Lecture 11
Introduction to Nonparametric Regression: Density Estimation

Non Parametric Regression: Introduction

• The goal of a regression analysis is to produce a reasonable analysis to the unknown response function $f$, where for $N$ data points $(X_i, Y_i)$, the relationship can be modeled as

$$y_i = m(x_i) + \varepsilon_i, \quad i = 1, \cdots, N$$

- **Note:** $m(.) = E[y | x]$ if $E[\varepsilon | x] = 0$ – i.e., $\varepsilon \perp x$

• We have different ways to model the conditional expectation function (CEF), $m(.)$:
  - Parametric approach
  - Nonparametric approach
  - Semi-parametric approach.
Non Parametric Regression: Introduction

• Parametric approach: \( m(\cdot) \) is known and smooth. It is fully described by a finite set of parameters, to be estimated. Easy interpretation. For example, a linear model:

\[
y_i = x_i' \beta + \epsilon_i, \quad i = 1, \cdots, N
\]

• Nonparametric approach: \( m(\cdot) \) is smooth, flexible, but unknown. Let the data determine the shape of \( m(\cdot) \). Difficult interpretation.

\[
y_i = m(x_i) + \epsilon_i, \quad i = 1, \cdots, N
\]

• Semi-parametric approach: \( m(\cdot) \) have some parameters -to be estimated-, but some parts are determined by the data.

\[
y_i = x_i' \beta + m_z(z_i) + \epsilon_i, \quad i = 1, \cdots, N
\]
Non Parametric Regression: Introduction

• Parametric and non-parametric approaches use a weighted sum of the y's to obtain the fitted values, \( \hat{y} \). That is,

\[
\hat{y}_i = \sum_i \omega_i y_i
\]

• Instead of using equal weights as in OLS or weights proportional to the inverse of variance as often in GLS, a different rationale determines the choice of weights in nonparametric regression.

• In the single regressor case, the observations with the most information about \( f(x_0) \) should be those at locations \( x_i \) closest to \( x_0 \).

• Thus, a decreasing function of the distances of their locations \( x_i \) from \( x_0 \) determine the weights assigned to \( y_i \)'s.

Non Parametric Regression: Introduction

• A decreasing function of the distances of their locations \( x_i \) from \( x_0 \) determine the weights assigned to \( y_i \)'s.

• The points closest to \( x_0 \) receive more weight than those more remote from \( x_0 \). Often, points remote from \( x_0 \) receive little or no weight.
Density Estimation: Univariate Case

• We have a large number of observations on a RV $X$. We would like to “draw” the pdf of $X$.

• Simplest method: Use a histogram. That is, divide the range of $X$ into a small number of intervals (bins), $h$, and count the number of times $X$, $n_i$, is observed in each interval:

$$p_i = \frac{n_i(h)}{N}$$

• Q: How wide should the bins be? Too small (too many bins) distribution looks jerky, too large (few bins), shape is not easy to visualize.

• Two questions: - Do we want the same bin-width everywhere? - Do we believe the density is zero for empty bins?

Density Estimation – Bins: Example

• We use two histograms to fit percentage changes in monthly San Francisco home prices ($r_{sf}$, with $N=359$), with two $h$ (large $h$, 10 bins; small $h$, 50 bins). => Smaller $h$, more resolution.
Density Estimation: Problems with Histograms

• The histogram is close to, but not truly density estimation. It does not estimate \( f(x) \) at every \( x \). Rather, it partitions the sample space into bins, and only approximate the density at the center of each bin.

• Two problems with histograms:
  (1) For a given number of bins, moving their exact location (boundary points) can change the graph.
  (2) The density function produced is a step function and the derivative either equals zero or is not defined (when at the cutoff point for two bins).
  - This is a problem if we are trying to maximize a likelihood function that is defined in terms of the densities of the distributions.

Density Estimation: Definition of Histogram

• First, define the density function for a variable \( x \). For a particular value of \( x \), call it \( x_0 \), the density function is:

\[
    f(x_0) = \lim_{h \to 0} \frac{F(x_0 + h) - F(x_0 - h)}{2h} = \lim_{h \to 0} \frac{\Pr(0 < x < 2h)}{2h}
\]

• For a sample of data on \( x \) of size \( N \), a histogram with a column width of \( 2h \), centering the column around \( x_0 \) can be approximated by:

\[
    \hat{f}_{\text{Hist}}(x_0) = \frac{1}{N} \sum_{i=1}^{N} \frac{I[x_0 - h < x_i < x_0 + h]}{2h} = \frac{1}{Nh} \sum_{i=1}^{N} I\left(\frac{|x_i - x_0|}{h} < 1\right)
\]

• This function equals the fraction of the sample that lies within \( h \) of \( x_0 \), divided by the column width \( 2h \). We call this the \textit{naive estimator}.

• \( x_0 \) is any value of \( X \), not necessarily equal to any \( x_i \)'s in the sample.
Density Estimation: Problems Revisited

• Dealing with the two problems:
  (1) Arbitrary location of the bin cutoff points
  Solution: Define a “moving” bin that is defined for every possible value of $x$. Then, count how many actual $x_i$’s are within $h/2$ of the hypothetical point, and “normalizes” this count by the number of total observations ($N$) and the “bandwidth,” $b$.

(2) Discontinuity in the function.
  Solution: Kernel density estimation (KDE). It avoids the discontinuities in the estimated (empirical) density function. In terms of histogram formula, the kernel is everything to the right of the summation sign. The general formula for the kernel estimator (Parzen window):

$$\hat{f}_{Hist}(x_0) = \frac{1}{Nh} \sum_{i=1}^{N} K\left(\frac{x_i - x_0}{h}\right)$$

Kernel Density Estimation (KDE)

• The kernel estimator is given by:

$$\hat{f}_{Hist}(x_0) = \frac{1}{Nh} \sum_{i=1}^{N} K\left(\frac{x_i - x_0}{h}\right)$$

• That is, $\hat{f}_{Hist}(x)$ is a superposition of $N$ density functions.
KDE: SF Prices Example With Normal Kernel

• Assume \( K(\cdot) \sim N(0,1) \). Then,

\[
\hat{f}_{Hist}(x_0) = \frac{1}{Nh} \sum_{i=1}^{N} dnorm \left( \frac{x_i - x_0}{h} \right)
\]

\[
d_h \leftarrow \text{matrix}(0, N, 2) \quad \# N=359
\]

\[
h \leftarrow 1 \quad \# \text{bandwidth}
\]

for (j in 1:N)
{
    d_h[j,1] \leftarrow r_sf[j]
}

for (i in 1:N)
{
    d_h[j,2] \leftarrow d_h[j,2] + dnorm((r_sf[i]-d_h[j,1])/h)
}

\[
d_h[j,2] \leftarrow d_h[j,2]/(N*h)
\]

plot(d_h, xlab="Changes in Prices", ylab="Frequency", main = "Changes in SF Home Prices - Normal kernel, h=1")

• A lot of calculations: \( N^2=128,881 \Rightarrow \) Not practical for large \( N \).

KDE: Properties

• KDE:

\[
\hat{f}_{Hist}(x_0) = \frac{1}{Nh} \sum_{i=1}^{N} K \left( \frac{x_i - x_0}{h} \right)
\]

• Q: Is \( \hat{f}_{Hist}(x) \) a legitimate density function? It needs to satisfy:

1. nonnegative
2. integrate to one.

\[
\Rightarrow \text{Easy to do: Require the Kernel function, } K(\cdot) \text{ to satisfy:}
\]

1. \( K(x) \geq 0 \)
2. \( \int K(u) \, du = 1 \)

Define the function: \( \delta_a(x) = \frac{1}{h} K \left( \frac{x}{h} \right) \)

The \( \hat{f}_{Hist}(x) \) can be written as

\[
\hat{f}_{Hist}(x) = \frac{1}{N} \sum_{i=1}^{N} \delta(x_i - x_0)
\]
KDE: Properties

• Check the properties of $\hat{f}_{\text{Hist}}(x)$ and $\delta_n(x)$:

$$\int \delta_n(x - x_i) \, dx = \int \frac{1}{h} K \left( \frac{x - x_i}{h} \right) \, dx = \int K(u) \, du = 1$$

$$\int \hat{f}_{\text{Hist}}(x) = \int \frac{1}{N} \sum_i \delta_n(x - x_i) \, dx = \frac{1}{N} \sum_i \int \delta_n(x - x_i) \, dx = 1$$

• The kernel function can be generalized.

Note: Any density function satisfies our requirements. For example, $K(\cdot)$ can be a normal density.

KDE: Kernels

• The kernel function $K(\cdot)$ is a continuous and bounded (usually symmetric around zero) real function which integrates to 1.

• $h$ is a smoothing parameter (bandwidth). $2h$ is called the window width.

• The order of a kernel, $v$, is defined as the order of the first non-zero moment, $\kappa_v$. For example, if $\kappa_1(K) = 0$ and $\kappa_2(K) > 0$ then $K$ is a 2nd order kernel. The order of a symmetric kernel is always even.

• Symmetric non-negative kernels are second-order kernels. We will emphasize these kernels ($v=2$).

• Higher-order kernels are obtained by multiplying a second-order kernel by an $(2v-1)$-th order polynomial in $z^2$: See Hansen (2009).
KDE: Kernels

- Most common kernel functions:
  - Uniform kernel: \( K(z) = 0.5 \) for \(|z| \leq 1\)
    \[ = 0 \quad \text{for } |z| > 1 \]
  - Epanechnikov kernel: \( K(z) = 0.75(1-z^2) \) for \(|z| \leq 1\)
    \[ = 0 \quad \text{for } |z| > 1 \]
  - Gaussian (normal) kernel: \( K(z) = \frac{1}{\sqrt{2\pi}}\exp(-z^2/2) \)
  - Quartic (biweight) kernel: \( K(z) = \frac{15}{16} (1-z^2)^2 \) for \(|z| \leq 1\)
    \[ = 0 \quad \text{for } |z| > 1 \]
  - Triweight kernel: \( K(z) = \frac{35}{32} (1-z^2)^3 \) for \(|z| \leq 1\)
    \[ = 0 \quad \text{for } |z| > 1 \]

- Density graph: Plot \( \hat{f}_{\text{Hist}}(x) \) against \( x_0 \) and connect points.

KDE: Kernels - Examples

- Two kernels: - Epanechnikov kernel \( K_e(z) = 0.75(1-z^2) I(\{z\leq 1\}) \)
  - Gaussian kernel \( K_g(z) = \frac{1}{\sqrt{2\pi}}\exp(-z^2/2) \).

- A drawback of the Gaussian kernel is that its support is \( \mathbb{R} \); in many situations, we want to restrict the support, like in the Epanechnikov kernel -- at the cost of being not differentiable at 1.
KDE: Kernels - Examples

- In practice, the choice of the kernel does not matter very much in terms of getting a good approximation to the true density function. Below, we show two estimations (gaussian and quartic) to simulated data.

Graph 5: Density of a Normally Distributed Variable, Mean=20, SD=5 (1000 obs., Gaussian kernel, bw=1)

Graph 6: Density of a Normally Distributed Variable, Mean=20, SD=5 (1000 obs., Quartic kernel, bw=2)

KDE: Kernels - Examples

- We use a Gaussian and Epanechnikov kernels to fit percentage changes in monthly San Francisco home prices, with same $h$. Very similar results!
KDE: Statistical Inference

• **Consistency**

For an i.i.d. sample of the RV $X$, for any value $x_0$ and a fixed $b$, $\hat{f}(x_0)$ is a biased estimate of $f(x_0)$. Yet the bias goes to zero if $b \to 0$ as $N \to \infty$.

• The bias depends on $b$, the curvature of $f(.)$, and $K(.)$:

$$\text{bias}(\hat{f}(x_0)) = E[\hat{f}(x_0)] - f(x_0) = \frac{1}{2} h^2 f'''(x_0) \int_{-\infty}^{\infty} z^2 K(z)dz$$

$=>$ The “size” of this bias is $O(h^2)$.

• Assuming that $b \to 0$ as $N \to \infty$, the variance of $\hat{f}(x_0)$ is:

$$\text{Var}\left[\hat{f}(x_0)\right] = \frac{1}{(Nh)} \int_{-\infty}^{\infty} (K(z))^2dz + o(1/ Nh)$$

$=>$ The variance depends on the $N$, $b$, $f(.)$ and $K(.)$. It will go to 0 as $Nh \to \infty$, so $b$ must converge to 0 at a slower rate than $N$ goes to $\infty$.

KDE: Statistical Inference

• The previous results were derived by approximating integrals by a Taylor expansion of $f(x+hu)$ in the argument $hu\to 0$.

• The kernel estimator $\hat{f}(x_0)$ is pointwise consistent at any point $x_0$ if both the variance and bias disappear as $N \to \infty$, which requires that $b \to 0$ and $Nh \to \infty$.

• The uniform convergence (stronger) property holds if $Nh/\ln(h) \to \infty$.

• See Cameron and Trivedi’s (CT) textbook for formal details.
**KDE: Statistical Inference**

- *Asymptotic normality*

  The kernel estimator is the sample average. A CLT can be applied. Using previous results:
  - Given the order of the variance, the rate of convergence is \( \sqrt{Nh} \), not \( \sqrt{N} \) as in standard regression estimates.
  - The estimator is biased, so we center \( \hat{f}(x_0) \) around its expectation.

  That is, by the CLT we get:
  \[
  \sqrt{Nh} \left( \hat{f}(x_0) - E[\hat{f}(x_0)] \right) \overset{d}{\to} N(0, f(x_0) \int (K(z))^2 dz)
  \]

  Note: Given the bias, \( \hat{f}(x_0) - E[\hat{f}(x_0)] \), is also asymptotically normally distributed, but with a non-zero mean.

**KDE: Bandwidth**

- As the previous formulas show, there is a genuine trade-off between avoiding bias and reducing the variance of the estimate at any given point \( x \):

- In general, large \( b \) reduce the variance by smoothing over a large number of points, but this is likely to lead to bias because the points are “averaged” in a mechanical way that does not account for the particular shape of the distribution.

- In contrast, small \( b \) give higher variance but have less bias. In the limit, \( b \to 0 \), the kernel reproduced the data.

- We can play with different \( b' \)’s, but we would like a data-driven bandwidth (“automatic”) selection process.
KDE: Bandwidth - Examples

Graph 8: Density of a Normally Distributed Variable, Mean=20, SD=5 (1000 obs., Epanechnik kernel, bw=0.5)

Graph 9: Density of a Normally Distributed Variable, Mean=20, SD=5 (1000 obs., Epanechnik kernel, bw=2)
KDE: Bandwidth - Examples

- We use an Epanechnikov kernels to fit percentage changes in monthly San Francisco home prices, with two $b = .5, 2$ & $5$. Different results.

KDE: Bandwidth - Examples

- Q: How do we deal with the trade-off between bias and variance?
  A: A “natural” approach is to minimize the MSE:

$$\text{MSE}(\hat{f}(x_0)) = \text{Var}[\hat{f}(x_0)] + [\text{bias}(\hat{f}(x_0))]^2$$

$$\Rightarrow \text{optimal bandwidth}$$
KDE: Bandwidth - Selection

- A “natural” approach is to minimize the MSE:
  \[ \text{MSE}(\hat{f}(x_0)) = \text{Var}[\hat{f}(x_0)] + [\text{bias}(\hat{f}(x_0))]^2 \]

- As shown in previous formulas, the bias is \(O(h^2)\) and the variance is \(O(1/Nh)\). Intuitively, \(b\) should be chosen to that the \((\text{bias})^2\) and the variance are of the same order.

- The square of the bias is \(O(b^6)\) => \(b^4 = 1/Nh\), => \(b = (1/N)^{1/5}\).
  That is, \(b = O(N^{-0.2})\) and \(\sqrt{Nh} = O(N^{0.4})\).

- A more formal derivation is given on C&T.

- Note: Since the MSE is approximated using asymptotic expansion, it is called AMSE (asymptotic MSE).

KDE: Bandwidth and MISE

- Rosenblatt (1956) developed a global measure of accuracy for \(\hat{f}(x_0)\):
  Minimizing the SSE at a large number of hypothetical points. As this number goes to infinity, this amounts to minimizing the mean of the integrated squared error (MISE). If the previous asymptotic approximations are used, the MISE becomes \(\text{AMISE}\).

- That is, an optimal bandwidth minimizes
  \[ \text{MISE}(b) = E[\int (\hat{f}(x_0) - f(x_0))^2 dx_0] = E[\int \text{MSE}(\hat{f}(x_0)) dx_0] \]

- Differentiating \(\text{AMISE}(b)\) w.r.t. \(b\) yields the optimal bandwidth:
  \[ b^* = \delta \left[ \int (f''(x_0))^2 dx_0 \right]^{0.2} N^{-0.2}, \]
  where \(\delta\) depends on the kernel function used:
  \[ \delta = \left[ \int (K(z))^2 dz \right]^{0.2} \left[ \int z^2 K(z) dz \right]^{0.4}. \]

- Note: \(\int (K(z))^2 dz\) is called the roughness of \(K(.)\).
KDE: Optimal Bandwidth

• The optimal bandwidth, \( b^* \):
  \[
  b^* = \delta \left[ \int (f''(x_0))^2 \, dx_0 \right]^{-0.2} N^{0.2}.
  \]

• The optimal bandwidth decreases (very slowly) as \( N \) increases. Then, \( b^* \rightarrow 0 \) as \( N \rightarrow \infty \) (as required for consistency).

• \( b^* \) depends on \( \delta \), which is a function of the kernel \( K(\cdot) \). For example, if \( K(\cdot) \) is Gaussian,
  \[
  \delta = \left[ \int (K(z))^2 \, dz \right]^{0.2} \left[ \int z^4 K(z) \, dz \right]^{-0.4} = \left[ 1/(2\sqrt{\pi}) \right]^{0.2} \left[ \sigma^2 = 1 \right]^{-0.4} = \left[ 1/(2\sqrt{\pi}) \right]^{0.2} (= .776388)
  \]

• Values for \( \delta \) are given in Table 9.1 in C&T.

• This result also shows that if the true density function has a lot of curvature (\( f''(x) \) is large), the bandwidth should be smaller.

KDE: Optimality

• The optimal \( b^* \) is unknown –we do not know \( f(x_0) \) or \( f''(x_0) \). Approximations methods are required.

• In practice, a normal density is commonly used instead of \( f(x_0) \).
Silverman’s (1986) rule of thumb assumes \( f \sim N(\mu, \sigma^2) \), then:
  \[
  b^* = \left( \frac{4\delta^5}{3N} \right)^{0.2} \approx 1.059 \delta N^{-0.2}
  \]

• As seen in the graphs, the choice of the kernel matters very little. More formally, MISE(\(b^*\)) varies little across the different kernels.

• Technically speaking we can select the best kernel. The one that minimizes the AMISE. It is a calculus of variation problem

• The Epanechnikov (1969) kernel is “optimal” but the advantage is small. It is often used to judge the efficiency of a kernel.
KDE: Confidence Intervals

We can obtain confidence intervals for estimates of \( f(x_0) \) for any point \( x_0 \). Use the variance formula above to get the conventional C.I.:

\[
f(x_0) \in \hat{f}(x_0) - bias(x_0) \pm z_{\alpha/2} \sqrt{\frac{1}{Nh} \int (K(z))^2 dz}\]

where bias\((x_0)\) is given above and we have assumed that \( \hat{f}(x_0) \) is asymptotically normal.

Problem: It can contain negative values.
Solution: Consider constructing the C.I. by inverting a test statistic.

\[
C(x) = \{ f : |\hat{f}(x_0) - bias(x_0) | \sqrt{\frac{1}{Nh} \int (K(z))^2 dz} \leq z_{\alpha/2} \}
\]

This set must be found numerically.

In practice, it is hard to calculate the bias, and, there may not be a reason to calculate the C.I. for \( \hat{f}(x_0) \).

KDE in Practice: Bandwidth Selection

As mentioned above to calculate \( b^* \) we need the unknown \( f''(x_0) \). Approximations methods are required. In practice, a normal density is commonly used instead of \( f(x_0) \).

1. If \( X \sim \text{Normal} \), then we get

\[
b^* = \delta \left[ \int (f''(x_0))^2 dx_0 \right]^{0.2} = 1.3643 \delta N^{0.2} \sigma, \quad \delta = \text{SD}(x).
\]

If in addition, \( K(.) \) is normal (\( \delta = .776388 \)) \( \Rightarrow b^* = 1.059 N^{0.2} \sigma \).
If in addition, \( K(.) \) is the Epanechnikov \( \Rightarrow b^* = 2.34 N^{0.2} \sigma \).

2. A refinement of the formula in (1), to account for outliers, is

\[
b^* = 1.3643 \delta N^{0.2} \min[\sigma, \text{iqr}/1.349],
\]

where “iqr” is the (sample) interquartile range.

These rules for selecting \( b^* \) are generally called rules of thumb.
KDE in Practice: Boundary Effects

• So far, we have not paid much attention to the boundaries of the data, implicitly assuming that the density is supported on the entire R.

• In many situations, this is not the case. Then, the estimator can behave quite poorly due to what are called boundary effects.

• At the boundaries, $\hat{f}(x_0)$ usually underestimates $f(x_0)$. Suppose the data is positive, then $\hat{f}(x_0=0)$ penalizes $x_0=0$ for lack of data. At $x_0=0$, $\hat{f}(x_0)$ is inconsistent.

• Many proposed techniques to deal with boundary effects:
  – Reflection of data (“reflect” data at $x_0=0, -x_1, -x_2, ..., -x_Q$).
  – Transformation of data (use a function $g(x)$; estimate $\hat{f}(x_0)$ instead).
  – Pseudo-Data Methods (“add” reasonable data, say by interpolation).
  – Boundary Kernel Methods (use a non-symmetric $K(.)$ at $x_0=0$).

KDE in Practice: Computational Issues

• To get $\hat{f}_{Hist}(x)$ exactly, we must calculate for all $x$’s ($x_1, ..., x_N$):

$$\hat{f}_{Hist}(x_j) = \frac{1}{Nh} \sum_{i=1}^{N} K\left(\frac{x_i - x_j}{h}\right), \quad j = 1, ..., N$$

• Then, the number of evaluations of $K(.)$ is proportional to $N^2$ (for a bounded Kernel, like the Epanechnikov, we have $bN^2$ evaluations). This increases the computation time if the $N$ is large.

• For graphing the density, we do not need to evaluate $K(.)$ at all $x$’s. Instead, $\hat{f}_{Hist}(x)$ can be computed at using some points, for example using an equidistant grid $z_1, z_2, ..., z_M$:

$$z_k = x_{min} + (k/M)(x_{max} - x_{min}), \quad k = 1, 2, ..., M \ll N$$

• Now, we only need $M* h * N$ $K(.)$ evaluations. But, we can do better by “binning” the data –i.e., using a “binned estimator.”
For the SF changes in home prices data, we do KDE, with $M=100$.

```r
M <- 100
d_h <- matrix(0, M, 2)
h <- .5
dist <- (max(r_sf) - min(r_sf))/1
for (j in 1:M){
d_h[j,1] <- min(r_sf) + j/M*dist
for (i in 1:N){
d_h[j,2] <- d_h[j,2] + dnorm((r_sf[i] - d_h[j,1])/h)
}
d_h[j,2] <- d_h[j,2]/(N*h)
}
plot(d_h, xlab="Changes in Prices", ylab="Frequency", main = "Changes in SF Home Prices - Normal kernel, h=.5")
```

Still a lot of calculations: $M*N=35,900$ (better than $N^2 = 128881$)

KDE in Practice: Computational Issues

- Binning or WARPing (Weighted Average of Rounded Points) “bins” the data in bins of length $d$ starting at the origin $x_j$. Each $x_j$ is replaced by the bincenter of the corresponding bin.

- A usual choice for $d$ is to use $b/5$ or $\frac{x_{\text{min}} - x_{\text{max}}}{100}$. In the latter case, the effective sample size (or number of grid points) $R$ for the computation (the number of nonempty bins) can be at most 101.

- Now, $K(.)$ needs to be evaluated only at $l d/h$, where $l=1,...,R$, where $R$ is the number of bins which contains the support of $K(.)$:

  $\hat{f}_{\text{Hist}}(w_j) = \frac{N_j}{Nh} \sum_{i=1}^{R} N_i K(\frac{(i-j)d_j}{h})$, $j = 1,...,R$

computed on the grid $w_j = (j+0.5) d / j$ integer) with $N_i$ and $N_j$ denoting the number of observations in the $i$-th and $j$-th bins, respectively.
The WARPing approximation requires \((bR/d)\) evaluations of \(K(.)\) and \(N + (bR/d)\) steps in total.

Much faster than the exact computation, when \(N\) is large.

The accuracy of binned estimators has been studied by Hall (1982), and Hall and Wand (1996), among others. The accuracy depends on the number of grid points \(R\) and can be made arbitrarily good by increasing \(R\), at the cost of increasing the number of computations.

Hall and Wand (1996) proposed that using \(R\) between 100 and 500 should give a reasonably good approximation.
KDE in Practice: Computational Issues

- For all but very small \( N \), direct computation of \( K(.) \) is inefficient. By noticing that the KDE is based on a convolution of the data with the \( K(.) \), fast Fourier transformations (FFT) speed up computations:
  \[
  \hat{f}(\omega) = (2\pi)^{-1/2} \int \exp(\omega t) \hat{f}(t) \, dt \quad (Fourier \ transform)
  \]

- Recall the convolution theorem:
  If \( g(\chi) \) and \( k(\chi) \) are integrable functions with Fourier transforms \( \hat{g}(\xi) \) and \( \hat{k}(\xi) \) respectively, then the Fourier transform of the convolution is given by the product of the Fourier transforms \( \hat{g}(\xi) \) and \( \hat{k}(\xi) \). That is,
  \[
  \hat{f}(\omega) = \int g(y) k(x-y) \, dy,
  \hat{f}(\omega) = \hat{g}(\xi) \hat{k}(\xi). \quad \Rightarrow \text{invert } \hat{f}(\omega) \text{ to get } f(\omega).
  \]

- Another approach: Fast Gaussian transformations (FGT).

KDE in R

- Kernel density estimates are available in R via the `density` function:
  
  ```r
d <- density(r_sf, kernel=c("epanechnikov"), bw = .5)
  plot(d, main = "Changes in SF Home Prices - Epanechnikov kernel")
  
  which reproduces a previous density plot for SF home price changes, using the Epanechnikov kernel, with \( b=.5 \) (or \( bw = .5 \)).

- By default, `density` uses a Gaussian kernel, but a large variety of other kernels are available by specifying the kernel option, like above with kernel=c("epanechnikov"),

- By default, `density` selects the bandwidth based on Silverman’s (1986) rule of thumb. Other inputs (and manual inputs) can be used.
Estimating the Derivative of a Density

- Sometimes we need to estimate $f'(x)$ or even $f''(x)$—like in a C.I.

- One approach for estimating $f'(x)$ is straightforward:
  \[ f'(x) = \frac{1}{2\Delta} \left( \hat{f}(x_0 + \Delta) - \hat{f}(x_0 - \Delta) \right) \]
  for some small $\Delta$.

- Alternatively, differentiate the expression $\hat{f}(x_0) = \frac{1}{Nh} \sum_{i=1}^{N} K\left( \frac{x_i - x_0}{h} \right)$ with respect to $x_0$:
  \[ \hat{f}'(x_0) = \frac{1}{Nh^2} \sum_{i=1}^{N} K'(\frac{x_i - x_0}{h}) \]

- We can extend this approach to get the $r$-th derivative:
  \[ \hat{f}^{(r)}(x_0) = \frac{1}{Nh^{r+1}} \sum_{i=1}^{N} K^{(r)}\left( \frac{x_i - x_0}{h} \right) \]

Estimating the Derivative of a Density

- Since the Gaussian kernel has derivatives of all orders this is a common choice for derivative estimation.

- The estimator of $f'(x)$ is biased—same order as for estimation of $\hat{f}(x)$. But the variance is of a much larger order.

- We can derive an optimal bandwidth, we can optimize $\text{MISE}(h)$, as before.

- In practice, for either method, you should use a larger bandwidth than you use for estimating $\hat{f}(x_0)$.

- We can also ask the question of which kernel function is optimal. Muller (1984) found that the Biweight class is the optimal for the first derivative and for a second derivative the Triweight class.
Density Estimation: Adaptive Kernels

- So far, \( b \) has been fixed. But, this may not be optimal: what works fine in areas of high density may not necessarily be appropriate in a low-density regions.

- A possibility is to vary \( b \), to use adaptive bandwidth kernel estimators, in which the bandwidth changes as a function of \( x_0 \).

- Idea: Where there is a lot of data, we use a small neighborhood around \( x_j \); but in areas with few data points, we expand the neighborhood. That is, \( b_j = b(x_j) \).

- But, note that these estimators introduce added bias in regions with little data in order to reduce variance there. The bias-variance trade-off is still there.

Density Estimation: \( k \)-Nearest Neighbor

- In K-Nearest Neighbor (\( k \)-NN), instead of fixing bin width \( b \) and counting the number of instances, we fix the instances (neighbors) \( k \) and check bin width.

- The neighborhood is defined through those \( X \)-variables which are among the \( k \)-nearest neighbors of \( x \).

- The observations ranked by the distances, or “nearest neighbors,” are \( (x_{(1)}, \ldots, x_{(N)}) \): The \( k \)-th nearest neighbor (or \( k \)-NN of \( x \) is \( x_{(k)} \)).

- The \( k \)-NN estimator is given by:
  \[
  \hat{f}_{Hist,k-NN}(x_0) = \frac{k}{2Nd_k(x_0)}
  \]
  where \( d_k(x) \) is the ordered distance to \( k \)-th closest instance to \( x \). \( d_k(x) \) is usually the Euclidian distance (others, OK: Minkowski, Manhattan).
Density Estimation: \(k\)-Nearest Neighbor

- The \(k\)-NN estimator is given by: 
  \[
  \hat{f}_{Hist, \: k-NN}(x_0) = \frac{k}{2N d_k(x_0)}
  \]
  a function of \(d_k(x)\). If we use the Euclidian distance, 
  \(d_k(x) = \|x - x_{(k)}\|\).

- Intuitively, we allow the bandwidth to vary depending on the 
  density of the function. At areas of low density, we use a higher 
  bandwidth to average over a larger number of (dispersed) points.

- While the traditional \(k\)-NN estimator uses a uniform kernel, smooth 
  kernels can also be used. For example:
  \[
  \hat{f}_{k-NN}(x_j) = \frac{1}{Nd_k(x_j)} \sum_{i=1}^{N} K\left( \frac{x_i - x_j}{d_k(x_j)} \right), \quad j = 1, ..., N
  \]
  In this case, the estimator is not just a function of \(d_k(x)\).
Density Estimation: $k$-Nearest Neighbor

![Graph showing density estimation with varying $k$ values](image)


Density Estimation: Observations

- $k$-NN density estimation has a lot of discontinuities (very spiky, not differentiable). For small $N$, it is not even a density!

- Even for large regions with no observed data the estimated density is far from zero (tails are too heavy).

- Same trade-off as in selecting $h$: A smaller $k$ allows only nearby data points to be considered (reduce bias); but a larger $k$ allows for smoothness (reduce variance). Not easy to balance both issues.

- Given the variance-bias trade-off, selecting $k$ is similar to selecting $h$ (though $k$ is an integer). There is no clear rule of thumb or optimality rule. Some proposals exist, but practitioners insist on “know your data” to select $k$. 
Density Estimation: Kernel or $k$-NN?

- The asymptotic analysis of the $k$-NN estimator are complicated by the fact that $d_k(x)$ is random. The solution is to condition on $d_k(x)$, which is similar to treating it as fixed.

- Then, the conditional bias and variance are identical to those of the standard kernel estimator.

- For the unconditional bias, we need moments of $d_k(x)$, under Euclidian distance, given by the k-th order statistics. It turns out that the MSE behaves similarly to the kernel estimator’s MSE.

- Q: Which one is better?
   Not clear. In the tails, the Kernel estimator has smaller bias, but larger variance (the $k$-NN tends to be smoother in the tails).

Density Estimation: Multivariate Case

- Now suppose that $X$ is a $d$-vector and we want to estimate its density $f(x) = f(x_1; \ldots; x_d)$. Easy to extend the idea to this multivariate cases. Computations and interpretation get complicated once we move beyond 3 dimensions.

- Multivariate Kernel density estimator
  $\hat{f}(x) = \frac{1}{Nh^d} \sum_{i=1}^{N} K\left(\frac{x - x'}{h}\right)$

- Multivariate Gaussian kernel
  - spheric $K(u) = \left(\frac{1}{\sqrt{2\pi}}\right)^d \exp\left[-\frac{||u||^2}{2}\right]$
  - ellipsoid $K(u) = \frac{1}{(2\pi)^{d/2}|S|^{1/2}} \exp\left[-\frac{1}{2} u^T S^{-1} u\right]$
Density Estimation: Multivariate Case

• We can estimate an optimal bandwidth, as before, by minimizing MISE(h). The optimal bandwidth for the \( j \)-th variable is:

\[
h_j^* = \delta \left[ \int (f''(x_0))^2 \, dx_0 \right]^{-0.2} N^{-0.2} = C_v(K,d) N^{-1/(2r+d)} s,
\]

• The optimal bandwidths will all be of order \( N^{1/(2r+d)} \) and the optimal MISE of order \( N^{-2r/(2r+d)} \). This rates are slower than the univariate (\( d = 1 \)) case.

• The fact that dimension has an adverse effect on convergence rates is called the **curse of dimensionality**.

• Rules of thumb can be derived for the constant \( C_v(K,d) \). For example, for the Epanechnikov kernel, \( C_{v=2}(K,d) \), is for \( d=2 \), 2.20; for \( d=3 \), 2.12; for \( d=3 \), 2.07.

Readings


• Hardle (1990), *Applied Nonparametric Regression*
