Unbiased Instrumental Variables (IV) in Stata

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https://www.stata.com/meeting/uk19/

Magic Bullets

- Instrumental Variables (IV) methods are the only way to estimate causal effects in a variety of settings, including experiments (randomized control trials or RCTs) with imperfect compliance

❖ IV methods often exhibit poor performance

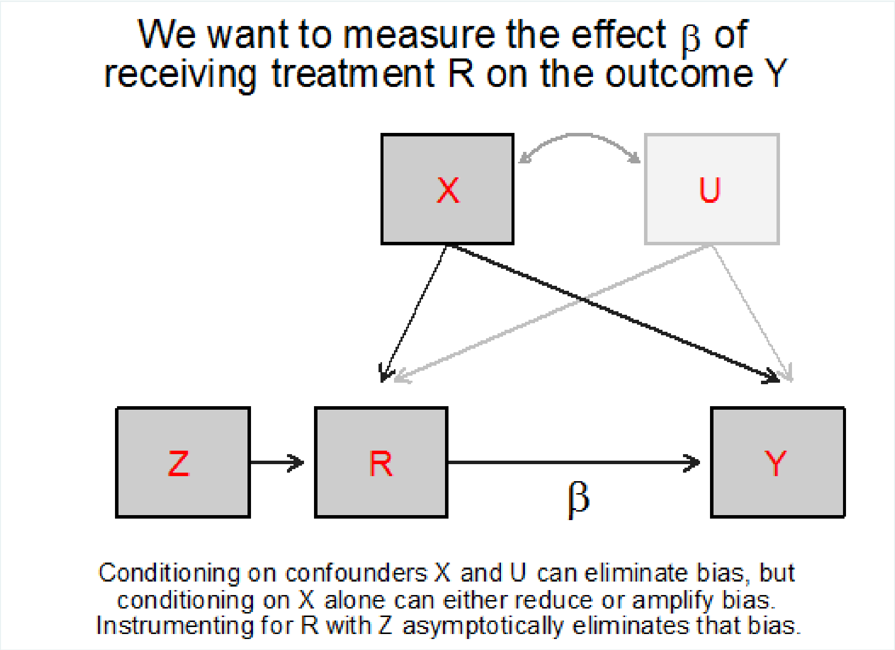
  – Bias & size distortion with many weak instruments
  – No finite moments when exactly identified

- Andrews and Armstrong (2017) offer a solution

Causal Diagram

- Conditioning on confounders does not in general solve the problem of endogenous participation in a treatment of interest

- The receipt of a treatment (R=1) whose effect β we want to measure may be randomly assigned (Z=1), but we still need IV to estimate impact



Sign restriction allows unbiased IV

- IV has one fewer moments than overid restrictions, so exactly identified IV has no moments
  - Hirano and Porter (2015) show that mean, median, and quantile unbiased estimation are all impossible in the linear IV model with an unrestricted parameter space for the first stage
- This result no longer holds when the sign of the first stage is known (e.g. no defiers, some compliers):
  - In models with a single instrumental variable, Andrews and Armstrong (2017) show that there is a unique unbiased estimator based on the reduced form and first-stage regression estimates
  - This estimator is substantially less dispersed than the usual 2SLS estimator in finite samples
- In an RCT, we are very confident the first stage is positive

Model and Estimator

$Y = Z\pi\beta + u$ ← reduced form coef $\xi_1 = (Z'Z)^{-1}(Z'Y)$

$R = Z\pi + v$ ← first stage coef $\xi_2 = (Z'Z)^{-1}(Z'R)$

IV estimator constructs Wald ratio ξ_1 / ξ_2

Assume u,v normal so $(\xi_1, \xi_2) \sim N(\mu, \Sigma)$ w/variance $\Sigma = (\sigma_1^2, \sigma_{12} \backslash \sigma_{12}, \sigma_2^2)$

Let $d = (\xi_1 - \xi_2 \sigma_{12} / \sigma_2^2)$. $E[d] = \pi\beta - \pi\sigma_{12} / \sigma_2^2$

Voinov and Nikulin (1993) show that unbiased estimation of $1/\pi$ is possible if its sign is known:

Let $t = \Phi(-\xi_2 / \sigma_2) / \phi(\xi_2 / \sigma_2)\sigma_2$ then $E[t] = 1/\pi$ and $E[dt] = E[d]E[t] = \beta - \sigma_{12} / \sigma_2^2$

Estimator $b_U = dt + s_{12}/v_2$

Further considerations

- b_U is asymptotically equivalent to 2SLS when instruments are strong and thus b_U can be used together with conventional 2SLS standard errors

- Optimal *estimation* and optimal *testing* are distinct questions in the context of weak instruments
  - b_U is uniformly minimum risk unbiased for convex loss, but Moreira (2009) indicates that the Anderson–Rubin test is the *uniformly most powerful* unbiased two-sided test in the just-identified context (not a conditional t-test based on b_U)
  - more research needed on *tests* based on this unbiased IV estimator…

Small-Sample Properties

- Note this applies to bivariate normal errors with known variance, not the focal case of random assignment Z={0,1} and endogenous receipt of treatment R={0,1}
  - Appendix B (Nonnormal errors and unknown reduced-form variance) "derives asymptotic results for the case with non-normal errors and an estimated reduced-form covariance matrix. Appendix B.1 shows asymptotic unbiasedness in the weak-instrument case. Appendix B.2 shows asymptotic equivalence with 2SLS in the strong-instrument case"
  - How does this approach perform in finite samples?

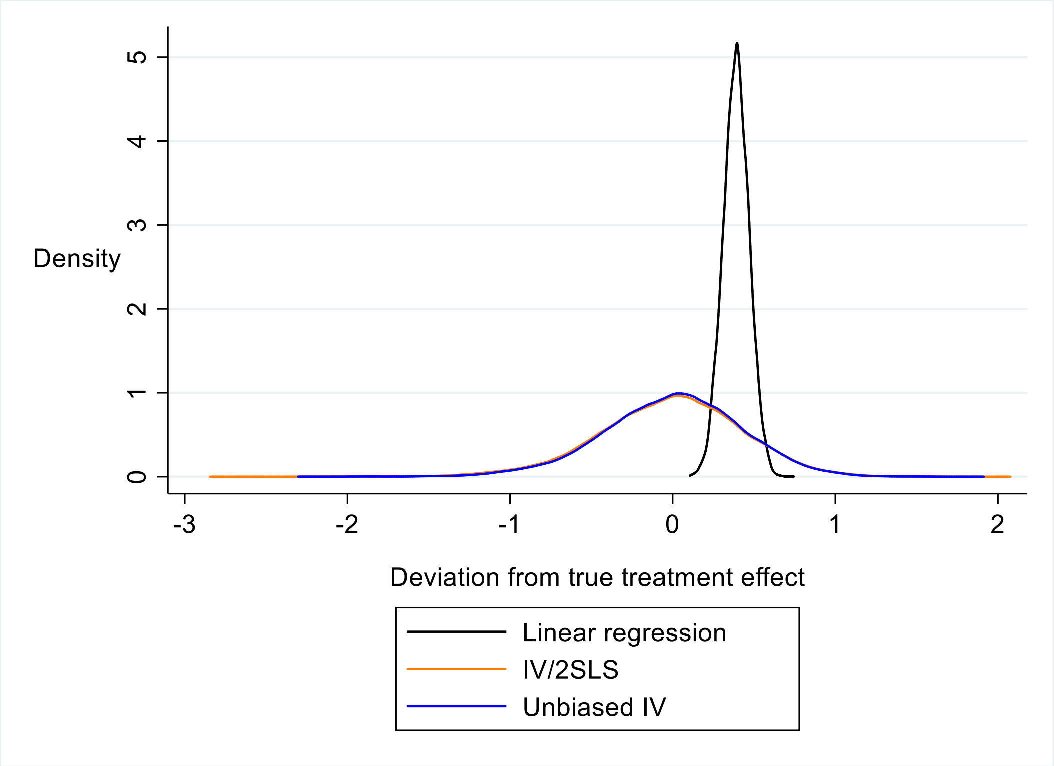
Stata command

- Estimator implemented as `aaniv` on SSC
- Download using `ssc install aaniv`
- So far, just one endogenous treatment and one excluded instrument (as of today), as is ideal for an RCT, but the command will be updated in future releases to a larger set of use cases

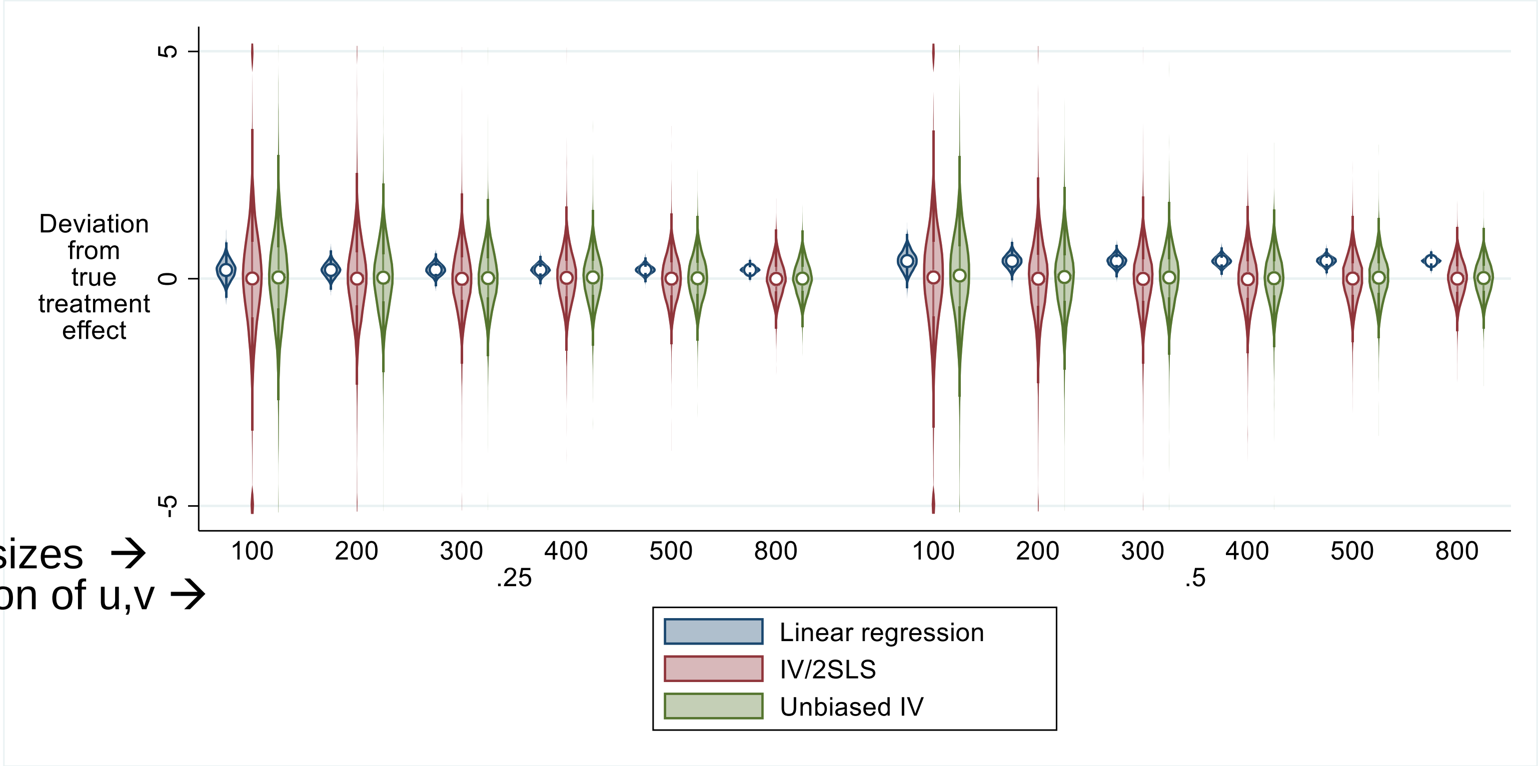
Small-Sample Properties

- Even with binary R and Z, so non-normal errors by design, standard linear regression rejects the truth all the time, and unbiased IV outperforms standard IV/2SLS

  (this simulation has a high correlation between a normal variate that predicts R and the unobserved error that predicts the outcome Y)

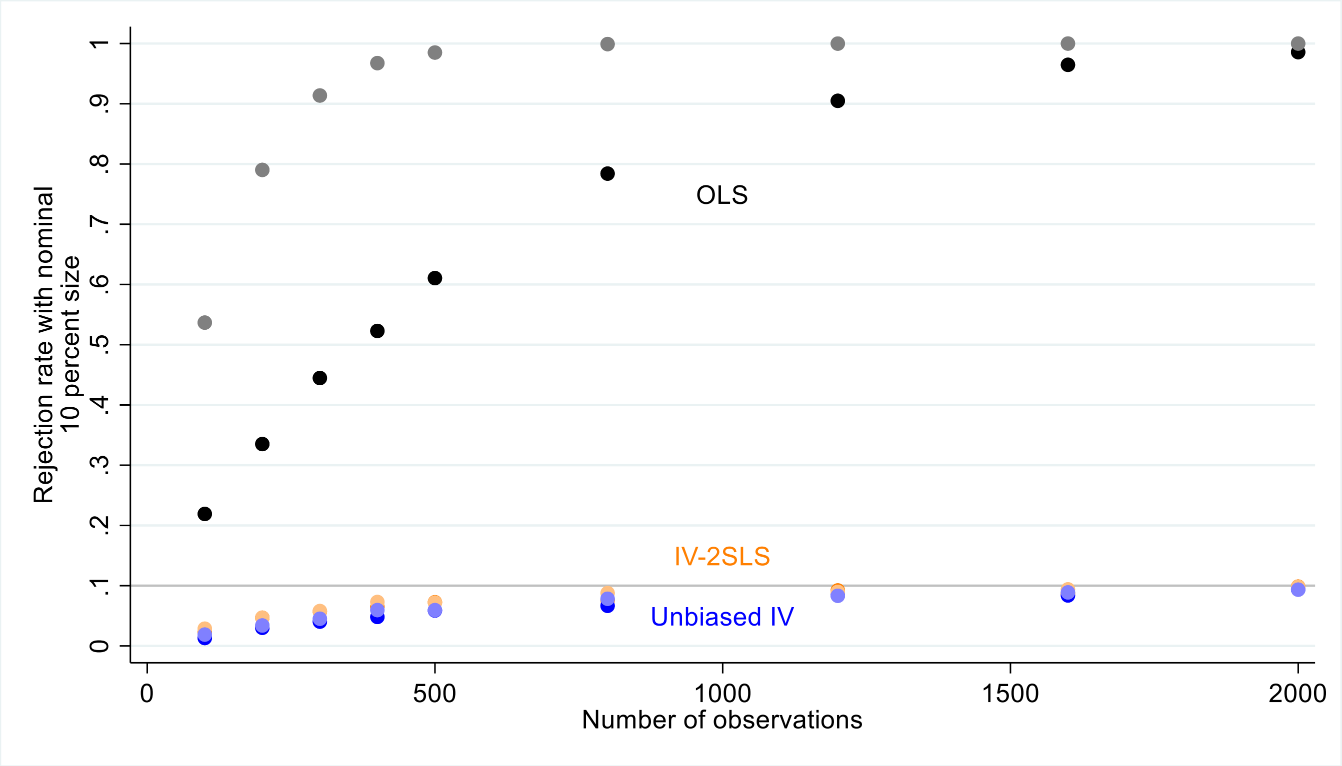


Distributions of Estimators by Sample Size and Correlation



Sample sizes →
Correlation of u,v →

Rejection rates about right for IV models, in large samples



Conclusion

- Unbiased IV performs as well as IV-2SLS in a setting that it is not explicitly designed for, with no bias and lower evident dispersion (but neither has a finite variance)
  - Report unbiased IV for an experiment, if only to enable meta-analysis; use `aaniv` in Stata (`ssc install aaniv`)
- Rejection rates for both Unbiased IV and IV 2SLS are approximately at the nominal rate when sample size is over a thousand
  - At smaller sample sizes, there is some under-rejection of a true null—using the deprecated t-tests, not the preferred AR test

Contact

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