Small Domains Estimation and Poverty Indicators

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The UN Summit on the Millennium Development Goals concluded with the adoption of a global action plan to achieve the eight anti-poverty goals by their 2015 target date and the announcement of major new commitments for women’s and children’s health and other initiatives against poverty, hunger and disease.

Visit the Summit website!

What's Going On?

New commitments to save women and children

Sixteen countries announced new commitments to dramatically reduce maternal, newborn and child mortality, as part of the UN Secretary-General’s Global Strategy for Women’s and Children’s Health. "Political and financial support for action on women’s and children’s health is reaching new and encouraging heights," said Secretary-General Ban Ki-moon, who is leading the Every Woman Every Child initiative.

End Poverty and Hunger

Universal Education

Gender Equality

Child Health

Maternal Health

Combat HIV/AIDS

Environmental Sustainability

Global Partnership
NOTATION

- **$U$ finite** population of size $N$.
- Population partitioned into $D$ subsets $U_1, \ldots, U_D$ of sizes $N_1, \ldots, N_D$, called **domains** or **areas**.
- Variable of interest $Y$.
- $Y_{dj}$ value of $Y$ for unit $j$ from domain $d$.
- **Target:** to estimate domain parameters.
  \[ \delta_d = h(Y_{d1}, \ldots, Y_{dN_d}), \quad d = 1, \ldots, D. \]

- We want to use data from a sample $S \subset U$ of size $n$ drawn from the whole population.
- $S_d = S \cap U_d$ sub-sample from domain $d$ of size $n_d$.
- **Problem:** $n_d$ small for some domains.
DIRECT ESTIMATORS

- **Direct estimator**: Estimator that uses only the sample data from the corresponding domain.
- **Small area/domain**: subset of the population that is target of inference and for which the direct estimator does not have enough precision.
- What does “enough precision” mean? Some National Statistical Offices (GB, Spain) allow a maximum coefficient of variation of 20%.
- **Indirect estimator**: Borrows strength from other areas.
INDIRECT ESTIMATORS

- **Indirect estimators**: Assume that the small area has similar characteristics as a larger area and then use the data from the larger area to estimate in the small area. They assume either implicit or explicit models.

- **Simplest case**: \( \hat{Y}_d = \hat{Y} \) (Implicit assumption: \( \bar{Y}_d = \bar{Y}, \forall d \))

- **Post-stratified synthetic estimator**: There are \( K \) large population subgroups (post-strata), which cut across the small areas, and whose units are homogeneous.

\[ \hat{Y}_{k}^{DIR} \] precise estimator of post-strata mean \( \bar{Y}_k, k = 1, \ldots, K \).

\[ \hat{Y}_d^{PS} = \sum_{k=1}^{K} \frac{N_{dk}}{N_d} \hat{Y}_{k}^{DIR} \]

Implicit assumption: \( \bar{Y}_{dk} = \bar{Y}_k, k = 1, \ldots, K \).
FAY-HERRIOT MODEL

• Sampling model:

\[ \hat{Y}_d^{DIR} = \bar{Y}_d + e_d, \quad e_d | Y_d \sim \text{ind.} N(0, \psi_d), \quad d = 1, \ldots, D. \]

\( \psi_d \) known, \( d = 1, \ldots, D \).

• Linking model: \( x_d = (x_{d,1}, \ldots, x_{d,p})' \) area-level covariates,

\[ \bar{Y}_d = x_d' \beta + u_d, \quad u_d \sim \text{iid} N(0, \sigma_u^2), \quad d = 1, \ldots, D. \]

• Combined model:

\[ \hat{Y}_d^{DIR} = x_d' \beta + u_d + e_d, \quad d = 1, \ldots, D. \]

• BLUP of \( \bar{Y}_d \):

\[ \hat{Y}_d^B = \gamma_d \hat{Y}_d^{DIR} + (1 - \gamma_d) x_d' \hat{\beta}_{WLS}, \quad \text{where } \gamma_d = \frac{\sigma_u^2}{\sigma_u^2 + \psi_d}. \]

✓ Fay & Herriot (1979), JASA
NESTED-ERROR REGRESSION MODEL

• Model: $x_{dj}$ auxiliary variables at unit level,

$$Y_{dj} = x'_{dj}\beta + u_d + e_{dj}, \quad u_d \overset{iid}{\sim} N(0, \sigma^2_u), \quad e_{dj} \overset{iid}{\sim} N(0, \sigma^2_e).$$

• Vector of variance components:

$$\theta = (\sigma^2_u, \sigma^2_e)'$$

• BLUP of small area mean $\bar{Y}_d$:

Predict non-sample values $\hat{Y}_{dj}(\theta) = x'_{dj}\hat{\beta}_{WLS} + \hat{u}_d(\theta)$.

$$\hat{Y}_d^{BLUP}(\theta) = \frac{1}{N_d} \left( \sum_{j \in s_d} Y_{dj} + \sum_{j \in r_d} \hat{Y}_{dj}(\theta) \right), \quad d = 1, \ldots, D.$$
NESTED-ERROR REGRESSION MODEL

- **BLUP of small area mean \( \bar{Y}_d \):**

\[
\hat{Y}_d^{BLUP}(\theta) \approx \gamma_d \left\{ \bar{y}_d + (\bar{X}_d - \bar{x}_d)'\hat{\beta}_{WLS} \right\} + (1 - \gamma_d) \bar{X}_d'\hat{\beta}_{WLS} ,
\]

\[\gamma_d = \sigma_u^2/(\sigma_u^2 + \sigma_e^2/n_d).\]

- Note: BLUP does not require normality.

- **Empirical BLUP (EBLUP):** \( \hat{\theta} \) estimator of \( \theta \)

\[
\hat{Y}_d^{EBLUP} = \hat{Y}_d^{BLUP}(\hat{\theta})
\]

- EBLUP is identical to EB under normality.

✓ Battese, Harter & Fuller (1988), JASA
SOME POVERTY AND INCOME INEQUALITY MEASURES

- FGT poverty indicator
- Gini coefficient
- Sen index
- Theil index
- Generalized entropy
- Fuzzy monetary index
FGT POVERTY INDICATORS

- $E_{dj}$ welfare measure for indiv. $j$ in domain $d$: for instance, equivalised annual net income.
- $z =$ poverty line.
- **FGT family of poverty indicators for domain $d$:**

$$F_{\alpha d} = \frac{1}{N_d} \sum_{j=1}^{N_d} \left( \frac{z - E_{dj}}{z} \right)^\alpha I(E_{dj} < z), \quad \alpha = 0, 1, 2.$$  

When $\alpha = 0 \Rightarrow$ Poverty incidence 
When $\alpha = 1 \Rightarrow$ Poverty gap 
When $\alpha = 2 \Rightarrow$ Poverty severity

✓ *Foster, Greer & Thornbecke (1984), Econometrica*
Fuzzy Monetary Index (FMI): It is based on degree of poverty of each individual relative to other individuals in the population.

Let

\[
A_i = \frac{\sum_{j \neq i} I(E_j > E_i)}{N - 1}, \quad B_i = \frac{\sum_{j \neq i} E_j I(E_j > E_i)}{\sum_j E_j}
\]

- \(A_i\) = Proportion of individuals less poor than individual \(i\)
- \(B_i\) = Share of total welfare of all individuals less poor than \(i\)
- \(FM_i = A_i^{\alpha-1} B_i, \; \alpha > 1.\)
- Then FMI for domain \(d\) is

\[
FM_d = \frac{1}{N_d} \sum_{j=1}^{N_d} FM_{dj}.
\]
FGT POVERTY INDICATORS

• **Complex non-linear** quantities (non continuous): Even if FGT poverty indicators are also means

\[ F_{\alpha d} = \frac{1}{N_d} \sum_{j=1}^{N_d} F_{\alpha dj}, \quad F_{\alpha dj} = \left( \frac{z - E_{dj}}{z} \right)^{\alpha} I(E_{dj} < z), \]

we cannot assume normality for the \( F_{\alpha dj} \).

• Not easy to obtain small area estimators with good bias and MSE properties.

• A method valid to estimate poverty measures in small areas for any \( \alpha \) and for other poverty or inequality measures would be desirable.
SMALL AREA ESTIMATION

- Due to the relative nature of the mentioned poverty line, poverty has usually **low frequency**: Large sample size is needed.

  ✓ In Spain, poverty line for 2006: **6557 euros**, approx. **20%** population under the line.

- Survey on Income and Living Conditions (EU-SILC) has limited sample size.

  ✓ In the Spanish SILC 2006, $n = 34,389$ out of $N = 43,162,384$ (**8 out 10,000**).
SAMPLE SIZES OF PROVINCES BY GENDER

- Direct estimators for Spanish provinces are not very precise.
- Provinces $\times$ Gender $\rightarrow$ Small areas ($52 \times 2$).
- CVs of direct and EB estimators of poverty gaps for 5 selected provinces:

<table>
<thead>
<tr>
<th>Province</th>
<th>Gender</th>
<th>$n_d$</th>
<th>Obs. Poor</th>
<th>CV Dir.</th>
<th>CV EB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soria</td>
<td>F</td>
<td>17</td>
<td>6</td>
<td>47.27</td>
<td>19.99</td>
</tr>
<tr>
<td>Tarragona</td>
<td>M</td>
<td>129</td>
<td>18</td>
<td>27.15</td>
<td>23.14</td>
</tr>
<tr>
<td>Córdoba</td>
<td>F</td>
<td>230</td>
<td>73</td>
<td>13.50</td>
<td>8.87</td>
</tr>
<tr>
<td>Badajoz</td>
<td>M</td>
<td>472</td>
<td>175</td>
<td>9.05</td>
<td>3.94</td>
</tr>
<tr>
<td>Barcelona</td>
<td>F</td>
<td>1483</td>
<td>191</td>
<td>10.00</td>
<td>8.17</td>
</tr>
</tbody>
</table>
EB METHOD (EMPIRICAL BEST/BAYES)

- Vector with population elements for domain $d$:
  \[ y_d = (Y_{d1}, \ldots, Y_{dN_d})' = (y_{ds}', y_{dr}')' \]

- Target parameter:
  \[ \delta_d = h(y_d) \]

- Best estimator: The estimator $\hat{\delta}_d$ that minimizes the MSE is
  \[ \hat{\delta}_d^B = E_{y_{dr}}(\delta_d|y_{ds}). \]

- Best estimator of $F_{\alpha_d}$: We need to express $\delta_d = F_{\alpha_d}$ in terms of a vector $y_d = (y_{ds}', y_{dr}')'$,
  \[ F_{\alpha_d} = h_\alpha(y_d) \]
  for which we can derive the distribution of $y_{dr}|y_{ds}$. 
EB METHOD FOR POVERTY ESTIMATION

- **Assumption:** there exists a transformation $Y_{dj} = T(E_{dj})$ of the welfare variables $E_{dj}$ which follows a normal distribution (i.e., the nested error model with normal errors $u_d$ and $e_{dj}$).

- FGT poverty indicator as a function of transformed variables:

$$F_{\alpha d} = \frac{1}{N_d} \sum_{j=1}^{N_d} \left\{ \frac{z - T^{-1}(Y_{dj})}{z} \right\}^{\alpha} I \{ T^{-1}(Y_{dj}) < z \}.$$

- **EB estimator of** $F_{\alpha d}$:

$$\hat{F}_{\alpha d}^{EB} = E_{y_{dr}} [F_{\alpha d}|y_{ds}], \quad F_{\alpha d} = h_{\alpha}(y_d).$$
EB METHOD FOR POVERTY ESTIMATION

- Distribution: $y_d \sim N(\mu_d, V_d)$, $d = 1 \ldots, D$, where
  \[
  y_d = \begin{pmatrix} y_{ds} \\ y_{dr} \end{pmatrix}, \quad \mu_d = \begin{pmatrix} \mu_{ds} \\ \mu_{dr} \end{pmatrix}, \quad V_d = \begin{pmatrix} V_{ds} & V_{dsr} \\ V_{dsr} & V_{dr} \end{pmatrix}.
  \]

- Distribution of $y_{dr}$ given $y_{ds}$:
  \[
  y_{dr | y_{ds}} \sim N(\mu_{dr | ds}, V_{dr | ds}),
  \]
  where
  \[
  \mu_{dr | ds} = \mu_{dr} + V_{drs} V_{ds}^{-1} (y_{ds} - \mu_{ds}),
  \]
  \[
  V_{dr | ds} = V_{dr} - V_{drs} V_{ds}^{-1} V_{dsr}.
  \]
**EB METHOD FOR POVERTY ESTIMATION**

- For the nested-error model:

  \[
  \mu_{dr|ds} = X_{dr} \beta + \sigma_u^2 \mathbf{1}_{N_d-n_d} \mathbf{1}_n^\prime \mathbf{V}^{-1}_{ds}(y_{ds} - X_{ds} \beta) \\
  \mathbf{V}_{dr|ds} = \sigma_u^2 (1 - \gamma_d) \mathbf{1}_{N_d-n_d} \mathbf{1}_{N_d-n_d}^\prime + \sigma_e^2 \mathbf{I}_{N_d-n_d},
  \]

  where

  \[
  \gamma_d = \sigma_u^2 (\sigma_u^2 + \sigma_e^2/n_d)^{-1}
  \]

- Model for simulations:

  \[
  y_{dr} = \mu_{dr|ds} + v_d \mathbf{1}_{N_d-n_d} + \epsilon_{dr},
  \]

  with

  \[
  v_d \sim N\{0, \sigma_u^2 (1 - \gamma_d)\} \quad \text{and} \quad \epsilon_{dr} \sim N\{0_{N_d-n_d}, \sigma_e^2 \mathbf{I}_{N_d-n_d}\}.
  \]

- We only need to generate \(N + D\) **univariate** normal random variables.

  ✓ Molina and Rao (2010), CJS
MONTE CARLO APPROXIMATION

(a) Generate $L$ non-sample vectors $y_{dr}^{(\ell)}$, $\ell = 1, \ldots, L$ from the (estimated) conditional distribution of $y_{dr}|y_{ds}$.

(b) Attach the sample elements to form a population vector $y_d^{(\ell)} = (y_{ds}, y_{dr}^{(\ell)})$, $\ell = 1, \ldots, L$.

(c) Calculate the poverty measure with each population vector $F_{\alpha d}^{(\ell)} = h_{\alpha}(y_{d}^{(\ell)})$, $\ell = 1, \ldots, L$. Then take the average over the $L$ Monte Carlo generations:

$$\hat{F}_{\alpha d}^{EB} = E_{y_{dr}} [F_{\alpha d}|y_{ds}] \approx \frac{1}{L} \sum_{\ell=1}^{L} F_{\alpha d}^{(\ell)}.$$
NON-SAMPLED AREAS

• $Y_{dj}^{(\ell)}$ for $j = 1, \ldots, N_d$ and $\ell = 1, \ldots, L$ generated from

$$Y_{dj}^{(\ell)} = x_{dj}^{'} \hat{\beta} + u_{d}^{(\ell)} + e_{dj}^{(\ell)}.$$

$$u_{d}^{(\ell)} \overset{iid}{\sim} N(0, \hat{\sigma}_u^2); \quad e_{dj}^{(\ell)} \overset{iid}{\sim} N(0, \hat{\sigma}_e^2).$$

• Calculate $\hat{F}_{\alpha d}^{(\ell)}$ from $\{ Y_{dj}^{(\ell)} \}$ and use

$$\hat{F}_{\alpha d}^{EB} \approx \frac{1}{L} \sum_{\ell=1}^{L} \hat{F}_{\alpha d}^{(\ell)}$$

• $\hat{F}_{\alpha d}^{EB}$ is a synthetic estimator.
MSE ESTIMATION

• Construct bootstrap populations \( \{ Y_{dj}^*(b), b = 1, \ldots, B \} \) from

\[
Y_{dj}^* = x'_{dj} \hat{\beta} + u_d^* + e_{dj}^*; \quad j = 1, \ldots, N_d, \quad d = 1, \ldots, D.
\]

\( u_d^* \overset{iid}{\sim} N(0, \hat{\sigma}_u^2); \quad e_{dj}^* \overset{iid}{\sim} N(0, \hat{\sigma}_e^2). \)

• Calculate bootstrap population parameters \( F_{\alpha_d}^*(b) \)

• From each bootstrap population, take the sample with the same indexes \( S \) as in the initial sample and calculate EBs \( F_{\alpha_d}^{EB^*}(b) \) using bootstrap sample data \( y_s^* \) and known \( x_{dj} \).

\[
mse^*(\hat{F}^{EB}_{\alpha_d}) = \frac{1}{B} \sum_{b=1}^{B} \left\{ \hat{F}^{EB^*}_{\alpha_d}(b) - F_{\alpha_d}^*(b) \right\}^2
\]
WORLD BANK (WB) / ELL METHOD

- Elbers et al. (2003) also used nested error model on transformed variables $Y_{dj}$, using clusters as $d$.

- For comparability we take cluster as small area.

- Generate $A$ bootstrap populations $\{Y_{dj}^*(a), a = 1, \ldots, A\}$

- Calculate $F_{\alpha d}^*(a), a = 1, \ldots, A$. Then ELL estimator is:

$$
\hat{F}_{\alpha d}^{(ELL)} = \frac{1}{A} \sum_{a=1}^{A} F_{\alpha d}^*(a) = F_{\alpha d}^*(\cdot)
$$
WORLD BANK (WB) / ELL METHOD

- MSE estimator:

\[
mse(\hat{F}_{\alpha d}^{ELL}) = \frac{1}{A} \sum_{a=1}^{A} \left\{ F_{\alpha d}^{*}(a) - F_{\alpha d}^{*}(\cdot) \right\}^2
\]

- If the mean \( \bar{Y}_d \) is the parameter of interest, then

\[
\hat{Y}_d^{(ELL)} \simeq \bar{X}_d \hat{\beta}
\]

- \( \hat{Y}_d^{(ELL)} \) is a regression synthetic estimator.

- For non-sampled areas, \( \hat{F}_{\alpha d}^{ELL} \) is essentially equivalent to \( \hat{F}_{\alpha d}^{EB} \).

- But MSE estimators are different for ELL and EB.
APPLICATION

- We assume the nested error model for the log-equivalized annual net income ($T(E) = \log E$).
- We take as explanatory variables, the indicators of 5 age groups, of having Spanish nationality, of 3 education levels and of labor force status (unemployed, employed or inactive).
- We estimate the MSE by parametric bootstrap for finite populations (González-Manteiga, Lombardía, Molina, Morales and Santamaría, 2008, J.Stat.Comp.Simul.).
RESULTS

Poverty incidence ( %): Men

Poverty incidence ( %): Women

Pov.inc. ≥ 30 %, Men: Almería, Córdoba, Badajoz, Ávila, Salamanca, Zamora, Cuenca.

Women: also Granada, Jaén, Albacete, Ciudad Real, Palencia, Soria. 19
**RESULTS**

Poverty gap (%): Men

Poverty gap (%): Women

- **Pov.gap \( \geq 12.5 \% \), Men:** Badajoz, Zamora, Cuenca.
- **Women:** also Granada, Amería, Albacete, Ávila, Salamanca.
MODEL-BASED EXPERIMENT

- We simulated $I = 1000$ populations from the nested error model;
- For each population, we computed the true domain poverty measures.
- We computed the MSE of the EB estimators as

$$\text{MSE}(\hat{F}_{\alpha_d}^{EB}) = \frac{1}{I} \sum_{i=1}^{I} \left( \hat{F}_{\alpha_d}^{EB}(i) - F^{(i)}_{\alpha_d} \right)^2, \quad d = 1, \ldots, D.$$ 

- Similarly for direct and ELL estimators.
MODEL-BASED EXPERIMENT

Sizes:

\[ N = 20000 \]
\[ D = 80 \]
\[ N_d = 250, \; d = 1, \ldots, D \]
\[ n_d = 50, \; d = 1, \ldots, D \]

Variance components:

\[ \sigma^2_e = (0,5)^2 \]
\[ \sigma^2_u = (0,15)^2 \]
MODEL-BASED EXPERIMENT

Explanatory variables:

\[ X_1 \in \{0, 1\}, \quad p_{1d} = 0.3 + 0.5d/80, \quad d = 1, \ldots, D. \]
\[ X_2 \in \{0, 1\}, \quad p_{2d} = 0.2, \quad d = 1, \ldots, D. \]

Coefficients:

\[ \beta = (3, 0.03, -0.04)'. \]

- The response increases when moving from \( X_1 = 0 \) to \( X_1 = 1 \), and decreases when moving from \( X_2 = 0 \) to \( X_2 = 1 \).
- The “richest” people are those with \( X_1 = 1 \) and \( X_2 = 0 \).
- The last areas have “richer” individuals than the first areas, i.e., poverty decreases with the area index.
POVERTY INCIDENCE

- Bias negligible for all three estimators (EB, direct and ELL).
- EB much more efficient than ELL and direct estimators.
- ELL even less efficient than direct estimators!

Figure 1. a) Bias and b) MSE of EB, direct and ELL estimators of poverty incidences $F_{0d}$ for each area $d$. 
POVERTY GAP

- Same conclusions as for poverty incidence.

Figure 2. a) Bias and b) MSE of EB, direct and ELL estimators of poverty gaps $F_{1d}$ for each area $d$. 
The bootstrap MSE tracks true MSE.

**Figure 3.** True MSEs and bootstrap estimators ($\times 10^4$) of EB estimators with $B = 500$ for each area $d$. 
CENSUS EB METHOD

- When sample data cannot be linked with census auxiliary data, in steps (a) and (b) of EB method generate a full census from

\[ y_d = \hat{\mu}_{d|ds} + v_d 1_{N_d} + \epsilon_d, \quad \hat{\mu}_{d|ds} = X_{d|\hat{\beta}} + \hat{\sigma}^2_u 1_{N_d} 1'_{n_d} \hat{V}^{-1}_{ds} (y_{ds} - X_{ds|\hat{\beta}}). \]

- Practically the same as original EB method.

\[ \begin{align*}
\text{a) Mean } (\times 100) & \\
\text{b) MSE } (\times 10^4) & 
\end{align*} \]

Figure 4. a) Mean and b) MSE of EB and Census EB estimators of poverty gaps \( F_{1d} \) for each area \( d \).
FAST EB METHOD

- For large populations or computationally complex indicators.
- Instead of generating a full census in the EB method, generate only samples from the conditional distribution and compute direct estimators instead of true values.
- Fast EB method quite close to original EB.

Figure 5. MSE ($\times 10^4$) of EB, direct, ELL and fast EB estimators of PI.

✓ Ferretti, Molina & Lemmi, Submitted to JISAS
SKEW-NORMAL EB

- Nester error model with $e_{dj}$ skew normal

$$
u_d \overset{iid}{\sim} N(0, \sigma^2_u), \quad e_{dj} \overset{iid}{\sim} SN(0, \sigma^2_e, \lambda_e)$$

$$\theta = (\beta', \sigma^2_u, \sigma^2_e, \lambda_e)'$$

$$\lambda_e = 0$$ corresponds to Normal

- As in the Normal case, EB estimator can be computed by generating only univariate normal variables, conditionally given a half-normal variable $T = t$.

- SN-EB was computed assuming $\theta$ is known.
**SKEW-NORMAL EB SIMULATION**

- EB biased under significant skewness ($\lambda > 1$) unlike SN EB.

**Figure 6.** Bias of a) SN-EB estimator and b) EB estimator under skew normal distributions for error term for $\lambda = 1, 2, 3, 5, 10$.

✓ Diallo & Rao, Work in progress
SKREW-NORMAL EB SIMULATION

- $\text{RMSE} = \frac{\text{MSE(EB)}}{\text{MSE(SN-EB)}}$
- SN-EB significantly more efficient than EB when $\lambda > 1$.

**Figure 7.** RMSE for skewness parameter $\lambda = 1, 2, 3, 5, 10$. 
SMALL AREA DISTRIBUTION FUNCTION

- EB good for estimating other non-linear characteristics such as distrib. function.

![Graph](image)

**Figure 8.** a) Mean of true, EB, direct and ELL estimators of the distribution function and b) MSE of estimators for area $d = 1$. 34
HIERARCHICAL BAYES METHOD

- Reparameterized nested-error model:

  \[
  y_{di} \mid u_d, \beta, \sigma^2 \overset{\text{ind}}{\sim} N(x'_{di}\beta + u_d, \sigma^2) \\
  u_d \mid \rho, \sigma^2 \overset{\text{ind}}{\sim} N \left(0, \frac{\rho}{1 - \rho} \sigma^2 \right)
  \]

- Noninformative prior: \( \pi(\beta, \sigma^2, \rho) \propto 1/\sigma^2 \).
- Proper posterior density (provided \( X \) full column rank):

  \[
  \pi(u, \beta, \sigma^2, \rho \mid y_s) = \pi_1(u \mid \beta, \sigma^2, \rho, y_s) \pi_2(\beta \mid \sigma^2, \rho, y_s) \pi_3(\sigma^2 \mid \rho, y_s) \pi_4(\rho \mid y_s)
  \]

- \( u_i \mid \beta, \sigma^2, \rho, y_s \sim_{\text{ind}} \text{Normal} \), \( \beta \mid \sigma^2, \rho, y_s \sim \text{Normal} \), \( \sigma^{-2} \mid \rho, y_s \sim \text{Gamma} \).
- \( \pi_4(\rho \mid y_s) \) is not simple but \( \rho \)-values from it can be generated using a grid method.

✓ Rao, Nandram & Molina, Work in progress
HIERARCHICAL BAYES METHOD

- Very similar to original EB method (frequencial validity).

a) Mean ($\times 100$)

b) MSE ($\times 10^4$)

Figure 9. a) Mean and b) MSE of EB and HB estimators of poverty gaps $F_{1d}$ for each area $d$.

✓ Rao, Nandram & Molina, Work in progress
M-QUANTILE (MQ) METHOD

- MQ estimator of $F_{\alpha d}$:

$$\hat{F}_{\alpha d} = \frac{1}{N_d} \left[ \sum_{j \in s_d} F_{\alpha dj} + \sum_{k \in r_d} \hat{F}^{MQ}_{\alpha dk} \right]$$

$$\hat{F}^{MQ}_{\alpha dk} = \frac{1}{n_d} \sum_{j \in s_d} \left( \frac{z - \hat{E}^{MQ}_{dk}}{z} \right)^{\alpha} I \left[ \hat{E}^{MQ}_{dk} + (E_{dj} - \hat{E}^{MQ}_{dj}) < z \right]$$

- $\hat{E}^{MQ}_{dk} =$ MQ predictor of $E_{dk}$

- Normality not needed
- Robust to outliers
- Nested error model not used but poor efficiency if area sample size is small and nested error model with strong area effects holds.
- It is not clear how MQ can be applied to FMI and other complex poverty indicators
CONCLUSIONS

- We studied EB and HB estimation of complex small area parameters.
- Method applicable to unit level data.
- EB method assumes normality for some transformation of the variable of interest. EB work extended to skew normal distributions.
- It requires the knowledge of all population values of the auxiliary variables.
- It requires computational effort because large number of populations are generated. Fast EB method available.
CONCLUSIONS

• Original EB method, unlike ELL method, requires linking sample with census data for the auxiliary variables. Census EB method avoids the linking and is practically the same as original EB.

• Both EB and ELL methods assume that the sample is non-informative, that is, the model for the population holds good for the sample. Under informative sampling, probably both methods are biased. Currently an extension of EB method accounting for informative sampling is being studied.