8 Ecological Panel Inference from Repeated Cross Sections*

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ABSTRACT

This chapter presents a Markov chain model for the estimation of individual-level binary transitions from a time series of independent repeated cross-sectional (RCS) samples. Although RCS samples lack direct information on individual turnover, it is demonstrated here that it is possible with these data to draw meaningful conclusions on individual state-to-state transitions. We discuss estimation and inference using maximum likelihood, parametric bootstrap, and Markov chain Monte Carlo approaches. The model is illustrated by an application to the rise in ownership of computers in Dutch households since 1986, using a 13-wave annual panel data set. These data encompass more information than we need to estimate the model, and this additional information allows us to assess the validity of the parameter estimates. We examine the determinants of the transitions from have-not to have (and back again) using well-known socioeconomic and demographic covariates of the digital divide. Parametric bootstrap and Bayesian simulation are used to evaluate the accuracy and the precision of the ML estimates, and the results are also compared with those of a first-order dynamic panel model. To mimic genuine repeated cross-sectional data, we additionally analyze samples of independent observations randomly drawn from the panel. Software implementing the model is available.

8.1 INTRODUCTION

It has sometimes been argued that King’s ecological inference model can be adapted and fruitfully applied to independent repeated cross-sectional (RCS) samples (see, e.g., Penubarti and Schuessler, 1998; King, Rosen, and Tanner 1999). To date, however, surprisingly little research has been devoted to the development of cross-level inference models that draw panel conclusions from nonpanel data. Moreover, the existing approaches to ecological panel inference are implicitly or explicitly grouping methods, which suffer from small-sample-size restrictions. The individual observations are typically grouped into a limited number of observed covariate patterns, based on time-invariant characteristics (e.g., sex, race). For each covariate pattern, the margins of a transition table are obtained by aggregating

* The data for the Socio-Economic Panel used in this paper were collected by Statistics Netherlands and were made available by the Scientific Statistical Agency of the Netherlands Organization for Scientific Research. Our program CrossMark implements all the simulations and estimations reported here. It is programmed in Delphi but distributed as a standalone program running under Windows. The program (including documentation) is free software and available from the first author (b.pelzer@maw.kun.nl).

1 Studies that are related to this topic include Franklin (1989), Moffitt (1990, 1993), Sigelman (1991), Mebane and Wand (1997), Penubarti and Schuessler (1998). The model presented by Quinn in Chapter 9 of this volume is also of relevance. The framework discussed here has, in its basic form, been proposed by Moffitt (1990, 1993). Pelzer, Eisinga, and Franses (2002) discuss the (dis)similarities between this model and the ecological panel inference (EPI) method of Penubarti and Schuessler (1998) and the two-stage auxiliary instrumental variables (2SAIV) approach of Franklin (1989).
within the groupings, and this aggregate information is subsequently used to track changes in the dependent variable of interest. Obviously, such grouping methods are likely to face difficulties (such as sparse-data problems) if the number of covariates and/or the number of repeated cross sections become large.

In this chapter we consider a transition inference model for RCS data with a more dynamic and more flexible structure. In the model proposed here, the micro observations need not be divided into (fixed) groups to obtain sample aggregates. In fact, the variation in the individual covariates is utilized as part of the estimation procedure. The model therefore takes full advantage of the individual survey data and provides full information on the effects of covariates entering the model.

There are several reasons for investigating dynamic models for RCS data. One is the lack of genuine panel data. Panel designs are, rightfully, highly regarded for the opportunity they offer to measure transitions of state or value from repeated observations on the same sample units. For many research issues, however, adequate panel data are rather hard to come by or simply unavailable. Another major difficulty is that panel data are potentially subject to nonsampling biases. An important such bias is sample attrition that results from the progressive loss of (often selective groups of) respondents willing to participate in the data collection. While nonresponse is also a limitation for cross-sectional surveys, it is a more serious problem for panel data because nonresponse often accumulates over time. A related limitation is that it is often difficult to ensure that changes in the target population are reflected in the panel. While panels are typically designed to be representative of the population at the beginning of the study, the panel ages over time, and few panels are, in addition to providing longitudinal data, also designed to permanently provide fully representative information of the population by continuous renewal of the sample.

A large number of cross-sectional surveys conducted by public and private organizations are repeated at regular time intervals. These repeated cross-sectional surveys do not suffer from panel mortality and reflect changes in the universe that cannot be taken into account by a panel study. Estimating individual transitions from such data has an air of performing an impossible task, of obtaining information from nowhere. Indeed, it is often argued that panel data are absolutely needed to study individual-level change (e.g., Kish, 1987: 167). While individual change is obviously only visible in panel data, we will show that this argument is not correct and that data from successive, separately drawn samples can be used to validly estimate transitions using a model that is no more magical than the use of “plug-in” estimates and bridging assumptions in other areas of statistical modeling.

The outline of this chapter is as follows. Section 8.2 presents a Markov transition model for repeated cross sections designed to deal specifically with binary responses. The model has its origins in the work of Moffitt (1990, 1993). We briefly review its main features and discuss maximum likelihood (ML), parametric bootstrap, and Markov chain Monte Carlo (MCMC) approaches to estimation and inference. Section 8.3 considers an application of the model to the rise in computer penetration rates in Dutch households from 1986 to 1998, using annual panel data from the Socio-Economic Panel (SEP) survey of Statistics Netherlands. We examine the determinants of the transitions from “have-not” to “have” (and back again) using well-known socioeconomic and demographic covariates of the digital divide. Parametric bootstrap and Bayesian simulation are used to evaluate the accuracy and the precision of the RCS Markov ML estimates, and the results are also compared with those of a first-order dynamic panel model. To mimic genuine RCS data, we additionally analyze samples of independent observations randomly drawn from the panel. The summary in Section 8.4 concludes the chapter.
8.2 ESTIMATING TRANSITIONS FROM RCS DATA

8.2.1 Binary Transition Model

Obviously, the estimation of dynamic models with repeated cross-sectional data is hampered by the lack of information about lagged variables. Let $y_{it}$ denote the observed response for unit $i$ at time period $t$. The crucial characteristic of RCS data is that $y_{it}$ is observed, but $y_{i,t-1}$ is not. Consequently, no estimate of the serial covariance of successive $y_{it}$ is available in RCS data. This does not imply that dynamic models cannot be estimated with repeated cross sections. However, it does imply that estimation of the unobserved transitions is possible only by putting certain constraints on the transitions for unit $i$ and/or time period $t$.

Consider a $2 \times 2$ transition table in which the internal cell values sum to unity across rows. If we define $p_{it} = P(y_{it} = 1)$, $\mu_{it} = P(y_{it} = 1 \mid y_{i,t-1} = 0)$, and $\lambda_{it} = P(y_{it} = 0 \mid y_{i,t-1} = 1)$, then we have the well-known accounting equation

$$E(y_{it}) = p_{it} = \mu_{it}(1 - p_{i,t-1}) + (1 - \lambda_{it})p_{i,t-1}, \quad (8.1)$$

which is recognized as the equivalent of Equation 0.4 presented in the introduction to this book. This identity is the critical equation that needs to be solved in estimating dynamic models with repeated cross sections, as it relates the marginal probabilities ($p_{it}$ and $p_{i,t-1}$) to the entry ($\mu_{it}$) and exit ($\lambda_{it}$) transition probabilities. A more concise form for the same equation is $p_{it} = \mu_{it} + \eta_{it}p_{i,t-1}$, so that $\eta_{it} = 1 - \lambda_{it} - \mu_{it}$. It is also sometimes convenient to define $\kappa_{it} = 1 - \lambda_{it} = P(y_{it} = 1 \mid y_{i,t-1} = 1)$. If we recursively substitute for $p_{it}$ in Equation 8.1 and derive its reduced form in terms of past $\mu_{it}$ and $\lambda_{it}$, then we get

$$p_{it} = \mu_{it} + \sum_{t=1}^{t-1} \left[ \mu_{it} \prod_{s=t+1}^{t} \eta_{is} \right] + p_{i0} \prod_{t=1}^{t} \eta_{it}. \quad (8.2)$$

This is the model equation that will be used in this chapter. It is obviously not uniquely solvable with RCS data without identifying constraints. Several types of restrictions may be used in this context.

One is to impose some direct restraint on the patterns of the unobserved $\mu_{it}$ and $\lambda_{it}$. For example, the parameters in Equation 8.2 are clearly identifiable with RCS data if we take the transition probabilities to be homogeneous with respect to both units $i$ and time periods $t$. With the assumption that $\mu_{it} = \mu$ and $\lambda_{it} = \lambda$ for all $i$ and $t$, the long-run value of $p_{it}$ in Equation 8.2 reduces to $p_{it} = \mu/(\mu + \lambda)$ (see, e.g., Ross, 1993: 152–153). Models with this type of homogeneity have been studied extensively in the statistical literature, and they have been applied in various economic, social, and political science studies (see Pelzer, Eisinga, and Franses, 2002, for additional references).

The model proposed here uses a different type of restriction. This restriction may be imposed if the cross-sectional data include covariates $x_{it}$ that are measurable in the past (by “backcasting”), and if the current and the lagged $x_{it}$ affect $\mu_{it}$ and $\lambda_{it}$. In that case, the covariates $x_{it}$, $x_{i,t-1}$, …, $x_{i1}$ can be employed to obtain current and backward predictions of the entry ($\mu_{it}$, $\mu_{i,t-1}$, …, $\mu_{i1}$) and exit ($\lambda_{it}$, $\lambda_{i,t-1}$, …, $\lambda_{i1}$) transition probabilities, by specifying

$$\mu_{it} = F(x_{it} \beta) \quad \text{and} \quad \lambda_{it} = 1 - F(x_{it} \beta^*). \quad (8.3)$$
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In these equations $\beta$ and $\beta^*$ are two different sets of $k$-dimensional parameters associated with two potentially different sets of (time-invariant or time-varying) $k$-dimensional covariates $x_{it}$, and $F$ is the – in this paper logistic – link function. Estimates of the model parameters are obtained by substituting Equation 8.3 into 8.2.

The critical identifying restriction used here is that the regression parameters are taken to be constant over time, but this constancy assumption may easily be relaxed if we have a sufficient number of repeated cross sections. We may use a semiparametric approach that assumes the parameters to be constant within but different across discrete time periods, or we can model the parameters as a function of time using polynomials or splines. For example, in our empirical illustration below, we introduce time variation into the model by allowing the baseline entry rates (i.e., the constant parameter) to become a function of time. This is accomplished simply by including the variable time in the model.

It is important to note that the underlying Markov chain is not assumed to be homogeneous in the model proposed here, implying that the entry and exit transition probabilities may vary across both units $i$ and time periods $t$. Also note that to obtain $p_{it}$, we actually integrate (sum) over all possible unobserved state-to-state transition paths for each individual unit $i$, starting at $t = 1$ and ending at the cross-sectional observation period $t$. This implies that the probabilities are estimated as a function of all the available cross-sectional samples, rather than simply the observations from the current time period.

Other, perhaps more implicit assumptions underlying the application of the model are that $p_{i0} = 0$, that all the covariates $x_{it}$ included in the model should have known values in the past, and that the estimation of the entry and exit transitions depend exclusively on variations in the covariates observed. With respect to the first assumption, it should be noted that $p_{i1}$ is the first observed outcome and $p_{i0}$ the value of the state prior to the first outcome. It is generally difficult to incorporate the prior state into the model, and we could invoke the restriction that $p_{i1} = 0$, the consequence of which would be that $p_{i1} = \mu_{it}$. However, because in many applications the latter assumption is untenable, we prefer to use a separate logistic function for the cross section at $t = 1$, i.e., $P(\gamma_{i1} = 1) = F(x_{i}, \delta)$. The $\delta$-parameters are estimated simultaneously with the entry and exit parameters of interest at $t = 2, \ldots, T$, and they are estimated as a function of all cross-sectional data, rather than simply the observations at $t = 1$.

If some of the covariates are “nonbackcastable” (i.e., if their past history is unknown), the model may be modified by estimating two different sets of parameters for both $\mu_{it}$ and $\lambda_{it}$: one for the current transition probability estimates and a separate one for the preceding estimates. If we denote the time-dependent covariate with unknown past history by $v_{it}$ and the associated parameter vector representing the effect on $\mu_{it}$ by $\gamma$, then we have \( \text{logit}(\mu_{it}) = x_{it} \beta^{**} + v_{it} \gamma \) for cross section $t$, and \( \text{logit}(\mu_{it}) = x_{it} \beta \) for the cross sections $1, \ldots, t - 1$. This specification allows one to express the current transition probability estimates as a logistic function of both backcastable and nonbackcastable variables. A similar model may be specified for $\lambda_{it}$. It should be noted here that in our application below we assume that $\beta^{**} = \beta$.

If the assumption that all relevant variables are included in the model is not a realistic one, it may be useful to include an individual-specific random error term $\epsilon_i$ in the linear predictor of the transition probabilities to allow for omitted variables, at least insofar as these variables are time-invariant for each individual. In this logistic–normal mixture model we have \( \text{logit}(\mu_{it}) = x_{it} \beta + \gamma_0 \epsilon_i \) and \( \text{logit}(1 - \lambda_{it}) = x_{it} \beta^{**} + \gamma_1 \epsilon_i \), where $\gamma_0$ and $\gamma_1$ are coefficients of the random variable $\epsilon_i$ having zero mean and unit variance. To estimate the parameters, the (marginal) likelihood of this model may be integrated with respect to the distribution of $\epsilon_i$ using the Gauss–Hermite quadrature approximation. While likelihood
inference about the parameters is possible, it is worth noting that accurate estimation of $\gamma_0$ and $\gamma_1$ from the data themselves is difficult, unless the number of observations is large. As unobserved heterogeneity is not examined in the empirical application below, we will not elaborate on this topic here. Pelzer, Eisinga, and Franses (2002) provide further details.

Finally, it may be useful to outline the commonalities and differences between the ecological analysis of aggregate data and the Markov model for repeated cross-sectional data proposed here. As noted by Sigelman (1991) and Penubarti and Schuessler (1998), drawing panel inferences at the micro level from repeated cross sections constitutes an ecological inference problem. To demonstrate this point, consider the following partially observed transition table for a population in which there is an absence of both recruitment (immigration or birth) and losses (emigration or death):

<table>
<thead>
<tr>
<th>$Y_t = 0$</th>
<th>$Y_t = 1$</th>
<th>$N_{t-1}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$Y_{t-1} = 0$</td>
<td>$N^0_{t-1}$</td>
<td>$N_t$</td>
</tr>
<tr>
<td>$Y_{t-1} = 1$</td>
<td>$N^1_{t-1}$</td>
<td>$N_t$</td>
</tr>
</tbody>
</table>

In this closed population the marginal distributions are known and fixed, and the ecological inference problem arises because the aggregate measures of change are observed, but the interior cells are not. The two margins provide (at least some) information on the cells, and the accounting identity ensures that the Duncan and Davis (1953) bounds (also termed Fréchet bounds in the statistical literature) will obtain. If we have available a sufficiently large number of transition tables for consecutive time points, an ecological inference model such as that presented by Quinn in Chapter 9 of this volume may be applied to the data.

The situation is somewhat different if the data are drawn from a time series of independent samples of the population of interest. In that case, the marginal values are estimates of the true population parameters and thus themselves subject to error (Tam Cho, 1998). And this implies that the bounds too will be known only up to sampling error. If the sample sizes are large, one may be willing to take the margins as fixed and error-free and use the samples to obtain the marginal proportions of the transition table, as presented in the left panel below:

<table>
<thead>
<tr>
<th>$Y_t = 0$</th>
<th>$Y_t = 1$</th>
<th>$Y_t = 0$</th>
<th>$Y_t = 1$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$Y_{t-1} = 0$</td>
<td>$p^0_{t-1}$</td>
<td>$p^0_{t-1}$</td>
<td>$p^0_{t}$</td>
</tr>
<tr>
<td>$Y_{t-1} = 1$</td>
<td>$p^1_{t-1}$</td>
<td>$p^1_{t-1}$</td>
<td>$p^1_{t}$</td>
</tr>
</tbody>
</table>

If the data are limited to $y_{it}$, we could apply the inference model proposed here, using a Markov model with constant terms only. If we additionally observe covariates, we could also aggregate the micro data into covariate patterns, as in Penubarti and Schuessler (1998), to obtain the marginal distributions of the transition table for each pattern and thus ranges of feasible entries that are consistent with the margins. King’s EI could then be used to exploit the information provided by the bounds (using covariate patterns as equivalents to precincts in the analysis of voting). The number of patterns obviously should not be too large relative to the sample size, to obtain reasonably reliable aggregates. Hence the method is likely to suffer from small-sample-size restrictions.

Also note that in using this grouping method, inferences are at the level of individuals sharing the same values of the observed covariates, that is, at the level of the covariate patterns, rather than at the level of individuals. This allows one to trace fixed groups over
time rather than individuals, whose covariate values might change. Thus, the method is applicable only if we have a sufficient number of observations for every covariate value and, in addition, the covariates are time-invariant (so that the sample population can be divided into groups with fixed membership). It faces difficulties in cases of time-varying or nonbackcastable covariates, and these difficulties increase if the number of repeated cross sections becomes large.

The empirical application discussed in Section 8.3 may be used to illustrate the issue. The covariates used in that example include education, age, number of household members, income, and time. The number of covariate patterns observed is 10,510, and the average number of observations per pattern is 2.5. Even if we were to categorize the variable age into three different age categories, as is done in the estimation procedure, the number of covariate patterns would still be large (1,053) and, accordingly, the number of observations per group low (about 25 on average). That is, the group sizes in this example are simply too small for us to ignore the presence of sampling error. And this implies that the data at hand cannot be used to fruitfully compare the performance of our model with the EI grouping method. That is a very interesting and important topic, but one left for future research with other data.

As indicated, what is special for the current model is that the information available in the repeated cross sections is fully exploited. In the model proposed here, there is no grouping of the data, and in the extreme case each individual unit may have its own covariate pattern. This means, as illustrated in the right panel above, that in our procedure only one of the marginals \((y_{it})\) is available for inference, and the other one \((y_{it-1})\) is not. And this in turn implies that in our model the repeated cross sections themselves cannot provide any deterministic, informative restrictions on the entries. Consequently, the inference problem in the model proposed here is greater (in the sense of having a larger number of unknowns) than in the applications where the margins are (assumed to be) known. The approach proposed here is to completely express the marginal probabilities \(p_{it}\) in terms of \(\mu_{it}\) and \(\kappa_{it}\), recursively, so that estimating the latter automatically renders the former. Also, equation 8.1 may be rearranged into:

\[
\mu_{it} = p_{it}/(1 - p_{it-1}) - p_{it-1}/(1 - p_{it-1})\kappa_{it},
\]

where \(\kappa_{it} = 1 - \lambda_{it}\). This expression resembles the equation that King (1997) termed the “tomography line” (i.e., Equation 0.5 in the Introduction to this book). Since the estimated marginal probabilities \(p_{it}\) and \(p_{it-1}\) are guaranteed to lie in the \((0, 1)\) range, bounds are enforced on the maximum likelihood estimators of \(\mu_{it}\) and \(\kappa_{it}\). These upper and lower limits are not informative as in the Duncan and Davis (1953) methods of bounds, however, but rather logical limits implied by the model.

8.2.2 Estimation and Simulation

8.2.2.1 Maximum Likelihood Estimation

The method of maximum likelihood may be used to estimate the parameters in Equation 8.3 – plugged into 8.2 – along with their (co)variances. For a sample of \(n\) statistically independent observations – where each observation is treated as a single draw from a Bernoulli distribution – with success probability \(p_{it}\), the model 8.2 has the log likelihood function

\[
\ell = \sum_{t=1}^{T} \sum_{i=1}^{n_t} \ell_{it} = \sum_{t=1}^{T} \sum_{i=1}^{n_t} [y_{it}\log(p_{it}) + (1 - y_{it})\log(1 - p_{it})],
\]
where \( T \) is the number of cross sections and \( n_t \) the number of units of the cross-sectional sample at time period \( t \). Maximization of this function has to be performed iteratively and requires the derivatives of the log likelihood with respect to the (vector of) parameters, \( \theta \), say. If we suppress subscript \( t \) to ease notation, the first derivatives with respect to \( \theta \) are

\[
\frac{\partial \ell_t}{\partial \theta} = \frac{y_t - p_t}{p_t(1 - p_t)} \cdot \frac{\partial p_t}{\partial \theta}
\]

where

\[
\frac{\partial p_t}{\partial \theta} = \frac{\partial \mu_t}{\partial \theta} + \frac{\partial \mu_{t-1}}{\partial \theta} \eta_t + p_{t-1} \frac{\partial \eta_t}{\partial \theta}.
\]

If \( \theta \) is used to estimate \( \mu_t \), then \( \partial \mu_t / \partial \theta = x_t \mu_t (1 - \mu_t) \) and \( \partial \eta_t / \partial \theta = -\partial \mu_t / \partial \theta \). If it is used for \( \lambda_t \), then \( \partial \mu_t / \partial \theta = 0 \) and \( \partial \eta_t / \partial \theta = x_t \lambda_t (1 - \lambda_t) \). The values for \( \partial p_t / \partial \theta \) can be obtained by recursive substitution, setting \( p_0 = 0 \) and \( \partial p_0 / \partial \theta = 0 \), and starting from \( \partial p_1 / \partial \theta = \partial \mu_1 / \partial \theta = x_1 \mu_1 (1 - \mu_1) \). The second derivatives are

\[
\frac{\partial^2 \ell_t}{\partial \theta \partial \theta'} = -\frac{(y_t - p_t)^2}{p_t^2(1 - p_t)^2} \cdot \frac{\partial^2 p_t}{\partial \theta \partial \theta'} + \frac{y_t - p_t}{p_t(1 - p_t)} \cdot \frac{\partial^2 p_t}{\partial \theta \partial \theta'} + \frac{y_t - p_t}{p_t(1 - p_t)} \cdot \frac{\partial^2 p_t}{\partial \theta \partial \theta'}
\]

where

\[
\frac{\partial^2 p_t}{\partial \theta \partial \theta'} = \frac{\partial^2 p_{t-1}}{\partial \theta \partial \theta'} \cdot \eta_t + \frac{\partial p_{t-1}}{\partial \theta} \cdot \frac{\partial \eta_t}{\partial \theta'} + \frac{\partial^2 \mu_t}{\partial \theta \partial \theta'} \cdot (1 - p_{t-1}) - \frac{\partial \mu_t}{\partial \theta} \cdot \frac{\partial p_{t-1}}{\partial \theta}.
\]

with \( \partial^2 \mu_t / \partial \theta \partial \theta' = x_t x_t \mu_t (1 - \mu_t) (1 - 2 \mu_t) \). Again, if we set \( \partial^2 p_0 / \partial \theta \partial \theta' = \partial p_0 / \partial \theta = \partial p_0 / \partial \theta' = 0 \), the values for \( \partial^2 p_t / \partial \theta \partial \theta' \) can be obtained recursively, starting from \( \partial^2 p_1 / \partial \theta \partial \theta' = \partial^2 \mu_1 / \partial \theta \partial \theta' \).

The parameter estimates may be obtained by Newton’s method, which uses the Hessian matrix of the actual second derivatives. To speed up computation, we may avoid calculating the exact Hessian by approximating it instead by the expected second derivatives, and use Fisher’s method of scoring. Here we will follow the latter approach. In addition to providing parameter estimates, the Fisher optimization algorithm produces as a by-product an estimate of the asymptotic variance–covariance matrix of the model parameters, given by the inverse of the estimated information matrix evaluated at the converged values of the estimates. Each element of the inverse of the information matrix is a minimum variance bound for the corresponding parameter, and the positive square roots of the diagonal elements of this matrix (i.e., the standard errors of the estimated coefficients) may be used for significance tests and to construct confidence intervals.

According to asymptotic theory, ML estimators become progressively more unbiased and more normally distributed, and achieve the minimum possible variance more closely, as the sample size increases (see, e.g., King, 1989). However, these asymptotic assumptions may be violated in our complex Markov chain model. Moreover, the estimators in our model have essentially unknown properties for small to moderate sample sizes, and we cannot present any guidelines as to when a sample is sufficiently large for the asymptotic properties to be closely approximated. It is therefore important to investigate the behavior of the estimators of the parameters in Equation 8.2 by examining their finite-sampling distribution. The bootstrap and MCMC simulations provide useful tools in this situation.
8.2.2.2 Parametric Bootstrap Simulation

The bootstrap uses Monte Carlo simulation to empirically approximate the probability distribution of the parameter estimates and other statistics, rather than relying on assumptions about its shape that may only be asymptotically correct. The technique used here is the model-based parametric bootstrap (Davison and Hinkley, 1997). For the parametric bootstrap, resamples are taken from the original data via a fitted parametric model to create replicate data sets, from which the variability of the quantities of interest can be assessed. In the repeated simulations, it is assumed that both the form of the deterministic component of the model and the nature of the stochastic component are known. Bootstrap samples are generated using the same fixed covariates as in the original sample and a set of predetermined values for the parameters, allowing only the stochastic component to change randomly from sample to sample. By this means, many bootstrap samples are generated, each of which provides a set of estimates of the parameters that may then be examined for their bias, variance, and other distributional properties and used for bootstrap confidence intervals and hypothesis testing. The parametric bootstrap resampling procedure is implemented here according to the following algorithm:

1. Estimate the unknown parameter \( \theta \) according to the model 8.2, using the original sample \( \{x_{it}, y_{it}\}, i = 1, \ldots, n, t = 1, \ldots, T \), with the estimate denoted as \( \hat{\theta} \), and obtain the fitted values \( \hat{p}_{it} \) of the probability that the binary dependent variable \( y_{it} = 1 \).

2. For each \( x_{it} \) in the original sample \( \{x_{it}, y_{it}\} \), generate a value of the bootstrap dependent variable \( y^*_{it} \) by random sampling from a Bernoulli distribution with success probability given by \( \hat{p}_{it} \).

3. Use the bootstrap sample \( \{x_{it}, y^*_{it}\} \) to fit the parameter estimate \( \theta^* \).

4. Repeat Steps 2 and 3 \( R \) times, yielding the bootstrap replications denoted as \( \hat{\theta}^*_1, \ldots, \hat{\theta}^*_R \).

The empirical distribution of these replications is used to approximate the finite-sample distribution of \( \hat{\theta} \).

In this study we look at the density of the values of \( \hat{\theta}^* \) under resampling of the fitted model to examine the bias and variance and to see if it is multimodal, skewed, or otherwise nonnormal. To obtain an accurate empirical approximation, we use \( R = 5,000 \) replications of the original data set. While the bootstrap estimates of bias and variance under the fitted model are important in their own right, parametric resampling may also be useful in testing problems when standard approximations do not apply or when the accuracy of the approximation is suspect. The key to applying the bootstrap for hypothesis testing is to transform the data so that the null hypothesis is true in the bootstrap population. That is, we simulate data under the null hypothesis, so that bootstrap resampling resembles sampling from a population for which the null hypothesis holds (Hall and Wilson, 1991). The bootstrap hypothesis test compares the observed value in the original sample with the \( R \) values \( \hat{\theta}^*_1, \ldots, \hat{\theta}^*_R \), which are obtained from samples independently generated under the null model that satisfies \( H_0 \). The bootstrap \( P \)-value may then be obtained by \( p^*(\hat{\theta}) = P(\hat{\theta}^* \geq \hat{\theta} \mid H_0) = R^{-1} \sum_{i=1}^{R} I(\theta^* \geq \theta) \), where the indicator \( I(\cdot) \) equals one if the inequality is satisfied and zero if not (Davison and Hinkley, 1997). We reject the null hypothesis if the selected significance level exceeds \( p^*(\hat{\theta}) \).

8.2.2.3 Markov Chain Monte Carlo Simulation

Another powerful tool next to MLE and parametric bootstrap is Bayesian simulation, which is easily implemented using Markov chain Monte Carlo (MCMC) methods. Bayesian data
analysis is not concerned with finding the parameter values for which the likelihood reaches
the global maximum. It is primarily concerned with generating samples from the posterior
distribution of the parameters given the data and a prior density, and this distribution may
be asymmetric and/or multimodal. Other advantages of the Bayesian approach include the
possible incorporation of any available prior information and the ability to make inferences
on arbitrary functions of the parameters or predictions concerning specific individual units
in the sample (see Pelzer and Eisinga, 2002). A popular method for MCMC simulation
is Metropolis sampling (Tanner, 1996). The Metropolis sampler obtains a chain of draws
from the posterior multivariate distribution \( \pi(\theta | y) \) of the parameter \( \theta \). In sampling from
the unknown target distribution, the algorithm uses a known auxiliary density \( A \) — e.g.,
a (multivariate) uniform or normal distribution — to select candidate parameters \( \theta^c \). The
Metropolis algorithm proceeds as follows:

1. Choose a starting value for the parameter (e.g., the ML estimates).
2. Randomly draw the parameter \( \theta^c \) from \( A \), a symmetric proposal distribution with
   mean equal to the previous draw \( \theta \) and an arbitrary variance.
3. If \( \pi(\theta^c | y) \geq \pi(\theta | y) \), add the candidate \( \theta^c \) to the chain of draws. If \( \pi(\theta^c | y) < \pi(\theta | y) \), calculate the ratio
   \( r = \pi(\theta^c | y) / \pi(\theta | y) \), and add \( \theta^c \) with probability \( r \) to
   the chain of draws.
4. If the candidate \( \theta^c \) is not added to the accepted draws in Step 3, add \( \theta \), so that two
   successive elements of the chain have the same parameter value \( \theta \). Else proceed with
   the next step.
5. Repeat Steps 2–4 \( K \) times, yielding a sample from the posterior distribution of \( \theta \).

In the Markov chain sampling used here, we assumed a priori that we are ignorant of the
values of the parameters (i.e., have a vague prior belief). This implies that \( \pi(\theta | y) \) equals
the likelihood of \( \theta \). Once stationarity has been achieved, a value from a chain of draws from
the Metropolis algorithm is supposed to have the same distribution as the target density.
We ran the Metropolis algorithm \( K = 100,000 \) times, excluding an initial burn-in of 10,000
samples, and subsequently obtained the mean, standard deviation, and limits of the 95%
credibility interval of \( \theta \).

8.3 APPLICATION

8.3.1 PC Penetration in Dutch Households

The major concern of this section is how the RCS Markov model performs in practice.
The empirical application is concerned with modeling the rise in computer penetration
rates in Dutch households in the 1986–1998 period using data from the Socio-Economic
Panel (SEP) collected by Statistics Netherlands. The reason for using this 13-wave annual
household panel study is that it offers the opportunity to check the estimation results against
the panel findings. However, it is important to note that in the RCS Markov analysis below the
panel data are treated as if they were observations of a temporal sequence of 13 independent
cross-sectional samples. That is, no use is made of information about lagged values of \( y_{it} \).

The binary dependent variable \( y_{it} \) is defined to equal one if the household owns a personal
computer and zero if not. Table 8.1 reports the proportions of Dutch households with a
PC in 1986–1998 along with the observed entry and exit transition rates. As can be seen,
there is a marked upward time trend in PC ownership, from 12% in 1986 to 57% in 1998.
While the entry rates (i.e., \( \bar{y}_t | y_{t-1} = 0 \) ) also show an increase over time, the exit rates (i.e.,
\( (1 - \bar{y}_t) | y_{t-1} = 1 \) ) show erratic change.
Ecological Panel Inference from Repeated Cross Sections

Table 8.1 Proportions of PC ownership in Dutch households over time, 2208 cases

| Year | $\bar{y}_t$ | $\bar{y}_t | y_{t-1} = 0$ | $(1 - \bar{y}_t) | y_{t-1} = 1$ |
|------|-------------|------------------|------------------|
| 1986 | .12         |                  |                  |
| 1987 | .15         | .05              | .10              |
| 1988 | .20         | .08              | .12              |
| 1989 | .24         | .08              | .13              |
| 1990 | .28         | .08              | .08              |
| 1991 | .31         | .09              | .09              |
| 1992 | .36         | .11              | .09              |
| 1993 | .38         | .10              | .13              |
| 1994 | .41         | .10              | .09              |
| 1995 | .44         | .13              | .11              |
| 1996 | .48         | .13              | .07              |
| 1997 | .51         | .14              | .09              |
| 1998 | .57         | .19              | .07              |

It is clear from previous studies which structural determinants explain systematic variation in the presence of a PC in homes. The most important covariates – in the Netherlands as elsewhere – are educational attainment, age, the size of the household, and household income (see, e.g., OECD, 2001). These variables are included in the SEP household study, but they would generally also be available in a repeated cross-sectional survey. The time-varying variable age of head of household (hereafter age) is categorized into three different age categories (18–34, 35–54, and 55+ years). The time-varying variable number of household members is constructed from cross-sectional information about the number and the ages of the children in the household and the presence of a spouse. It is assumed that a family with children has two adults. The variable highest completed education of head of household (hereafter education) is taken to be fixed over time. In addition to these backcastable variables, the analysis also includes the temporary, nonbackcastable covariate household income. The variable used here is the standardized (i.e., corrected for size and type of household) disposable household income, categorized into quintiles.

8.3.2 RCS Markov Model

8.3.2.1 Maximum Likelihood

The first model fitted was a time-stationary Markov chain with constant terms only. This model produces the parameters $\beta(\mu_t) = -2.543$ and $\beta^*(\lambda_t) = -3.310$ and a log-likelihood value $LL = -15,895.214$. These estimates imply constant transition probabilities $\mu = .073$ and $\lambda = .035$, and hence predicted rates that underestimate the observed sample frequencies reported in Table 8.1. The model was subsequently modified to a nonstationary, heterogeneous Markov model by adding the covariates reported above. In analyzing the data with this model, it became apparent that the covariates have a substantial effect on the transition from have-not to have, but that they contribute little to the explanation of the reverse transition. We therefore decided to model the exit transitions using a constant term only. Further, it turned out that the inclusion of a linear time trend in the prediction of obtaining a computer appreciably improves the fit. We therefore included the variable time in the
Ben Pelzer, Rob Eisinga, and Philip Hans Franses

Table 8.2  ML, parametric bootstrap, and MCMC estimates of RCS Markov model and ML estimates of first-order panel model, observations 26,364

<table>
<thead>
<tr>
<th></th>
<th>ML(^a)</th>
<th>RCS Markov Bootstrap(^b)</th>
<th>MCMC(^b)</th>
<th>Panel ML(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(\delta (r_{t-1}))</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-3.713 (.202)</td>
<td>-3.718 ( .205)</td>
<td>-3.754 (.232)</td>
<td>-3.606 (.276)</td>
</tr>
<tr>
<td>Education</td>
<td>0.382 (.054)</td>
<td>0.381 ( .055)</td>
<td>0.393 (.056)</td>
<td>0.364 (.072)</td>
</tr>
<tr>
<td></td>
<td>[0.271 .489]</td>
<td>[0.288 .504]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 35–54</td>
<td>-0.058 (.119)</td>
<td>-0.057 ( .121)</td>
<td>-0.037 (.120)</td>
<td>0.092 (1.70)</td>
</tr>
<tr>
<td></td>
<td>[-0.294 .181]</td>
<td>[-0.284 .197]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 55 and over</td>
<td>-0.852 (.162)</td>
<td>-0.859 ( .165)</td>
<td>-0.842 (.178)</td>
<td>-0.782 (2.52)</td>
</tr>
<tr>
<td></td>
<td>[-1.201 .551]</td>
<td>[-1.207 .513]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of household members</td>
<td>0.331 (.042)</td>
<td>0.332 ( .043)</td>
<td>0.327 (.038)</td>
<td>0.310 (.061)</td>
</tr>
<tr>
<td></td>
<td>[0.248 .417]</td>
<td>[0.249 .397]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\beta (\mu t=2, \ldots, 13))</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-6.336 (.121)</td>
<td>-6.344 ( .124)</td>
<td>-6.339 (.130)</td>
<td>-5.116 (.138)</td>
</tr>
<tr>
<td>Education</td>
<td>0.368 (.023)</td>
<td>0.369 ( .023)</td>
<td>0.365 (.026)</td>
<td>0.245 (.029)</td>
</tr>
<tr>
<td></td>
<td>[0.323 .413]</td>
<td>[0.310 .414]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 35–54</td>
<td>0.137 (.049)</td>
<td>0.137 ( .050)</td>
<td>0.129 (.049)</td>
<td>-0.098 (.067)</td>
</tr>
<tr>
<td></td>
<td>[0.042 .238]</td>
<td>[0.037 .224]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 55 and over</td>
<td>-1.364 (.066)</td>
<td>-1.365 ( .065)</td>
<td>-1.362 (.067)</td>
<td>-1.270 (.089)</td>
</tr>
<tr>
<td></td>
<td>[-1.494 - 1.240]</td>
<td>[-1.499 - 1.228]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of household members</td>
<td>0.421 (.018)</td>
<td>0.422 ( .018)</td>
<td>0.425 (.020)</td>
<td>0.375 (.023)</td>
</tr>
<tr>
<td></td>
<td>[0.387 .457]</td>
<td>[0.389 .470]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>0.438 (.015)</td>
<td>0.438 ( .015)</td>
<td>0.438 (.016)</td>
<td>0.230 (.022)</td>
</tr>
<tr>
<td></td>
<td>[0.408 .468]</td>
<td>[0.403 .467]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>0.218 (.009)</td>
<td>0.218 ( .009)</td>
<td>0.219 (.010)</td>
<td>0.171 (.008)</td>
</tr>
<tr>
<td></td>
<td>[0.201 .236]</td>
<td>[0.198 .240]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\beta^*(p_{t-2}, \ldots, 13))</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-2.292 (.132)</td>
<td>-2.300 ( .133)</td>
<td>-2.307 ( .198)</td>
<td>-2.284 (.039)</td>
</tr>
<tr>
<td></td>
<td>[-2.576 - 2.058]</td>
<td>[-2.779 - 1.938]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\ell\ell)</td>
<td>-12,895.106</td>
<td>-12,895.106</td>
<td>-12,895.106</td>
<td>-7,766.304</td>
</tr>
</tbody>
</table>

\(^a\) Standard errors in parentheses.
\(^b\) The mean is reported as the point estimate, the standard deviation in parentheses, and the 95th percentile interval in brackets. The parametric bootstrap results are based on \(R = 5,000\) bootstrap samples from the original data, and the MCMC findings on \(K = 100,000\) Metropolis sampler posterior estimates.

The model. This inclusion implies, as indicated in Section 8.2.1, that we drop the assumption of a time-constant intercept and allow the baseline entry rates to increase linearly over time. The results are reported in the second column of Table 8.2.

The top part of the table gives the estimated effects on the marginal probabilities \(p_{1i}\). The table indicates that both education and the number of household members positively affect the presence of a PC in homes. While there is no significant difference in PC ownership between the 18–34-year age group and those aged 35–54, ownership is significantly more widespread among the younger age group than among those aged 55 and over. The middle
part of Table 8.2 presents the effects on the transition from have-not to have with respect to PC ownership. The results show that educational attainment of head of household, household size, household income, and time have a positive effect on obtaining a computer. This finding confirms the conclusion of cross-sectional studies that computer ownership has spread most rapidly among affluent, well-educated families with children (OECD, 2001). The coefficients of the age terms again imply similar entry rates among the younger and middle age groups. The older age group has considerably lower access rates. The parameter estimate of the constant term for $\lambda_{1t}$ is shown in the bottom part of the table. An intercept of $-2.292$ implies a time-constant exit transition probability of $\lambda = 0.092$ (i.e., $\kappa = 0.908$), which perfectly matches the observed mean frequency of 0.092.

### 8.3.2.2 Parametric Bootstrap

As indicated, the benefit of parametric simulation is that the bootstrap estimates give empirical evidence that likelihood theory can be trusted, while providing alternative methods for calculating measures of uncertainty if that theory is unreliable. To examine the sampling distribution of the parameter estimates, we generated $R = 5,000$ bootstrap samples according to the algorithm given in Section 8.2.2.2. Table 8.2 provides for each parameter the mean and the sample standard deviation of the bootstrap estimates. In some applications of likelihood methods the variability of likelihood quantities may be grossly over- or underestimated. As the table shows, however, the misestimation is small enough to be unimportant here. The bootstrap mean values are close to the ML estimates, and the sample standard deviations are similar to the likelihood-based standard errors. The bootstrap estimates of bias and other distributional properties are given in Table 8.3.

The ML estimates of the model parameters appear to be only slightly biased, the largest absolute bias being 0.0086. When the estimated bias is expressed as a percentage of the parameter estimate (not reported in Table 8.3), the largest differences between standard theory and the bootstrap results are found for the parameter $\delta(p_{11})$ of the age 35–54 dummy, for which the percentage bias is 1.85%. All other parameters have percentage biases less than 1%. The parameters also tend to have a small bias compared to the magnitude of their standard deviation. A frequently applied rule of thumb is that a good estimator should be biased by less than 25% of its standard deviation (Efron and Tibshirani, 1993). As can be seen in Table 8.3, the ratios of estimated bias to standard deviation are all much smaller than 0.25. Small values are also found for the root mean square error, which takes into account both standard deviation and bias. The bootstrap sample variance may be compared with the estimated ML variance using a chi-square test to examine whether the sample variance from the bootstrap is significantly larger than the variance from ML (Ratkowsky, 1983). For none of the parameters is the bootstrap variance significantly in excess of the ML variance. The largest value was again found for the $\delta(p_{11})$ parameter of the age 35–54 dummy. The statistic $\chi^2 = (N - 1)(\hat{\sigma}^2_{\text{bootstrap}}/\hat{\sigma}^2_{\text{ML}})$ is distributed as chi-square with 4,999 degrees of freedom (df), a transform of which may be closely approximated by the standard normal distribution, yielding, for this dummy variable, $z = \sqrt{2\chi^2 - 2\chi - 1} = 1.857$.

Table 8.3 also reports the skewness, the excess kurtosis, and the Jarque–Bera (1980) statistic, which may be used to test whether the estimators are normally distributed. The null hypothesis of normality is only rejected for the constant and the age 55+ parameter of $\delta(p_{11})$, and for the constant term parameter of $\beta^*(\lambda)$. The distribution of the latter is somewhat peaked, and all three estimates have an extended tail to the left. The normal approximation is least accurate for the $\beta^*(\lambda)$ constant. However, even for this estimate the deviation from normality is negligible. The same goes for the distribution of $\kappa = (1 + \exp(\beta^*(\lambda)))^{-1}$,
Table 8.3 Parametric bootstrap estimates, based on $R = 5000$ bootstrap samples

<table>
<thead>
<tr>
<th></th>
<th>Bias × 10²</th>
<th>Bias ±sd</th>
<th>rmse</th>
<th>Skewness</th>
<th>Excess kurtosis</th>
<th>Jarque–Bera</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\delta(\mu_{t=1})$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-.493</td>
<td>-.024</td>
<td>.205</td>
<td>-.098*</td>
<td>.094</td>
<td>9.812*</td>
</tr>
<tr>
<td>Education</td>
<td>-.089</td>
<td>-.016</td>
<td>.055</td>
<td>-.008</td>
<td>.061</td>
<td>0.796</td>
</tr>
<tr>
<td>Age 35–54</td>
<td>.107</td>
<td>.009</td>
<td>.121</td>
<td>.032</td>
<td>-.026</td>
<td>1.008</td>
</tr>
<tr>
<td>Age 55 and over</td>
<td>-.729</td>
<td>-.044</td>
<td>.165</td>
<td>-.179*</td>
<td>.104</td>
<td>28.954*</td>
</tr>
<tr>
<td>No. of household members</td>
<td>.128</td>
<td>.030</td>
<td>.043</td>
<td>.028</td>
<td>-.078</td>
<td>1.985</td>
</tr>
<tr>
<td>$\beta(\mu_{t=2, \ldots, 13})$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-.862</td>
<td>-.070</td>
<td>.124</td>
<td>-.033</td>
<td>-.012</td>
<td>0.931</td>
</tr>
<tr>
<td>Education</td>
<td>.066</td>
<td>.029</td>
<td>.023</td>
<td>-.050</td>
<td>-.037</td>
<td>2.405</td>
</tr>
<tr>
<td>Age 35–54</td>
<td>.040</td>
<td>.008</td>
<td>.050</td>
<td>.070</td>
<td>-.067</td>
<td>5.225</td>
</tr>
<tr>
<td>Age 55 and over</td>
<td>-.059</td>
<td>-.009</td>
<td>.065</td>
<td>-.052</td>
<td>.000</td>
<td>2.285</td>
</tr>
<tr>
<td>No. of household members</td>
<td>.084</td>
<td>.047</td>
<td>.018</td>
<td>.010</td>
<td>-.025</td>
<td>0.224</td>
</tr>
<tr>
<td>Income</td>
<td>.065</td>
<td>.043</td>
<td>.015</td>
<td>-.032</td>
<td>.044</td>
<td>1.260</td>
</tr>
<tr>
<td>Time</td>
<td>.022</td>
<td>.025</td>
<td>.009</td>
<td>.008</td>
<td>-.104</td>
<td>2.338</td>
</tr>
<tr>
<td>$\beta^*(\lambda_{t=2, \ldots, 13})$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-.789</td>
<td>-.059</td>
<td>.133</td>
<td>-.293*</td>
<td>.296*</td>
<td>89.691*</td>
</tr>
</tbody>
</table>

Note: The bootstrap estimate of bias ($= \bar{\theta}_{bootstrap} - \theta_{ML}$) is multiplied by 100, and rmse = $\sqrt{sd^2 + bias^2}$. The standard errors of skewness and excess kurtosis are 0.035 and 0.069, respectively. The Jarque–Bera (1980) test statistic for normality has an asymptotic $\chi^2_2$ distribution; the 5% critical value is 5.991.

* Significant at the .05 level.

shown in Figure 8.1a. The histogram shows no visible departure of the $\kappa$ estimates from those expected for a normally distributed random variable.

### 8.3.2.3 Markov Chain Monte Carlo

The Metropolis sampler posterior estimates for each parameter are reported in Table 8.2. The findings are based on $K = 100,000$ samples, excluding 10,000 samples for initial settling. Inspection of the posterior means reveals that there are no gross discrepancies in magnitude with the ML estimates. The MCMC standard deviations and the ML standard errors are also similar to one another. The same goes for the 95th percentile intervals of the parametric bootstrap estimates and the Bayesian credibility intervals. Thus Bayesian and frequentist methods for obtaining estimates produce roughly similar results.

In sum, according to both parametric bootstrap and MCMC simulations, the maximum likelihood estimators in this application are almost unbiased, with a variance close to the minimum variance bound, and a distribution close to normal. This implies that the ML point estimates of the parameters are accurate and that the inverse of the Fisher information matrix may be used as a good estimate of the covariance matrix of the parameter estimates.

### 8.3.3 Dynamic Panel Model

It is compelling to compare the RCS Markov ML estimates with the corresponding parameter estimates of a dynamic panel model that allows for first-order dependence. Most directly
related to the RCS Markov model is a panel model that specifies a separate logistic regression for \( P(y_{it} = 1 \mid y_{i,t-1} = 0, 1) \), and includes \( y_{i,t-1} \) as an additional predictor. This model can conveniently be written in a single equation as \( \logit P(y_{it} = 1 \mid y_{i,t-1} = 0, 1) = x_{it}\beta + y_{i,t-1}x_{it}\alpha \), where \( \alpha = \beta^* - \beta \) (see Amemiya, 1985; Diggle, Liang, and Zeger, 1994; Beck, Epstein, Jackman, and O’Halloran, 2001).

The results of applying this logistic model to the binary panel data are shown in the rightmost columns of Table 8.2. A comparison of the RCS Markov and panel estimates indicates that most of the findings are insensitive to the choice of model. The point estimates of all parameters, except perhaps the coefficients for age 35–54 and those for income, are rather similar, and the standard errors also correspond.

Note that the standard errors of the entry parameters are somewhat smaller for the RCS Markov model than for the panel data analysis. This may seem to be counterintuitive, as it would appear to show that more efficient estimates are produced when lagged \( y_{it} \)-values are unknown than when they are known. It should be noted, however, that the two models differ in the number of observations per parameter. The RCS Markov model uses 24,336 observations (excluding the observations at \( t = 1 \)) to estimate seven \( \beta (\mu_t) \) and one \( \beta^*(\lambda) \) parameter, hence 3,042 observations per parameter. In the panel model we have 16,431 observations to estimate seven \( \beta (\mu_t) \) parameters – i.e., 2,347 observations per parameter – and 7,905 observations to estimate \( \beta^*(\lambda) \). This explains, at least intuitively, the somewhat smaller (larger) standard errors of the entry (exit) parameters in the RCS Markov model. The differences are modest, however, and inferences about the parameters do not change appreciably with the choice of model. Moreover, the two models predict equal transition probabilities \( \mu_{it} \) and \( \lambda_{it} \) for all individual cases (not reported), and the accuracy of the two models as judged by a ROC curve analysis is almost identical (the area under the ROC curve for the \( \{y_t \mid y_{t-1} = 0\} \) observations is 0.763 for the RCS Markov model and 0.768 for the panel model).

Only with respect to the likelihood is the RCS Markov model clearly inferior to the panel model. However, the two models differ in the computation of \( p_{it} \) and thus

Figure 8.1. Histogram of ML estimates of \( \kappa \) (a) for 5000 bootstrap samples from the original full data, with normal curve superimposed, and (b) for 5000 cross-sectional samples of 2208 observations, one observation per household.
also of the likelihood. In binary panel data, the marginal probability $p_{it}$ is either $\mu_{it}$ or $1 - \lambda_{it}$, conditional on $y_{it-1}$, and the likelihood contribution can be written as $\ell_{it} = \mu_{it}^{y_{it-1}}(1 - \mu_{it})^{1-y_{it-1}}(1 - \lambda_{it})^{y_{it-1}}(1 - \mu_{it})(1 - y_{it-1})\lambda_{it}^{1-y_{it-1}}$. In the RCS Markov model, however, the marginal probability $p_{it}$ is always a weighted sum of two probabilities — $\mu_{it}$ and $\lambda_{it}$ — weighted by $p_{it}$, and the likelihood is given by $\ell_{it} = [\mu_{it}(1 - p_{it-1}) + (1 - \lambda_{it})p_{it-1}]^{y_{it}}[1 - \mu_{it}(1 - p_{it-1}) + \lambda_{it}p_{it-1}]^{1-y_{it}}$. This implies that even if panel and RCS data produce identical transition probabilities $\mu_{it}$ and $\lambda_{it}$, the two likelihood functions may differ because of $p_{it-1}$. The likelihood values are identical only if $p_{it-1}$ is equal to $y_{it-1}$; that is, if the lagged covariates perfectly predict the previous response.

### 8.3.4 Samples of Independent Observations

As indicated, in the RCS Markov model the panel data are treated as independent cross sections, implying that there is no information on autocov($y_{it}$, $y_{i,t-1}$) available in the data file used for analysis. Nevertheless, the best way to make sure that the results are not artifactual is to analyze independent observations. To do so, we randomly draw (without replacement) samples of 2,028 different households from the (2,028×13 = 26,364) panel observations, where each sample consists of 13 separate sets — one for each time period — of 156 households. Hence each household is selected only once in the “cross-sectional” sample. The total number of possible “cross-sectional” samples in our application is approximately $10^{2,342}$ ($\approx \prod_{i=0}^{12} (2,028 - s \times 156)/156!(2,028 - 156 - s \times 156)!$). We randomly drew 5,000 samples and analyzed each data set separately, using maximum likelihood estimation.

Table 8.4 reports the average values of the parameters across the samples along with the standard deviation divided by $\sqrt{13}$. A comparison of Tables 8.2 and 8.4 suggests that for almost all parameters the mean values are close to the MLE obtained for the original full sample size. The only noticeable difference is in the constant term parameter of $\beta^*(\lambda)$. This mismatch can be explained by referring to the distribution for $\kappa$, shown in Figure 8.1b. For several “extreme”, small samples the true maximum of the likelihood function is attained when $\kappa$ takes the boundary value $\kappa = 1$. This implies that the true MLE of $\beta^*(\lambda)$ is minus infinity and the Fisher optimization algorithm thus fails to converge.

### Table 8.4 Mean and standard deviation ($\pm \sqrt{13}$) of the RCS Markov ML estimates for 5,000 samples of 2,208 observations, one for each household

<table>
<thead>
<tr>
<th>Parameter</th>
<th>$\delta(\mu_{it})$ ($\pm 1$)</th>
<th>$\beta(\mu_{it-2} \ldots 13)$</th>
<th>$\beta^*(\lambda_{it-2} \ldots 13)$ $^a$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>$-3.845 (.199)$</td>
<td>$-6.426 (.120)$</td>
<td>$-2.389 (.260)$</td>
</tr>
<tr>
<td>Education</td>
<td>$0.403 (.046)$</td>
<td>$0.366 (.027)$</td>
<td></td>
</tr>
<tr>
<td>Age 35–54</td>
<td>$-0.045 (.118)$</td>
<td>$0.147 (.045)$</td>
<td></td>
</tr>
<tr>
<td>Age 55 and over</td>
<td>$-0.785 (.160)$</td>
<td>$1.423 (.063)$</td>
<td></td>
</tr>
<tr>
<td>No. of household members</td>
<td>$0.343 (.032)$</td>
<td>$0.431 (.018)$</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>$0.447 (.015)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>$0.223 (.010)$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Each sample is drawn without replacement and consists of 13 sets — one for each time period — of size 156. The standard deviation, divided by $\sqrt{13}$, is reported in parentheses.

$^a$ Excluding 440 samples with $\beta^*(\lambda) \leq -8$ (i.e., $\kappa > .9996$).
Since the resample size is much smaller than the original sample size, it is not surprising that there is a large drop in efficiency relative to the estimates from the original full sample. However, dividing the standard deviations by $\sqrt{\frac{26,364}{2,208}} = \sqrt{13}$ scales them back to the standard errors of the parameters in the original sample. As can be seen, the standard deviations in Table 8.4 agree well with the ML standard errors reported in Table 8.2, the exception again being the constant parameter of $\beta^*(\lambda)$.

### 8.3.5 Parametric Bootstrap Test

Under parametric bootstrap, hypothesis testing is remarkably easy. We simply need to fit the hypothesized null model, generate bootstrap replications under the assumptions of this model, and calculate the measure we wish to test, both for the real data and for the $R$ sets of bootstrap data. If the value from the real data is among the 5% most extreme values in the combined set of $R + 1$ values, the hypothesis is rejected at the .05 level of significance.

For illustrative purposes, we selected a single sample from the “cross sections” of size 2,028, with ML estimates close to those reported in Table 8.2. The estimated value for $\kappa$ in this sample was .916. Now consider testing the hypothesis $H_0 : \kappa \geq .999$ against the one-sided alternative $H_1 : \kappa < .999$ ($H_0 : \kappa = 1$ would be a theoretically implausible hypothesis to test for all cases). In $R = 4,999$ bootstrap resamples from $H_0$, we found 51 values less than or equal to .916, so the $p^*$-value is $51/5,000 = .0102$. This finding leads us to reject the null hypothesis for this particular sample.

### 8.4 SUMMARY

Repeated cross-sectional surveys have become an important data source for research over the past decades. The accumulation of these surveys offers researchers from various disciplines a growing opportunity to analyze longitudinal change. Dynamic models for the analysis of repeated cross sections are, however, relatively rare, and one may even argue that there is an increasing lag between the availability of data and models to analyze them.

The results presented here illustrate the usefulness of exploiting repeated cross-sectional surveys to identify and to estimate 0–1 transition probabilities, which are generally thought to be nonestimable from RCS data. The bootstrap and MCMC findings for the PC ownership example suggest that the maximum likelihood RCS Markov model produces reliable estimates in large samples. It also turns out that, in our empirical application at least, the RCS Markov model performs almost as well as a first-order dynamic panel model. To rule out artificial results, samples of independent observations from the panel data were also analyzed, with similar results to those for the full sample.

This paper has made some necessary first steps in exploring a largely unknown area, and many relevant topics could not be covered here. For example, in some contexts (e.g., the empirical illustration discussed here) it is pretty clear from previous studies or theory which covariates are likely to be important and how they are related, at least qualitatively, to the dependent variable of interest. In other cases, especially in complex data from an unfamiliar field, covariate selection may be far from obvious. An important part of the analysis is then a preliminary analysis to search for a suitable model. This involves not just inspecting the adequacy of the initial model, but doing so in a way that will suggest an improvement of the model and bring to light possibly unsuspected features of the data.

A difficult problem in model specification is that it is not always possible from the data themselves to obtain a clear indication of how to improve the model (and how important it
is to do so). It may also happen that different models fit the data roughly equally well and that any choice between them has to be made on grounds external to the data.

Further, it is obvious that estimating the “nonestimable” is possible only by making assumptions. The validity of the assumptions, however, cannot be assessed from the data under study. Consequently, findings are always conditional on the appropriateness of the assumed model, which in a fundamental sense is not testable. An appropriate statistical framework then is to consider how sensitive the results are to model assumptions. An important subject for future work is therefore to develop sensitivity analysis tools (such as influence diagnostics) and to study the stability of the results under different model specifications and small modifications or perturbations of the data.

Topics to be studied by further Monte Carlo work are the distributional properties of the estimators in different model specifications and the sensitivity of inference procedures to varying sample sizes. In addition to the parametric bootstrap, nonparametric resampling could be used to examine the robustness of specification. Nonparametric simulation requires generating artificial data without assuming that the original data have some particular parametric distribution. Finally, although the impetus behind developing the methodology presented here came from the intent to dynamically model RCS data, it would be of interest to apply the model to panel data with missing observations for $y_{t-1}$. The Markov chain model could then be used, in conjunction with a first-order panel model for observations with nonmissing $y_{t-1}$, to obtain model-based imputations for the missing data.

REFERENCES


Ecological Panel Inference from Repeated Cross Sections


