2\texttt{mpg} + \beta_3\texttt{displ} + u_1$$

$$\texttt{weight} = \gamma_0 + \gamma_1\texttt{foreign} + \gamma_2\texttt{length} + u_2$$

To fit this model, we type

```
. sureg (price foreign mpg displ) (weight foreign length), corr
Seemingly unrelated regression
```

Equation	Obs	Parms	RMSE	"R-sq"	chi2	P
price	74	3	2165.321	0.4537	49.64	0.0000
weight	74	2	245.2916	0.8990	661.84	0.0000

	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
price						
foreign	3058.25	685.7357	4.46	0.000	1714.233	4402.267
mpg	-104.9591	58.47209	-1.80	0.073	-219.5623	9.644042
displacement	18.18098	4.286372	4.24	0.000	9.779842	26.58211
_cons	3904.336	1966.521	1.99	0.047	50.0263	7758.645
weight						
foreign	-147.3481	75.44314	-1.95	0.051	-295.2139	.517755
length	30.94905	1.539895	20.10	0.000	27.93091	33.96718
_cons	-2753.064	303.9336	-9.06	0.000	-3348.763	-2157.365

```
Correlation matrix of residuals:
          price   weight
 price   1.0000
weight   0.3285   1.0000
Breusch-Pagan test of independence: chi2(1) =     7.984, Pr = 0.0047
```

In comparison, if we had fit the `price` model separately,

```
. regress price foreign mpg displ
```

Source	SS	df	MS
Model	294104790	3	98034929.9
Residual	340960606	70	4870865.81
Total	635065396	73	8699525.97

Number of obs =	74
F(3, 70) =	20.13
Prob > F =	0.0000
R-squared =	0.4631
Adj R-squared =	0.4401
Root MSE =	2207

price	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
foreign	3545.484	712.7763	4.97	0.000	2123.897	4967.072
mpg	-98.88559	63.17063	-1.57	0.122	-224.8754	27.10426
displacement	22.40416	4.634239	4.83	0.000	13.16146	31.64686
_cons	2796.91	2137.873	1.31	0.195	-1466.943	7060.763

The coefficients are slightly different, but the standard errors are uniformly larger. This would still be true if we specified the `dfk` option to make a small-sample adjustment to the estimated covariance of the disturbances.

◁

❑ Technical note

Constraints can be applied to SURE models using Stata's standard syntax for constraints. For a general discussion of constraints, see [R] **constraint**; for examples similar to seemingly unrelated regression models, see [R] **reg3**.

❑

Stored results

sureg stores the following in e():

Scalars	
e(N)	number of observations
e(k)	number of parameters
e(k_eq)	number of equations in e(b)
e(mss_#)	model sum of squares for equation #
e(df_m#)	model degrees of freedom for equation #
e(rss_#)	residual sum of squares for equation #
e(df_r)	residual degrees of freedom
e(r2_#)	R-squared for equation #
e(F_#)	F statistic for equation # (small only)
e(rmse_#)	root mean squared error for equation #
e(dfk2_adj)	divisor used with VCE when dfk2 specified
e(ll)	log likelihood
e(chi2_#)	χ^2 for equation #
e(p_#)	significance for equation #
e(cons_#)	1 if equation # has a constant, 0 otherwise
e(chi2_bp)	Breusch–Pagan χ^2
e(df_bp)	degrees of freedom for Breusch–Pagan χ^2 test
e(cons_#)	1 when equation # has a constant; 0, otherwise
e(rank)	rank of e(V)
e(ic)	number of iterations
Macros	
e(cmd)	sureg
e(cmdline)	command as typed
e(method)	sure or isure
e(depvar)	names of dependent variables
e(exog)	names of exogenous variables
e(eqnames)	names of equations
e(wtype)	weight type
e(wexp)	weight expression
e(corr)	correlation structure
e(small)	small
e(dfk)	alternate divisor (dfk or dfk2 only)
e(properties)	b V
e(predict)	program used to implement predict
e(marginsok)	predictions allowed by margins
e(marginsnotok)	predictions disallowed by margins
e(asbalanced)	factor variables fvset as asbalanced
e(asobserved)	factor variables fvset as asobserved
Matrices	
e(b)	coefficient vector
e(Cns)	constraints matrix
e(Sigma)	$\widehat{\Sigma}$ matrix
e(V)	variance–covariance matrix of the estimators
Functions	
e(sample)	marks estimation sample

Methods and formulas

sureg uses the asymptotically efficient, feasible, generalized least-squares algorithm described in Greene (2012, 292–304). The computing formulas are given on page 293–294.

The R-squared reported is the percent of variance explained by the predictors. It may be used for descriptive purposes, but R-squared is not a well-defined concept when GLS is used.

sureg will refuse to compute the estimators if the same equation is named more than once or the covariance matrix of the residuals is singular.

The Breusch and Pagan (1980) χ^2 statistic—a Lagrange multiplier statistic—is given by

$$\lambda = T \sum_{m=1}^{M} \sum_{n=1}^{m-1} r_{mn}^2$$

where r_{mn} is the estimated correlation between the residuals of the M equations and T is the number of observations. It is distributed as χ^2 with $M(M-1)/2$ degrees of freedom.

> Arnold Zellner (1927–2010) was born in New York. He studied physics at Harvard and economics at Berkeley, and then he taught economics at the Universities of Washington and Wisconsin before settling in Chicago in 1966. Among his many major contributions to econometrics and statistics are his work on seemingly unrelated regression, three-stage least squares, and Bayesian econometrics.

References

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Also see

[R] **sureg postestimation** — Postestimation tools for sureg

[R] **nlsur** — Estimation of nonlinear systems of equations

[R] **reg3** — Three-stage estimation for systems of simultaneous equations

[R] **regress** — Linear regression

[MV] **mvreg** — Multivariate regression

[SEM] example 12 — Seemingly unrelated regression

[SEM] **intro 5** — Tour of models

[TS] **dfactor** — Dynamic-factor models

[U] 20 Estimation and postestimation commands