Abstract:

We consider concepts and models that are useful for measuring how strongly the distribution of a positive response Y is concentrated near a value $y_0 > 0$ with a focus on how concentration varies as a function of covariates. We combine ideas from statistics, economics and reliability theory. Lorenz introduced a device for measuring inequality in the distribution of incomes that indicate how much the incomes below the $u$th quantile fall short of the egalitarian situation where everyone has the same income. Gini introduced an index that is the average over $u$ of the difference between the Lorenz curve and its values in the egalitarian case. More generally, we can think of the Lorenz and Gini concepts as measures of concentration that applies to other response variables in addition to incomes, e.g. wealth, sales, dividends, taxes, test scores, precipitation, and crop yield. In this paper we propose modified versions of the Lorenz and Gini measures of concentration that we relate to statistical concepts of dispersion. Moreover, we consider the situation where the measures of concentration/dispersion are functions of covariates. We consider the estimation of these functions for parametric models and a semiparametric model involving regression coefficients and an unknown baseline distribution. In this semiparametric model, which combines ideas from Pareto, Lehmann and Cox, we find partial likelihood estimates of the regression coefficients and the baseline distribution that can be used to construct estimates of the various measures of concentration/dispersion.

Keywords: Spread, concentration, Lorenz curve, Gini index, Lehmann model, Cox regression, Pareto model.

JEL classification: C14, D31, D63

Acknowledgement: We would like to thank Anne Skoglund for typing and editing the paper.

Address: Rolf Aaberge, Statistics Norway, Research Department. E-mail: rolf.aaberge@ssb.no

Steinar Bjerve, Department of Mathematics, University of Oslo.
E-mail: steinar@math.uio.no

Kjell Doksum, Department of Statistics, University of Wisconsin.
E.mail: doksum@stat.wisc.edu
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Statistics Norway
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NO-2225 Kongsvinger

Telephone: +47 62 88 55 00
Telefax: +47 62 88 55 95
E-mail: Salg-abonnement@ssb.no
1. Introduction

Regression models typically postulate how the location parameter of a response variable $Y$ changes with covariates $X_1, \ldots, X_d$. In the case of heteroscedastic models, the spread of $Y$ is also modelled as a function of $X_1, \ldots, X_d$. In this paper we model the “concentration” of the distribution of $Y$ as a function of the covariates. By concentration we mean spread relative to location. Besides the coefficient of variation, two famous concentration measures are the Lorenz curve and Gini coefficient.

In this section we first present the Lorenz curve and the closely related Bonferroni curve, which can be considered as devices for measuring inequality or concentration. We also propose two alternative curves of concentration and the corresponding summary measures of concentration that relate to statistical concepts of dispersion. We then present orderings that order distributions according to their degree of concentration. We propose and analyze regression versions in the rest of the paper.

1.1. Defining concentration

The Lorenz curve (LC) $L(u)$ is defined (Lorenz (1905)) to be the proportion of the total amount of income that is owned by the “poorest” $100 \times u$ percent of the population. More precisely, let the random income $Y > 0$ have the distribution function $F(y)$, let $F^{-1}(u) = \inf \{ y : F(y) \geq u \}$ denote the left inverse, and assume that $0 < \mu < \infty$, where

$$\mu = \mu_F = E(Y) = \int_0^\infty F^{-1}(u)du. $$

Then the LC (see e.g. Gastwirth (1971)) is defined by

$$L(u) = L_F(u) = \mu^{-1} \int_0^u F^{-1}(s)ds, \quad 0 \leq u \leq 1. $$

When $F$ is continuous we can write

$$L(u) = \mu^{-1} E[I[Y \leq F^{-1}(u)]]$$

where $I[A]$ denotes the indicator of the event $A$.

When the population consists of incomes of people, the LC measures deviation from the egalitarian case $L(u) = u$ corresponding to where everyone has the same income $a > 0$ and the distribution of $Y$ is point-mass at $a$. The other extreme occurs when one person has all the income.
income of a person drawn at random is then zero with probability 1−, which corresponds to $L(u) = 0$, $0 \leq u < 1$. The intermediate case where $Y$ is uniform on $[0, b]$, $b > 0$, corresponds to $L(u) = u^2$.

In general $L(u)$ will be non-decreasing, convex, below the line $L(u) = u$, $0 \leq u \leq 1$, and the greater the “distance” from $u$, the greater are the inequality in the population. If the population consists of companies providing a certain service or product, the $LC$ measures to what extent a few companies dominate the market with the extreme case corresponding to monopoly. More generally, we can think of the $LC$ as a measure of concentration of a nonnegative random variable $Y$.

A closely related curve is the Bonferroni curve ($BC$) $B(u)$ which is defined (Aaberge (1982) and Giorgi and Mondani (1995)) as

$$B(u) = B_p(u) = u^{-1}L(u), \quad 0 \leq u \leq 1.$$  

When $F$ is continuous the $BC$ is the $LC$ except truncation is replaced by conditioning

$$B(u) = \mu^{-1}E\left[Y \mid Y \leq F^{-1}(u)\right].$$

The $BC$ possesses several attractive properties. First, it provides a convenient alternative interpretation of the information content of the Lorenz curve. For a fixed $u$, $B(u)$ is the ratio between the mean income of the poorest $100u$ per cent of the population and the overall mean. Thus, the $BC$ may also yield essential information on poverty provided that we know the poverty rate. Second, the $BC$ of a uniform $(0,a)$ distribution proves to be the diagonal line joining the points $(0,0)$ and $(1,1)$ and thus represents a useful reference line, in addition to the two well-known standard reference lines. The egalitarian reference line, coincides with the horizontal line joining the points $(0,1)$ and $(1,1)$. At the other extreme, when one person holds all income, the $BC$ coincides with the horizontal axis except for $u = 1$. The uniform case yields $B(u) = u$, which is exactly in the middle between the egalitarian and extreme non-egalitarian cases.

In the next subsection we will consider concepts of dispersion from the statistics literature. It turns out that those concepts lead to measures that are modifications of $L(\cdot)$ and $B(\cdot)$ and motivates the introduction of the following measures of concentration

$$C(u) = C_p(u) = \mu^{-1} \int_0^u \frac{F^{-1}(s)}{F^{-1}(u)} ds \mu_p \frac{L_p(u)}{F^{-1}(u)}, \quad 0 < u < 1$$

and
Accordingly, $C(u)$ and $D(u)$ emerge by replacing the overall mean $\mu$ in the dominators of $L(u)$ and $B(u)$ by the $u^{th}$ quantile $y_u = F^{-1}(u)$ and $C(u)$ (resp. $D(u)$) is equal to the ratio between the income share (resp. mean income) of those with lower income than the $u^{th}$ quantile and the u-quantile income. Thus, $C(u)$ and $D(u)$ measure how strongly the income below the $u^{th}$ quantile is concentrated near $y_u$. They satisfy $C(u) \leq u, D(u) \leq 1, 0 < u < 1$, and $C(u)$ equals $u$ and $0$ while $D(u)$ equals $1$ and $0$ in the egalitarian and extreme non-egalitarian cases, respectively, and they equal $u/2$ and $1/2$ in the uniform case.

To summarize the information content of $C(\cdot)$ and $D(\cdot)$ we introduce the following dispersion indices

$$C = 2 \int_0^1 \left[ u - C(u) \right] du$$

$$D = \int_0^1 \left[ 1 - D(u) \right] du.$$ 

The dispersion indices $C$ and $D$ measure the distances from $C(u)$ and $D(u)$ to their values in the most concentrated cases, that is, the egalitarian case. Note that $C$ and $D$ can be considered as modified versions of the Gini and Bonferroni coefficients (see Aaberge (2000) for a normative justification of the Bonferroni coefficient as a measure of income inequality). As the Gini and Bonferroni coefficients they take values between 0 and 1 and are increasing with increasing inequality. If all units have the same income then $C = D = 0$, and in the extreme non-egalitarian case where one unit has all the income and the others zero, $G = B = C = D = 1$. When $F$ is uniform on $[0, b]$, $B = C = D = 1/2$. $L(u), B(u), C(u), D(u), G, B, C$ and $D$ are scale invariant, that is, they remain the same if $Y$ is replaced by $aY, a > 0$.

$G, B, C$ and $D$ resemble “spread” divided by “location” scaled to go from zero to one as the distribution moves from the egalitarian to the extreme non-egalitarian case. These properties resemble that of the coefficient of variation, $CV = \sigma/\mu$, or its scaled version

$$CV^* = \sqrt{3}CV \left[ 1 + \sqrt{3}CV \right]^{-1}$$
which goes from zero to one as we move from the egalitarian to the extreme non-egalitarian case and equals 1/2 in the uniform case.

### 1.2. Ordering concentration

When we are interested in how covariates influence concentration we may ask whether larger values of a covariate leads to more or less inequality. For instance, is there less inequality among the higher educated? To answer such questions we consider orderings that order distributions according to how concentrated they are. In statistics and reliability engineering, orderings are plentiful, e.g. Lehmann (1955), van Zwet (1964), Barlow and Proschan (1965), Birnbaum, Esary and Marshall (1966), Doksum (1969), Yanagimoto and Sibuya (1976), Bickel and Lehmann (1979), Rojo and He (1991), Rojo (1992) and Shaked and Shanthikumar (1994). In statistics, orderings are often discussed in terms of spread or dispersion. Thus, for non-negative random variables, using van Zwet (1964) we could define $Y$ to have a distribution which is more spread than that of $Y_0$ if $Y$ can be written as $Y = h(Y_0)$ for some non-negative, nondecreasing convex function $h$. It turns out to be more general and more convenient to replace “convex” with “starshaped” (convex functions are starshaped and concave functions are anti-starshaped):

Weakening the convexity condition

$$g(\lambda x_0 + (1-\lambda)x_1) \leq \lambda g(x_0) + (1-\lambda)g(x_1), \quad 0 \leq \lambda \leq 1,$$

we call a function $g$ defined on the interval $I \subset [0, \infty)$ starshaped on $I$ if $g(\lambda x) \leq \lambda g(x)$ whenever $x \in I$, $\lambda x \in I$ and $0 \leq \lambda \leq 1$. Thus if $I = (0, \infty)$, then the graph of $g$ initially lies on or below any straight line through the origin, and then lies on or above it. If $g(\lambda x) \geq \lambda g(x)$, $g$ is anti-starshaped.

On the class $\mathcal{F}$ of continuous distributions $F$ with $F(0) = 0$, the (Doksum (1969)) following ordering (partial) is defined: $F \prec H$ (F is starshaped with respect to H) if $H^{-1}F$ is starshaped on

$$\{x: 0 < F(x) < 1\},$$

where $H^{-1}(u) = \inf \{x: H(x) \geq u\}$. Thus if $F \prec H$ and $X$ has distribution $F$, then $Z = H^{-1}[F(X)]$ has distribution $H$ and is a starshaped transformation of $X$; hence we say that the distribution of $Z$ is more dispersed than the distribution of $X$. This interpretation is valid when $\{x: 0 < F(x) < 1\} = (0, \infty)$, because when $F \prec H$ there exists a nondecreasing function $g(x)$ such that $Z$ has the same distribution as $g(X)X$. To see this take $g(x) = H^{-1}(F(x))$ and see the proof of Proposition 1.1.
When \( F <, H \) we also call the distribution of \( X \) more concentrated than that of \( Z \). That is, if \( X \) and \( Z \) are random variables that represent incomes under two different conditions, the condition generating \( X \) corresponds to less inequality.

We next show that the preceding definition of concentration leads to the corresponding ordering of the concentration curves \( C_F(\cdot) \) and \( D_F(\cdot) \) as well as of the dispersion indices \( C \) and \( D \).

**Proposition 1.1.** Suppose \( F, H \in \mathcal{F} \) and \( F <, H \), then \( C_F(u) \geq C_H(u) \) and \( D_F(u) \geq D_H(u), 0 < u < 1 \). Moreover, \( C_F \geq C_H \) and \( D_F \geq D_H \).

**Proof.** Note that the condition \( g(\lambda x) \leq \lambda g(x) \) is equivalent to \( \left[ g(\lambda x)/\lambda x \right] \leq g(x)/x \), that is \( g(x)/x \) is non-decreasing. It follows that by setting \( u = F(x), \ v = F(x'), x < x' \), we obtain

\[
\frac{H^{-1}(u)}{F^{-1}(u)} \leq \frac{H^{-1}(v)}{F^{-1}(v)} \quad \text{for} \quad 0 < u < v < 1.
\]

That is

\[
\frac{H^{-1}(u)}{H^{-1}(v)} \leq \frac{F^{-1}(u)}{F^{-1}(v)} \quad \text{for} \quad 0 < u < v < 1.
\]

If we integrate this inequality over \( u \in (0, v) \), we obtain \( C_F(v) \geq C_H(v), 0 < v < 1 \). The other inequalities follow from this.

\[\Box\]

**2. Regression**

Next consider the case where the distribution of \( Y \) depends on covariates such as education, work experience, status of parents, sex, etc. Let \( X = (X_1, \ldots, X_d)^T \) denote the covariates, let \( F(y|x) \) denote the conditional distribution of \( Y \) given \( X = x \) and define \( F^{-1}(u|x) = \inf \{ y : F(y|x) \geq u \} \).

We define the conditional \( C \)- and \( D \)-curves as

\[
C(u|x) = \int_0^u \frac{F^{-1}(s|x)}{F^{-1}(u|x)} \, ds, \quad 0 < u < 1
\]

and
\[ D(u|x) = \frac{C(u|x)}{u}, \quad 0 < u < 1. \]

We define the corresponding conditional dispersion indices as

\[ C(x) = 2 \int_0^1 \left( u - C(u|x) \right) du \]

and

\[ D(x) = \int_0^1 \left( 1 - D(u|x) \right) du. \]

3. Parametric Regression Models

3.1. Transformation regression models

Let \( Y_0 \) denote a baseline variable which corresponds to the case where the covariate vector \( x \) has no effect on the distribution of income. We assume that \( F(y|x) \) depends on \( x \) through some real valued function \( \Delta(x) = g(x, \beta) \) which is known up to a vector \( \beta \) of unknown parameters. Let \( Y \sim Z \) denote “\( Y \) is distributed as \( Z \)”. As we have seen in Section 1.2, if large values of \( \Delta(x) \) corresponds to a more egalitarian distribution of income, then it is reasonable to model this as

\[ Y \sim h(Y_0), \]

for some increasing concave function \( h \) depending on \( \Delta(x) \) because an increasing concave transformation brings values closer together relative to their mean. On the other hand, an increasing convex \( h \) would correspond to income being less concentrated.

Set \( x = (1, x_1, \ldots, x_d)^T \) and \( \beta = (\beta_0, \ldots, \beta_d)^T \), then a convenient parametric form of \( h \) is

\[ (3.1) \quad Y \sim Y_0^{\Delta}. \]

Here \( 0 < \Delta < 1 \) corresponds to covariates that lead to a more egalitarian distribution of income while \( \Delta > 1 \) is the opposite case. Note that

\[ (3.2) \quad \log Y \sim \Delta \log Y_0. \]
Thus (3.1) is a scale model in $Z = \log Y$ and $\Delta$ is a scale parameter for log income.

**Example 3.1.** Suppose $Y_0 \sim F_0$ where $F_0$ is the Pareto standardized distribution

$$F_0(y) = 1 - \left(\frac{1}{y}\right)^a, \quad a > 1, \quad y \geq 1.$$  

Note that here wage has been standardized by dividing by the minimum wage, that is, one is the smallest possible value of $Y$. Then $Y = Y_0^\Delta$ has the Pareto distribution

$$F(y|x) = F_0\left(y^{\Delta}\right) = 1 - \left(\frac{1}{y}\right)^{\alpha(x)}, \quad y \geq 1,$$

where $\alpha(x) = \Delta(x)/a$. Provided $\alpha(x) > 1$ and $F_0$ is the baseline distribution of $Y$, the corresponding conditional regression *C-curve* and *C-coefficient* is easily found to be given by

$$C(u|x) = \frac{\alpha(x)}{1 + \alpha(x)} \left[(1-u)\frac{1}{\varphi\sigma}\right]^{-1} \left(1 - \frac{1}{\varphi\sigma}\right), \quad 0<u<1,$$

and

$$C(x) = \frac{1}{\alpha(x) + 1}.$$

By choosing the parametrization $\alpha(x) = (\exp(-\beta^T x) - 1)$ we have $C(x) = \exp(x^T \beta)$, where $\beta$ may be estimated by maximum likelihood.

**Example 3.2.** Another interesting case is obtained by setting $F_0$ equal to the log normal distribution $\Phi\left([\log(y) - \mu_0]/\sigma_0\right), \quad y > 0$. In this case we also get an explicit form of the *conditional concentration curve*:

**Proposition 3.1.** In the model (3.2) with $F_0$ log normal

$$(3.3) \quad C(u|x) = \sigma_0^2 \Phi\left(\Phi^{-1}(u) - \left[\sigma_0^2/\Delta^2(x)\right]\right) \exp\left\{\frac{1}{2}\left[\sigma_0^2/\Delta^2(x)\right] - \sigma_0 \Phi^{-1}(u)/\Delta(x)\right\}.$$
Proof. Because $\mu_0$ is a scale parameter for $Y$, it will cancel in the concentration curve. Thus we can set $\mu_0 = 0$. In the proof we write $\sigma$ for $\sigma_0$. Here $F^{-1}(u|\mathbf{x}) = \left[ F_0^{-1}(u) \right]^\frac{1}{\Delta^2}$, where $\Delta = \Delta(x)$, thus

$$
\int_0^\infty F^{-1}(s|\mathbf{x})ds = \int_0^\infty \left[ F_0^{-1}(s) \right]^\frac{1}{\Delta^2} ds = \int_0^\infty y^{\frac{1}{\Delta}} dF_0(y)
$$

$$
= \int_{-\infty}^{\infty} e^{y} dF_0(e^y) = \sigma^{-1} \int_{-\infty}^{\infty} e^{\frac{z}{\sigma}} \phi\left(\frac{z}{\sigma}\right) dz
$$

$$
= \sigma^{-1} \int_{-\infty}^{\infty} e^{\frac{z^2}{2\sigma^2}} \phi(v) dv = \sigma^{-1} \Phi\left( \Phi^{-1}(u) - \left[\sigma/\Delta\right] \right) e^{\frac{1}{2}\left[\sigma^2\right]^2},
$$

where the last equality follows from

$$
\frac{e^{\frac{z^2}{2\sigma^2}}}{e^{\frac{z^2}{2}}} = e^{-\frac{1}{2}\left[\sigma^2\right]^2} \frac{1}{\sigma} e^{\frac{1}{2}\left[\sigma^2\right]^2}.
$$

The result follows because

$$
F^{-1}(u|\mathbf{x}) = \exp\left\{ \sigma_0 \Phi^{-1}(u)/\Delta(x) \right\}.
$$

Suppose we choose the parametrization $\Delta(x) = \exp\left\{ \mathbf{x}^T \beta \right\}$. To estimate $\beta$ for this lognormal model we set $Z_i = \log Y_i$. Then $Z_i$ has a $N\left(\mu_0 \Delta(x_i), \sigma^2 \Delta^2(x_i)\right)$ distribution, where $x_i = (1, x_{i1}, \ldots, x_{id})^T$. Here only $d + 2$ of the $d + 3$ parameters are identifiable because in

$$
\mu_0 \Delta(x) = \mu_0 e^{\beta_0} \exp\left\{ \sum_{j=1}^d \beta_j x_{ij} \right\},
$$

$\mu_0$ and $\beta_0$ are not both identifiable. Thus we absorb $\mu_0$ into $e^{\beta_0}$ and replace $\mu_0 \Delta(x_i)$ by $\Delta(x_i)$. When $Y_1, \ldots, Y_n$ are independent, this gives the log likelihood function (leaving out the constant term)

$$
l(\beta, \sigma^2) = -n \log \sigma_0 - \sum_{i=1}^n \frac{1}{2} \left(\sigma_0^2 \Sigma \cdot x_i^T \beta \right) \left( Z_i - \exp\left( x_i^T \beta \right) \right)^2.
$$

See Anscombe (1961), Bickel (1978), and Carroll and Ruppert (1982, 1988) for estimation based on such likelihoods. Bickel suggests modifications that result in more robust estimates.
3.2. Models based on the income improvement rate. The Weibull model

Poverty in undeveloped regions of the world is in part measured by the incomes earned by the people in these regions, and the success of aid and programs to decrease poverty is also measured by income. It would be helpful to have a measure of the odds of income improvement of a person whose income is \( Y \). Suppose this person goes looking for a new job without acquiring any new skills and without there being new types of job opportunities being developed in the region. Let \( Y' \) denote the new income, where \( Y \) and \( Y' \) have the same distribution and are independent. Then in the discrete case we define the income improvement rate as the odds of improving on the wage \( Y = y \), that is,

\[
(3.4) \quad \frac{P\{Y' > Y \mid Y = y\}}{P(Y = y)} = \frac{1 - F(y)}{f(y)}.
\]

Note that we assume \( P(Y' < Y) = 0 \), that is, the person would refuse a lesser paying job. We extend (3.4) in the natural way to the continuous case and write the IIR as

\[
r(y) = \frac{1 - F(y)}{f(y)}
\]

for \( y \in \{ y : f(y) > 0 \} \).

For the Pareto distribution \( F(y) = 1 - y^{-a}, \ a > 1, \ y \geq 1 \), the IIR is \( r_p(y) = a^{-1}y, \ y \geq 1 \). Thus the odds on improving one’s income is proportional to the current income. As seen in Example 3.1, the Pareto power regression model where \( \log Y = \Delta(x) \log Y_0 \) with \( Y_0 \) Pareto has

\[
r_p(y \mid x) = a^{-1}\Delta(x)y, \ y \geq 1.
\]

For the exponential distribution \( F(y) = 1 - \exp\{-\lambda y\}, \) we have a constant IIR \( r_e(y) = \lambda^{-1} \). However, most empirical wage distributions have heavier right tails than the exponential distribution. The Weibull distribution \( F(y) = 1 - \exp\{-\lambda y^a\}, \ a > 0, \ y \geq 0 \), is a more flexible choice. In this case \( r_w(y) = \lambda^{-1}a^{-1}y^{1-a} \), and for the Weibull power regression model where \( \log Y = \Delta(x) \log Y_0 \) with \( Y_0 \) Weibull, we have

\[
r_w(y \mid x) = \lambda^{-1}a^{-1}\Delta(x)y^{1-\Delta(x)}, \ y > 0.
\]

In this case the IIR is increasing or decreasing in \( y \) according as \( \Delta(x)/a \) is greater than or smaller than 1. Note that \( r_w(y + 1 \mid x) \) approximates \( r_p(y \mid x) \) for \( a/\Delta(x) \) close to 0.
If we choose the parametrization $\Delta(x) = \exp\left\{x^T \mathbf{\beta}\right\}$, then the parameters of the Weibull model can be estimated by maximum likelihood software which also provides standard errors.

4. Lehmann-Cox type models. Partial likelihood

4.1. The distribution transformation model

Let $Y_0 \sim F_0$ be a baseline income distribution and let $Y \sim F(y|x)$ denote the distribution of income for given covariate vector $x$. One way to express that $F(y|x)$ is less concentrated than $F_0(y)$ is to use the model

$$F(y|x) = h(F_0(y))$$

for a convex transformation $h$ depending on $x$. This interpretation is valid when $\{y: 0 < F_0(y) < 1\} = (0, \infty)$, because the density of $F(y|x)$ is $h'(F_0(y)) f_0(y)$ where $h'(F_0(y))$ is increasing. Note the similarity with Section 1.1 where multiplying $X$ with an increasing function defined less concentration.

Similarly, $g$ concave corresponds to more egalitarian income. A model of the form $F(y) = g\left(F_1(y)\right)$ was considered for the two-sample case by Lehmann (1953) who noted that $F(y) = F_1^\Delta(y), \Delta > 0$, was a convenient choice of $h$. Similarly, for regression experiments, we consider a regression version of this model which we define as

(4.1) $$F(y|x) = F_0^\Delta(y),$$

where $\Delta(x) = g\left(x, \mathbf{\beta}\right)$ with a real valued parametric function and where $\Delta > 1$ or $\Delta < 1$ corresponds to more or less egalitarian respectively. Since

$$\log F(y|x) = \Delta \log F_0(y)$$

this model assumes that the log of the income distributions of $Y$ and $Y_0$ are proportional with $\Delta$ being the proportionality constant.

If we set $Z_i = 1 - F_0\left(Y_i\right)$, then $Z$ has the distribution

$$H(u) = 1 - (1 - u)^\Delta, \quad 0 < u < 1.$$
Since the rank $R_i$ of $Y_i$ equals $n + 1 - S_i$, where $S_i$ is the rank of $1 - F_0(Y_i)$, we can use rank methods, or partial likelihood methods, to estimate $\beta$ without knowing $F_0$. In fact, because the Cox partial likelihood is a rank likelihood we can apply the likelihood in the next subsection to estimate the parameters in the current model provided we reverse the ordering of the $Y$'s.

### 4.2. The income function transformation model

In this section we show how the Pareto parametric regression model for income can be extended to a semiparametric model where the shape of the income distribution is completely general. Let the incomes $Y_1, \ldots, Y_n$ be independent and let $F(y|\Delta_i)$ be the distribution of $Y_i$, where

$$\Delta_i = \exp\{x_i^T \beta\}.$$ 

One convenient model is a regression version of the Pareto model which we define as

$$F(y|x_i) = 1 - \left(\frac{c}{y}\right)^{\Delta}, \quad y \geq c; \Delta_i > 0,$$

where $c$, the minimum salary in the population, is known. This model satisfies

$$(4.2) \quad 1 - F(y|x_i) = [1 - F_0(y)]^{\Delta},$$

where $F_0(t) = 1 - \frac{c}{y}$, $y \geq c$. When $F_0$ is an arbitrary continuous distribution on $[0, \infty)$, the model (4.2) for the two sample case was called the Lehmann alternative by Savage (1956, 1980) because if $V$ satisfies model (4.1), then $Y = -V$ satisfies model (4.2). Cox (1972) introduced proportional hazard models for regression experiments in survival analysis which also satisfy (4.2) and introduced partial likelihood methods that can be used to analyse such models even in the presence of time dependent covariates (in our case, wage dependent covariates).

Cox introduced the model equivalent to (4.2) as a generalization of the exponential model where $F_0(y) = 1 - \exp\{-y\}$ and $F(y|x_i) = F_0(\Delta_i y)$. That is, (4.2) is in the Cox case a generalization of a scale model with scale parameter $\Delta_i$. However, in our case we regard (4.2) as a shape model which generalizes the Pareto model, and $\Delta_i$ represents the degree of concentration of the variable $Y$ for a given covariate vector $x_i$.  

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If we call the probability $F(y) = P(Y > y) = 1 - F(y)$ of income greater than $y$ the *income function*, then (4.2) is a model with proportional log income functions. Note that $\Delta_i < 1$ corresponds to $F(y|x)$ more concentrated than $F_0(y)$ while $\Delta_i > 1$ corresponds to $F_0$ less concentrated.

The Cox (1972) partial likelihood to estimate $\beta$ for (4.2) is (see also Kalbfleisch and Prentice (2002), page 102),

$$L(\beta) = \prod_{j=1}^n \left\{ \frac{\exp(\beta^T x_{ij})}{\sum_{k \in R(Y_{(i)})} \exp(\beta^T x_{ik})} \right\},$$

where $Y_{(i)}$ is the $i$-th order statistic, $x_{(i)}$ is the covariate vector for the subject with response $Y_{(i)}$, and $R \left( Y_{(i)} \right) = \{k : Y_{(k)} \geq Y_{(i)}\}$. Here $\hat{\beta} = \arg \max L(\beta)$ can be found in many statistical packages. These packages also give the standard errors of the $\hat{\beta}_j$. Note that $L(\beta)$ does not involve $F_0$.

Many estimates are available for $F_0$ in model (4.2), again in packages. If we maximize the likelihood keeping $\beta = \hat{\beta}$ fixed, we find (e.g., Kalbfleisch and Prentice (2002), page 116)

$$\hat{F}_0(Y_{(i)}) = 1 - \prod_{j=1}^n \hat{\alpha}_j$$

where

$$\hat{\alpha}_j = 1 - \frac{\exp(\hat{\beta}^T x_{(i)})}{\sum_{k \in R(Y_{(i)})} \exp(\hat{\beta}^T x_{(k)})}.$$

We can now give empirical expressions for the conditional *C-curve* and the coefficient $C$.
Using (4.2), we find

(4.3) $$F^{-1}(u|x_i) = F_0^{-1} \left( 1 - \left( 1 - u \right)^{\frac{1}{\lambda}} \right),$$

(4.4) $$\mu(u|x_i) = \int_0^u F^{-1}(t|x_i)dt = \int_0^u F_0^{-1} \left( 1 - \left( 1 - v \right)^{\frac{1}{\lambda}} \right)dv.$$

We set $t = F_0^{-1} \left( 1 - \left( 1 - v \right)^{\frac{1}{\lambda}} \right)$ and obtain
\[ \mu(u|x) = \Delta_i \int_0^{\delta(u)} t[1-F_0(t)]^{\lambda_i-1} dF_0(t) \]

where \( \delta(u) = F_0^{-1}\left(1 - \left(1 - u\right)^{\frac{1}{\lambda_i}}\right) \). Note that when all \( \beta_j = 0, j \geq 1 \), then \( \Delta_i = 1 \) and \( C(u|x) \) and \( D(u|x) \) reduce to the C- and D-curves without covariates. To estimate the C- and D-curves, we let

\[ b_j = \hat{F}_0(Y_{(i)}) - \hat{F}_0(Y_{(i-1)}) = \prod_{j=1}^{i-1} \hat{\alpha}_j = \left[1 - \hat{\alpha}_i\right] \prod_{j=1}^{i-1} \hat{\alpha}_j \]

be the jumps of \( \hat{F}_0(\cdot) \); then

\[ \hat{\mu}(u|x) = \hat{\Delta} \sum_j b_j Y_{(j)} \left[1 - \hat{F}_0(Y_{(j)})\right]^{\hat{\lambda}_i-1}, \]

where the sum is over \( j \) with \( \hat{F}_0(Y_{(j)}) \leq 1 - \left(1 - u\right)^{\frac{1}{\hat{\lambda}_i}} \). Finally, \( \hat{C}(u|x) = \hat{\mu}(u|x)/\hat{F}^{-1}(u|x) \) and \( \hat{D}(u|x) = \hat{C}(u|x)/u \) where \( \hat{F}^{-1}(u|x) \) is the estimate of the conditional quantile function obtained from (4.3) by replacing \( \Delta_i \) with \( \hat{\Delta}_i \).

Remark. We can obtain nonparametric estimates of \( C(u|x) \) and \( D(u|x) \) by using nonparametric estimates of \( F^{-1}(u|x) \) in (4.3) and (4.4). These could then be compared with the estimates based on the semiparametric model (4.2). See Chaudhuri (1991) and Dabrowska (1992) for nonparametrically estimated \( F^{-1}(u|x) \).
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