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Borrowing strength over space in small area estimation: Comparing parametric, semi-parametric and non-parametric random effects and M-quantile small area models

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Abstract

In recent years there have been significant developments in model-based small area methods that incorporate spatial information in an attempt to improve the efficiency of small area estimates by borrowing strength over space. A popular approach parametrically models spatial correlation in area effects using Simultaneous Autoregressive (SAR) random effects models. An alternative approach incorporates the spatial information via M-quantile Geographically Weighted Regression (GWR), which fits a local model to the M-quantiles of the conditional distribution of the outcome variable given the covariates. A further approach uses spline approximations to fit nonparametric unit level nested error regression and M-quantile regression models that reflect spatial variation in the data and then uses these nonparametric models for small area estimation. In this presentation we contrast the performance of these alternative small area models using data with geographical information. We also examine how these models perform when estimation is for out of sample areas i.e. areas with zero sample, and discuss issues related to estimation of mean squared error of the resulting small area estimators. Our analysis is illustrated using simulations based on data from the U.S. Environmental Protection Agency's Environmental Monitoring and Assessment Program.

Keywords: Spatial information; Robust regression; Iteratively Reweighted Least Squares; Nonparametric smoothing.

1 Introduction

In recent years there have been significant developments in model-based small area estimation. The most popular approach to small area estimation employs random effects models for estimating domain specific parameters (Rao, 2003). An alternative approach to small area estimation that relaxes the parametric assumptions of random effects models by employing M-quantile models was recently proposed by Chambers & Tzavidis (2006). Typically, random effects models assume independence of the random area effects. This independence assumption is also implicit in M-quantile small area models. In economic, environmental and epidemiological applications, however, observations that are spatially close may be more related than observations that are further apart. This spatial correlation can be accounted for by extending the random effects model to allow for spatially correlated area effects using, for example, a Simultaneous Autoregressive (SAR) model (Anselin, 1988; Cressie, 1993). The application of Simultaneous Autoregressive models to small area estimation enables researchers to borrow strength over space and hence improve the precision of small area estimates. In this context, Singh et al. (2005) and Pratesi & Salvati (2008) proposed the use of the Spatial Empirical Best Linear Unbiased Predictor (SEBLUP).

SAR models allow for spatial correlation in the error structure. An alternative approach to incorporating the spatial information in the regression model is by assuming that the regression coefficients vary spatially across the geography of interest. Geographically Weighted Regression (GWR) (Brundson et al., 1996; Fotheringham et al., 1997, 2002; Yu & Wu, 2004) extends the traditional regression model by allowing local rather than global parameters to be estimated. That is, GWR directly models spatially non-stationarity in the mean structure of the model. In a recent paper Salvati et al. (2008) proposed an M-quantile GWR small area model. In doing so, the authors first proposed an extension to the GWR model, M-quantile GWR model, i.e. a locally robust model for the M-quantiles of the conditional distribution of the outcome variable given the covariates. This model was then used to define a predictor of the small area characteristic of interest that accounts for spatial structure of the data. The M-quantile GWR small area model integrates the concepts of robust small area estimation and borrowing strength over space within a unified modeling framework.

When the functional form of the relationship between the response variable and the covariates is unknown or has a complicated functional form, an approach based on use of a nonparametric regression model using penalized splines can offer significant advantages compared with one based on a linear model. By expressing the spline coefficients in the model as random effects, Ruppert et al. (2003) show how fitting a p-spline model is equivalent to fitting a linear mixed model. On the basis of this property, Opsomer et al. (2008) have recently proposed a new approach to SAE that extends the unit level nested error regression model (Battese et al., 1988) by combining small area random effects with a p-spline regression model. Pratesi et al. (2008) have extended this approach to the M-quantile method for the estimation of the small area parameters using a nonparametric specification of the conditional M-quantile of the response variable given the covariates. The use of bivariate p-spline approximations to fit nonparametric unit level nested error and M-quantile regression models allows for reflecting spatial variation in the data and then uses these nonparametric models for small area estimation.

In this paper we contrast SAR, unit level nested error p-spline regression, M-quantile GWR and M-quantile spline models in terms of their performance using data with geographical information. We also examine whether estimation for out of sample areas i.e. areas with zero sample sizes can be improved using models that borrow strength over space. The structure of the paper is as follows. In section 2 we review unit level mixed models with independent and spatially correlated random area effects for small area estimation. In section 3 we present M-quantile and M-quantile GWR models for small area estimation. In section 4 we describe the nonparametric unit level nested error and M-quantile regression models. Estimation of the mean squared error of the resulting small area predictors under modeling approaches is discussed. For exploring the research questions of this paper we employ a real survey datasets: data from the U.S. Environmental Protection Agency's Environmental Monitoring and Assessment Program (EMAP). The dataset contains geo-referenced and in section 5 we use design-based simulation experiments for assessing the performance of the different small area predictors and their associated estimates of mean squared error considered in this paper. Finally, in section 6 we summarize our main findings.

2 Unit level mixed models for small area estimation

Let \mathbf{x}_{ij} denote a vector of p auxiliary variables for each population unit j in small area i and assume that information for the variable of interest y is available only from the sample. The target is to use the data to estimate various area-specific quantities. A popular approach for this purpose is to use mixed effects models with random area effects. A linear mixed effects model is

$$y_{ij} = \mathbf{x}_{ij}^T \boldsymbol{\beta} + z_{ij} \gamma_i + \epsilon_{ij}, \quad j = 1 \dots, n_i \quad i = 1, \dots, d \quad (1)$$

where $\boldsymbol{\beta}$ is the $p \times 1$ vector of regression coefficients, γ_i denotes a random area effect that characterizes differences in the conditional distribution of y given x between the d small areas, z_{ij} is a constant whose value is known for all units in the population and ϵ_{ij} is the error term associated with the j -th unit within the i -th area. Conventionally, γ_i and ϵ_{ij} are assumed to be independent and normally distributed with mean zero and variances σ_γ^2 and σ_ϵ^2 respectively. The Empirical Best Linear Unbiased Predictor (EBLUP) of the mean for small area i (Battese et al., 1988; Rao, 2003) is then

$$\hat{m}_i^{MX} = N_i^{-1} \left[\sum_{j \in s_i} y_j + \sum_{j \in r_i} \hat{y}_j \right] \quad (2)$$

where $\hat{y}_j = \mathbf{x}_j^T \hat{\boldsymbol{\beta}} + z_j \hat{\gamma}_i$, s_i denotes the n_i sampled units in area i , r_i denotes the remaining $N_i - n_i$ units in the area i and $\hat{\boldsymbol{\beta}}$ and $\hat{\gamma}_i$ are obtained by substituting an optimal estimate of the covariance matrix of the random effects in (1) into the best linear unbiased estimator of $\boldsymbol{\beta}$ and the best linear unbiased predictor of γ_i respectively.

Model (1) can be extended to allow for correlated random area effects. Let the deviations \mathbf{v} from the fixed part of the model $\mathbf{X}^T \boldsymbol{\beta}$ be the result of an autoregressive process with parameter ρ and proximity matrix \mathbf{W} (Anselin, 1988; Cressie, 1993), then

$$\mathbf{v} = \rho \mathbf{W} \mathbf{v} + \boldsymbol{\gamma} \rightarrow \mathbf{v} = (\mathbf{I} - \rho \mathbf{W})^{-1} \boldsymbol{\gamma} \quad (3)$$

where \mathbf{I} is a $d \times d$ identity matrix. Combining (1) and (3), with $\boldsymbol{\epsilon}$ independent of \mathbf{v} , the model with spatially correlated errors can be expressed as

$$\mathbf{y} = \mathbf{X}^T \boldsymbol{\beta} + \mathbf{Z}(\mathbf{I} - \rho \mathbf{W})^{-1} \boldsymbol{\gamma} + \boldsymbol{\epsilon}. \quad (4)$$

The error term \mathbf{v} then has a $d \times d$ Simultaneously Autoregressive (SAR) dispersion matrix given by

$$\mathbf{G} = \sigma_\gamma^2 \left[(\mathbf{I} - \rho \mathbf{W}^T)(\mathbf{I} - \rho \mathbf{W}) \right]^{-1}. \quad (5)$$

The \mathbf{W} matrix describes the neighbourhood structure of the small areas and ρ defines the strength of the spatial relationship between the random effects of neighbouring areas.

Under (4), the Spatial Best Linear Unbiased Predictor (Spatial BLUP) of the small area mean and its empirical version (SEBLUP) are obtained following Henderson (1975). In particular, the SEBLUP of the small area mean, m_i , is

$$\hat{m}_i^{MX/SAR} = N_i^{-1} \left[\sum_{j \in s_i} y_j + \sum_{j \in r_i} \hat{y}_j \right] \quad (6)$$

2.1 MSE estimation for small area estimates under the SAR mixed model

An expression for the mean squared error (MSE) under the SEBLUP model and its estimator are obtained following the results of Kackar & Harville (1984), Prasad & Rao (1990) and Datta & Lahiri (2000). More specifically, the MSE estimator consists of three components denoted by g_1 , g_2 and g_3 :

$$MSE[\hat{m}_i^{MX/SAR}] = g_{1i}(\sigma_\gamma^2, \sigma_\epsilon^2, \rho) + g_{2i}(\sigma_\gamma^2, \sigma_\epsilon^2, \rho) + g_{3i}(\sigma_\gamma^2, \sigma_\epsilon^2, \rho).$$

The components of the MSE are due to the variability associated with the estimation of the random effects (g_1), the estimation of β (g_2) and the estimation of $(\sigma_\gamma^2, \sigma_\varepsilon^2, \rho)$ (g_3). Note that due to the introduction of the additional parameter ρ , component g_3 of the MSE is not the same as in the case of the EBLUP (Prasad & Rao, 1990).

In practical applications the predictor $\hat{m}_i^{MX/SAR}$ has to be associated with an estimator of $MSE[\hat{m}_i^{MX/SAR}]$. Following the results of Harville & Jeske (1992) and Zimmerman & Cressie (1992) an approximately unbiased mean squared error estimator of is given by

$$mse[\hat{m}_i^{MX/SAR}] \approx g_{1i}(\hat{\sigma}_\gamma^2, \hat{\sigma}_\varepsilon^2, \hat{\rho}) + g_{2i}(\hat{\sigma}_\gamma^2, \hat{\sigma}_\varepsilon^2, \hat{\rho}) + 2g_{3i}(\hat{\sigma}_\gamma^2, \hat{\sigma}_\varepsilon^2, \hat{\rho}) \quad (7)$$

when $\hat{\sigma}_\gamma^2, \hat{\sigma}_\varepsilon^2, \hat{\rho}$ are REML estimators. See Singh et al. (2005) and Pratesi & Salvati (2008) for details.

3 M-quantile models for small area estimation

A recently proposed approach to small area estimation is based on the use of M-quantile models (Chambers & Tzavidis, 2006; Tzavidis et al., 2008). A linear M-quantile regression model is one where the q^{th} M-quantile $Q_q(x; \psi)$ of the conditional distribution of y given x satisfies

$$Q_q(\mathbf{X}; \psi) = \mathbf{X}^T \beta_\psi(q). \quad (8)$$

Here ψ denotes the influence function associated with the M-quantile. For specified q and continuous ψ , an estimate $\hat{\beta}_\psi(q)$ of $\beta_\psi(q)$ is obtained via iterative weighted least squares.

Following Chambers & Tzavidis (2006) an alternative to random effects for characterizing the variability across the population is to use the M-quantile coefficients of the population units. For unit j with values y_j and \mathbf{x}_j , this coefficient is the value θ_j such that $Q_{\theta_j}(\mathbf{x}_j; \psi) = y_j$. These authors observed that if a hierarchical structure does explain part of the variability in the population data, units within clusters (areas) defined by this hierarchy are expected to have similar M-quantile coefficients. When the conditional M-quantiles are assumed to follow a linear model, with $\beta_\psi(q)$ a sufficiently smooth function of q , this suggests a predictor of m_i of the form

$$\hat{m}_i^{MQ} = N_i^{-1} \left[\sum_{j \in s_i} y_j + \sum_{j \in r_i} \{\mathbf{x}_j^T \hat{\beta}_\psi(\hat{\theta}_i)\} \right] \quad (9)$$

where $\hat{\theta}_i$ is an estimate of the average value of the M-quantile coefficients of the units in area i . Typically this is the average of estimates of these coefficients for sample units in the area. These unit level coefficients are estimated by solving $\hat{Q}_{q_j}(\mathbf{x}_j; \psi) = y_j$ for q_j with \hat{Q}_{q_j} denoting the estimated value of (8) at q_j . When there is no sample in area i then $\hat{\theta}_i = 0.5$.

Tzavidis et al. (2008) refer to (9) as the ‘naive’ M-quantile predictor and note that this can be biased. To rectify this problem these authors propose a bias adjusted M-quantile predictor of m_i that is derived as the mean functional of the Chambers & Dunstan (1986) (CD hereafter) estimator of the distribution function and is given by

$$\hat{m}_i^{MQ/CD} = \int_{-\infty}^{+\infty} t d\hat{F}_i(t) = N_i^{-1} \left[\sum_{j \in s_i} y_j + \sum_{j \in r_i} \{\mathbf{x}_j^T \hat{\beta}_\psi(\hat{\theta}_i)\} + \frac{N_i - n_i}{n_i} \sum_{j \in s_i} \{y_j - \mathbf{x}_j^T \hat{\beta}_\psi(\hat{\theta}_i)\} \right]. \quad (10)$$

3.1 M-quantile geographically weighted model for small area estimation

SAR mixed models are global models i.e. with such models we assume that the relationship we are modeling holds everywhere in the study area and we allow for spatial correlation at different hierarchical levels in the error structure. One way of incorporating the spatial structure of the data in the M-quantile small area model is via an M-quantile GWR model (Salvati et al., 2008). Unlike SAR mixed models, M-quantile GWR are local models that allow for a spatially non-stationary process in the mean structure of the model.

Given n observations at a set of L locations $\{u_l; l = 1, \dots, L; L \leq n\}$ with n_l data values $\{(y_{jl}, \mathbf{x}_{jl}); j = 1, \dots, n_l\}$ observed at location u_l , an M-quantile GWR model is defined as

$$Q_q(\mathbf{X}; \psi, u) = \mathbf{X}^T \beta_\psi(u; q) \quad (11)$$

where now $\beta_\psi(u; q)$ varies with u as well as with q . The M-quantile GWR is a local model for the entire conditional distribution -not just the mean- of y given x . Estimates of $\beta_\psi(u; q)$ in (11) can be obtained by solving

$$\sum_{l=1}^L w(u_l, u) \sum_{j=1}^{n_l} \psi_q \{y_{jl} - \mathbf{x}_{jl}^T \beta_\psi(u; q)\} \mathbf{x}_{jl} = \mathbf{0} \quad (12)$$

where $\psi_q(t) = 2\psi(s^{-1}t)\{qI(t > 0) + (1-q)I(t \leq 0)\}$ and s is a suitable robust estimate of scale such as the median absolute deviation (MAD) estimate $s = \text{median}|y_{jl} - \mathbf{x}_{jl}^T \boldsymbol{\beta}_\psi(u; q)|/0.6745$. It is also customary to assume a Huber type influence function although other influence functions are also possible

$$\psi(t) = tI(-c \leq t \leq c) + \text{sgn}(t)I(|t| > c).$$

Provided c is bounded away from zero, an iteratively re-weighted least squares algorithm can then be used to solve (12), leading to estimates of the form

$$\hat{\boldsymbol{\beta}}_\psi(u; q) = \left\{ \mathbf{X}^T \mathbf{W}^*(u; q) \mathbf{X} \right\}^{-1} \mathbf{X}^T \mathbf{W}^*(u; q) \mathbf{y}. \quad (13)$$

In (13) \mathbf{y} is the vector of n sample y values and \mathbf{X} is the corresponding design matrix of order $n \times p$ of sample x values. The matrix $\mathbf{W}^*(u; q)$ is a diagonal matrix of order n with entries corresponding to a particular sample observation and equal to the product of this observation's spatial weight, which depends on its distance from location u , with the weight that this observation has when the sample data are used to calculate the 'spatially stationary' M-quantile estimate $\hat{\boldsymbol{\beta}}_\psi(q)$. At this point we should mention that the spatial weight is derived from a spatial weighting function whose value depends on the distance from sample location u_l to u such that sample observations with locations close to u receive more weight than those further away. One popular approach to defining such a weighting function is to use

$$w(u_l, u) = \exp\left\{-0.5(d_{(u_l, u)}/b)^2\right\},$$

where $d_{(u_l, u)}$ denotes the Euclidean distance between u_l and u and b is the bandwidth, which can be optimally defined using a least squares criterion (Fotheringham et al., 2002). It should be noted, however, that alternative weighting functions, for example the bi-square function, can also be used.

Salvati et al. (2008) also proposed a reduced M-quantile GWR that combines local intercepts with global slopes and is defined as

$$Q_q(\mathbf{X}; \psi, u) = \mathbf{X}^T \boldsymbol{\beta}_\psi(q) + \delta_\psi(u; q). \quad (14)$$

This is fitted in two steps. At the first step we ignore the spatial structure in the data and estimate $\boldsymbol{\beta}_\psi(q)$ directly via the iterative re-weighted least squares algorithm used to fit the standard linear M-quantile regression model (8). At the second step geographic weighting is applied to estimate $\delta_\psi(u; q)$ using

$$\hat{\delta}_\psi(u; q) = n^{-1} \sum_{l=1}^L w(u_l, u) \sum_{j=1}^{n_l} \psi_q\{y_{jl} - \mathbf{x}_{jl}^T \hat{\boldsymbol{\beta}}_\psi(q)\}.$$

Hereafter we refer to (11) and (14) as the MQGWR and MQGWR-LI (Local Intercepts) models respectively.

The primary aim of this paper is to employ the MQGWR and MQGWR-LI models for estimating the area i mean m_i of y . Following Chambers & Tzavidis (2006) this can be done by first estimating the M-quantile GWR coefficients $\{q_j; j \in s\}$ of the sampled population units without reference to the small areas of interest. A grid-based interpolation procedure for doing this under (8) is described in Chambers & Tzavidis (2006) and can be directly used with the M-quantile GWR models (11) and (14). In particular, we adapt this approach with M-quantile GWR models by first defining a fine grid of q values over the interval $(0, 1)$ and then use the sample data to fit (11) or (14) for each distinct value of q on this grid and at each sample location. The M-quantile GWR coefficient for unit j with values y_j and \mathbf{x}_j at location u_j is computed by interpolating over this grid to find the value q_j such that $Q_{q_j}(\mathbf{x}_j; \psi, u_j) = y_j$.

Provided there are sample observations in area i , an area-specific M-quantile GWR coefficient, $\hat{\theta}_i$, can be defined as the average value of the sample M-quantile GWR coefficients in area i . Following Salvati et al. (2008), the bias-adjusted M-quantile GWR predictor of the mean in small area i is

$$\hat{m}_i^{MQGWR/CD} = N_i^{-1} \left[\sum_{j \in s_i} y_j + \sum_{j \in r_i} \hat{Q}_{\hat{\theta}_i}(\mathbf{x}_j; \psi, u_j) + \frac{N_i - n_i}{n_i} \sum_{j \in s_i} \{y_j - \hat{Q}_{\hat{\theta}_i}(\mathbf{x}_j; \psi, u_j)\} \right]. \quad (15)$$

where $\hat{Q}_{\hat{\theta}_i}(\mathbf{x}_j; \psi, u_j)$ is defined either via the MQGWR model (11) or via the MQGWR-LI (14).

3.2 MSE estimation for small area estimates under the M-quantile GWR model

Mean squared error estimation for the M-quantile GWR small area estimates is based on the Chambers et al. (2008) estimator and is also described in Salvati et al. (2008). To start with we note that (15) can be expressed as a weighted sum of the sample y -values

$$\hat{m}_i^{MQGWR/CD} = N_i^{-1} \mathbf{w}_i^T \mathbf{y} \quad (16)$$

where

$$\mathbf{w}_i = \frac{N_i}{n_i} \mathbf{1}_i + \sum_{j \in r_i} \mathbf{H}_{ij}^T \mathbf{x}_j - \frac{N_i - n_i}{n_i} \sum_{j \in s_i} \mathbf{H}_{ij}^T \mathbf{x}_j. \quad (17)$$

Here $\mathbf{1}_i$ is the n -vector with j^{th} component equal to one whenever the corresponding sample unit is in area i and is zero otherwise and

$$\mathbf{H}_{ij} = \left\{ \mathbf{X}^T \mathbf{W}^*(u_j; \hat{\theta}_i) \mathbf{X} \right\}^{-1} \mathbf{X}^T \mathbf{W}^*(u_j; \hat{\theta}_i).$$

Given the linear representation (16), an estimator of a first order approximation to the mean squared error of this predictor can be computed following standard methods of robust mean squared error estimation for linear predictors of population quantities (Royall & Cumberland, 1978). Put $\mathbf{w}_i = (w_{ij})$ this estimator is of the form

$$v(\hat{m}_i^{MQGWR/CD}) = N_i^{-2} \sum_{k: n_k > 0} \sum_{j \in s_k} \lambda_{ijk} \left\{ y_j - \hat{Q}_{\hat{\theta}_k}(\mathbf{x}_j; \psi, u_j) \right\}^2 \quad (18)$$

where $\lambda_{ijk} = \left\{ (w_{ij} - 1)^2 + (n_i - 1)^{-1} (N_i - n_i) \right\} I(k = i) + w_{jk}^2 I(k \neq i)$.

4 Nonparametric small area models

Although very useful in many situations, linear mixed models depend on distributional assumptions for the random part of the model and do not easily allow for outlier robust inference. In addition, the fixed part of the model may not be flexible enough to handle cases in which the relationship between the variable of interest and the covariates is more complex than that assumed by a linear model. Opsomer et al. (2008) extend model (1) to the case in which the small area random effects can be combined with a smooth, non-parametrically specified trend. In particular, in the simplest case

$$y_{ij} = m(x_{1ij}) + z_{ij} \gamma_i + \epsilon_{ij}, \quad j = 1 \dots, n_i \quad i = 1, \dots, d, \quad (19)$$

where $m(\cdot)$ is an unknown smooth function of the variable x_1 . The estimator of the small area mean is

$$\hat{m}_i^{NPMX} = N_i^{-1} \left[\sum_{j \in s_i} y_j + \sum_{j \in r_i} \hat{y}_j \right] \quad (20)$$

as in (2) where $\hat{y}_j = \hat{m}(x_{1ij}) + z_{ij} \hat{\gamma}_i$. By using penalized splines as the representation for the non-parametric trend, Opsomer et al. (2008) express the non-parametric small area estimation model as a random effects model with $\hat{m}(x_{1ij}) = \hat{\beta}_0 + \hat{\beta}_1 x_{1ij} + \mathbf{a}_{ij} \boldsymbol{\delta}$. Then the \hat{y}_j value includes the spline function, which is treated as a random effect, and the small area random effect. The latter can be easily extended to handle bivariate smoothing and additive modeling. These authors proposed and studied the theoretical properties of the mean squared error of (20). They extended the results of Prasad & Rao (1990) and Das et al. (2008) to the case of a spline-based random effect. Opsomer et al. (2008) also proposed a bootstrap estimator for the MSE, which performs reasonably well, but is computationally intensive.

Pratesi et al. (2008) have extended this approach to the M-quantile method for the estimation of the small area parameters using a nonparametric specification for the conditional M-quantiles of the response variable given the covariates. When the functional form of the relationship between the q -th M-quantile and the covariates deviates from the assumed one, the linear M-quantile regression model can lead to biased estimators of the small area parameters. When the relationship between the q -th M-quantile and the covariates is not linear, a p-splines M-quantile regression model may have significant advantages compared to the linear M-quantile model.

The small area estimator of the mean may be taken as in (9) where the unobserved value for population unit $i \in r_j$ is predicted using

$$\hat{y}_{ij} = \mathbf{x}_{ij} \hat{\boldsymbol{\beta}}_{\psi}(\hat{\theta}_i) + \mathbf{a}_{ij} \hat{\boldsymbol{\nu}}_{\psi}(\hat{\theta}_i),$$

where $\hat{\boldsymbol{\beta}}_{\psi}(\hat{\theta}_i)$ and $\hat{\boldsymbol{\nu}}_{\psi}(\hat{\theta}_i)$ are the coefficient vectors of the parametric and spline components, respectively, of the fitted p-splines M-quantile regression function at $\hat{\theta}_i$. In case of p-splines M-quantile regression models the bias-adjusted estimator for the mean is given by

$$\hat{m}_i^{NPMQ/CD} = \frac{1}{N_i} \left\{ \sum_{j \in U_i} \hat{y}_{ij} + \frac{N_i}{n_i} \sum_{i \in s_i} (y_{ij} - \hat{y}_{ij}) \right\}, \quad (21)$$

where \hat{y}_{ij} denotes the predicted values for the population units in s_i and in U_i .

Following the approach described in Chambers et al. (2008), for fixed q , the $\hat{m}_i^{NPMQ/CD}$ in (21) can be written as linear combination of the observed y_{ij} . The derived weights are treated as fixed and a 'plug in' estimator of the mean squared error of estimator has been obtained by using standard methods for robust estimation of the variance of unbiased weighted linear

estimators (Royall & Cumberland, 1978) and by following the results due to Chambers et al. (2008). See Salvati et al. (2008a) for details.

The use of bivariate p-spline approximations to fit nonparametric unit level nested error and M-quantile regression models allows for reflecting the spatial variation in the data and then uses these nonparametric models for small area estimation.

In particular, for M-quantile models, as we have just dealt with flexible smoothing of quantiles in scatterplots, we can now handle the way in which two continuous variables affect the quantiles of the response without any structural assumptions: $Q_q(x_1, x_2, \psi) = \tilde{m}_{\psi, q}(x_1, x_2)$, i.e. we can deal with *bivariate* smoothing. It is of central interest in a number of application areas as environment and public health. It has particular relevance when geographically referenced responses need to be converted to maps. As seen earlier, p-splines rely on a set of basis functions to handle nonlinear structures in the data. Bivariate smoothing requires bivariate basis functions; Ruppert et al. (2003) advocate the use of radial basis functions to derive *Low-rank thin plate splines*. In particular, the following model is assumed at quantile q for unit i :

$$m_{\psi, q}[x_{1i}, x_{2i}; \boldsymbol{\beta}_\psi(q), \boldsymbol{\gamma}_\psi(q)] = \beta_{0\psi}(q) + \beta_{1\psi}(q)x_{1i} + \beta_{2\psi}(q)x_{2i} + \mathbf{a}_i \boldsymbol{\nu}_\psi(q). \quad (22)$$

Here \mathbf{z}_i is the i -th row of the following $n \times K$ matrix

$$\mathbf{A} = [C(\tilde{\mathbf{x}}_i - \boldsymbol{\kappa}_k)]_{\substack{1 \leq i \leq n \\ 1 \leq k \leq K}} [C(\boldsymbol{\kappa}_k - \boldsymbol{\kappa}_{k'})]_{1 \leq k, k' \leq K}^{-1/2}, \quad (23)$$

where $C(\mathbf{t}) = \|\mathbf{t}\|^2 \log \|\mathbf{t}\|$, $\tilde{\mathbf{x}}_i = (x_{1i}, x_{2i})$ and $\boldsymbol{\kappa}_k, k = 1, \dots, K$ are knots. See Pratesi et al. (2008) for details on this.

The choice of knots in two dimensions is more challenging than in one. One approach could be that of laying down a rectangular lattice of knots, but this has a tendency to waste a lot of knots when the domain defined by x_1 and x_2 has an irregular shape. In one dimension a solution to this issue is that of using quantiles. However, the extension of the notion of quantiles to more than one dimension is not straightforward. Two solutions suggested in literature that provide a subset of observations nicely scattered to cover the domain are *space filling designs* (Nychka & Saltzman, 1998) and the *clara* algorithm (Kaufman & Rousseeuw, 1990). The first one is based on the maximal separation principle of K points among the unique $\tilde{\mathbf{x}}_i$ and is implemented in the `fields` package of the R language. The second one is based on clustering and selects K representative objects out of n ; it is implemented in the package `cluster` of R.

4.1 A note on small area estimation for out of sample areas

In some situations we are interested in estimating small area characteristics for domains (areas) with no sample observations. The conventional approach to estimating a small area characteristic, say the mean, in this case is synthetic estimation.

Under the mixed model (1) or the SAR mixed model (4) the synthetic mean predictor for out of sample area i is

$$\hat{m}_i^{MX/SYNTH} = N_i^{-1} \sum_{j \in U_i} \mathbf{x}_j^T \hat{\boldsymbol{\beta}}, \quad (24)$$

where $U_i = s_i \cup r_i$.

Under M-quantile model (8) the synthetic mean predictor for out of sample area i is

$$\hat{m}_i^{MQ/SYNTH} = N_i^{-1} \sum_{j \in U_i} \mathbf{x}_j^T \hat{\boldsymbol{\beta}}_\psi(0.5). \quad (25)$$

We note that with synthetic estimation all variation in the area-specific predictions comes from the area-specific auxiliary information. One way of potentially improving the conventional synthetic estimation for out of sample areas is by using a model that borrows strength over space such as an M-quantile GWR model and nonparametric unit level nested error and M-quantile regression models. In this case a synthetic-type mean predictors for out of sample area i are defined by

$$\hat{m}_i^{MQGWR/SYNTH} = N_i^{-1} \sum_{j \in U_i} \hat{Q}_{0.5}(\mathbf{x}_j; \psi, u_j) \quad (26)$$

$$\hat{m}_i^{NPMX/SYNTH} = N_i^{-1} \sum_{j \in U_i} \hat{m}(x_{1ij}, u_j) \quad (27)$$

$$\hat{m}_i^{NPMQ/SYNTH} = N_i^{-1} \sum_{j \in U_i} [\mathbf{x}_{ij} \hat{\boldsymbol{\beta}}_\psi(0.5) + \mathbf{z}_{ij} \hat{\boldsymbol{\nu}}_\psi(0.5, u_j)]. \quad (28)$$

Empirical results that address the issue of out of sample area estimation are set out in sections 5.

5 Design-based simulation study

In this section we present results from a simulation study that was used to examine the performance of the small area predictors discussed in the previous sections. We present a design-based simulation using data from the Environmental Monitoring and Assessment Program (EMAP) that forms part of the Space Time Aquatic Resources Modelling and Analysis Program (STARMAP) at Colorado State University.

The survey data used in this design-based simulation comes from the U.S. Environmental Protection Agency's Environmental Monitoring and Assessment Program (EMAP) Northeast lakes survey (Larsen et al., 1997). Between 1991 and 1995, researchers from the U.S. Environmental Protection Agency (EPA) conducted an environmental health study of the lakes in the north-eastern states of the U.S. For this study, a sample of 334 lakes was selected from the population of 21,026 lakes in these states. The lakes forming this population were grouped according to 113 8-digit Hydrologic Unit Codes (HUCs) of which 64 contained less than 5 observations and 27 did not have any observations. The variable of interest was Acid Neutralizing Capacity (ANC), an indicator of the acidification risk of water bodies. Since some lakes were visited several times during the study period and some of these were measured at more than one site, the total number of observed sites was 349 with a total of 551 measurements. In addition to ANC values, the EMAP data set also contained the elevation and geographical coordinates of the centroid of each lake in the target area (HUC). For sampled locations we know the exact spatial coordinates of the corresponding location. For non-sampled locations the centroid of the lake is known. Hence, detailed information on the spatial coordinates for non-sampled locations exists as the geography defined by the lakes is below the geography of interest defined by the HUCs.

The aim of this design-based simulation was (a) to compare the performance of the different small area predictors of the mean of ANC in each HUC and (b) to evaluate the performance of the different predictors for estimating the mean ANC for out of sample HUCs. In order to do this, we first created a population of ANC values with similar spatial characteristics to that of the lakes sampled by EMAP. A total of 200 independent random samples were then taken from each HUC, that had been sampled by EMAP, with sample sizes set equal to the $\max(5, n_i)$ where n_i is the sample size of each HUC in the original EMAP dataset. No observations were taken from HUCs that had not been sampled by EMAP. This process led to a total sample size of 652 ANC values from 86 HUCs.

In order to generate a population dataset that had similar spatial structure to that of the EMAP sample data, we allocated ANC values to the non-sampled lakes as follows: (1) we first randomly ordered the non-sampled locations in order to avoid list order bias and gave each sampled location a 'donor weight' equal to the integer component of its survey weight minus 1; (2) taking each non-sample location in turn, we chose a sample location as a 'donor' for the j^{th} non-sample location by selecting one of the ANC values of the EMAP sample locations with probability proportional to $w(u_j, u) = \exp\{-0.5(d_{(u_j, u)}/b)^2\}$. Here $d_{(u_j, u)}$ is the Euclidean distance from the j^{th} non-sample location u_j to the location u of a sampled location and b is the GWR bandwidth estimated from the EMAP data; and (3) we reduced the donor weight of the selected donor location by 1.

We compare the following small area predictors (a) EBLUP (2), (b) M-quantile CD (10) (MQ), (c) M-quantile GWR CD (15) under model (11) (MQGWR), (d) M-quantile GWR CD (15) under the local intercepts model (14) (MQGWR-LI), (e) SEBLUP (6) (f) nonparametric EBLUP (20) (NPEBLUP) and (g) nonparametric M-quantile CD (21) (NPMQ). For the M-quantile GWR predictors we use the centroid of the lake. The relative bias (RB) and the relative root mean squared error (RRMSE) of estimates of the mean value of ANC in each HUC were computed.

Before presenting the results from this simulation study we would like to show some model and spatial diagnostics. Figure 1 shows normal probability plots of level 1 and level 2 residuals obtained by fitting a two-level (level 1 is the lake and level 2 is the HUC) mixed model to the synthetic population data. The normal probability plots indicate that the Gaussian assumptions of the mixed model are not met. Hence, the use of a model that relaxes these assumptions, such as the M-quantile model, can be justified in this case. In order to detect whether there is spatial autocorrelation in the EMAP data we computed the Moran's I coefficient. The standardized Moran's I is analogous to the correlation coefficient, and its values range from 1 (strong positive spatial autocorrelation) to -1 (strong negative spatial autocorrelation). For the EMAP data Moran's $I = 0.61$ indicating a positive spatial correlation. There is also evidence of a non-stationary process. In particular, using an ANOVA test proposed by Brundson et al. (1999) we rejected the null hypothesis of stationarity of the model parameters. Based on the spatial diagnostics we expect that incorporating the spatial information in small area estimation may lead to gains in efficiency.

The results set out in Tables 1 and 2 show the across areas and simulations distribution of relative bias and relative root mean squared error for in sample and out of sample areas respectively. Focusing first on Table 1 we note that all small area predictors based on the different variants of the M-quantile GWR model have significantly lower relative bias than the EBLUP SEBLUP, and NPEBLUP predictors with the MQGWR predictor performing best. Examining the performance in terms of relative root mean squared error we note that the small area predictors that account for the spatial structure of the data have on average smaller root mean squared errors with the NPEBLUP, SEBLUP and MQGWR predictors performing best. The increased relative root mean squared error of the MQGWR predictors can be explained by the bias variance trade off associated with the use of robust methods. That is, although by using the M-quantile GWR model we reduce the bias of the point estimates, the MQGWR predictors have higher variability. One way of potentially tackling this problem is by making the M-quantile GWR model less robust for example by setting in the Huber influence function $c > 1.345$. These results also show that

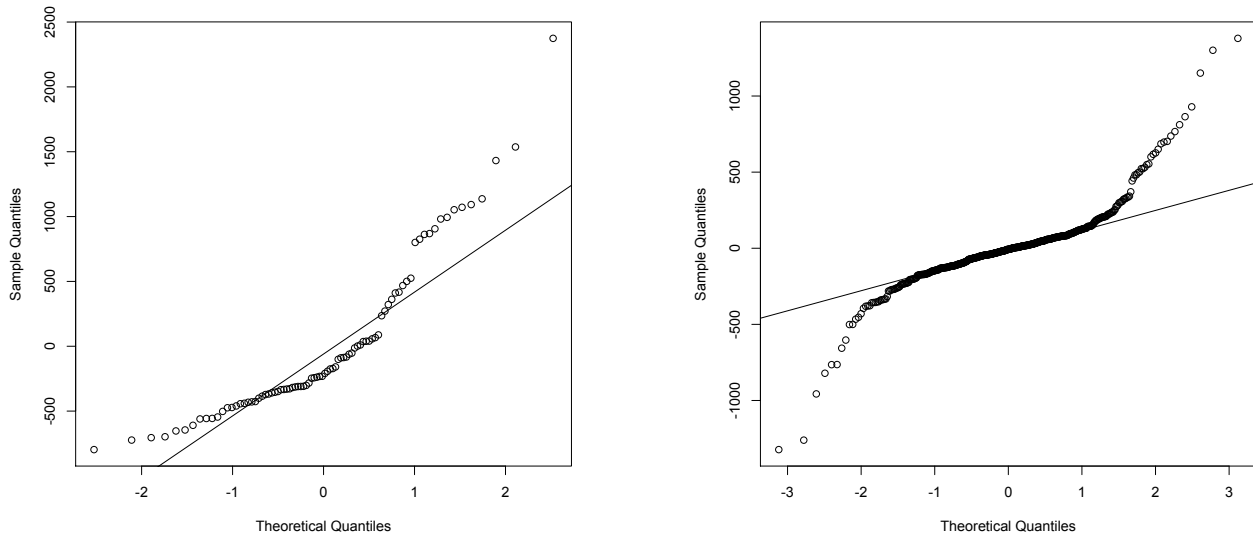


Figure 1: Normal probability plots of level 2 (left) and level 1 residuals (right) derived by fitting a two level linear mixed model to the synthetic population data.

there is a substantial number of in-sample HUCs where the MQGWR predictor has lower RRMSE than the NPEBLUP and SEBLUP predictors.

Focusing now on Table 2 we note that for out of sample areas NPMQ and MQGWR-based small area predictors have lower relative biases and lower root mean squared errors than the EBLUP, NPEBLUP and SEBLUP predictors. This supports our original hypothesis that the M-quantile GWR model offers a straightforward approach for improving synthetic estimation for out of sample areas. The performance of the SEBLUP predictor in this case may be surprising. However, we should bear in mind that for out of sample areas we use a synthetic SEBLUP. A more elaborate method for out of sample areas under the SAR model has been proposed by Saei & Chambers (2005).

Figures 2 and 3 show how the different mean squared estimators track the true mean squared error of the different predictors. Here we see that mean squared estimator described in Tzavidis et al. (2008), and its version (18) under the M-quantile GWR model, perform well in terms of tracking the true mean squared error of the M-quantile small area predictors. Finally, we see that the Prasad-Rao type MSE estimators of the EBLUP, NPEBLUP and SEBLUP perform poorly in this application as far as tracking the area-specific mean squared error is concerned. This phenomenon has been also reported in other design-based studies (Chambers et al., 2008). As the model diagnostics have already demonstrated, for this data the Gaussian assumptions of the mixed model are not satisfied. This provides a further explanation for the performance of the Prasad-Rao type mean squared estimators in this case.

6 Conclusions

In this paper we contrasted different approaches for borrowing strength over space in small area estimation using parametric, semiparametric and nonparametric small area models. Our results show that incorporating the spatial information in small area estimation can lead to significant gains in the efficiency of the small area estimates. The penalized splines model appears to be a useful tool when the functional form of the relationship between the variable of interest and the covariates is left unspecified and the data are characterized by complex patterns of spatial dependency. An advantage of the M-quantile GWR-based estimators is that they perform better than the SEBLUP, NPEBLUP estimator for estimating parameters for out of sample areas. One approach for potentially improving the performance of the SEBLUP estimator for out of sample areas is to use the Saei & Chambers (2005) SAR mixed model. A further advantage of the M-quantile GWR model is that it allows for outlier robust inference. As we illustrated in section 5, the violation of the assumptions of the mixed model may lead to substantial bias in the small area estimates derived with the EBLUP SEBLUP and NPEBLUP predictors. The violation of the assumptions of the mixed model also affects the performance of the Prasad-Rao type mean squared error estimators. On the other hand, the use of a robust approach to small area estimation tackles the problem of bias though at the expense of higher variability. Approaches to balancing this bias variance trade off were briefly described in section 5. In a recent paper Sinha & Rao (2008) proposed the use of a robust mixed model for small area estimation. The robust mixed model can be directly compared to the M-quantile

Table 1: Design-based simulation results using the EMAP data. Results show the distribution of Relative Bias (RB) and Relative Root Mean Squared Error (RRMSE) over areas and simulations for the 86 sampled HUCs.

Predictor	Percentile of across area distribution					
	10	25	Mean	50	75	90
Relative Bias (%)						
EBLUP	-9.51	0.39	-12.55	10.79	21.43	36.85
SEBLUP	-10.59	-5.12	5.27	2.50	12.33	27.53
MQ	-4.08	-2.34	-0.83	-0.42	1.32	2.39
MQGWR	-3.76	-1.69	0.22	0.06	1.79	4.66
MQGWR-LI	-4.59	-2.24	-0.78	-0.71	0.85	2.58
NPEBLUP	-10.75	-1.23	12.19	10.45	23.70	37.17
NPMQ	-7.08	-1.53	6.42	7.19	13.26	18.48
RRMSE (%)						
EBLUP	21.33	23.95	38.05	35.18	49.49	60.09
SEBLUP	16.13	20.46	31.50	29.01	38.61	52.95
MQ	19.66	25.81	39.45	35.49	49.71	67.65
MQGWR	16.38	21.49	33.61	29.84	43.22	55.24
MQGWR-LI	18.07	23.86	35.64	34.03	46.22	56.82
NPEBLUP	16.53	19.22	30.77	26.09	41.73	49.10
NPMQ	20.97	27.45	40.03	39.15	48.45	61.87

Table 2: Design-based simulation results using the EMAP data. Results show the distribution of Relative Bias (RB) and Relative Root Mean Squared Error (RRMSE) over areas and simulations for the 27 out of sample HUCs.

Predictor	Percentile of across area distribution					
	10	25	Mean	50	75	90
Relative Bias (%)						
EBLUP	-61.95	-57.29	-2.47	-36.59	38.14	82.69
SEBLUP	-56.47	-51.05	11.80	-27.35	58.49	109.63
MQ	-77.85	-73.27	-47.46	-66.29	-31.32	1.77
MQGWR	-19.35	-11.89	-3.37	-3.69	4.88	12.60
MQGWR-LI	-50.23	-38.59	-23.13	-23.21	-11.58	1.58
NPEBLUP	-18.09	-7.63	13.38	12.33	29.50	59.99
NPMQ	-42.29	-9.79	1.88	5.53	18.93	29.99
RRMSE (%)						
EBLUP	23.62	40.14	60.44	53.76	62.21	84.04
SEBLUP	20.54	37.71	66.21	53.81	68.13	110.52
MQ	19.18	37.63	57.26	68.65	74.83	80.15
MQGWR	11.24	14.88	22.93	17.50	23.29	39.96
MQGWR-LI	16.69	22.43	30.85	26.82	40.13	51.57
NPEBLUP	14.39	18.13	34.58	31.39	38.80	65.10
NPMQ	14.90	18.25	32.58	29.39	39.77	56.82

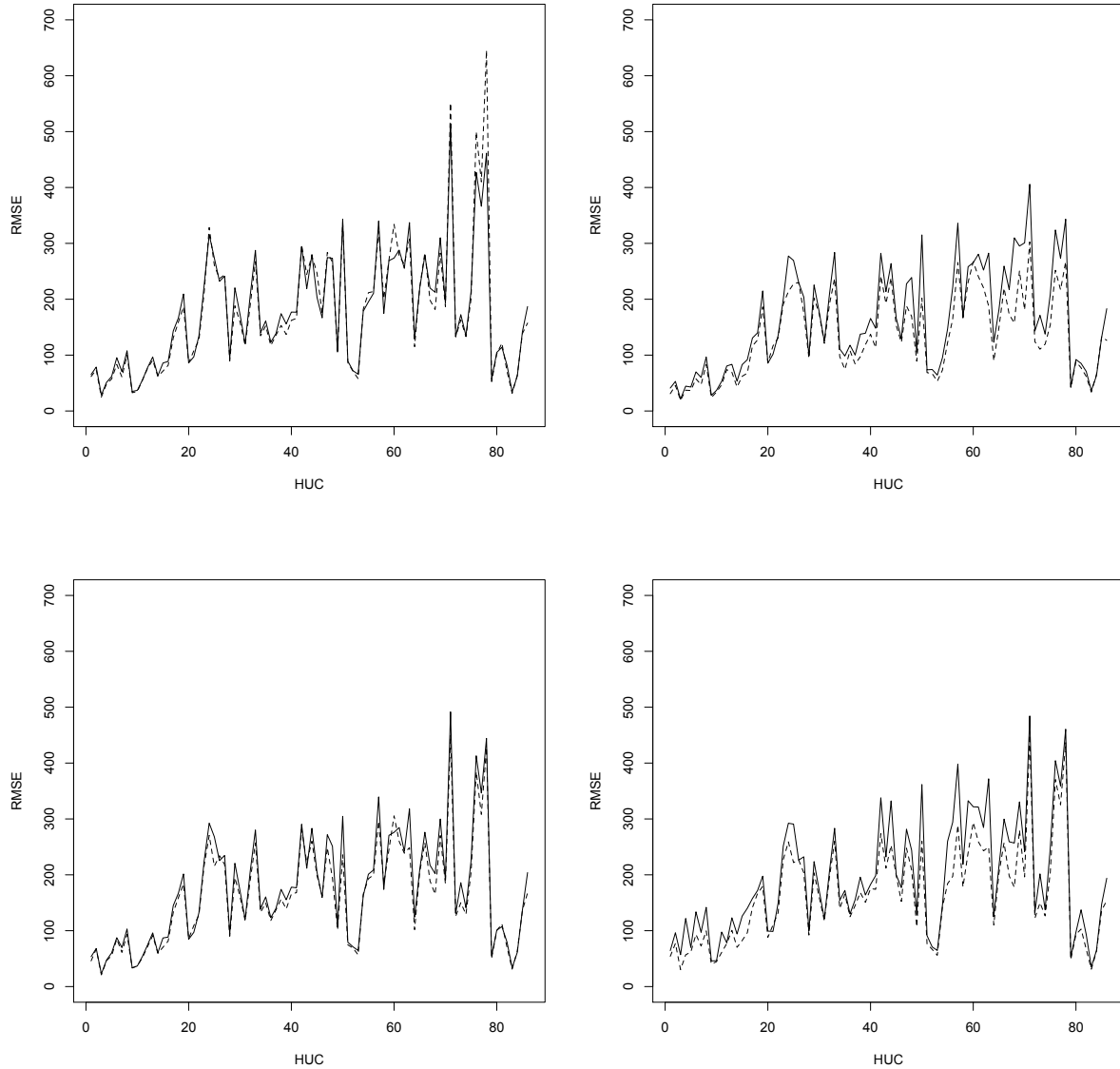


Figure 2: HUC-specific values of actual design-based RMSE (solid line) and average estimated RMSE (dashed line). Top left is the approximation to the RMSE of the MQ predictor. Top right is the approximation to the RMSE of the MQGWR predictor. Bottom left is the approximation to the RMSE of the MQGWR-LI predictor and bottom right is the approximation to the RMSE of the NPMQ (ag.sp) predictor. Estimates of the RMSE under the different models are obtained using the mean squared error estimator suggested by Chambers et al. (2008).

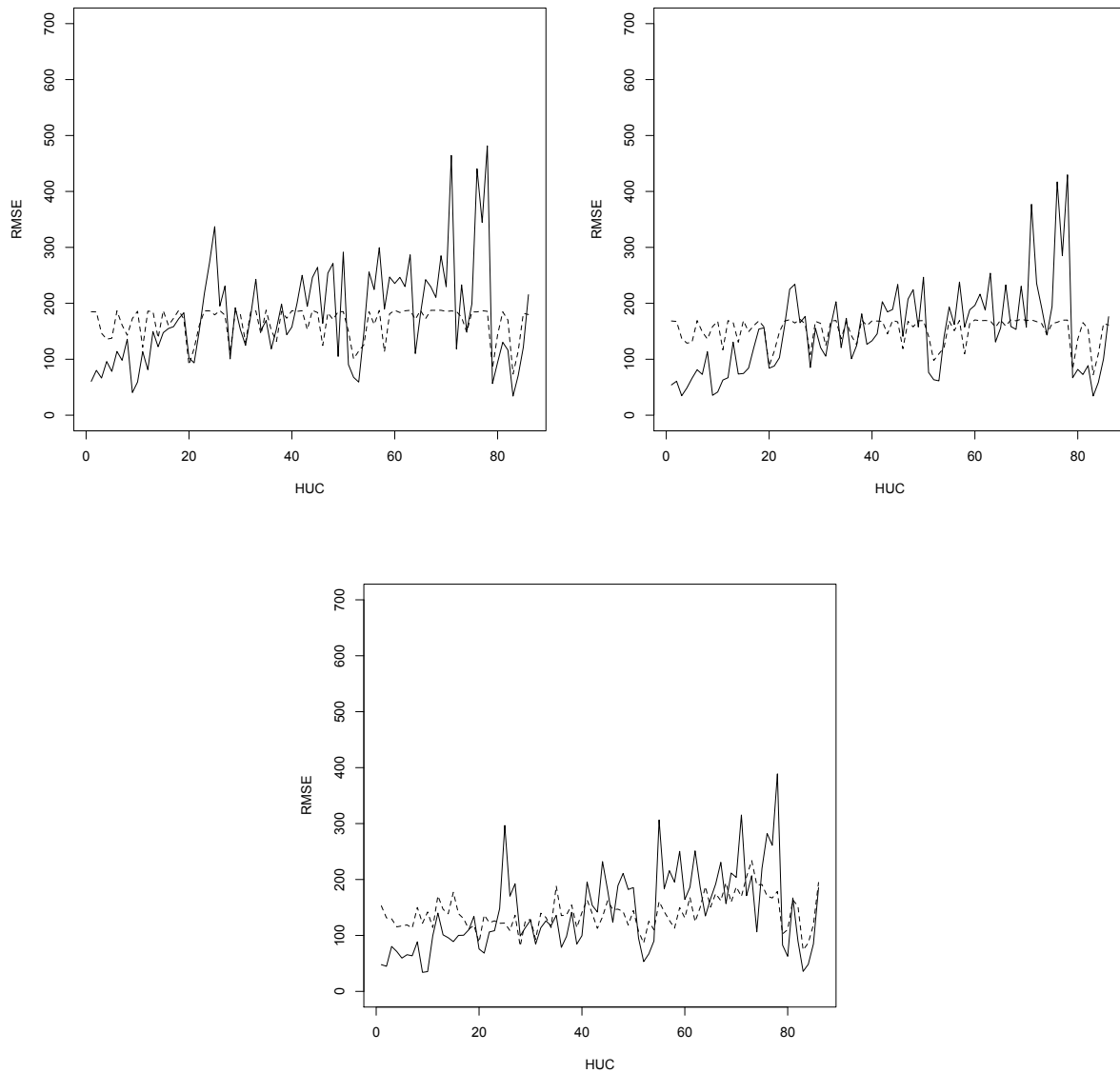


Figure 3: HUC-specific values of actual design-based RMSE (solid line) and average estimated RMSE (dashed line). Top left is the Prasad & Rao (1990) approximation to the RMSE of the EBLUP predictor. Top right is the approximation to the RMSE of the SEBLUP predictor using the RMSE estimator of section 2.1. Bottom left is the approximation to the RMSE of the NPEBLUP using the RMSE estimator suggested by Opsomer et al. (2008).

small area model and we currently working on comparing the two models. Extending further the outlier robust mixed model into an outlier robust SAR mixed model will further improve the collection of small area estimation tools.

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