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ℓ_1 Regressions: Gini Estimators for Fixed Effects Panel Data*

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Abstract

Panel data, frequently employed in empirical investigations, provide estimators being strongly biased in the presence of atypical observations. The aim of this work is to propose a ℓ_1 Gini regression for panel data. It is shown that the fixed effects within-group Gini estimator is more robust than the OLS one when the data are contaminated by outliers. This semi-parametric Gini estimator is proven to be a U -statistics, consequently, it is asymptotically normal.

Keywords: Gini, Panel, Regression, U -statistics.

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1 Introduction

Econometrics has devoted an important line of research to ℓ_1 regressions. The seminal work of Olkin and Yitzhaki (1992) has paved the way on a general ℓ_1 regression, the so-called Gini regression, embracing many other common and well-known target functions such as the Least Absolute Deviation (LAD) and the absolute deviation from a quantile, see Koenker and Bassett (1978).¹ LAD is actually regarded as a partial regression technique since it represents only one component of the Gini variability to be minimized: the between-group variability of the Gini index of the residuals (see Yitzhaki and Lambert, 2013). The Gini regression has been initiated with respect to two non-exclusive approaches. The first one, the parametric Gini regression, aims at determining (numerically) the coefficient estimates by minimization of the Gini index of the residuals. The second one, the semi-parametric Gini regression, offers estimates on the basis of averaging slope coefficients. Those Gini regressions are coincident if the linearity of the model is assessed. They also share the common property of being robust to outliers, that is, when data are contaminated by extreme values or more generally when the underlying distribution deviates from the multivariate normal – see Yitzhaki and Schechtman (2013) for an overview of the Gini methodology.²

Most of empirical findings are nowadays based on the use of panel or longitudinal data sets. Panel data benefits are: a much larger variability, less collinearity among the covariates (compared with cross-sectional data or time series), more degrees of freedom, more efficiency, and the ability to control for individual heterogeneity.

From our knowledge, Gini regressions are only available either for cross-sectional data or time series. In this note, a Gini regression for panel data is proposed. We pursue the idea that the employ of one particular variability is crucial to derive robust estimators. In panel data, the decomposition of the moment matrices into within- and between-group variability is known to produce within- and between-group fixed effects estimators. The fixed effects ordinary least squares (OLS) estimators are very popular and convenient for empirical investigations, however outliers can drastically affect the estimates. Huber (1981) shows that only 3% of outliers in a set of observations are sufficient to change significantly the estimates (strongly biased in the presence of atypical observations). If outliers are removed, some part of the information in the sample is definitely lost.

¹The Gini regression includes other regressions criteria based on the "city block" metric such as the mean absolute deviation (MAD). These different target functions also rely on the between-group Gini variability.

²It is also important to note that the OLS regression coefficients are very sensitive to monotonic transformation of the variables (Yitzhaki and Schechtman, 2013, Chapter 5). If the covariates are multinormal, the Gini estimates are close than those of OLS.

The aim of this note is to decompose the variability of the moment matrices into within- and between-group Gini variabilities in order to deduce a fixed effects semi-parametric Gini regression for panel data. We show that the within-group Gini estimator derived from this decomposition is a semi-parametric estimator. It is also an U -statistics, consequently, it is asymptotically normal.

The outline of the note is as follows. In Section 2, we begin with the standard Gini regression approaches for cross-sectional data (Section 2.1) before investigating the within-group Gini estimator for fixed effects panel data (Section 2.2) and its asymptotic properties (Section 2.3). In Section 3, Monte Carlo simulation are performed to illustrate the robustness of the within-group Gini estimator in the presence of outliers. Section 4 closes the note.

2 Gini Regressions

2.1 The standard approaches for cross-sectional data

Consider a model $\mathbf{y} = a + b\mathbf{x}$ with \mathbf{x}, \mathbf{y} some $N \times 1$ vectors. The semi-parametric Gini (simple) regression introduced by Olkin and Yitzhaki (1992), consists in averaging tangents b_{ij} (between observations i and j) with weights v_{ij} . Let the values of \mathbf{x} be ranked by ascending order ($x_1 \leq \dots \leq x_N$), then the semi-parametric Gini estimator of the slope coefficient is given by:

$$\hat{b}^G = \sum_{i < j} v_{ij} b_{ij}, \text{ with } v_{ij} = \frac{(x_i - x_j)}{\sum_{i < j} (x_i - x_j)} \text{ and } b_{ij} = \frac{(y_i - y_j)}{(x_i - x_j)} \forall i < j ; i = 1, \dots, N.$$

The authors also demonstrate that if the weights v_{ij} are replaced by quadratic ones such as $w_{ij} = \frac{(x_i - x_j)^2}{\sum_{i < j} (x_i - x_j)^2}$, then the standard OLS estimator of the slope coefficient is obtained: $\hat{b}^{OLS} = \sum_{i < j} w_{ij} b_{ij}$. Since it depends on quadratic weights, the OLS slope coefficient is shown to be heavily sensitive to outliers.

The parametric Gini regression (Olkin and Yitzhaki, 1992) solves the minimization of Gini index of the residuals ($e_i = y_i - \hat{y}_i$) and provides the following estimator (only numerically in the multiple regression case):

$$\hat{b}^{PG} = \arg \min_b G(\mathbf{e}) = \arg \min_b \frac{1}{N^2} \sum_{i=1}^N \sum_{j=1}^N |e_i - e_j|.$$

Based on all pairwise "city-block" distances, the parametric and non-parametric Gini regressions are equivalent ($\hat{b}^{PG} = \hat{b}^G$) if, and only if, the linearity of the model $\mathbf{y} = a\mathbf{x} + b$ is assessed. The semi-parametric Gini regression may be defined according to the cogini op-

erator³, *i.e.* $\text{cog}(\mathbf{y}, \mathbf{x}) := \text{cov}(\mathbf{y}, \mathbf{r}(\mathbf{x}))$ and $\text{cog}(\mathbf{x}, \mathbf{x}) := \text{cov}(\mathbf{x}, \mathbf{r}(\mathbf{x}))$ where $\mathbf{r}(\mathbf{x})$ is the rank vector of \mathbf{x} :⁴

$$\hat{b}^G = \frac{\text{cog}(\mathbf{y}, \mathbf{x})}{\text{cog}(\mathbf{x}, \mathbf{x})}, \text{ whereas } \hat{b}^{OLS} = \frac{\text{cov}(\mathbf{y}, \mathbf{x})}{\text{cov}(\mathbf{x}, \mathbf{x})}.$$

The semi-parametric Gini multiple regression depends on the rank matrix of the regressors. Let \mathbf{X} be the $N \times K$ matrix of the regressors and \mathbf{R}_x its rank matrix, which contains in columns the rank vectors $\mathbf{r}(\mathbf{x}_k)$ of the regressors \mathbf{x}_k for all $k = 1, \dots, K$. The semi-parametric Gini multiple regression yields the following estimator (a $K \times 1$ vector):

$$\hat{\mathbf{b}}^G = (\mathbf{R}'_x \mathbf{X})^{-1} \mathbf{R}'_x \mathbf{y}. \quad (1)$$

The semi-parametric Gini estimator is equivalent to that of instrumental variables regression in which the instruments are the rank vectors of each regressor. This point has been addressed by Durbin (1954) and extended to the Gini framework by Yitzhaki and Schechtman (2004). It is worth mentioning that the cogini index is closed to the Gini coefficient, the so-called Gini Mean Difference:

$$GMD = \mathbb{E} |\mathbf{x}_i - \mathbf{x}_j| = 4\text{cov}(\mathbf{x}, F(\mathbf{x})),$$

where $F(\mathbf{x})$ stands for the c.d.f. of the random variable \mathbf{x} . Traditionally, two main approaches have been developed for analyzing the relationship between two random variables. The first and widely use one focuses on the variance analysis and the covariance operator:

$$\sigma^2 = \text{cov}(\mathbf{x}, \mathbf{x}) = \frac{1}{2} \mathbb{E} (\mathbf{x}_i - \mathbf{x}_j)^2.$$

The second one is based on the covariance between the c.d.f.'s of \mathbf{x} and \mathbf{y} : $\text{cov}(F(\mathbf{x}), G(\mathbf{y}))$. This method is defined to be the rank method, where $\mathbf{r}(\mathbf{x})/n$ is an estimator of $F(\mathbf{x})$. The cogini operator is a mixture of both views. The only difference between the definitions of the variance and the GMD is the metrics: Euclidean distance and ℓ_1 norm, respectively. Accordingly, the estimator $\hat{\mathbf{b}}^G$ is less sensitive to extreme values since it is built on the cogini matrices $\mathbf{R}'_x \mathbf{X} =: \mathbf{G}_{xx}^{total}$ and $\mathbf{R}'_x \mathbf{y} =: \mathbf{G}_{xy}^{total}$ whereas OLS estimators depend on the moment matrices $\mathbf{X}'\mathbf{X}$ and $\mathbf{X}'\mathbf{y}$.

However, it is also worth mentioning that Eq.(1) relies on some existence conditions of the matrix $(\mathbf{R}'_x \mathbf{X})^{-1}$, which have from our knowledge not been investigated before. In other words, the well-known Grenander conditions used in OLS regressions (see *e.g.* Greene, 2003) have to be specified for the Gini regression framework.

³Actually, it exists two coginis: $\text{cov}(\mathbf{y}, \mathbf{r}(\mathbf{x}))$ and $\text{cov}(\mathbf{x}, \mathbf{r}(\mathbf{y}))$. The cogini enables a new correlation statistics to be characterized, quite close to Pearson's coefficient, the G -correlation index $\Gamma = \text{cog}(\mathbf{y}, \mathbf{x})/\text{cog}(\mathbf{y}, \mathbf{y})$. It is bounded between $[-1, 1]$, it is insensitive to monotonic transformation of \mathbf{x} and to linear transformation of \mathbf{y} , and it is nil if and only if \mathbf{x} and \mathbf{y} are independent, see Yitzhaki (2003).

⁴The rank vector of \mathbf{x} (of size $N \times 1$) is obtained by replacing the elements of \mathbf{x} by their rank (the smallest value of \mathbf{x} being 1 and the highest being N). It is worth mentioning that for ties in the regressors, we have to estimate the values of the rank vector as mid-points. The procedure is similar to the case of weighted samples, see Yitzhaki and Schechtman (2013, p. 212-213).

(i) The first condition postulates, as in the OLS case, that no variable degenerates in a sequence of zero, that is:

$$\lim_{n \rightarrow +\infty} \mathbf{r}'(\mathbf{x}_k) \mathbf{x}_k \neq 0, \quad k \in \{1, \dots, K\}. \quad (2)$$

(ii) The usual second Grenander condition indicates that there are no dominating observation. In the Gini regression case, which is actually built for possible outliers, this hypothesis as well as the requirement for finite second moments $\mathbb{E}(\mathbf{x}_k^2) < \infty$ for any given k are unnecessary.

(iii) The matrix \mathbf{X} must be a full rank matrix, otherwise $\mathbf{R}'_{\mathbf{x}} \mathbf{X}$ is non invertible. Moreover, an additional assumption is needed in the Gini regression framework: the vectors \mathbf{x}_k cannot be comonotonic. Two vectors \mathbf{x} and \mathbf{y} are comonotonic if, and only if, $\mathbf{r}(\mathbf{x}) = \mathbf{r}(\mathbf{y})$. If at least two regressors \mathbf{x}_k among $k = 1, \dots, K$ are comonotonic, then $\mathbf{R}'_{\mathbf{x}} \mathbf{X}$ is non invertible. Let \mathcal{M}^c be the set of all comonotonic matrices with at least two comonotonic vectors \mathbf{x}_k . Note that the full rank hypothesis implies comonotonicity, whereas the reverse does not hold systematically. Then, we have to impose that:

$$\mathbf{X} \notin \mathcal{M}^c \text{ and } \mathbf{X} \text{ is a full rank matrix.} \quad (3)$$

To summarize, the Gini semi-parametric approach has the advantage of relying on a few assumptions and no linearity hypothesis is needed. In the remainder, we extend the Gini regression to fixed effects panel data.

2.2 Fixed effects panel data Gini estimators

Consider the simple formulation of the fixed effects linear panel data model:

$$y_{nt} = \beta_0 + \beta_n + \boldsymbol{\beta}' \mathbf{x}_{nt} + \varepsilon_{nt}, \quad (4)$$

where subscript n denotes the cross-section dimension ($n = 1, \dots, N$) and where t denotes the time series dimension ($t = 1, \dots, T$). The element y_{nt} of the $NT \times 1$ vector \mathbf{y} represents the n -th observation at time t of the dependent variable, \mathbf{x}_{nt} is the $K \times 1$ regressor vector of the n -th observation at time t , $\boldsymbol{\beta}' \in \mathbb{R}^K$ is a $1 \times K$ vector of the regression parameters, β_n the unobservable time-invariant individual fixed effect and β_0 the intercept. Finally, ε_{nt} denotes the disturbance term which is assumed to be uncorrelated through time and cross-sections. Averaging (4) over time and subtracting from (4) yields:

$$y_{nt} - y_n. = \boldsymbol{\beta}' (\mathbf{x}_{nt} - \mathbf{x}_n.) + \varepsilon_{nt} - \varepsilon_n. \quad (5)$$

A well-know result in panel data literature is that the within-group estimator of $\boldsymbol{\beta}$ (or Least Squares Dummy Variable) issued from (4) is equivalent to the OLS estimator issued from

(5):

$$\begin{aligned}\hat{\boldsymbol{\beta}}^{WOLS} &= \left[\sum_{n=1}^N \sum_{t=1}^T (\mathbf{x}_{nt} - \mathbf{x}_{n.})(\mathbf{x}_{nt} - \mathbf{x}_{n.})' \right]^{-1} \left[\sum_{n=1}^N \sum_{t=1}^T (\mathbf{x}_{nt} - \mathbf{x}_{n.})(y_{nt} - y_{n.}) \right] \\ &=: (\mathbf{X}'\mathbf{X}^c)^{-1}\mathbf{X}'\mathbf{y}^c,\end{aligned}\quad (6)$$

where \mathbf{X}^c is the $NT \times K$ matrix of the centered regressors and \mathbf{y}^c the centered dependent variable. Mimicking the OLS estimator (6), one could think that the within-group semi-parametric Gini estimator for fixed effects panel data is simply given by, using (1),

$$\hat{\boldsymbol{\beta}}^{WGini} = (\mathbf{R}'_{\mathbf{x}^c}\mathbf{X}^c)^{-1}\mathbf{R}'_{\mathbf{x}^c}\mathbf{y}^c, \quad (7)$$

where $\mathbf{R}_{\mathbf{x}^c}$ is the rank matrix of \mathbf{X}^c . The result (7) is misleading. Actually, in the OLS case, the estimator (6) is deduced from the decomposition of the moment matrices $\mathbf{X}'\mathbf{X}$ and $\mathbf{X}'\mathbf{y}$ into within-group and between-group variabilities, in other words, the estimator is derived from the variance analysis. In the Gini regression framework, we have to find the Gini analysis in which the overall Gini variability is decomposed into within- and between-group Gini variabilities. In the following lines, the cogini matrices $\mathbf{R}'_{\mathbf{x}}\mathbf{X}$ and $\mathbf{R}'_{\mathbf{x}}\mathbf{y}$ are decomposed in order to assess the accurate within-group Gini estimator – we shall demonstrate in Section 2.3 that this estimator is a semi-parametric one.

Let the $K \times 1$ vector $\mathbf{x}_{.}$ be the average over time and individuals of \mathbf{X} and let the rank matrix of \mathbf{X} of size $NT \times K$ be $\mathbf{R}_{\mathbf{x}} =: (\mathbf{r}'_{11}(\mathbf{X}), \dots, \mathbf{r}'_{nt}(\mathbf{X}), \dots, \mathbf{r}'_{NT}(\mathbf{X}))$ where $\mathbf{r}'_{nt}(\mathbf{X})$ is the nt -th line of $\mathbf{R}_{\mathbf{x}}$, that is, a $1 \times K$ vector. Let $\mathbf{r}_n(\mathbf{X})$ be the $K \times 1$ average rank vector of individual n over time, and $\mathbf{r}_{.}(\mathbf{X})$ the $K \times 1$ average rank vector over time and individuals.⁵ Then, the decomposition of the cogini matrix $\mathbf{R}'_{\mathbf{x}}\mathbf{X}$ is:

$$\begin{aligned}\mathbf{G}_{xx}^{total} &= \sum_{n=1}^N \sum_{t=1}^T (\mathbf{x}_{nt} - \mathbf{x}_{.})(\mathbf{r}_{nt}(\mathbf{X}) - \mathbf{r}_{.}(\mathbf{X}))' \\ &= \sum_{n=1}^N \sum_{t=1}^T (\mathbf{x}_{nt} + \mathbf{x}_{n.} - \mathbf{x}_{n.} - \mathbf{x}_{.})\mathbf{r}'_{nt}(\mathbf{X}) \\ &= \sum_{n=1}^N \sum_{t=1}^T (\mathbf{x}_{nt} - \mathbf{x}_{n.})\mathbf{r}'_{nt}(\mathbf{X}) + \sum_{n=1}^N \sum_{t=1}^T (\mathbf{x}_{n.} - \mathbf{x}_{.})\mathbf{r}'_{nt}(\mathbf{X}) \\ &= \underbrace{\sum_{n=1}^N \sum_{t=1}^T (\mathbf{x}_{nt} - \mathbf{x}_{n.})[\mathbf{r}_{nt}(\mathbf{X}) - \mathbf{r}_n(\mathbf{X})]'}_{\text{within-group variability: } \mathbf{G}_{xx}^{within}} + \underbrace{\sum_{n=1}^N \sum_{t=1}^T (\mathbf{x}_{n.} - \mathbf{x}_{.})[\mathbf{r}_{nt}(\mathbf{X}) - \mathbf{r}_{.}(\mathbf{X})]'}_{\text{between-group variability: } \mathbf{G}_{xx}^{between}}.\end{aligned}\quad (8)$$

⁵ $\mathbf{r}_n(\mathbf{X}) = \frac{1}{T} \sum_{t=1}^T \mathbf{r}_{nt}(\mathbf{X})$ and $\mathbf{r}_{.}(\mathbf{X}) = \frac{1}{NT} \sum_{n=1}^N \sum_{t=1}^T \mathbf{r}_{nt}(\mathbf{X})$.

The breakdown of the cogini matrix $\mathbf{R}'\mathbf{y}$ into within-group and between-group variabilities is derived in the same manner as before:

$$\mathbf{G}_{xy}^{total} = \underbrace{\sum_{n=1}^N \sum_{t=1}^T (y_{nt} - y_n)[\mathbf{r}_{nt}(\mathbf{X}) - \mathbf{r}_n(\mathbf{X})]}_{\mathbf{G}_{xy}^{within}} + \underbrace{\sum_{n=1}^N \sum_{t=1}^T (y_n - y_{..})[\mathbf{r}_{nt}(\mathbf{X}) - \mathbf{r}_{..}(\mathbf{X})]}_{\mathbf{G}_{xy}^{between}}. \quad (9)$$

In sum, the total Gini variabilities (8) and (9) are given by:

$$\mathbf{G}_{xx}^{total} = \mathbf{G}_{xx}^{within} + \mathbf{G}_{xx}^{between} \quad \text{and} \quad \mathbf{G}_{xy}^{total} = \mathbf{G}_{xy}^{within} + \mathbf{G}_{xy}^{between}. \quad (10)$$

Following (1), the within-group Gini variabilities (\mathbf{G}_{xx}^{within} and \mathbf{G}_{xy}^{within}) yield the within-group Gini estimator:

$$\hat{\boldsymbol{\beta}}^{WG} = [\mathbf{G}_{xx}^{within}]^{-1} [\mathbf{G}_{xy}^{within}]. \quad (11)$$

Let \mathbf{R}^c be the $NT \times K$ rank matrix such that

$$\mathbf{R}^c := ((\mathbf{r}_{11}(\mathbf{X}) - \mathbf{r}_{1.}(\mathbf{X}))', \dots, (\mathbf{r}_{nt}(\mathbf{X}) - \mathbf{r}_n(\mathbf{X}))', \dots, (\mathbf{r}_{NT}(\mathbf{X}) - \mathbf{r}_N(\mathbf{X}))'), \quad (12)$$

then the within-group Gini estimator is also expressed as:

$$\hat{\boldsymbol{\beta}}^{WG} = (\mathbf{R}^{c'}\mathbf{X}^c)^{-1}\mathbf{R}^{c'}\mathbf{y}^c. \quad (13)$$

The between-group Gini estimator is:

$$\hat{\boldsymbol{\beta}}^{BG} = [\mathbf{G}_{xx}^{between}]^{-1} [\mathbf{G}_{xy}^{between}]. \quad (14)$$

Let us introduce the following matrices:

$$\mathbf{F}^{within} := [\mathbf{G}_{xx}^{within} + \mathbf{G}_{xx}^{between}]^{-1} \mathbf{G}_{xx}^{within} \quad (15)$$

$$\mathbf{F}^{between} := [\mathbf{G}_{xx}^{within} + \mathbf{G}_{xx}^{between}]^{-1} \mathbf{G}_{xx}^{between}. \quad (16)$$

From (10)-(16), the overall Gini estimator of the parameter $\boldsymbol{\beta}$ issued from (4) is decomposable as follows:

$$\begin{aligned} \hat{\boldsymbol{\beta}}^G &= [\mathbf{G}_{xx}^{total}]^{-1} [\mathbf{G}_{xy}^{total}] = [\mathbf{G}_{xx}^{within} + \mathbf{G}_{xx}^{between}]^{-1} [\mathbf{G}_{xy}^{within} + \mathbf{G}_{xy}^{between}] \\ &= [\mathbf{G}_{xx}^{within} + \mathbf{G}_{xx}^{between}]^{-1} \left[\mathbf{G}_{xx}^{within} \hat{\boldsymbol{\beta}}^{WG} + \mathbf{G}_{xx}^{between} \hat{\boldsymbol{\beta}}^{BG} \right] \\ &= \mathbf{F}^{within} \hat{\boldsymbol{\beta}}^{WG} + \mathbf{F}^{between} \hat{\boldsymbol{\beta}}^{BG}. \end{aligned} \quad (17)$$

Note that \mathbf{F}^{within} and $\mathbf{F}^{between}$ depend on the invertibility of $\mathbf{R}^{c'}\mathbf{X}^c$. Therefore, the respect of the Grenander conditions (2) and (3) yield the identifiability of \mathbf{F}^{within} and $\mathbf{F}^{between}$.

2.3 Inference on the within-group estimator

Yitzhaki and Schechtman (2013) show that all the estimators used in Gini regressions are U -statistics (first introduced by Heoffding, 1948), which possess desirable asymptotic properties. We prove in the sequel that the within-group Gini estimator $\hat{\boldsymbol{\beta}}^{WG}$ is a semi-parametric estimator and it can be estimated as a function of U -statistics.

We first recall the basic notions of U -statistics. Let X_1, X_2, \dots, X_N be N i.i.d. variables, and $\phi(X_1, X_2, \dots, X_N)$ a symmetric function (the kernel) such that:

$$\phi^*(X_1, X_2, \dots, X_N) = (m!)^{-1} \sum_{i_1, i_2, \dots, i_m} \dots \sum \phi(X_{i_1}, X_{i_2}, \dots, X_{i_m}),$$

where m is the smallest number of observations needed to estimate ϕ^* . The U -statistic for the parameter ϕ^* , which is an unbiased estimate of ϕ^* , is written in the following form:

$$U(X_1, X_2, \dots, X_N) = \binom{N}{m}^{-1} \sum_{i_1, i_2, \dots, i_m} \dots \sum \phi(X_{i_1}, X_{i_2}, \dots, X_{i_m}).$$

The variance of an U -statistic, $Var(U)$, for the parameter ϕ^* of degree m (degree of the kernel) is giving by:

$$Var(U) = \binom{N}{m}^{-1} \sum_{i=1}^m \binom{m}{i} \binom{N-m}{m-i} \xi_i,$$

where,

$$\xi_i = Var[\phi_i^*(X_1, X_2, \dots, X_N)] = \mathbb{E}(\phi_i^{*2}(X_1, X_2, \dots, X_N)) - \mathbb{E}(\phi_i^*(X_1, X_2, \dots, X_N))^2.$$

Another option to estimate the variance of U is the jackknife method:

$$Var(U) = \frac{N-1}{N} \sum_{i=1}^N \left[U_{-i} - \frac{1}{N} \sum_{i=1}^N U_{-i} \right]^2,$$

where U_{-i} is the estimator based on a sample of size N , without the i th observation.

In order to prove that $\hat{\boldsymbol{\beta}}^{WG}$ is a semi-parametric estimator, $\hat{\boldsymbol{\beta}}^{WG}$ is shown to be a function of slope coefficients stemming from simple semi-parametric Gini regressions. Let \mathbf{r}_k^c be the k th column of \mathbf{R}^c and \mathbf{x}_k^c the k th column of \mathbf{X}^c , $k = 1, \dots, K$. Since the within-group Gini estimator $\hat{\boldsymbol{\beta}}^{WG} = (\hat{\beta}_1^{WG}, \dots, \hat{\beta}_K^{WG})$ yields,

$$\mathbf{y}^c = \hat{\beta}_1^{WG} \mathbf{x}_1^c + \dots + \hat{\beta}_K^{WG} \mathbf{x}_K^c + \boldsymbol{\varepsilon},$$

then the following identities hold:⁶

$$\begin{aligned}\text{cov}(\mathbf{y}^c, \mathbf{r}_1^c) &= \hat{\beta}_1^{WG} \text{cov}(\mathbf{x}_1^c, \mathbf{r}_1^c) + \cdots + \hat{\beta}_K^{WG} \text{cov}(\mathbf{x}_K^c, \mathbf{r}_1^c) + \text{cov}(\boldsymbol{\varepsilon}, \mathbf{r}_1^c) \\ \text{cov}(\mathbf{y}^c, \mathbf{r}_k^c) &= \hat{\beta}_1^{WG} \text{cov}(\mathbf{x}_1^c, \mathbf{r}_k^c) + \cdots + \hat{\beta}_K^{WG} \text{cov}(\mathbf{x}_K^c, \mathbf{r}_k^c) + \text{cov}(\boldsymbol{\varepsilon}, \mathbf{r}_k^c) \\ \text{cov}(\mathbf{y}^c, \mathbf{r}_K^c) &= \hat{\beta}_1^{WG} \text{cov}(\mathbf{x}_1^c, \mathbf{r}_K^c) + \cdots + \hat{\beta}_K^{WG} \text{cov}(\mathbf{x}_K^c, \mathbf{r}_K^c) + \text{cov}(\boldsymbol{\varepsilon}, \mathbf{r}_K^c).\end{aligned}$$

Setting $\hat{\beta}_{\varepsilon j} := \frac{\text{cov}(\boldsymbol{\varepsilon}, \mathbf{r}_j^c)}{\text{cov}(\mathbf{x}_j^c, \mathbf{r}_j^c)}$, $\hat{\beta}_{0j} := \frac{\text{cov}(\mathbf{y}^c, \mathbf{r}_j^c)}{\text{cov}(\mathbf{x}_j^c, \mathbf{r}_j^c)}$ and $\hat{\beta}_{kj} := \frac{\text{cov}(\mathbf{x}_k^c, \mathbf{r}_j^c)}{\text{cov}(\mathbf{x}_j^c, \mathbf{r}_j^c)}$, dividing the three last equations by, respectively, $\text{cov}(\mathbf{x}_1^c, \mathbf{r}_1^c)$, $\text{cov}(\mathbf{x}_k^c, \mathbf{r}_k^c)$ and $\text{cov}(\mathbf{x}_K^c, \mathbf{r}_K^c)$ yields:

$$\begin{aligned}\hat{\beta}_{01} &= \hat{\beta}_1^{WG} + \cdots + \hat{\beta}_K^{WG} \hat{\beta}_{K1} + \hat{\beta}_{\varepsilon 1} \\ \hat{\beta}_{0k} &= \hat{\beta}_1^{WG} \hat{\beta}_{1k} + \cdots + \hat{\beta}_K^{WG} \hat{\beta}_{Kk} + \hat{\beta}_{\varepsilon k} \\ \hat{\beta}_{0K} &= \hat{\beta}_1^{WG} \hat{\beta}_{1K} + \cdots + \hat{\beta}_K^{WG} + \hat{\beta}_{\varepsilon K}.\end{aligned}$$

Setting the following column vectors $\hat{\mathbf{b}}_0 := (\hat{\beta}_{01}, \dots, \hat{\beta}_{0K})$ and $\hat{\mathbf{b}}_\varepsilon := (\hat{\beta}_{\varepsilon 1}, \dots, \hat{\beta}_{\varepsilon K})$, then it comes:

$$\begin{pmatrix} \hat{\beta}_1^{WG} \\ \vdots \\ \hat{\beta}_K^{WG} \end{pmatrix} = \begin{pmatrix} 1 & \hat{\beta}_{21} & \cdots & \hat{\beta}_{K1} \\ \vdots & \vdots & \cdots & \vdots \\ \hat{\beta}_{1K} & \hat{\beta}_{2K} & \cdots & 1 \end{pmatrix}^{-1} \begin{pmatrix} \hat{\beta}_{01} - \hat{\beta}_{\varepsilon 1} \\ \vdots \\ \hat{\beta}_{0K} - \hat{\beta}_{\varepsilon K} \end{pmatrix} =: \hat{\mathbf{B}}^{-1} [\hat{\mathbf{b}}_0 - \hat{\mathbf{b}}_\varepsilon].$$

The within-group Gini estimator is a function of slope coefficients of semi-parametric simple Gini regressions, and as such it is referred to as a semi-parametric Gini estimator. Yitzhaki and Schechtman (2013, Chapter 9) have proven that $\hat{\beta}_{0k}$, $\hat{\beta}_{\varepsilon k}$ and $\hat{\beta}_{kh}$ are function of U -statistics. If $\hat{\mathbf{B}}$ is a full rank matrix, then $\hat{\beta}^{WG}$ is a function of U -statistics. By Slutsky's theorem, $\hat{\beta}^{WG}$ is a consistent estimator of β^{WG} , it is asymptotically normal.

3 An illustration with simple simulations

In this Section, it is shown that the semi-parametric within-group Gini estimator is more robust than the OLS one when the data are contaminated by outliers. For that purpose, simple Monte Carlo simulations are performed. The contamination is concerned with only $p\%$ of each sample ($p = 1\%, 5\%, 10\%$). The steps of the reference simulation are the following.

⁶This technique has been introduced by Yitzhaki and Schechtman (2013, Chapter 8) in the standard Gini regression.

Reference simulation

- Loop to $b = 1, \dots, B = 10,000$;
 - ↔ The regressors are generated from a multivariate normal distribution $\mathbf{x} \sim \mathcal{N}(\mu, \Sigma)$ such that $\mu = (0, 10, 4)$, $\Sigma = \begin{pmatrix} 1 & 0.5 & 0.2 \\ & 1 & 0.15 \\ & & 1 \end{pmatrix}$, $\varepsilon \sim \mathcal{N}(0, 1)$, $\boldsymbol{\beta} = (0.7, 1.23, 0.13)$ and the fixed effects $\beta_n \sim \mathcal{N}(0, 5)$, $\beta_0 = 0.75$;
 - ↔ The dependent variable \mathbf{y} is deduced from (4) ;
 - ↔ \mathbf{y} is regressed on \mathbf{x} [OLS and Gini fixed effects estimators] ;
 - ↔ Outliers are introduced into the regressors (\mathbf{x}^o), then \mathbf{y} is regressed on \mathbf{x}^o : the estimates $\hat{\boldsymbol{\beta}}_b^{OLS}$ and $\hat{\boldsymbol{\beta}}_b^G$ are computed for each $b = 1, \dots, B$;
- End b ;
- The mean of the Gini and OLS estimates as well as the mean squared error (MSE) are computed over B . The mean of the within-group Gini and OLS estimates are respectively $\bar{\hat{\boldsymbol{\beta}}}^{WG}$ and $\bar{\hat{\boldsymbol{\beta}}}^{WOLS}$ ($\bar{\hat{\boldsymbol{\beta}}}^{BG}$ and $\bar{\hat{\boldsymbol{\beta}}}^{BOLS}$ for the mean of between-group estimates and $\bar{\hat{\boldsymbol{\beta}}}^G$ and $\bar{\hat{\boldsymbol{\beta}}}^{OLS}$ for the mean of global estimates).

In practise, only the within-group OLS estimator is employed for panel data, since the other estimators (global and between-group ones) are biased. We provide in Table 1 and 2 below some simulations with the global Gini estimator $\hat{\boldsymbol{\beta}}^G$ (17) as well as the between-group Gini estimator $\hat{\boldsymbol{\beta}}^{BG}$ (14) in order to point out the same problem of biased estimates. The percentage contamination p is fixed to 5%. Precisely, some observations are drawn at random such that an outlier of 60 is added to all regressors: $\mathbf{x}_{nt}^o := \mathbf{x}_{nt} + 60$.

Table 1. Global Gini estimator $\hat{\boldsymbol{\beta}}^G$

Estimates →	without outliers		with outliers	
	$\bar{\hat{\boldsymbol{\beta}}}^{OLS}$ (MSE)	$\bar{\hat{\boldsymbol{\beta}}}^G$ (MSE)	$\bar{\hat{\boldsymbol{\beta}}}^{OLS}$ (MSE)	$\bar{\hat{\boldsymbol{\beta}}}^G$ (MSE)
0.75	5.0423 (226.478)	4.78504 (256.621)	6.856 (443.18)	5.0832 (301.12)
0.7	0.773 (5.116)	0.7537 (5.559)	1.1022 (10.147)	0.8998(6.961)
1.23	1.273 (0.886)	1.259 (1.047)	1.3430 (1.945)	1.2896 (1.094)
0.13	0.1221 (0.211)	0.127 (0.253)	0.1267 (0.1909)	0.1195(0.839)

The global Gini estimator is better than the OLS one, but it is strongly biased. The same remark holds for the between-group Gini estimator. We perform the same simulation, except that the contamination is fixed to $p = 1\%$ (precisely, -90 , -80 and -60 are the values of the outliers added to the first, second and third regressor, respectively). Table 2 reports biased estimates, but better results are obtained with the between-group Gini estimator.

Table 2. Between-group Gini estimator $\hat{\beta}^{BG}$

Estimates \rightarrow	without outliers		with outliers	
	$\tilde{\beta}^{BOLS}$ (MSE)	$\tilde{\beta}^{BG}$ (MSE)	$\tilde{\beta}^{BOLS}$ (MSE)	$\tilde{\beta}^{BG}$ (MSE)
$\beta = 0.7$	0.7873 (0.03926)	0.7677 (0.03905)	0.6390 (0.0523)	0.6891(0.0301)
1.23	1.2534 (0.0797)	1.25470 (0.0784)	1.0315 (0.082)	1.1929 (0.049)
0.13	0.14570 (0.030)	0.1455 (0.033)	0.09517 (0.056)	0.1195(0.021)

Let us now turn to the study of non-biased estimates. It is well known that the within-group OLS estimator is not biased. However, when outliers affect the data, the estimators issued from the variance analysis deviate highly from their true value. In Table 3 below, we fix $p = 1\%$ such that the observations are contaminated by replacing their initial values by two times the maximum value of the regressor vector they belong to. The results show that without outliers the OLS estimates are better, but the within-group Gini estimator is less sensitive to outliers.⁷

Table 3. Within-group Gini estimator $\hat{\beta}^{WG}$

Estimates \rightarrow	without outliers		with outliers	
	$\tilde{\beta}^{WOLS}$ (MSE)	$\tilde{\beta}^{WG}$ (MSE)	$\tilde{\beta}^{WOLS}$ (MSE)	$\tilde{\beta}^{WG}$ (MSE)
$\beta = 0.7$	0.70022 (0.000388)	0.70013 (0.000432)	0.95150 (0.01724)	0.7514 (0.001012)
1.23	1.22991 (0.000062)	1.22989 (0.000067)	1.31870 (0.26722)	1.26013 (0.00253)
0.13	0.13018 (0.000119)	0.13023 (0.000124)	0.22851 (0.17871)	0.140152(0.001948)

In Table 3, all Gini estimates are biased upward because the contaminated values are positive ones. In Table 4 below, a positive outlier of 50 is added to 10% of the sample drawn at random (the regressors only). On the contrary, in Table 5, a negative outlier of 50 is added to 10% of the sample drawn at random. It is apparent that all within-group estimates are biased upward [respectively downward] whenever the outliers are positive [negative]. It is also noteworthy that the MSE of the within-group OLS estimates are very high compared with the Gini ones.

Table 4. Within-group Gini estimator: positive outliers

Estimates \rightarrow	without outliers		with outliers	
	$\tilde{\beta}^{WOLS}$ (MSE)	$\tilde{\beta}^{WG}$ (MSE)	$\tilde{\beta}^{WOLS}$ (MSE)	$\tilde{\beta}^{WG}$ (MSE)
$\beta = 0.7$	0.70011 (0.000263)	0.70012 (0.000279)	0.9702 (0.02014)	0.78135 (0.00100)
1.23	1.22993 (0.000442)	1.22989 (0.000475)	1.3243 (0.10242)	1.2679 (0.00351)
0.13	0.13017 (0.000864)	0.13021 (0.000909)	0.2391 (0.19280)	0.1471(0.00315)

⁷The outliers are added in the regressors only. Indeed, outliers in the fixed effects do not affect the estimates so that the within-group Gini and OLS estimates are very close.

Table 5. Within-group Gini estimator: negative outliers

Estimates \rightarrow	without outliers		with outliers	
	$\tilde{\beta}^{WOLS}$ (MSE)	$\tilde{\beta}^{WG}$ (MSE)	$\tilde{\beta}^{WOLS}$ (MSE)	$\tilde{\beta}^{WG}$ (MSE)
$\beta = 0.7$	0.70011 (0.000263)	0.70012 (0.000279)	0.5189 (0.45601)	0.6598 (0.00287)
1.23	1.22993 (0.000442)	1.22989 (0.000475)	0.9978 (0.5223)	1.1589 (0.00843)
0.13	0.13017 (0.000864)	0.13021 (0.000909)	0.0851 (0.287650)	0.10991(0.00498)

At last, we simulate non normal distributions. It is known that OLS and Gini estimates are very close when multinormal distributions are studied (see Yitzhaki and Schechtman, 2013). Then, to prove the superiority of the Gini regression, we simulate non normal distributions. In such a case, there is no need to contaminate the sample with outliers since the OLS estimates strongly deviate from their true values. The reference simulation is used except that the three regressors are the following ones:

- $\mathbf{x}_1 \sim$ Cauchy (peak of the distribution 10 and scale parameter 20) ;
- $\mathbf{x}_2 \sim$ Weibull (shape parameter 10 and scale parameter 15) ;
- $\mathbf{x}_2 \sim$ Exponential (scale parameter 15) ;
- the fixed effects $\beta_n \sim$ Uniform (on the interval [5, 20]).

The results are depicted in Table 6 below. As can be seen, without outliers, the within-group Gini estimator is largely superior to the OLS one. This proves that the superiority of the within-group Gini estimator does not depend on the data generating process.

Table 6. Non normal distributions: no outliers

Estimates \rightarrow	$\tilde{\beta}^{WG}$	$\tilde{\beta}^{WOLS}$
0.7	0.7032 (0.0099)	0.8501 (1.07564)
1.23	1.2312 (0.0081)	1.29012 (2.74206)
0.13	0.1308 (0.0531)	0.199 (4.4869)

4 Conclusion

Whenever the distribution of the covariates is multivariate normal, both OLS and Gini estimates are very close. Using the Gini approach implies that the efficiency of the OLS is lost. This is the case for instance when extreme values or measurement errors alter the values of the regressors.

We have shown that the fixed effects Gini regression does not consist in mimicking the application of the OLS on the centered model (5). It is based on a proper decomposition of the cogini matrices into within-group and between-group cogini variabilities. The semi-parametric within-group Gini estimator avoids to treat the multiple solutions that would arise in the minimization of a target function such as the Gini index of the residuals of the

centered model. However, if the outliers drastically affect the sample, then it is possible that the linearity assumption does not hold any more. Therefore, the semi-parametric Gini regression should be preferred to the parametric one in this case. Future researches could be done to compare the minimization approach and the semi-parametric one when outliers occur.

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