

Package ‘multiwayvcov’

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Title Multi-Way Standard Error Clustering

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Imports sandwich, boot, compiler, parallel, stats, utils

Suggests lmtest

URL <http://sites.google.com/site/npgraham1/research/code>

LazyData no

Description Exports two functions implementing multi-way clustering using the method suggested by Cameron, Gelbach, & Miller (2011) and cluster (or block) bootstrapping for estimating variance-covariance matrices. Normal one and two-way clustering matches the results of other common statistical packages. Missing values are handled transparently and rudimentary parallelization support is provided.

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cluster.boot	<i>Bootstrapped multi-way standard error clustering</i>
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Description

Return a bootstrapped multi-way cluster-robust variance-covariance matrix

Usage

```
cluster.boot(model, cluster, parallel = FALSE, use_white = NULL,
             force_posdef = FALSE, R = 300, boot_type = "xy",
             wild_type = "rademacher", debug = FALSE)
```

Arguments

model	The estimated model, usually an <code>lm</code> or <code>glm</code> class object
cluster	A vector, matrix, or data frame of cluster variables, where each column is a separate variable. If the vector <code>1:nrow(data)</code> is used, the function effectively produces a regular heteroskedasticity-robust matrix.
parallel	Scalar or list. If a list, use the list as a list of connected processing cores/clusters. Scalar values of <code>TRUE</code> and <code>"snow"</code> (which are equivalent) ask boot to handle parallelization, as does <code>"multicore"</code> . See the <code>parallel</code> and <code>boot</code> package.
use_white	Logical or <code>NULL</code> . See description below.
force_posdef	Logical. Force the eigenvalues of the variance-covariance matrix to be positive.
R	Integer. The number of bootstrap replicates; passed directly to <code>boot</code> .
boot_type	<code>"xy"</code> , <code>"residual"</code> , or <code>"wild"</code> . See details.
wild_type	<code>"rademacher"</code> , <code>"mammen"</code> , or <code>"norm"</code> . See details.
debug	Logical. Print internal values useful for debugging to the console.

Details

This function implements cluster bootstrapping (also known as the block bootstrap) for variance-covariance matrices, following Cameron, Gelbach, & Miller (CGM) (2008). Usage is generally similar to the `cluster.vcov` function in this package, but this function does not support degrees of freedom corrections or leverage adjustments.

In the terminology that CGM (2008) use, this function implements *pairs*, *residual*, or *wild cluster bootstrap-se*.

A pairs (or xy) cluster bootstrap can be obtained by setting `boot_type = "xy"`, which resamples the entire regression data set (both X and y). Setting `boot_type = "residual"` will obtain a residual cluster bootstrap, which resamples only the residuals (in this case, we resample the blocks/clusters rather than the individual observations' residuals). To get a wild cluster bootstrap set `boot_type = "wild"`, which does not resample anything, but instead reforms the dependent variable by multiplying the residual by a randomly drawn value and adding the result to the fitted value. The default method is the pairs/xy bootstrap.

There are three built-in distributions to draw multipliers from for wild bootstraps: the Rademacher (`wild_type = "rademacher"`, the default), which draws from $[-1, 1]$, each with $P = 0.5$, Mammen's suggested distribution (`wild_type = "mammen"`, see Mammen, 1993), and the standard normal/Gaussian distribution (`wild_type = "norm"`). The default is the Rademacher distribution, following CGM (2008). Alternatively, you can set the function to draw multipliers from by assigning `wild_type` to a function that takes no arguments and returns a single real value.

Multi-way clustering is handled as described by Petersen (2009) and generalized according to Cameron, Gelbach, & Miller (2011). This means that `cluster.boot` estimates a set of variance-covariance matrices *for the variables* separately and then sums them (subtracting some matrices and adding others). The method described by CGM (2011) estimates a set of variance-covariance matrices *for the residuals* (sometimes referred to as the meat of the sandwich estimator) and sums them appropriately. Whether you sum the meat matrices and then compute the model's variance-covariance matrix or you compute a series of model matrices and sum those is mathematically irrelevant, but may lead to (very) minor numerical differences.

Instead of passing in a vector, matrix, `data.frame`, etc, to specify the cluster variables, you can use a formula to specify which variables from the original data frame to use as cluster variables, e.g., `~ firmid + year`.

Ma (2014) suggests using the White (1980) variance-covariance matrix as the final, subtracted matrix when the union of the clustering dimensions U results in a single observation per group in U ; e.g., if clustering by firm and year, there is only one observation per firm-year, we subtract the White (1980) HC0 variance-covariance from the sum of the firm and year `vcov` matrices. This is detected automatically (if `use_white = NULL`), but you can force this one way or the other by setting `use_white = TRUE` or `FALSE`.

Unlike the `cluster.vcov` function, this function does not depend upon the `estfun` function from the `sandwich` package, although it does make use of the `vcovHC` function for computing White (1980) variance-covariance matrices.

Parallelization (if used) is handled by the `boot` package. Be sure to set `options(boot.ncpus = N)` where N is the number of CPU cores you want the boot function to use.

Value

a $K \times K$ variance-covariance matrix of type `matrix`

Author(s)

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References

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White, H. (1980). A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity. *Econometrica: Journal of the Econometric Society*, 817–838. doi: [10.2307/1912934](https://doi.org/10.2307/1912934)

See Also

[cluster.vcov](#) for clustering using asymptotics

Examples

```
## Not run:
library(lmtest)
data(petersen)
m1 <- lm(y ~ x, data = petersen)

# Cluster by firm
boot_firm <- cluster.boot(m1, petersen$firmid)
coeftest(m1, boot_firm)

# Cluster by firm using a formula
boot_firm <- cluster.boot(m1, ~ firmid)
coeftest(m1, boot_firm)

# Cluster by year
boot_year <- cluster.boot(m1, petersen$year)
coeftest(m1, boot_year)

# Double cluster by firm and year
boot_both <- cluster.boot(m1, cbind(petersen$firmid, petersen$year))
coeftest(m1, boot_both)

# Cluster by firm with wild bootstrap and custom wild distribution
boot_firm2 <- cluster.boot(m1, petersen$firmid, boot_type = "wild",
                          wild_type = function() sample(c(-1, 1), 1))
coeftest(m1, boot_firm)

# Go multicore using the parallel package
require(parallel)
cl <- makeCluster(4)
options(boot.ncpus = 4)
boot_both <- cluster.boot(m1, cbind(petersen$firmid, petersen$year), parallel = cl)
stopCluster(cl)
coeftest(m1, boot_both)

# Go multicore using the parallel package, let boot handle the parallelization
require(parallel)
options(boot.ncpus = 8)
boot_both <- cluster.boot(m1, cbind(petersen$firmid, petersen$year), parallel = TRUE)
coeftest(m1, boot_both)

## End(Not run)
```

cluster.vcov	<i>Multi-way standard error clustering</i>
--------------	--

Description

Return a multi-way cluster-robust variance-covariance matrix

Usage

```
cluster.vcov(model, cluster, parallel = FALSE, use_white = NULL,
  df_correction = TRUE, leverage = FALSE, force_posdef = FALSE,
  stata_fe_model_rank = FALSE, debug = FALSE)
```

Arguments

model	The estimated model, usually an <code>lm</code> or <code>glm</code> class object
cluster	A vector, matrix, or data frame of cluster variables, where each column is a separate variable. If the vector <code>1:nrow(data)</code> is used, the function effectively produces a regular heteroskedasticity-robust matrix. Alternatively, a formula specifying the cluster variables to be used (see Details).
parallel	Scalar or list. If a list, use the list as a list of connected processing cores/clusters. A scalar indicates no parallelization. See the parallel package.
use_white	Logical or NULL. See description below.
df_correction	Logical or numeric. TRUE computes degrees of freedom corrections, FALSE uses no corrections. A vector of length $2^D - 1$ will directly set the degrees of freedom corrections.
leverage	Integer. EXPERIMENTAL Uses Mackinnon-White HC3-style leverage adjustments. Known to work in the non-clustering case, e.g., it reproduces HC3 if <code>df_correction = FALSE</code> . Set to 3 for HC3-style and 2 for HC2-style leverage adjustments.
force_posdef	Logical. Force the eigenvalues of the variance-covariance matrix to be positive.
stata_fe_model_rank	Logical. If TRUE, add 1 to model rank K to emulate Stata's fixed effect model rank for degrees of freedom adjustments.
debug	Logical. Print internal values useful for debugging to the console.

Details

This function implements multi-way clustering using the method suggested by Cameron, Gelbach, & Miller (2011), which involves clustering on $2^D - 1$ dimensional combinations, e.g., if we're cluster on firm and year, then we compute for firm, year, and firm-year. Variance-covariance matrices with an odd number of cluster variables are added, and those with an even number are subtracted.

The cluster variable(s) are specified by passing the entire variable(s) to `cluster` (`cbind()`'ed as necessary). The cluster variables should be of the same number of rows as the original data set; observations omitted or excluded in the model estimation will be handled accordingly.

Alternatively, you can use a formula to specify which variables from the original data frame to use as cluster variables, e.g., `~ firmid + year`.

Ma (2014) suggests using the White (1980) variance-covariance matrix as the final, subtracted matrix when the union of the clustering dimensions U results in a single observation per group in U ; e.g., if clustering by firm and year, there is only one observation per firm-year, we subtract the White (1980) HCO variance-covariance from the sum of the firm and year vcov matrices. This is detected automatically (if `use_white = NULL`), but you can force this one way or the other by setting `use_white = TRUE` or `FALSE`.

Some authors suggest avoiding degrees of freedom corrections with multi-way clustering. By default, the function uses corrections identical to Petersen (2009) corrections. Passing a numerical vector to `df_correction` (of length $2^D - 1$) will override the default, and setting `df_correction = FALSE` will use no correction.

Cameron, Gelbach, & Miller (2011) further suggest a method for forcing the variance-covariance matrix to be positive semidefinite by correcting the eigenvalues of the matrix. To use this method, set `force_posdef = TRUE`. Do not use this method unless absolutely necessary! The eigen/spectral decomposition used is not ideal numerically, and may introduce small errors or deviations. If `force_posdef = TRUE`, the correction is applied regardless of whether it's necessary.

The defaults deliberately match the Stata default output for one-way and Mitchell Petersen's two-way Stata code results. To match the SAS default output (obtained using the `class &` repeated subject statements, see Arellano, 1987) simply turn off the degrees of freedom correction.

Parallelization is available via the **parallel** package by passing the "cluster" list (usually called `c1`) to the parallel argument.

Value

a $K \times K$ variance-covariance matrix of type 'matrix'

Author(s)

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References

- Arellano, M. (1987). PRACTITIONERS' CORNER: Computing Robust Standard Errors for Within-groups Estimators. *Oxford Bulletin of Economics and Statistics*, 49(4), 431–434. doi: [10.1111/j.1468-0084.1987.mp49004006.x](https://doi.org/10.1111/j.1468-0084.1987.mp49004006.x)
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See Also

The `coeftest` and `waldtest` functions from **lmtest** provide hypothesis testing, **sandwich** provides other variance-covariance matrices such as `vcovHC` and `vcovHAC`, and the `feIm` function from **lfe** also implements multi-way standard error clustering. The `cluster.boot` function provides clustering using the bootstrap.

Examples

```
library(lmtest)
data(petersen)
m1 <- lm(y ~ x, data = petersen)

# Cluster by firm
vcov_firm <- cluster.vcov(m1, petersen$firmid)
coeftest(m1, vcov_firm)

# Cluster by year
vcov_year <- cluster.vcov(m1, petersen$year)
coeftest(m1, vcov_year)

# Cluster by year using a formula
vcov_year_formula <- cluster.vcov(m1, ~ year)
coeftest(m1, vcov_year_formula)

# Double cluster by firm and year
vcov_both <- cluster.vcov(m1, cbind(petersen$firmid, petersen$year))
coeftest(m1, vcov_both)

# Double cluster by firm and year using a formula
vcov_both_formula <- cluster.vcov(m1, ~ firmid + year)
coeftest(m1, vcov_both_formula)

# Replicate Mahmood Arai's double cluster by firm and year
vcov_both <- cluster.vcov(m1, cbind(petersen$firmid, petersen$year), use_white = FALSE)
coeftest(m1, vcov_both)

# For comparison, produce White HC0 VCOV the hard way
vcov_hc0 <- cluster.vcov(m1, 1:nrow(petersen), df_correction = FALSE)
coeftest(m1, vcov_hc0)

# Produce White HC1 VCOV the hard way
vcov_hc1 <- cluster.vcov(m1, 1:nrow(petersen), df_correction = TRUE)
coeftest(m1, vcov_hc1)

# Produce White HC2 VCOV the hard way
vcov_hc2 <- cluster.vcov(m1, 1:nrow(petersen), df_correction = FALSE, leverage = 2)
coeftest(m1, vcov_hc2)

# Produce White HC3 VCOV the hard way
vcov_hc3 <- cluster.vcov(m1, 1:nrow(petersen), df_correction = FALSE, leverage = 3)
coeftest(m1, vcov_hc3)
```

```
# Go multicore using the parallel package
## Not run:
library(parallel)
cl <- makeCluster(4)
vcov_both <- cluster.vcov(m1, cbind(petersen$firmid, petersen$year), parallel = cl)
stopCluster(cl)
coeftest(m1, vcov_both)

## End(Not run)
```

petersen

Simulation of clustering with firm and time effects.

Description

A dataset containing the 500 simulated firms over 10 years. Originally created by Mitchell Petersen in conjunction with Petersen (2009) and made available at http://www.kellogg.northwestern.edu/faculty/petersen/htm/papers/se/test_data.txt. See the references for simulation process. The variables are as follows:

Format

A data frame with 5000 rows and 4 variables

Details

- firmid. Firm identifier.
- year. Year identifier.
- x. Independent (right-hand side) variable.
- y. Dependent (left-hand side) variable.

References

Petersen, M. A. (2009). Estimating standard errors in finance panel data sets: Comparing approaches. *Review of financial studies*, 22(1), 435-480.

Mitchell Petersen's description of the simulation process: http://www.kellogg.northwestern.edu/faculty/petersen/htm/papers/se/se_programming.htm

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