

# Ordered Choice Modelling with Discretized Continuous Dependent Variable\*

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## Abstract

The paper deals with econometric models where the dependent variable is continuous but cannot be observed directly. Instead, it is observed through intervals or discretized ordered choice windows. Manski and Tamer (2002) show that the parameters in the conditional expectation cannot be point-identified using these discretized observations. Here we introduce a new sampling design, the so called *split sampling*, which makes the point-identification of the parameters in regression models feasible. Split sampling yields point-identification through the way information is collected. The target sample set is split into multiple parts and data is collected in a differentiated way. We explore how split sampling affects statistical inference, and further Monte Carlo evidence is provided about its effect on estimation. Finally, we propose a simple formulation to deal with an eventual perception effect.

**JEL:** C01, C13, C21, C25, C81, C83

**Keywords:** Discretized outcome variable, interval data, identification, split sampling, survey design, perception effect.

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# 1 Introduction

Recently there has been increasing use of econometric models where the dependent variable is continuous but cannot be observed directly. Instead, it is observed through a discretization process. Paper or internet-based survey questions are common examples for such discretizations. These questions can be asked in two different ways, e.g., *‘Is your weekly personal income below 100\$, between 100 and 400\$ or above 400\$*, where specific intervals are given for each option. This discretization leads to interval type data. The second form is a Likert style question, such as *‘On a 0 to 5 scale indicate how likely you are to use public transport next week?’* A 0 would indicate *‘highly unlikely’* and 5 for *‘definitely’*. Respondents typically need to pick one option from a pre-set list, creating discrete ordinal observations from an underlying continuous variable. In this case, the answers are of the qualitative type, the choices are ordered, and this order is the only quantitative information available.

In the empirical literature, income is a typical example for interval variables. Income is usually discretized in surveys because it improves response rate dramatically when the question is asked in the form of income categories rather than as an exact amount. Another related reason for discretization is data confidentiality: E.g., statistical offices are not allowed to give exact information on personal income (for more details on these practices, see e.g., Duncan et al. (2001)). Just to give a few examples, Bhat (1994) shows the effects of age, employment and other socio-economic variables on income where income is observed through three different categories; Micklewright and Schnepf (2010) compare individual and household income distributions controlling for age, gender and employment. The income is discretized and observed through single question surveys.

Modelling with ordinal variables is even more common in empirical analyses. Stewart (2005) models job satisfaction on a 1 to 7 scale with explanatory variables such as salary, working hours and other firm-based measures. Baccara et al. (2012) study the perceived importance of office neighbours by asking university academics to rank the importance of their office neighbour on a scale of 1 to 10. The study then attempts to explain this perceived importance using the respondents’ personal network, e.g., institutional affiliation, co-authorships, and friendships. Riphahn et al. (2003) and Greene and Hensher (2010) investigate how the self-assessed health sta-

tus of individuals measured on a 1 to 10 scale relates to age, income, schooling, marital status and the number of children. De Oña and de Oña (2015) give an excellent overview of different papers that model the quality of public transport where this is measured on different ordered scales.

Modelling the conditional expectation for such discretized dependent variable with interpretable parameters is challenging as the regression parameters are generally not point-identified. Here we depart from the classical econometric approach to identification: We do not assume that the sample is given and the outcome variable is observed as interval values, but we propose a new sampling method which we called *split sampling*<sup>1</sup> that re-creates the continuous unobserved outcome variable rather than its discretized version. In other words, we investigate how to gather the data in order to point-identify and estimate the conditional expectation and to be able to rely on simple least squares regression techniques.

This paper deals with linear regression models where the dependent variable is observed through a discretization process. As noted, there is a substantial difference between interval and ordinal variables. Interval variables have known lower and upper boundaries for each choice interval and numeric intervals can be assigned for each observation. In principle, an interval variable has a (conditional) expectation, but it cannot be estimated directly using discretized data. The only information provided by this type of data is the lower and upper bounds of each of the categories and their frequencies. An ordinal variable embodies an even more severe information loss relative to the underlying continuous variable. The observed values have only a relational connection to each other (e.g., they are higher or lower), they are sorted into classes and numerical values cannot be assigned to the observations. Data from these qualitative variables cannot be used to estimate any conditional moments of the underlying random variables and can only be used to obtain the frequencies of each class.

Manski and Tamer (2002) show that the parameters of a regression model cannot be point-identified without any further restrictive assumption, when this type of interval or ordinal variable is used as the dependent variable. To circumvent this identification problem, there are two known solutions in the literature, both taking the discretization process as given. This paper adds a third possible solution by

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<sup>1</sup>The term *split sampling* in this paper is not related to the technique occasionally used in chromatography. For further details see Schomburg et al. (1977), Schomburg et al. (1981).

revisiting the discretization process itself.

The first and more popular solution relies on the so-called ordered discrete choice models (Greene and Hensher, 2010), such as the ordered logit or probit. These models can handle the interval and ordinal variables as well. The key for these models is that instead of modelling the conditional expectation, they focus on the conditional probabilities for each interval or class (e.g., the probability for an observation to fall into a certain class given a set of covariates). Ordinal choice models use a priori distributional assumptions to create the mapping between the outcome variable and the explanatory variables. This can be a strong assumption, especially in the absence of any probabilistic justification. These models tend to have their names based on the assumed distribution (e.g., ordered logit uses a (standardized) logistic, while ordered probit uses (standard) normal distribution). Under the assumed distribution along with some mild conditions, the parameters are generally point-identifiable up to scaling. The advantage of this method is that it can handle both interval and ordinal variables. The main disadvantage is that it does not model the conditional mean directly, but rather, it provides the conditional probabilities. Therefore, the interpretation of the estimated parameters is markedly different than in a (linear) regression model. Generally, *'neither the sign nor the magnitude of the coefficient is informative [...], so the direct interpretation of the coefficients is fundamentally ambiguous.'* (Greene and Hensher, 2010, p. 142). To get meaningful interpretations, we can calculate the partial effects on the probabilities with the use of the assumed distribution. Greene and Hensher (2010) give a thorough overview of ordered choice models estimated via maximum likelihood.

The second solution comes from the literature of partially identified parameters (see e.g., Manski and Tamer, 2002, Manski, 2003, Tamer, 2010). This approach can only handle interval data, and assigns numerical *intervals* for each observation. The main advantage of this method is that it does not require any distributional assumptions and still allows valid statistical inference on the conditional expectation. The magnitudes and the signs of the estimated parameter vector can be interpreted in the same way as the classical regression coefficients. The drawback is that the estimated parameters are not point-identified, but rather, it identifies a set in which the parameter vector may belong. In other words, it only obtains a lower and upper bound for each of the unidentified point estimates. Empirical applications are rare because the estimation method is complex and, in our experience, the estimated

parameter intervals are too wide for them to be useful empirically.

We should also mention the case when ordered choice models are used to deal with a dependent variable observed on an interval. In practice, it is common to use the additional information of the known intervals (the middle point and the boundaries) and estimate the model using this additional information. However, the rather strong distributional assumption remains for point-identification. The difficulties and drawbacks of this approach are nicely summarized by Greene and Hensher (2010, p. 133).

This paper adopts the framework of Manski and Tamer (2002) and proposes a new solution for the point identification of the parameters of a linear regression model where the dependent variable is observed on an interval. By revisiting the discretization process, a (survey) method is put forward which collects enough information for the point-identification without any additional (e.g., distributional) assumption. Intuitively, the parameters can be point-identified when the discretization process is designed in such a way that the lower and upper bounds for each interval converge to each other. Then any linear regression models can be estimated in the usual way, e.g., by least squares (LS). The resulting point-estimates are then consistent and can be interpreted as in the classical regression framework.

The above discretization does not deviate substantially from the typical methods, but it allows to obtain additional information on the distribution of the dependent variable with the use of split sampling. In the context of surveys, it means to use multiple questionnaires. These questionnaires have the same set of questions but the choices (possible answers) of each questions are different. The term *split sample* is referred to the fact that the sample is *split* between these questionnaires. In general, the idea is to collect the data for the same set of questions with each question contains heterogenous sets of possible outcomes in different split samples.

Furthermore, the *perception effect* or survey heterogeneity – due to the use of multiple surveys – can also be estimated through fixed a effects type estimator. Another useful property of the proposed approach is that it maintains the privacy considerations through the discretization process; therefore, the data provider can safely use this method as the individuals behind the answers cannot be identified. The paper is organized as follows: Section 2 introduces the identification problem and justifies the proposed split sampling approach. Section 3 describes our split sampling approach with two easy to implement methods: *magnifying* and *shifting*.

We also derive consistent estimates via least squares, and present some Monte Carlo simulations. Section 4 extends the simple framework in two ways. First it proposes a method to estimate and test perception effects. Second, it looks at non-linear models. Section 5 concludes.

## 2 Identification Problem

This section discusses the identification problems associated with the discretization of the data and justifies the split sampling approach by using the results from Manski and Tamer (2002).

Consider  $y_i \sim D(a_l, a_u)$  an i.i.d. random variable, where  $D(a_l, a_u)$  denotes the parent distribution with support  $[a_l, a_u]$  for  $i = 1, \dots, N$ . We assume that  $D(\cdot)$  is unknown and can be continuous, discrete or mixed. Instead of observing the outcomes of  $y_i$ , we observe  $y_i^*$  through a discretization process:

$$y_i^* = \begin{cases} z_1 & \text{if } c_0 \leq y_i < c_1 \quad \text{or} \quad y_i \in C_1 = [c_0, c_1) \quad \text{1st choice} \\ z_2 & \text{if } c_1 \leq y_i < c_2 \quad \text{or} \quad y_i \in C_2 = [c_1, c_2) \\ \vdots & \vdots \\ z_m & \text{if } c_{m-1} \leq y_i < c_m \quad \text{or} \quad y_i \in C_m = [c_{m-1}, c_m) \\ \vdots & \vdots \\ z_M & \text{if } c_{M-1} \leq y_i < c_M \quad \text{or} \quad y_i \in C_M = [c_{M-1}, c_M) \\ & \text{last choice,} \end{cases} \quad (1)$$

where,  $z_m \in C_m$ ,  $m = 1, \dots, M$  is the assigned value for each choice. It can be a measure of centrality (e.g., mid-point), or an arbitrarily assigned value within its interval.  $M$  denotes the number of choices, which is known. For simplicity, we refer to each choice or choice interval as a class.

We examine statistical inference on the estimation of  $\mathbb{E}[y|x]$  when

$$\mathbb{E}[y|x] = f(x; \beta), \quad (2)$$

where  $f(\cdot)$  is a known function,  $\beta$  is a parameter vector belonging to a subset of a compact finite-dimensional space ( $\mathcal{B}$ ), and  $x$  denotes the vector of covariates.

Instead of  $y_i$  we only observe  $y_i^*$ , which leads to an identification problem. Following Manski and Tamer (2002) and Lewbel (2019), we show the conditions for the partial or set identification of  $\beta$ , which then point to the cases when point-identification is possible.

Let  $\underline{y}_i^*$  and  $\bar{y}_i^*$  denote the random variables that take the lower and upper bounds as the choice value in a given interval, respectively. In other words,  $z_m = c_{m-1}, m = 1, \dots, M$  for  $\underline{y}_i^*$  and  $z_m = c_m, m = 1, \dots, M$  for  $\bar{y}_i^*$ . By the design of the discretization, the unobserved values lie between these lower and upper bounds,  $\underline{y}_i^* \leq y_i \leq \bar{y}_i^*, \forall i$ . Furthermore, as these refer to the same random variable, the *unknown* conditional probabilities are the same  $\Pr[\underline{y}_i^* \in C_m|x] = \Pr[y_i \in C_m|x] = \Pr[\bar{y}_i^* \in C_m|x], \forall m$ . Using the law of total expectation, it is easy to show that

$$\mathbb{E}[y_i|x] = \sum_m \left[ \int_{c_{m-1}}^{c_m} y \Pr[y|x] dy \right] \Pr[y_i \in C_m|x], \quad (3)$$

where  $\mathbb{E}(y \in C_m|x) = \int_{c_{m-1}}^{c_m} y \Pr[y|x] dy$ , and by design  $c_{m-1} \leq \mathbb{E}(y \in C_m|x) \leq c_m, \forall m$ . Now, for the conditional expectations we get,<sup>2</sup>

$$\mathbb{E}[\underline{y}_i^*|x] \leq \mathbb{E}[y_i|x] \leq \mathbb{E}[\bar{y}_i^*|x]. \quad (4)$$

This bound reduces to a point in the limit when  $y_i$  is measured (or observed) precisely. However if  $y_i$  is only observed through an interval, we have a set of conditional expectations, which leads to the set identification for  $\beta$ . That is, under Equation 2, any  $b \in \mathcal{B}$  that satisfies  $\mathbb{E}[\underline{y}_i^*|x] \leq f(x; b) \leq \mathbb{E}[\bar{y}_i^*|x]$  is said to be observationally equivalent to  $\beta$ .<sup>3</sup>

*Remark 1:*  $\beta$  cannot be point-identified when  $\mathbb{E}[\underline{y}_i^*|x] < \mathbb{E}[\bar{y}_i^*|x]$  or  $\Pr[y|x]$  is unknown.

*Remark 2:* If the density of the conditional probability ( $\Pr[y|x]$ ) is known,  $\beta$  is point-identified, which leads to the special cases of ordered choice models.

*Remark 3:* In the case of ordinal variables, it is impossible to (set) identify  $\beta$  without any further assumptions. This is due to the fact that ordinal values are qualitative, hence numerical values cannot be assigned either to the choice values or to the

<sup>2</sup>The same result can be found in Manski (1989) or Manski and Tamer (2002).

<sup>3</sup>See more on the terminology of observational equivalence in Chesher and Rosen (2017) or Lewbel (2019).

threshold values. Note, if one is interested in the conditional probabilities and willing to assume a distribution (as with ordered choice models), then of course,  $\beta$  can also be point-identified with ordinal variables.

Following Manski and Tamer (2002), point identification of  $\beta$  can be achieved by using the equality condition in Equation (4) and by reconstructing the conditional probability of  $y_i$ . We maintain the assumption that  $y_i$  cannot be directly observed only through a limited number of choices/classes and we are not making any further (distributional) assumptions. The key to our approach is the use of split sampling, which uses different thresholds for the choices in each split sample. As we increase the number of split samples we achieve point-identification of  $\mathbb{E}[y_i|x]$ , and thus  $\beta$ . This split sampling method can be viewed as a non-parametric estimator on  $\Pr[y|x]$ . It works in two ways:

1. The bounds are made narrower as we increase the number of split samples  $(c_m - c_{m-1}) \rightarrow 0$ . This leads to  $\mathbb{E}[\underline{y}_i^*|x] \rightarrow \mathbb{E}[y_i|x]$  and  $\mathbb{E}[\bar{y}_i^*|x] \rightarrow \mathbb{E}[y_i|x]$ , without the need of  $\underline{y}_i^* \rightarrow y_i$  and  $\bar{y}_i^* \rightarrow y_i$ .
2. It gives a better mapping of  $\Pr[y|x]$  therefore additional knowledge on  $\mathbb{E}[y_i|x]$  (see, Equation (3)).

Let us mention the implementations of the two other possible solutions. In set identification, Manski and Tamer (2002) propose a modified minimum-distance estimator, where the lower and upper bounds on the conditional expectation are also estimated along with the parameter set. Moment (in)equality models generalize Manski and Tamer (2002) for cases where there are multiple equations and/or inequalities (i.e., Chernozhukov et al. (2007) or Andrews and Soares (2010)). Beresteanu and Molinari (2008) shows asymptotic properties of such partially identified parameters. Imbens and Manski (2004), Chernozhukov et al. (2007) and Kaido et al. (2019), among others, derive confidence intervals for these set identified parameters. These methods are feasible ways to estimate parameter sets for a given conditional expectation function without any further assumption. However, these methods do not produce point-estimates for  $\beta$ , only estimated lower and upper bounds. On the other hand, ordered choice models estimated  $\beta$  up to a scale through a particular distributional assumption. These models produce *conditional probabilities*,

and generally the interpretation of coefficients is not straightforward,

$$\Pr [y_i^* \leq m \mid x] = F(c_m - \beta'x)$$

or

$$F^{-1}(\Pr [y_i^* \leq m \mid x]) = c_m - \beta'x,$$

where  $F(\cdot)$  is the assumed cumulative distribution function, usually Gaussian or logit.  $F^{-1}$  is its inverse (also called the ‘link’ function) and  $m$  is the  $m$ ’th ordinal value. Here,  $\beta$  is identified through the assumption on  $F(\cdot)$ , which creates the exact mapping between the conditional probabilities and  $x$ . It is important to highlight the following:

1. The interpretation of the parameters in an ordered choice model are quite different from the models where identification is based on the conditional expectation function.
2. This approach can be used to deal with interval and ordered variables as well, however these models (by default) handle the interval data as ordinal data.
3. If  $F(\cdot)$  is wrongly assumed, parameter estimates will not provide consistent estimators of  $\beta$ .
4. In the case of the interval variable, it is possible to use the information on the intervals and fix the  $c_m$  parameters in the model. If one is interested in the conditional expectation, it is possible to use an EM algorithm to compute the maximum likelihood estimator for  $\beta$  along with estimators for the expected values. (Greene and Hensher, 2010, p. 133) We are going to refer to this method as ‘interval regression’ in our comparison study.

### 3 The Split Sampling Approach

The split sampling approach investigates how to gather the data (what is a good discretization process) in order to estimate the conditional expectation and to be able to rely on simple least squares regression techniques. The main idea is to create different questionnaires by using choices with different boundaries in each question, while fixing the number of choices ( $M$ ). The term ‘split sample’ is referred to

the fact that while the questions in each of these questionnaires are the same, the boundaries on their choices are different and therefore each questionnaire will have its own *split sample*. Due to human cognitive capacities, usually, a very limited number of choices is the only feasible way to construct such questionnaires.<sup>4</sup> The use of  $S$  split samples enables us to collect the answer of the same question in  $S$  different ways, which eliminates the discretization problem. We achieve this through changing the class boundaries ( $c_m$ ) between each split sample.

The intuition behind the approach is that this leads to a better mapping of the unknown distribution of  $y$  and, in principle, to a complete mapping of the focus model. By merging the different split samples into one data set (let us call this the *working sample*), we get  $b = 1, \dots, B$  overall number of choice classes across the merged split samples, where  $B$  is much larger than  $M$ . In a given split sample, each respondent ( $i$ ) is given one questionnaire. The set of respondents who fill in a questionnaire with the same class boundaries defines a split sample. Each split sample has  $N^{(s)}$  number of observations ( $s = 1, \dots, S$  and  $\sum_s N^{(s)} = N$ ). In this setup, the discretization of a split sample looks exactly as the problem introduced above in Equation (1); the only difference across split samples is that the class boundaries are different. Note that the number of observations across split samples can be the same or, more likely, different. Now a split sample is as follows,

$$y_i^{(s)} = \begin{cases} z_1^{(s)} & \text{if } y_i \in C_1^{(s)} = [c_0^{(s)}, c_1^{(s)}), \\ & \text{1st choice for split sample } s, \\ z_2^{(s)} & \text{if } y_i \in C_2^{(s)} = [c_1^{(s)}, c_2^{(s)}), \\ \vdots & \vdots \\ z_m^{(s)} & \text{if } y_i \in C_m^{(s)} = [c_{m-1}^{(s)}, c_m^{(s)}), \\ \vdots & \vdots \\ z_M^{(s)} & \text{if } y_i \in C_M^{(s)} = [c_{M-1}^{(s)}, c_M^{(s)}], \\ & \text{last choice for split sample } s. \end{cases} \quad (5)$$

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<sup>4</sup>Typically, the optimal number of choices for a survey is relatively small,  $M = 3, 5, 7$  or at most  $M = 10$ . There is a large literature about the optimal number of choices (or ‘scale points’) in a survey, see e.g., Givon and Shapira (1984), Srinivasan and Basu (1989) or Alwin (1992).

The observed values  $z_m^{(s)}$  are set to a numeric value<sup>5</sup> between  $c_{m-1}^{(s)}$  and  $c_m^{(s)}$ , typically to the mid-point. In the second step, we merge all the split samples and create a ‘working-sample’ used to estimate the parameter(s) of interest. The working-sample is an artificial construction created in such a way that the working class boundaries ( $c_b^{WS}$ ) are the union of the class boundaries of split samples.<sup>6</sup>

$$\bigcup_{b=0}^B c_b^{WS} = \bigcup_{s=1}^S \bigcup_{m=0}^M c_m^{(s)}. \quad (6)$$

With proper re-distribution of the observations to the working sample, we can reconstruct the underlying unobserved continuous variable’s distribution. To be more specific, we show two different ways to carry out split sampling.

### 3.1 The Magnifying Method

The magnifying method magnifies parts of the domain in each questionnaire by one equally sized choice class. The size of classes depends on the number of split samples ( $S$ ) and number of choices ( $M$ ). As the number of split samples increases, class sizes decrease, which uncovers the unknown underlying distribution. Figure 1 shows the main idea of the magnifying method with the individual questionnaires for the case  $M = 3$  and  $S = 4$ . The last line shows the working sample.

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<sup>5</sup>Instead of an interval value.

<sup>6</sup>Here, we discuss the cases where the domain  $(a_l, a_u)$  for  $y_i$  is known and the working sample’s class boundaries maps the domain of  $y_i$ ,  $c_0^{WS} = a_l, c_B^{WS} = a_u$ . Our proof holds for cases where  $(a_l, a_u)$  are unknown and  $c_0^{WS} \neq a_l$  and/or  $c_B^{WS} \neq a_u$ , see Chan et al. (2019). In these cases, one might drop observations which are outside the domain of the survey(s) e.g.,  $a_l < c_0^{WS}$ , or there is a known censoring in the survey,  $a_l = -\infty$  and/or  $a_u = \infty$ . Note that in these cases the sample properties (e.g., speed of convergence) can be different.

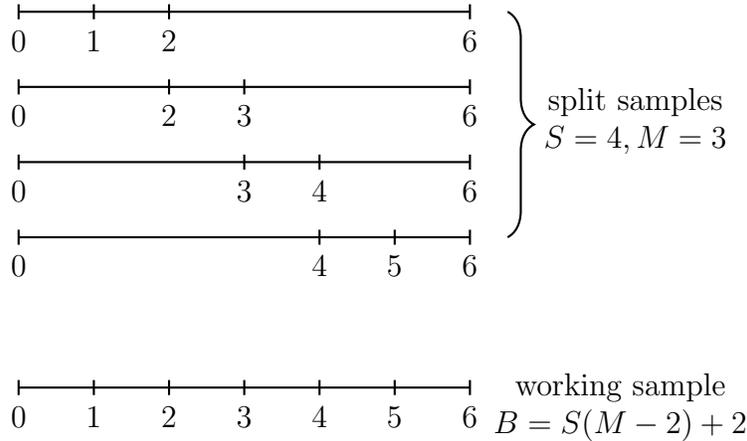


Figure 1: The magnifying method

The first and last split samples are slightly different from the split samples in-between. They have one extra class with the same class width, while split samples in-between have  $M-2$  classes with the same class width. Observations which fall into these classes are called *directly transferable observations* (DTOs). The connection between the number of magnified classes in the working sample ( $B$ ), and the number of split samples ( $S$ ) and choices ( $M$ ) is given by

$$B = S(M - 2) + 2.$$

Given the fact that there are  $B$  classes in the working sample, we get the widths of these classes,

$$h = \frac{a_u - a_l}{S(M - 2) + 2}.$$

Fixing the upper and lower bounds on the domain for the split samples ( $a_l = c_0^{WS} = c_0^{(s)}$ ;  $a_u = c_B^{WS} = c_M^{(s)}, \forall s$ ), we can reduce the class size  $h \rightarrow 0$  as  $S \rightarrow \infty$ , which enables us to ensure convergence in distribution. This can also be seen through the working sample's boundary points, which have the following simple form

$$c_b^{WS} = a_l + bh.$$

With the magnifying method we can separate two types of observations. The first is the already mentioned directly transferable observations. Formally,  $y_i^{(s)} \in \zeta$ , where  $\zeta$  is the set of choice intervals of  $\zeta = C_m^{(s)}, \forall$  pair of  $(1 < s < S, 1 < m <$

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**Algorithm 1** Magnifying method – creation of the split samples

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1: For any given  $S$  and  $M$ , set

$$B = S(M - 2) + 2$$

$$h = \frac{a_u - a_l}{B}$$

$$s = 1.$$

2: Set  $c_0^{(s)} = a_l$  and  $c_M^{(s)} = a_u$ .

3: If  $s = 1$ , then set

$$c_1^{(s)} = c_0^{(s)} + h,$$

else set

$$c_1^{(s)} = c_{M-1}^{(s-1)}.$$

4: Set  $c_m^{(s)} = c_{m-1}^{(s)} + h$  for  $m = 2, \dots, M - 1$ .

5: If  $s < S$ , then  $s := s + 1$  and go to Step 2.

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$M$ ), and  $(s = 1, m = 1), (s = S, m = M)$ . Here,  $\lim_{S \rightarrow \infty} \|C_m^{(s)}\| = 0$ , which means that at the limit we observe responses without any discretization. Moreover, these observations have the same class width as the working sample's classes and each can be directly linked to a certain working sample class, by design, hence the name '*directly transferable observations*'. These observations are denoted by  $y_{i,DTO}^{WS}$ .

Algorithm 2 describes how to construct in practice the working sample, using the directly transferable observations.

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**Algorithm 2** The magnifying method - creation of the 'DTO' working sample

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1: Set  $m = 1, s = 1$  and  $y_{i,DTO}^{WS} = \emptyset$

2: If  $C_m^{(s)} \in \zeta$ , add observations from class  $C_m^{(s)}$  to the working sample:

$$y_{i,DTO}^{WS} := \left\{ y_{i,DTO}^{WS}, \bigcup_{j=1}^N \left( y_j^{(s)} \in C_m^{(s)} \right) \right\},$$

3: If  $s < S$ , then  $s := s + 1$  and go to Step 2.

4: If  $s = S$ , then  $s := 1$  and set  $m = m + 1$  and go to Step 2.

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The second type of observations are all the others which fall into choice classes at the boundaries. We call them ‘*non-directly transferable observations*’ (NDTOs). One way to proceed is to drop them completely so they would not appear in the working sample (thus, only using  $y_{i,DTO}^{WS}$  for estimation purposes). However, in practice it seems that too many could fall into this category, resulting in a large efficiency loss during the estimation.

Another approach is to use all the observations. We can use all the DTOs from the working sample to calculate conditional means for the underlying distribution. As it turns out, this is quite handy, while we can replace the observations with specific conditional sample averages, as shown in Section 3.3.

There are three interesting remarks about the magnifying method. First, the magnifying method is appealing due to its theoretical simplicity. Second, it might be used in the case of a survey design with a small number of  $S$ . However, when there is a large number of split samples, in practice it is hard to create such surveys. Third, this method does not preserve data confidentiality. It uses the fact that some individuals are correctly observed and  $y$  is i.i.d., therefore the generalization of those observations is correct.

### 3.2 The Shifting Method

The shifting method is an alternative to the magnifying method. It takes the original class width as given, with fixed class widths, and shifts the boundaries of each choice with a given fixed value. Increasing the split sample size does not affect the boundary widths in-between the domain, only the size of the shift. As we shift the boundaries, we add an extra class<sup>7</sup> for each split sample at the boundary where, due to the shift, the class width has increased. Figure 2 shows the split samples in this approach with  $S = 4$  and with  $M = 4$  classes.

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<sup>7</sup>To be more specific, we in fact reveal a hidden class.

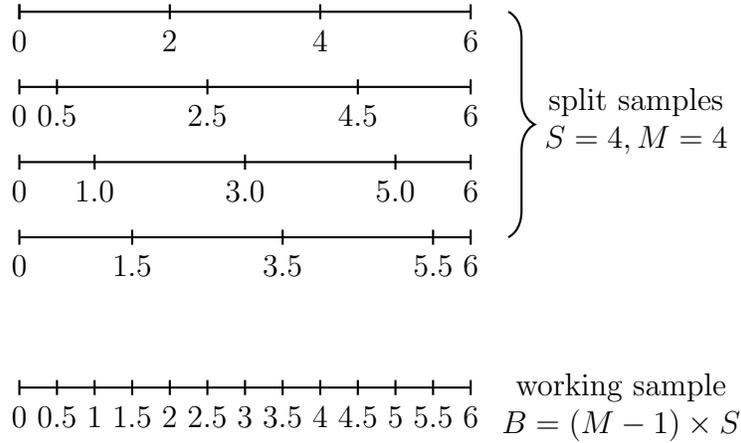


Figure 2: The shifting method

As Figure 2 shows, there is one split sample (the benchmark  $s = 1$ ) where there is one class less, otherwise everywhere there is always  $M$ . The number of classes in the working sample is

$$B = S \times (M - 1).$$

The boundary points for each split sample are

$$c_m^{(s)} = \begin{cases} a_l \text{ or } -\infty, & \text{if } m = 0, \\ a_l + (s - 1) \frac{a_u - a_l}{S(M-1)} + (m - 1) \frac{a_u - a_l}{M-1} & \text{if } 0 < m < (M - 1), \\ a_u \text{ or } \infty, & \text{if } m = M. \end{cases}$$

For the working sample, we get  $c_b^{WS} = a_l + b \frac{a_u - a_l}{S(M-1)}$ . Intuitively, we achieve complete mapping by reducing the shifting size to 0, thus we are able to identify observations which lie in these small intervals, using the information available in all the other split samples.

Algorithm 3 describes how to create in practice split samples using the shifting method.

---

**Algorithm 3** The shifting method - creation of split samples ( $\psi^{(s)}(\cdot)$ )

---

1: For any given  $S$  and  $M$ , set

$$B = S(M - 1)$$

$$h = \frac{a_u - a_l}{B}$$

$$\Delta = \frac{a_u - a_l}{M - 1}$$

$$s = 1.$$

2: Set  $c_0^{(s)} = a_l$  and  $c_M^{(s)} = a_u$ .

3: If  $s = 1$ , set

$$c_m^{(s)} = c_{m-1}^{(s)} + \Delta, \quad m = 2, \dots, M - 1$$

else

$$c_m^{(s)} = c_m^{(s-1)} + h, \quad m = 1, \dots, M - 1.$$

Note:  $c_1^{(1)}$  does not exist.

4: If  $s < S$ , then  $s := s + 1$  and go to Step 2.

---

Merging the split samples into the working sample is somewhat cumbersome, but works efficiently. The main idea is to uniformly assign each split sample's observations to the working sample's choice values, whose intervals are congruent with the split sample's choice interval. This way, we can create an artificial random variable that, converges in distribution to the underlying continuous variable (see Chan et al., 2019). Using this, we need to calculate a specific conditional average – as shown in Section 3.3 – for each of the split sample choice classes. Then we replace the original observations with these values.

Algorithm 4 describes how to create an artificial variable that approximates the underlying distribution  $y$ .

---

**Algorithm 4** The shifting method – creation of artificial variable ( $y_i^\dagger$ )

---

- 1: Set  $s := 1, m := 1, y_i^\dagger = \emptyset$ .
- 2: Create the set of observations from the defined split sample class:

$$\mathcal{A}_m^{(s)} := \{y_i^{(s)} \in C_m^{(s)}\}, \forall i.$$

Let  $n_a$  be the number of observations in  $\mathcal{A}_m^{(s)}$

- 3: Create set  $\mathcal{Z}_m^{(s)}$ , with possible working sample choice values, defined by  $\mathcal{Z}_m^{(s)} = \bigcup (z_b \in [c_{m-1}^{(s)}, c_m^{(s)}])$  Let  $n_{\mathcal{Z}}$  be the number of choice values in  $\mathcal{Z}$

- 4: Draw from  $\mathcal{Z}_m^{(s)}$ , with  $n_{\mathcal{Z}}^{-1}$  uniform probabilities  $n_a$  times and assign each value as  $\mathcal{Y}_j : \mathcal{A}_m^{(s)}(j) \rightarrow \mathcal{Z}_m^{(s)}$

Example: Let  $C_3^{(2)} = [2.5, 4.5]$ ,  $\mathcal{A}_m^{(s)} = \{3.5, 3.5, 3.5\}$ ,  $n_a = 3$ ,  $\mathcal{Z} = \{2.75, 3.25, 3.75, 4.25\}$ , the uniform probabilities are 1/4 for each choice value.

Then we pick values with the defined probability from the set of  $\mathcal{Z}_m^{(s)}$ , 3 times with repetition, resulting in  $\bigcup_{j=1}^{n_a} \mathcal{Y}_j = \{2.75, 3.25, 3.25\}$

- 5: Add these new values to  $y_i^\dagger$ ,

$$y_i^\dagger := \left\{ y_i^\dagger, \bigcup_{j=1}^{n_a} \mathcal{Y}_j \right\}.$$

- 6: If  $s < S$ , then  $s := s + 1$  and go to Step 2.
  - 7: If  $s = S$ , then  $s := 1$  and set  $m = m + 1$  and go to Step 2.
- 

Variable  $y^\dagger$  has in the limit the same distribution as  $y$ . A caveat is we cannot directly use  $y_i^\dagger$  for estimation, while by design each individual observation only represents the conditional mean for the given split sample's class, and not the underlying variable's conditional expectation. However, while  $\lim_{S \rightarrow \infty} F_S(y^\dagger) = F(y)$ , we can use these values to calculate the specific conditional means – similarly to the magnifying case, which uses all the observations. Thus, the idea is to use this artificial distribution to calculate the different conditional means and replace the class observations with these values works here as well.

Algorithm 5 describes how to create in practice a working sample with the shifting method.

---

**Algorithm 5** The shifting method – creation of working sample

---

- 1: Set  $s := 1, m := 1, y_i^{WS} = \emptyset$ .
- 2: Calculate the sample conditional mean  $\hat{\pi}_\tau$  using  $y_i^\dagger$  conditioning on  $D_l$  class.  $D_l$  denotes a set containing  $L$  mutually exclusive partitions of the domain of  $x_i$ 's.
- 3: Add the conditional mean  $\hat{\pi}_\tau$  and the observed values to the working sample,

$$y_i^{WS} := \left\{ y_i^{WS}, \bigcup_{j=1}^N \hat{\pi}_\tau \mid (y_j \in D_l) \right\}$$

- 4: If  $s < S$ , then  $s := s + 1$  and go to Step 2.
  - 5: If  $s = S$ , then  $s := 1$  and set  $m = m + 1$  and go to Step 2.
- 

We need to track the individual observations to be able to pair them with the right-hand side variables. Note that this pairing only applies to the conditional expected values not to the actual (un)observed value.

*Some remarks:* 1) The shifting method enables a more flexible survey design in practice, while the choice class widths are approximately the same. 2) As noted by Chan et al. (2019), the shifting method has different convergence properties around the boundaries. 3) The shifting method ensures data privacy considerations: Creating artificial observations, and calculating their conditional averages given the covariates will make the individuals' real value intractable.

### 3.3 OLS Estimation

Proposed split sampling methods lead to two possible ways to obtain a consistent estimate of  $\beta$  via the least squares estimator. The first approach uses only the DTOs, while the second relies on all observations.

#### 3.3.1 LS Estimation Based on DTOs

Let  $N^D$  denote the number of DTOs and let

$$\mathbf{y} = \mathbf{X}\boldsymbol{\beta} + \boldsymbol{\varepsilon}, \quad \boldsymbol{\varepsilon} \sim iid(\mathbf{0}, \sigma_\varepsilon^2 \mathbf{I}), \quad (7)$$

$$= \hat{\mathbf{y}} + \boldsymbol{\varepsilon}, \quad (8)$$

where  $\varepsilon = (\varepsilon_1, \dots, \varepsilon_{N^D})'$ . We make the following assumptions:

Assumption 1. There exists a bounded matrix  $\mathbf{Q}$  such that  $\frac{\mathbf{X}'\mathbf{X}}{N^D} - \mathbf{Q} = o_p(1)$ .

Assumption 2.  $\forall \xi > 0 \exists S$  such that  $\Pr(|\varepsilon_i| > \|C_m\|) = 1 - \xi$  given  $\hat{y}_i \in C_m$ .

Assumption 2 implies that  $\xi$  can be made arbitrarily small by choosing an appropriate  $S$ . This is due to the fact that  $\|C_m\| \rightarrow 0$  as  $S \rightarrow \infty$ .

Consider that the discretized version of  $\mathbf{y}$  denotes  $\mathbf{y}^*$  and write  $\mathbf{y}^* = \mathbf{y} + \mathbf{u}$ , where  $\mathbf{u}$  represents the ‘measurement errors’ due to discretization. Consider the set

$$\mathbf{A} = \{i : |\varepsilon_i| > \|C_m\| \wedge \hat{y}_i \in C_m\}. \quad (9)$$

Set  $\mathbf{A}$  allows us to distinguish between two sets of DTOs. Those belonging to  $\mathbf{A}$  when the unobserved value,  $y_i$ , is in a different class than its corresponding  $\hat{y}_i$ . In this case,  $|\varepsilon_i| > \|C_m\|$  given  $\hat{y}_i \in C_m$ , which implies  $x_i \perp u_i$ . Those not belonging to  $\mathbf{A}$  when both  $y_i$  and  $\hat{y}_i$  belong to the same class, and therefore  $Cov(x_i, u_i) \neq 0$ . As we shall demonstrate below, these two sets of observations affect the properties of OLS differently.

Partition  $\mathbf{X} = (\mathbf{X}_1, \mathbf{X}_2)$  such that  $\mathbf{X}_1$  contains those observations whose indexes belong to  $\mathbf{A}$  and  $\mathbf{X}_2$  contains observations whose indexes do not belong to  $\mathbf{A}$ .

$$\begin{aligned} \hat{\boldsymbol{\beta}} &= (\mathbf{X}'\mathbf{X}')^{-1} \mathbf{X}'\mathbf{y}^* \\ &= (\mathbf{X}'\mathbf{X}')^{-1} \mathbf{X}'\mathbf{y} + (\mathbf{X}'\mathbf{X})^{-1} \mathbf{X}'_1\mathbf{u} + (\mathbf{X}'\mathbf{X})^{-1} \mathbf{X}'_2\mathbf{u} \\ &= \boldsymbol{\beta} + o_p(1) + \xi \left( \frac{\mathbf{X}'\mathbf{X}}{N^D} \right)^{-1} \frac{\mathbf{X}'_2\mathbf{u}}{\xi N^D} \end{aligned} \quad (10)$$

$$= \boldsymbol{\beta} + o_p(1) + \xi O_p(1). \quad (11)$$

The second last line follows from the fact that  $X_1 \perp \mathbf{u}$ . Under Assumption 2, as  $\|C_m\| \rightarrow 0$  for all  $m$ ,  $\xi \rightarrow 0$  and  $\hat{\boldsymbol{\beta}} = \boldsymbol{\beta} + o_p(1)$ .

The argument above relies on the assumption that the number of DTOs approaches infinity. In order to show that this can be the case, at least theoretically, we need to derive the relation between  $S$  and  $N^D$ . Let  $\mathbf{B}$  denote the set of DTOs. From Chan

et al. (2019),

$$\Pr(y \in \mathbf{B}) = \frac{1}{S} \left[ \sum_{m=2}^M \Pr(y \in C_m^{(S)}) + \sum_{m=1}^{M-1} \Pr(y \in C_m^{(1)}) + \sum_{m=2}^{M-1} \sum_{s=2}^{S-1} \Pr(y \in C_m^{(s)}) \right] \leq \frac{1}{S}.$$

Since  $y$  can only belong to one and only one class, all the events on the right-hand side are mutually exclusive and their sum must be less than or equal to 1. Note that  $N^D = N \Pr(y \in \mathbf{B})$ , and hence

$$N^D = O_p\left(\frac{S}{N}\right). \quad (12)$$

### 3.3.2 $\hat{\boldsymbol{\beta}}$ from the Conditional Expectation

The method above relies only on the DTOs. However, it is also possible to use all observations for the purpose of estimation. Consider the following standard regression model:

$$\mathbf{y} = \mathbf{X}\boldsymbol{\beta} + \boldsymbol{\varepsilon} \quad \boldsymbol{\varepsilon} \sim iid(\mathbf{0}, \sigma_\varepsilon^2 \mathbf{I}), \quad (13)$$

where  $\mathbf{y} = (y_1, \dots, y_N)'$ ,  $\mathbf{X} = (\mathbf{x}_1, \dots, \mathbf{x}_k)$  with  $\mathbf{x}_i = (\mathbf{x}_{i1}, \dots, \mathbf{x}_{iN})'$ ,  $i = 1, \dots, k$  and  $\boldsymbol{\beta} = (\beta_1, \dots, \beta_k)'$ . Let  $\mathbf{D} = \{\mathbf{D}_1, \dots, \mathbf{D}_L\}$  denote a set containing  $L$  mutually exclusive partitions of the domain of  $\mathbf{X}$ . Then

$$\mathbb{E}(\mathbf{y}|\mathbf{X} \in \mathbf{D}_l) = \mathbb{E}(\mathbf{X}|\mathbf{X} \in \mathbf{D}_l)\boldsymbol{\beta} \quad l = 1, \dots, L. \quad (14)$$

Let  $\tilde{\mathbf{y}}_l$  and  $\tilde{\mathbf{X}}_l$  denote consistent estimates of  $\mathbb{E}(\mathbf{y}|\mathbf{X} \in \mathbf{D}_l)$  and  $\mathbb{E}(\mathbf{X}|\mathbf{X} \in \mathbf{D}_l)$ , respectively,  $l = 1, \dots, L$ . Following from equation (14), we get

$$\tilde{\mathbf{y}} = \tilde{\mathbf{X}}\boldsymbol{\beta} + \mathbf{u}, \quad (15)$$

where  $\tilde{\mathbf{y}} = (\tilde{\mathbf{y}}_1, \dots, \tilde{\mathbf{y}}_L)$ ,  $\tilde{\mathbf{X}} = (\tilde{\mathbf{X}}'_1, \dots, \tilde{\mathbf{X}}'_L)'$  and  $\mathbf{u} = (u_1, \dots, u_L)'$ . Note that  $\mathbb{E}(u_l) = 0$  for all  $l$  since  $\tilde{\mathbf{y}}_l$  and  $\tilde{\mathbf{X}}$  are consistent estimates. Moreover,  $\mathbb{E}(u_l u_g) = 0$  for  $l \neq g$  due to  $D_l$  are mutually exclusive  $\forall l$  and  $\mathbb{E}(u_l|\tilde{\mathbf{X}}_l) = 0$  since the partition does not affect the sampling error. Let  $\hat{\boldsymbol{\beta}} = (\tilde{\mathbf{X}}'\tilde{\mathbf{X}})^{-1} \tilde{\mathbf{X}}'\tilde{\mathbf{y}}$ , then under the usual argument of the classical OLS,  $\hat{\boldsymbol{\beta}} - \boldsymbol{\beta} = o_p(1)$ .

The basic idea here is to obtain the averages of  $y_i$  conditional on different ranges of  $x_i$ . Such partitions preserve the correlation structure between  $y_i$  and  $x_i$ , as demonstrated above.

Chan et al. (2019) show that split sampling lead to  $y_i^\dagger \xrightarrow{d} y_i$ . Thus,

$$N_l^{-1} \sum_{\mathbf{x}_i \in \mathbf{D}_l} y_i^\dagger - \mathbb{E}(y_i | \mathbf{X} \in \mathbf{D}_l) = o_p(1). \quad (16)$$

Given this is a consistent estimator of  $\mathbb{E}(y_i | \mathbf{X} \in \mathbf{D}_l)$ , the above result holds and the consistency based on conditional expectation follows. It is worthwhile to point out that the above argument applies to any split sampling method that leads to convergence in distribution to the underlying dependent variable. Thus, its applicability goes beyond the shifting and magnifying methods.

### 3.4 Monte Carlo Evidence

For the simulation experiments, we consider the following data generating process

$$y_i = x_i' \beta + \epsilon_i$$

and set  $\beta = 0.5$ . We focus on the case where the support of  $y_i$  is known, thus any error (bias) may come only from the discretization. We set the lower bound as  $a_l = -2$ , and the upper bound as  $a_u = 4$ . (We have experimented with different boundaries; the details are in the online Supplementary Materials,<sup>8</sup> Table 2.) The exogenous variable  $x_i$  is generated by a normal distribution, and to ensure the support of  $y_i$ , it is truncated at  $-1$  and  $1$ , with a variance of  $0.25$ .<sup>9</sup> Our main concern is the disturbance term,  $\epsilon_i$ , therefore we have visited several common types of distributions. To ensure the support of  $y_i$  is being met, we truncated/set  $\epsilon_i$  such that it lies between  $-1 \leq \epsilon_i \leq 3$ .<sup>10</sup> We experiment with the following distributions:

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<sup>8</sup>[https://github.com/regulyagoston/Split-sampling/blob/master/Dependent/doc/Supplementary%20Materials\\_LHS.pdf](https://github.com/regulyagoston/Split-sampling/blob/master/Dependent/doc/Supplementary%20Materials_LHS.pdf)

<sup>9</sup>This choice of variance ensures that even without truncation, 95% of the probability mass lies between  $-1$  and  $1$ .

<sup>10</sup>This creates an asymmetric distribution for  $\epsilon_i$  in several cases, which favours distribution independent estimation methods rather than the maximum likelihood. In the online Supplementary Material, we show results with boundaries where  $\epsilon_i$  was truncated in a symmetric way. The results and conclusions remain unchanged.

- Normal: Standard normal distribution truncated at  $-1$  and  $3$ .
- Logistic: Standard logistic distribution truncated at  $-1$  and  $3$ .
- Log-Normal: Standard log-normal distribution truncated at  $4$  and subtracted  $1$  (in order to adjust the mean).
- Uniform: Uniform distribution between  $-1$  and  $3$ .
- Exponential: Exponential distribution with rate parameter  $0.5$ , truncated at  $4$  and subtracted  $1$ .
- Weibull: Weibull distribution with shape parameter  $1.5$  and scale parameter  $1$ , truncated at  $4$  and subtracted  $1$ .

In the event that the distributions do not have a zero mean, we specified the conditional mean as  $y_i = \alpha + x_i' \beta + \eta_i$ , where  $\epsilon_i = \alpha + \eta_i$  with  $\mathbb{E}(\epsilon_i) = \alpha$ .

For the discretization of  $y_i$  we use  $M = 5$ ,  $c_0 = a_l = -2$ ,  $c_M = a_u = 4$  and equal distances for the thresholds between the boundaries.

To estimate  $\beta$ , we have used the following methods:

- *Set identification*: Estimates the lower and upper boundaries of the parameter set for  $\beta$  using  $y_i^*$  as interval data. Estimation is based on Beresteanu and Molinari (2008) and their published stata package (Beresteanu et al., 2010)<sup>11</sup> This method does not produce point-estimates for  $\beta$ , only lower and upper boundaries.
- *Ordered probit and logit*: Ordered choice models, where  $y_i^*$  values are ordinal data, and the model assumes a gaussian or logistic distribution (Greene and Hensher, 2010). The estimated maximum likelihood ‘naive’ parameters reported here are not designed to recover  $\beta$  and to be interpreted in the linear regression sense. Therefore, we call the difference from  $\beta$  *distortion* instead of bias. However, we find it important to report these values as (unfortunately) they are the most used and (mis-)interpreted estimates in applied work.

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<sup>11</sup><https://molinari.economics.cornell.edu/programs.html>

- *Interval regression*: A modification of the ordered choice model, where  $y_i^*$  values are interval data and the model assumes gaussian distribution in order to model the linear regression model. The maximum likelihood parameter estimates aim to recover  $\beta$  through the distributional assumption. For a detailed description, see Cameron and Trivedi (2010, p. 548-550) or Greene and Hensher (2010, p. 133).
- *Midpoint regression*: A simple linear regression using midpoints for  $y_i^*$  and OLS for estimation.
- *Magnifying*: The magnifying method with  $S = 10$  split samples. We use only DTO observations.<sup>12</sup>
- *Shifting*: The shifting method with  $S = 10$ , all outcome observations are used and created as described in Algorithm 4.<sup>12</sup>

We have included an intercept wherever possible.<sup>13</sup> Finally, we used  $N = 10,000$  observations and 1,000 Monte Carlo repetitions. We report the Monte Carlo average bias or distortion from the true parameter along with the Monte Carlo standard deviation. Table 1 shows the results. The shifting method consistently provides the smallest average bias, while the magnifying method also outperforms the other procedures in general. Set identification gives such large intervals for the parameter set that it is unlikely to be useful in practice. Distortions of ordered probit and logit models are rather large. Interval regression and midpoint regressions perform poorly in the sense that both methods result in large biases. The Monte Carlo standard deviation is similar for all cases except for the magnifying method. This is due to the fact that the magnifying ‘only DTO’ method uses fewer observations, for the estimation, in our case  $N/S \approx 1,000$  observations.

We have run several other Monte Carlo experiments to investigate the finite sample properties of our methods. With moderate sample size ( $N = 1,000$ ), the results are similar: the shifting and magnifying methods outperform all alternatives. The magnifying method performs slightly more poorly in smaller samples, while the effective number of observations in this case is only around 100. Interestingly, in both

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<sup>12</sup> We used mid-values as observations for the split samples’ ( $y_i^{(s)}$ ) and working sample’s choice value.  $L$  is set to 50 equal distance partitions for  $x_i$ , where the conditioning was needed.

<sup>13</sup>Ordered choice models’ implementation in stata remove (restricts to zero) the intercept parameter to identify  $\beta$ .

	Normal	Logistic	Log-Normal	Uniform	Exponential	Weibull
Set identification <sup>†</sup>	$[-1.1, 1.15]$ (0.02),(0.02)	$[-1.09, 1.15]$ (0.03),(0.03)	$[-1.09, 1.16]$ (0.02),(0.02)	$[-1.07, 1.17]$ (0.03),(0.03)	$[-1.06, 1.19]$ (0.03),(0.03)	$[-1.09, 1.15]$ (0.02),(0.02)
Ordered probit*	0.1971 (0.0256)	0.0688 (0.0253)	0.2085 (0.0262)	0.0158 (0.0234)	0.0986 (0.0241)	0.4461 (0.0295)
Ordered logit*	0.6509 (0.0464)	0.3814 (0.0455)	0.6862 (0.0499)	0.2379 (0.0422)	0.4338 (0.044)	1.2085 (0.0546)
Interval regression	0.0268 (0.0198)	0.0332 (0.0249)	0.0371 (0.0221)	0.0491 (0.0271)	0.0663 (0.0249)	0.0397 (0.0166)
Midpoint regression	0.0253 (0.0195)	0.0322 (0.0236)	0.0362 (0.0216)	0.0490 (0.0273)	0.2077 (0.0128)	0.0314 (0.0157)
Magnifying ( $S = 10$ )	-0.0060 (0.0515)	-0.0205 (0.0674)	-0.0072 (0.0616)	-0.0332 (0.0781)	0.0213 (0.0333)	0.0066 (0.0417)
Shifting ( $S = 10$ )	-0.0034 (0.0205)	-0.0009 (0.023)	-0.0004 (0.0209)	-0.0023 (0.0278)	-0.0034 (0.0131)	-0.0008 (0.0153)

<sup>†</sup>: Set identification gives the lower and upper boundaries for the valid parameter set. We report these bounds subtracted with the true parameter, therefore it should give a (close) interval around zero.

\*: Distortion from the true  $\beta$  is reported. Ordered probit and logit models' maximum likelihood parameters do not aim to recover the true  $\beta$  parameter, therefore it is not appropriate to call it bias.

Table 1: Monte Carlo average bias and standard deviation

the exponential and weibull setups, the magnifying method gives similar results as those from the interval and midpoint regressions. Naturally, if the distribution is well specified, methods with maximum likelihood estimation (ordered probit, logit or interval regression methods) produce even smaller biases. However, for the other (miss-specified) cases our split sampling methods work much better. For a smaller number of choices,  $M = 3$ , the biases are generally worse but the differences between the methods are similar. The shifting method still performs better, while the magnifying method still outperforms the alternatives in most cases. This suggests that our methods are robust to the underlying distributions.

Finally, we chose  $\epsilon_i$  as a truncated standard normal and checked what happens if we increase the number of observations and the number of split samples. The simulation results – available in the online Supplementary Materials – give evidence on the consistency of the estimator based on our split sampling approach. By contrast, for all the other alternative methods the same magnitude of bias remained as we increased the number of observations. This suggests that alternative methods provide not only biased but also inconsistent estimates for  $\beta$  in  $N$ . For a detailed discussion of these results see the online Supplementary Material.<sup>14</sup>

<sup>14</sup>[https://github.com/regulyagoston/Split-sampling/blob/master/Dependent/doc/Supplementary%20Materials\\_LHS.pdf](https://github.com/regulyagoston/Split-sampling/blob/master/Dependent/doc/Supplementary%20Materials_LHS.pdf)

## 4 Extensions

### 4.1 Perception Effect

There is some evidence in the behavioural literature that the answers to a question may depend on the way the question is asked (see, e.g., Diamond and Hausman (1994), Haisley et al. (2008) and Fox and Rottenstreich (2003)).<sup>15</sup> Let us call this the *perception effect*. This is present regardless whether split sampling has been performed or not. However, with split sampling there is a way to tackle this issue, much akin to the approach a similar problem has been dealt with in the panel data literature.

Let  $S$  be the total number of split samples and define two sets of discretization of  $y_i$  namely,

$$y_i^* = \begin{cases} z_1 & \text{if } c_0 < y_i < c_m \\ \vdots & \\ z_m & \text{if } c_{m-1} < y_i < c_M \end{cases} \quad (17)$$

and

$$y_i^{**} = \begin{cases} z_1 & \text{if } c_0 < y_i + B_s < c_1 \\ \vdots & \\ z_m & \text{if } c_{m-1} < y_i + B_s < c_M, \end{cases} \quad (18)$$

where  $B_s$  denotes the perception effect for split sample  $s$ ,  $s = 1, \dots, S$ . Let  $\tilde{y}_i^*$  and  $\tilde{y}_i^{**}$  denote the observations in the working sample that derived from  $y_i^*$  and  $y_i^{**}$ , respectively. Following the construction of the working sample, it is straightforward to show that

$$\tilde{y}_i^{**} = \tilde{y}_i^* + B_s \quad (19)$$

given the corresponding  $y_i^*$  and  $y_i^{**}$  came from the split sample  $s$ . Thus, the regression

$$\tilde{y}_i^{**} = \beta x_i + u_i \quad (20)$$

is equivalent to

$$\tilde{y}_i^* + B_s = \beta x_i + u_i. \quad (21)$$

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<sup>15</sup>Comments by Botond Kőszegi on this section are highly appreciated.

Writing the above in matrix form using the normal definition gives

$$\tilde{\mathbf{y}}^* + \mathbf{D}\mathbf{B} = \mathbf{x}\beta + \mathbf{u}, \quad (22)$$

where  $\mathbf{B} = (B_1, \dots, B_S)'$  and  $\mathbf{D}$  is a  $N \times S$  zero-one matrix that extracts the appropriate elements from  $\mathbf{B}$ . So the estimation of  $\beta$  can be done in the spirit of a fixed effect estimator. Define the usual residual maker,  $\mathbf{M}_{\mathbf{D}} = \mathbf{I}_N - \mathbf{D}(\mathbf{D}'\mathbf{D})^{-1}\mathbf{D}'$ , then

$$\hat{\beta} = (\mathbf{x}'\mathbf{M}_{\mathbf{D}}\mathbf{x})^{-1} \mathbf{x}'\mathbf{M}_{\mathbf{D}}\tilde{\mathbf{y}}^{**} \quad (23)$$

is a consistent estimator of  $\beta$  given the results presented in this paper and the similar argument for the consistency of standard fixed effect estimator in the panel data literature.

We also need to modify the estimator for  $\mathbb{E}(y_i|\mathbf{X} \in \mathbf{D}_l)$  slightly in order for the above to hold for the  $\hat{\beta}$  based on conditional expectation. The main problem is to keep track of the perception effect. This means we need to keep track of which split sample each observation comes from when estimating the conditional averages. Specifically,

$$N_l^{-1} \sum_{\mathbf{x}_i \in \mathbf{D}_l, \mathbf{x}_i \in s} \tilde{y}_i^{**} - \mathbb{E}(y_i|\mathbf{X} \in \mathbf{D}_l) + B_s = o_p(1). \quad (24)$$

While the above discussion focuses on one regressor, extension to  $K$  regressors is straightforward and requires no additional assumptions on  $B_s$ . This approach can also be extended to include interacting class and split sample effects, such as  $B_{sm}$  for  $s = 1, \dots, S$  and  $m = 1, \dots, M$ , which hopefully would take care of all likely perception effects.

It is theoretically possible to test the impacts of the perception effects on the estimator. Since  $\hat{\beta}$  as defined in equation (23) is consistent regardless of the presence of perception effects and

$$\tilde{\beta} = (\mathbf{x}'\mathbf{x})^{-1} \mathbf{x}'\tilde{\mathbf{y}}^{**} \quad (25)$$

is consistent only in the absence of the perception effects or if the effects are uncorrelated with  $\mathbf{x}$ , then under the usual regularity conditions, the test statistic is

$$\left(\hat{\beta} - \tilde{\beta}\right)' \left[\text{Var}\left(\hat{\beta} - \tilde{\beta}\right)\right]^{-1} \left(\hat{\beta} - \tilde{\beta}\right) \stackrel{a}{\sim} \chi^2(K). \quad (26)$$

The exact regularity conditions and the construction of the test statistic would depend on the nature of the perception effect. For example, the case where  $\mathbf{B}$  is fixed would be different to the case where  $\mathbf{B}$  is a random vector. It would also appear that some assumptions on  $\mathbf{B}$  are required in order to compute the test statistics. This is another interesting avenue for future research.

## 4.2 Non-linear Models

Another possible extension is to consider the application of the proposed methods in the context of non-linear models. Given the presented methods focus on data collection, they could also be applied to non-linear models. To see this, consider

$$y_i = h(x_i; \beta) + u_i \tag{27}$$

where  $h(\cdot)$  denotes a continuous function. Let  $\mathbf{y}$ ,  $\mathbf{y}^{WS}$  and  $\mathbf{x}$  be the data matrix of  $y_i$  (if we do observe it),  $y_i^{WS}$  (observations from the working sample, and  $x_i$ , respectively). Let  $\hat{\beta}(\mathbf{y}, \mathbf{x})$  denotes a consistent estimator of  $\beta$  with  $\rho(\mathbf{x}) = \sqrt{N} [\hat{\beta}(\mathbf{y}, \mathbf{x}) - \beta]$  such that  $\rho(\mathbf{y}, \mathbf{x}) \xrightarrow{d} D(0, \Omega)$ . Under the assumptions made earlier,  $y_i^{WS} \xrightarrow{d} y_i$ , and therefore  $\rho(\mathbf{y}^{WS}, \mathbf{x}) \xrightarrow{d} \rho(\mathbf{y}, \mathbf{x})$  by the continuous mapping theorem under appropriate regularity conditions. The technical details of these conditions, however, could be an interesting subject of future research.

## 5 Conclusion

This paper deals with econometric models where the dependent variable is continuous but observed through a discretization process that results in interval data. When such a variable is modelled in a (linear) regression framework, the regression parameter(s) cannot be point-identified.

Ordered choice models – which are among the most commonly used to treat such outcome variables – rely on distributional assumptions for point-identification. Alternatively, Manski and Tamer (2002) offer set identifying conditions, which results in large ranges of estimated parameter intervals.

Our proposed split sampling approach does not rely on any distributional assumption and does not restrict the validity to set-identification. Instead, we propose

changes in the data gathering process (the way data is collected). We show that parameters can be point-identified and estimated consistently in a regression model. The split sampling approach put forward ensures that the least squares estimator is unbiased and consistent, and it also works well in moderate sample sizes.

The two split sampling method put forward – magnifying and shifting methods – may guide survey designers and researchers who deal with questionnaires, as well as data providers. With the shifting method, data providers can take into account data privacy considerations as well: Individuals are not identifiable from the data, however, the data can still be used to simply estimate the parameters of interest.

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