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A Generalized Parametric Selection Model for Non-Normal Data

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Abstract

I develop a new approach for sample selection problems that allows parametric forms of any type to be chosen for both for the selection and the observed variables. The *Generalized Parametric Selection* (GPS) model can incorporate both duration and count data models, unlike previous parametric models. MLE does not require numerical integration or simulation techniques, unlike previous models for count data. I discuss application to common duration models (exponential, Weibull, log-logistic) and count models (Poisson, negative binomial). I demonstrate the usefulness of the model with an application to the effects of insurance status and managed care on hospitalization duration data. The example indicates that the GPS model may be preferred even in cases for which other parametric approaches are available.

Keywords: sample selection, bivariate distribution, duration models, count data models, Lee's model, managed care, Medical Expenditure Panel Survey

DRAFT VERSION – PLEASE DO NOT CITE

*This paper benefitted from comments by Colin Cameron, Lung-fei Lee, and seminar participants at UC Davis.

Econometric models with selection effects are now commonplace in applied work. This article focuses on a leading model among those that incorporate selectivity: the *sample selection* model.¹ In the sample selection model, whether a response y is observed depends on the value of a selection variable d . Estimation of this model, studied first by Gronau (1974) and Heckman (1974), usually proceeds by choosing a bivariate parametric model for (d, y) or by semi- or non-parametric procedures. For a recent survey of the numerous estimation procedures available for the sample selection problem, see Vella (1998). Examples of parametric models include Heckman's (1976) two-stage estimation procedure, developed for the bivariate normal model, and Lee's (1983) model, which can incorporate any pair of continuous distributions.² There are trade offs between the parametric and less parametric approaches. The parametric approach is efficient, typically easy to estimate, and allows inclusion of large numbers of explanatory variables. The nonparametric approach is robust, and the semi-parametric approach falls in between. In this paper, I present a new parametric approach, the *Generalized Parametric Selection* (GPS) model, that provides an alternative to Lee's model for non-normal distributions. Unlike the Heckman and Lee models and many less parametric approaches, the proposed method also works for countable y (i.e., count data).³

To present the selectivity model, consider the standard linear form of the sample selection model (I generalize the model in section 2.1). Letting asterisks indicate latent, unobserved variables, the model is:

$$d_i^* = \alpha' z_i - \varepsilon_i, \quad (1)$$

$$y_i^* = \beta' x_i + u_i, \quad (2)$$

$$d_i = 1\{d_i^* > 0\}, \quad (3)$$

¹The model is also known variously as the *stochastic threshold censored* model and the *incidental truncation* model.

²Semi- and non-parametric approaches include Duncan (1986) and other articles in that issue, Manski (1989; 1990), Newey, Powell and Walker (1990), and Donald (1995).

³Recent work (Van Ophem, 1999) has extended Lee's model to countable data. The extended model is somewhat difficult to work with (e.g., the correlation between d and y cannot be shown analytically to be increasing in the correlation between the latent variables, ρ).

$$y_i \text{ observed as } y_i^* \text{ only if } d_i = 1. \quad (4)$$

It is well known that OLS performed on y_i is biased if ε_i and u_i are correlated. In Heckman's approach, one assumes that (ε_i, u_i) follow a bivariate normal distribution. Amemiya (1985) called this the Type 2 Tobit model. In Lee's generalization, one assumes instead that (ε_i, u_i) have cumulative distribution function

$$\Phi_2(J_\varepsilon(\varepsilon_i), J_u(u_i); \rho); \text{ where} \quad (5)$$

$$J_\varepsilon(\varepsilon_i) = \Phi^{-1}(F_\varepsilon(\varepsilon_i)), \quad (6)$$

$$J_u(u_i) = \Phi^{-1}(F_u(u_i)), \quad (7)$$

and where Φ^{-1} is the inverse of the standard normal CDF, Φ_2 is the bivariate normal CDF with unit variances and correlation ρ , and F_a is the CDF of a , $a = \varepsilon, u$. In Lee's model one can specify any absolutely continuous CDF for F_ε and F_u . These CDFs are assumed to be known (up to a finite vector of parameters to be estimated). From the above one can derive the likelihood of a sample (d_i, y_i) (see Lee, 1983) and perform maximum likelihood estimation.

Thus Lee's model specifies a particular bivariate distribution that has marginal distributions f_u and f_ε and correlation that is increasing in ρ .⁴ While Lee's model has the advantage of allowing for maximal correlation (Mardia, 1970b), it cannot be used when y is generated from a count variable (e.g., the Poisson model). Furthermore, even for continuous distributions, one may be interested in alternative bivariate distributions for the purpose of comparison with Lee's model. The properties desired of a general bivariate distribution for the latent variables in the sample selection model are:

1. the marginal distributions may take any form, continuous or discrete, and
2. the two variables exhibit correlation.

Furthermore, for computational ease one may further wish that

⁴When ε is normal with unit variance, as is often the case in applications of Lee's model, one can show that the correlation between ε and u in 5 is $(\rho/\sigma) \int u f_u(u) J_u(u) du$, where integration is over the support of u .

3. the likelihood of the observed variables does not require numerical integration or simulation techniques.

Lee’s model satisfies the latter two of these criteria,⁵ but not the first.⁶ Existing bivariate selection models for count data (Crepon and Duguet, 1997; Terza, 1998), reviewed below in section 4, satisfy the second criterion only. The model proposed in this paper satisfies all three criteria.⁷

In the next section I present the distribution for the latent variables in the model. The distribution allows correlation through a single parameter in an easily interpretable fashion: when correlation is positive, above-median values of the two variables are likely to appear together. The distribution does not allow for maximal correlation, however. Section 2 applies the distribution to the sample selection case, and discusses other forms of selectivity. Here the distribution proves to be convenient to work with, leading to a sample selection likelihood in closed form. In sections 3 and 4 I apply the selection model to common models for duration (exponential, Weibull, log-logistic) and count (Poisson, negative binomial) data, and contrast the allowed correlation with that of other selection models. In each case the correlation allowed by the model is limited, but is greater than that allowed by some of the competing models in some cases. An empirical illustration of the model in section 5, an analysis of hospitalization incidence and duration, shows that the model may be preferred over Lee’s model when evaluated by formal statistical criteria. The superiority of the model is notwithstanding that both models are available and that Lee’s model allows more correlation. The illustration reveals that selection effects are present in the hospitalization duration data, and that HMOs reduce health care expenditures not by decreasing hospitalizations but by reducing their duration. A final section discusses relaxing the parametric assumptions in the model and concludes.

⁵Technically, the presence of Φ and Φ^{-1} in the likelihood of Lee’s model preclude a closed form expression, but these functions are built into most programming packages and are not costly to evaluate.

⁶See footnote 3.

⁷Caveat: the proposed method, when applied to count data, requires that one must calculate the CDF of a count variable (see (15)), which typically is not available in closed form. However, count CDFs are available in many programming packages (e.g., the Poisson CDF in Gauss may be found with `cdfgam`), and in any case are less expensive to calculate than is numerical integration.

1 The Latent Bivariate Distribution

I begin by specifying the bivariate distribution underlying the proposed selection model. The general form of the distribution is the same that Gumbel (1960) proposed for bivariate exponential random variables, and I will refer to it as the *generalized Gumbel distribution*. The latent selection random variable is D^* taking values $d^* \in \mathbb{R}$, and takes the observed value d in accordance with (3). The latent “selected” random variable is Y^* taking values $y^* \in \mathcal{Y}$, where \mathcal{Y} may be a subset of \mathbb{R}_+ (for duration data) or \mathbb{I} (for count data). For most of the paper, selection is as in 4. Section 2.2 considers another form of selection.

Instead of specifying a joint distribution for the error terms in (1)–(2), I work directly with the distribution of (D^*, Y^*) , since most count and duration models do not fit into the linear model (2). Let the marginal probability density function (pdf) of D^* , conditional on covariates z and finite parameter vector α be $f_{D^*}(d^*|\alpha'z)$, and let $E(D^*|\alpha'z) = \alpha'z$ and $Var(D^*|\alpha'z) = \tau^2$, where α is unknown and τ^2 is known. The two leading examples that I consider for f_{D^*} are the normal distribution, leading to a probit selection equation with $\tau^2 = 1$, and the logistic distribution, leading to a logit selection equation with $\tau^2 = \pi^2/3$. Fixing the variance of D^* to τ^2 is required for identification of α in the selection equation.

Likewise, let the marginal pdf of Y^* , conditional on covariates x and finite (unknown) parameter vector $\theta = (\beta, \gamma)$ be $f_{Y^*}(y^*|x, \theta)$, and let $E(Y^*|x, \theta) = \mu(\beta'x, \gamma)$ and $Var(Y^*|x, \theta) = \varsigma^2(\beta'x, \gamma)$. In these formulations, the mean and variance depend on the index $\beta'x$ and the nuisance parameter γ .⁸ As applications of the model, I will consider three continuous forms for f_{Y^*} in section 3—exponential, Weibull, and log-logistic—and Poisson and negative binomial countable forms in section 4. The cumulative density function (cdf) of a random variable A will be denoted F_A (with the convention that $F_A(a) = \Pr(A < a)$ for discrete distributions), and for convenience let $\bar{F}_A = 1 - F_A$.

⁸The restriction that β enters only through $\beta'x$ is only for simplicity of presentation. As long as f_{Y^*} is completely specified, β can enter the likelihood in any form (subject to identification restraints).

Then, suppressing the dependence on (x, z, α, θ) in most of the notation, the bivariate cdf of the generalized Gumbel distribution is taken to be:

$$F_{D^*, Y^*}(d^*, y^* | x, z, \alpha, \theta) = F_{D^*}(d^*) F_{Y^*}(y^*) \{1 + \omega \bar{F}_{D^*}(d^*) \bar{F}_{Y^*}(y^*)\}, \quad -1 \leq \omega \leq 1, \quad (8)$$

from which the pdf is readily found as:

$$f_{D^*, Y^*}(d^*, y^* | x, z, \alpha, \theta) = f_{D^*}(d^*) f_{Y^*}(y^*) \{1 + \omega G_{D^*}(d^*) G_{Y^*}(y^*)\}, \quad (9)$$

where

$$G_A(a) = \begin{cases} F_A(a) - \bar{F}_A(a) & \text{for continuous } A \\ F_A(a+1) - \bar{F}_A(a) & \text{for discrete } A \end{cases}, \quad A = D^*, Y^*. \quad (10)$$

Distribution (8) is a generalization of Gumbel's (1960) bivariate exponential distribution of the second type. There is a natural interpretation to the correlation parameter ω . First, notice from (9) that if $\omega = 0$ then D^* and Y^* are independent. If $\omega > 0$ and both D^* and Y^* are above their median values, then the bracketed term adds to the likelihood. So larger than median values of D^* and Y^* will tend to appear together when ω is positive, and the same for smaller than median values. Figure 1 plots illustrative isoprobability curves from f_{D^*, Y^*} for the case when D^* is normal and Y^* is exponential. In the figure the lines represents the same probability level for different values of ω . From Figure 1, note that when either random variable is at its median, f_{D^*, Y^*} collapses to the product of the marginals, no matter what ω is; the curves cross at those points. When ω is negative, larger than median values of D^* will tend to appear with smaller than median values of Y^* , and vice-versa. Thus the correlation between D^* and Y^* has the same sign as ω ; the level varies with the specific distributions chosen. In particular, the (conditional) correlation is

$$\rho_P \equiv \text{Corr}(D^*, Y^* | x, z) = \omega \frac{H_{D^*} H_{Y^*}}{\tau_\zeta} \quad (11)$$

where ρ_P is Pearson's cross-product measure of correlation and $H_A = -E(AG_A(A) | x, z)$, for $A = D^*, Y^*$. The unconditional correlation exhibited by D^* and Y^* will typically be lower due to the

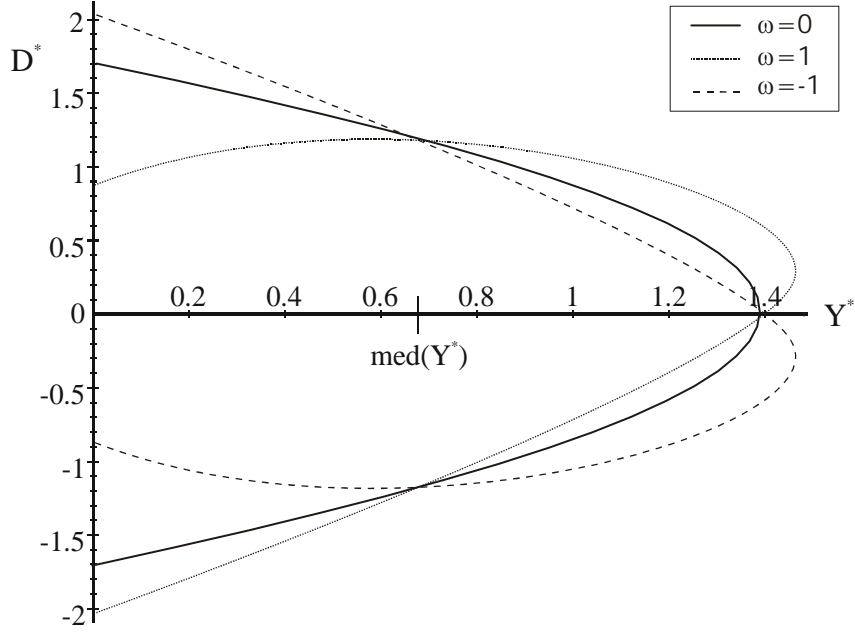


Figure 1: Isoprobability curves of the generalized Gumbel distribution (D^* is normal and Y^* is exponential)

extra noise added by the variance of the explanatory variables. When A is continuous, $H_A = \int F_A \bar{F}_A(a) da$, where the integration is over the support of A .

The range of allowed correlation is dependent on the distributions chosen. For the exponential duration models, the allowed correlation is about $(-0.3, 0.3)$. For other duration models and count models, the correlation has (at most) the same bound, although the allowed correlation may be less depending on the parameters. Because the correlation depends on the parameters of the distributions in general, a more convenient characterization of correlation between D^* and Y^* is Kendall's tau,⁹ which is invariant with respect to F_{D^*} and F_{Y^*} . Kendall's tau measures correlation relative to the maximally allowed correlation between two random variables, and thus is a better measure than ρ_P in this setting.¹⁰ No matter which marginal distributions are chosen, Kendall's

⁹Kendall's tau is a measure of the "concordance" of two random variables, and is defined as $\tau_K \equiv 2 \Pr\{(D_1^* - D_2^*)(Y_1^* - Y_2^*) > 0\} - 1$, where A_i is an independent draw from F_A , $A = D^*, Y^*$ and $i = 1, 2$. τ_K is bounded between -1 and 1 and is 0 if D^* and Y^* are independent.

¹⁰ τ_K takes the extreme values -1 and 1 if and only if the bivariate distribution F_{D^*, Y^*} hits the Fréchet bounds for

tau, τ_K , can be shown to be

$$\tau_K(D^*, Y^* | x, z) = \frac{2}{9}\omega \quad (12)$$

for continuous marginal distributions and thus is bounded on $(-2/9, 2/9)$. By comparison, in Lee's model $\tau_K = (2/\pi) \sin^{-1}(\rho)$, taking values on $[-1, 1]$, a consequence of the model allowing maximal correlation (Mardia, 1970b) (see footnote 10). In sections 3 and 4 I compare the Pearson correlation allowed by the generalized Gumbel and competing models on a case by case basis.

Given that the main alternative to my proposed model for continuous data is Lee's model, it is worth comparing the correlation patterns of the two models at a deeper level than Pearson's or Kendall's summary statistics. For convenience, in this section I refer to the distribution underlying Lee's model, (5), as the TBN (for Translated Bivariate Normal) distribution.¹¹ Figures 2 and 3 plot isoprobability curves from the generalize Gumbel and TBN distributions for the case of uniform marginals and positive correlation. Such plots, known as the *uniform representation* of a bivariate distribution, are convenient for comparing bivariate distributions.¹² In these plots the correlation is fixed¹³ and the lines represent different probability levels; thicker and darker lines represent higher probability levels. In both plots the positive correlation has the effect of concentrating probability mass in the (0,0) and (1,1) corners. However, from the plots one can see that the generalized Gumbel distribution preserves characteristics of the original uniform marginals more than the TBN distribution. For example, when either variable takes the median value of 0.5 in the generalized Gumbel distribution, the other variable is uniformly distributed (notwithstanding the positive correlation). In the generalized Gumbel distribution, the extremal values (the borders of the unit square) are attained with positive probability, just like they are in the uniform distribution.

extreme correlation (Kruskal, 1958). Pearson's ρ_P may be strictly inside $(-1, 1)$ at the Fréchet bounds.

¹¹The TBN appears to have originated with Nataf (1962); correlation is studied by Mardia (1970b).

¹²See Kimeldorf and Sampson (1975b) for the advantages of the uniform representation of bivariate distributions. The primary advantage is that since the uniform distribution is flat, any spikes or dips in the uniform representation are purely a consequence of correlation.

¹³In the figures, $\omega = 1$ and $\rho = 0.5$. The plots are qualitatively the same for any positive correlation, except that at $\rho = 1$ all probability mass in the TBN collapses to the line $y = x$. Negative correlation rotates the graphs 90 degrees.

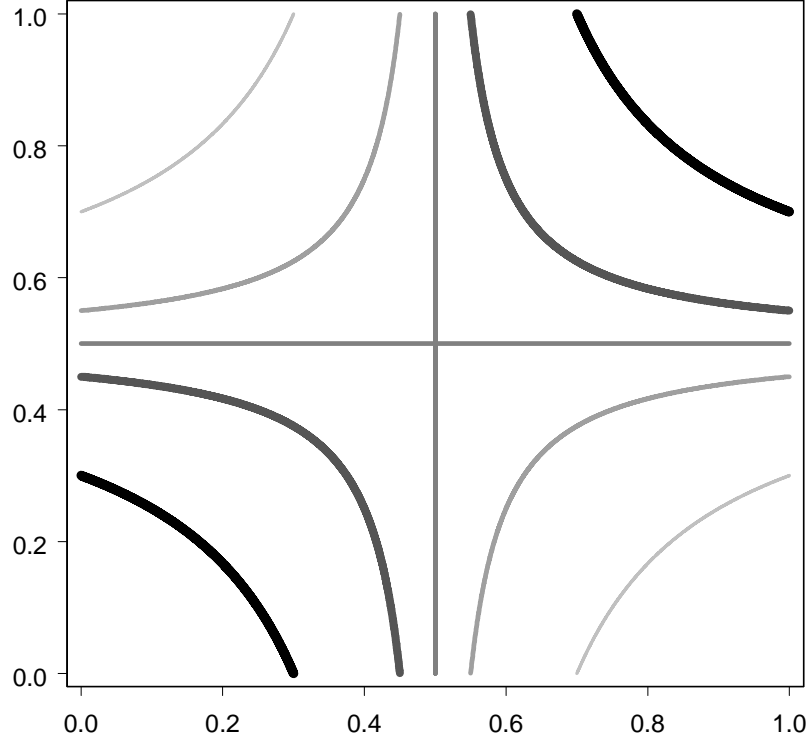


Figure 2: Isoprobability curves of the generalized Gumbel pdf with positive correlation (uniform representation)

In fact, the conditional distribution of one variable given the other is a straight line, with positive (negative) slope if the conditioning variable is above (below) the median. On the other hand, the TBN distribution, by construction as a translate of the bivariate normal, inherits the strong central tendencies of the normal distribution. All extremal values are attained with zero probability. The TBN distribution incorporates correlation in a fashion that makes the bivariate distribution more “normal-like,” which may be disadvantageous when the marginal distribution are chosen to reflect characteristics that are very different than those of the normal distribution—as would be the case in most duration data applications, for example.

Finally, note that one advantage of the generalized Gumbel distribution is its tractability. The additive form of the correlation terms in (8) and (9) leads to explicit analytical forms for most

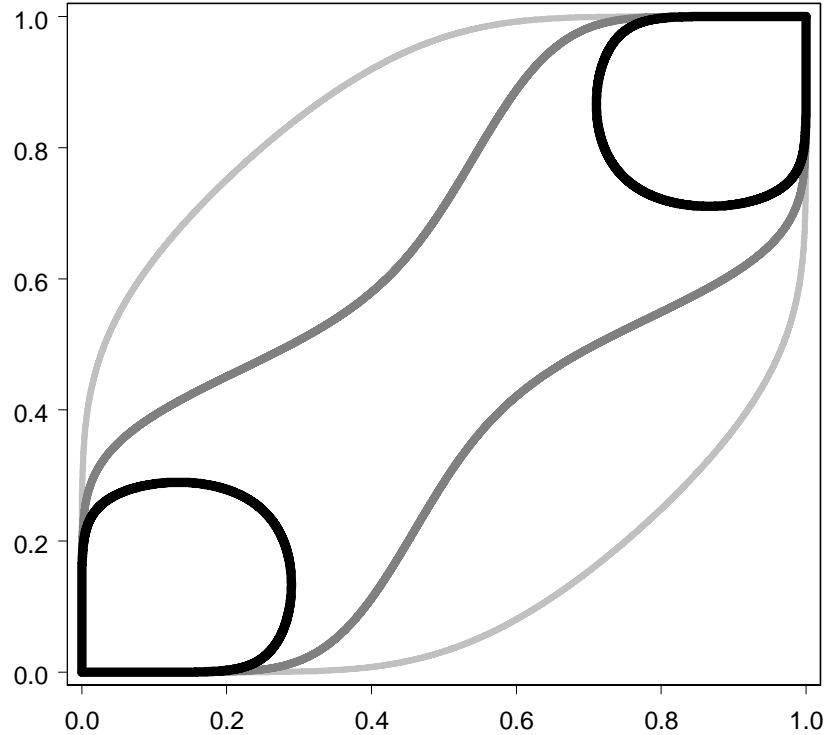


Figure 3: Isoprobability curves of the generalized TBN pdf with positive correlation (uniform representation)

expressions of interest, such as the sample selection likelihood. No bivariate distribution allowing maximal correlation, that I have found, is as convenient to work with.¹⁴

2 Selection

2.1 Sample Selection

I now generalize the sample selection model, (1)–(4), using the new notation. I term the resulting model the *Generalized Parametric Selection* (GPS) model. The probability that $D = 0$ is

$$\Pr \{D = 0 | \alpha' z\} = F_{D^*}(0) \quad (13)$$

¹⁴See Kimeldorf and Sampson (1975a) for a discussion of bivariate distributions allowing maximal correlation.

The likelihood of observing $D = 0$ and $Y = y$ is given by the integral of the joint density over the region where Y is observed:

$$\int_0^\infty f_{D^*, Y^*}(t, s) dt = f_{Y^*}(y) \bar{F}_{D^*}(0) \{1 - \omega F_{D^*}(0) G_{Y^*}(y)\}. \quad (14)$$

From (13) and (14) the joint distribution can be written as

$$f_{D, Y}(d, y) = \left[F_{D^*}(0)^{1-d} \bar{F}_{D^*}(0)^d \right] [f_{Y^*}(y) \{1 - \omega F_{D^*}(0) G_{Y^*}(y)\}]^d \quad (15)$$

$$= f_D(d) f_{Y|D}(y|d=1) \quad (16)$$

As seen from (16), the joint density may be decomposed into the marginal density of the binary random variable D (the first bracketed term of (15)) and the conditional density of the observed random variable Y conditional on observation (the second bracketed term). The conditional density has an intuitive interpretation. When ω is positive, then Y stochastically dominates Y^* (in the sense that $F_{Y|D=1}(y) < F_{Y^*}(y) \forall y$).¹⁵ So the observed y is likely to be larger than the latent y^* . The opposite holds if ω is negative. Finally, as noted above, if there is no correlation ($\omega = 0$) then the conditional density reduces to the marginal density of Y^* .

One can calculate the conditional expectation of the observed y as:

$$E(y|d=1, x, z, \alpha, \theta, \omega) = \mu(\beta'x, \gamma) + \omega F_{D^*}(0; \alpha'z) H_{Y^*}(\beta'x, \gamma), \quad (17)$$

where H_{Y^*} is as in (11). The selection term involving ω on the RHS in (17) reveals why inference based only on the observed y 's and μ is biased. With a pairwise iid sample from $f_{D, Y}(d, y)$, estimation may proceed by FIML on (15), which requires no numerical integration (but see footnote 7). I use FIML in the empirical implementation of the model in section 5. However, Newey et al. (1990) note that the joint likelihood may be ill determined in practice, causing FIML to be computationally cumbersome. In such cases estimation may also proceed by LIML on f_D for

¹⁵To see this, note that when y is at the median of Y^* , y^m , we have $G_{Y^*}(y^m) = 0$ and $f_{Y|D}(y^m|d=1) = f_{Y^*}(y^m)$. For $\omega > 0$ and $y > y^m$, we have $f_{Y|D}(y^m|d=1) > f_{Y^*}(y^m)$. For $\omega > 0$ and $y < y^m$, we have $f_{Y|D}(y^m|d=1) > f_{Y^*}(y^m)$.

$\hat{\alpha}$ (which will be a standard probit or logit problem) or $f_{Y|D}$ for $(\hat{\alpha}, \hat{\theta})$. Two-step estimation is possible, too, although Heckman's (1976) original method requires modification for the present case due to non-normality and the non-linearity of μ . Equation (17) suggests a two-stage MOM or NWLS approach (along the lines of, for example, Terza, 1998). First, estimate $\hat{\alpha}$ by probit or logit. Then perform MOM on $E(y|d=1, x, z, \hat{\alpha}, \theta, \omega)$ in (17) to find $(\hat{\theta}, \hat{\omega})$. For improved efficiency, one can use the resulting $(\hat{\alpha}, \hat{\theta}, \hat{\omega})$ and estimated variance to perform NWLS. The nonlinearity of the selection term implies that such two-step methods may be as computationally intensive as FIML, however, and the variance of the estimates is quite complicated in form.

2.2 Other Selection Models

The GPS model can be readily applied to other selectivity problems. For example, consider briefly the case where Y exhibits incidental truncation and D exhibits incidental censoring. For the bivariate normal distribution, Amemiya (1985) called this the Type 3 Tobit model. In particular, (4) holds as before, but (3) is replaced with

$$d_i = 1\{d_i^* > 0\}d_i^*. \quad (18)$$

An example of this model is where D^* represents the number of hours worked (which is observed if greater than zero) and Y^* represents the wage. In this case we must modify (15) to be

$$f_{D,Y}(d, y) = F_{D^*}(0)^{1(d=0)} f_{D^*, Y^*}(d, y)^{1(d>0)} \quad (19)$$

$$= \left[F_{D^*}(0)^{1(d=0)} \right]. \quad (20)$$

$$\left[f_{D^*}(d) f_{Y^*}(y) \left\{ 1 + \omega \left[(\bar{F}_{D^*} - F_{D^*})(d) \right] \left[(\bar{F}_{Y^*} - F_{Y^*})(y) \right] \right\} \right]^{1(d>0)}$$

FIML proceeds directly on (20).

The GPS model can also be applied to the non-random assignment treatment effects model (also termed the endogenous dummy variable model). In the treatment effects model, the indicator d appears as an explanatory variable in the conditional distribution of $Y^*|D$. Models with treatment

effects are used to evaluate the effects of job program participation on employment or wages, for example. Estimation proceeds exactly as for the sample selection model, with the inclusion of d as one of the covariates in x .

3 Application to Duration Models

One of the main applications of the GPS model is to selection in duration models, in which \mathcal{Y} is a subset of \mathbb{R}_+ . If one is willing to assume that the durations of interest are lognormally distributed, then one may develop a standard probit selection model based on the bivariate normal distribution. The lognormal distribution is not suitable for many applications, however, given that it exhibits a nonmonotonic hazard rate and does not admit a constant hazard rate as a special case. The other standard parametric duration models are the exponential, Weibull, and log-logistic. The densities, means, and variances of these distributions are presented in table 1. The GPS model can readily incorporate any of these, coupled with either the logit or probit form of the selection equation.

The exponential duration model is often used as a baseline model because it exhibits a constant hazard rate. From table 1 and (15) the likelihood of a sample (d_i, y_i) from the exponential incidental truncation model is

$$\prod_{i=1}^N \left[F_{D^*}(0|z_i)^{1-d} \bar{F}_{D^*}(0|z_i)^d \right] \cdot \left[e^{-\beta' x_i} \exp \left(-y^* e^{-\beta' x_i} \right) \left\{ 1 + \omega F_{D^*}(0|z_i) \left[2 \exp \left(-y^* e^{-\beta' x_i} \right) - 1 \right] \right\} \right]^d \quad (21)$$

When D^* is normally distributed then we have the usual probit forms $F_{D^*}(0|z_i) = \Phi(-\alpha' z_i)$ and $\bar{F}_{D^*}(0|z_i) = \Phi(\alpha' z_i)$. When, instead, D^* follows the logistic distribution, we have $F_{D^*}(0|z_i) = \Lambda(\alpha' z_i) \equiv e^{\alpha' z_i} / (1 + e^{\alpha' z_i})$ and $\bar{F}_{D^*}(0|z_i) = 1 - \Lambda(\alpha' z_i)$.

What correlation is allowed? As defined in (11), we have $H_{Y^*}/\varsigma = 0.5$. For probit selection, $H_{D^*}/\tau \simeq 0.564$. For logit selection, $H_{D^*}/\tau = \sqrt{3}/\pi \simeq .551$. Thus allowed correlation is 0.282ω for the probit exponential model and 0.275ω for the logit exponential model.

Distribution	PDF $f_{Y^*}(y^* \beta'x, \theta)$	CDF $F_{Y^*}(y^* \beta'x, \theta)$	Mean $\mu(\beta'x, \theta)$	Variance $\varsigma^2(\beta'x, \theta)$
exponential	$\lambda e^{-\lambda y^*}$	$1 - e^{-\lambda y^*}$	$1/\lambda$	$1/\lambda^2$
Weibull	$g(y^*) e^{-(\lambda y^*)^{1/\gamma}}$	$1 - e^{-(\lambda y^*)^{1/\gamma}}$	$\gamma \Gamma(\gamma)/\lambda$	$2\gamma \Gamma(2\gamma)/\lambda^2 - \mu^2$
log-logistic	$g(y^*) \left[\frac{1}{1+(\lambda y^*)^{1/\gamma}} \right]^2$	$1 - \frac{1}{1+(\lambda y^*)^{1/\gamma}}$	$\gamma \pi \csc(\pi\gamma) / \lambda$	$2\gamma \pi \csc(2\pi\gamma) / \lambda^2 - \mu^2$
lognormal	$\frac{1}{\sigma y^*} \phi\left(\frac{\log y^* - \beta'x}{\sigma}\right)$	$\Phi\left(\frac{\log y^* - \beta'x}{\sigma}\right)$	$e^{\frac{1}{2}\sigma^2} / \lambda$	$(e^{2\sigma^2} - e^{\sigma^2}) / \lambda^2$

For all models, $\lambda = e^{-\beta'x}$. ϕ and Φ are the pdf and cdf, resp., of the standard normal distribution, Γ is the Gamma function, and $g(y^*) = (\gamma y^*)^{-1} (\lambda y^*)^{1/\gamma}$.

Table 1: Duration Distributions

Two other common duration models are the Weibull and log-logistic models. The Weibull model adds a shape parameter $\gamma > 0$ to the exponential model. When $\gamma = 1$, the Weibull model reduces to the exponential model. When $\gamma > 1$, the hazard is monotonically decreasing and the durations exhibit negative duration dependence. When $\gamma < 1$, the hazard is monotonically increasing and we have positive duration dependence. The log-logistic model posits that $\log(y^*)$ follows the logistic distribution, and also has a shape parameter $\gamma > 0$. The log-logistic distribution has finite mean if $\gamma < 1$ and finite variance if $\gamma < 1/2$. The hazard rate is decreasing for $\gamma \geq 1$ and has a \cap shape for $\gamma < 1$. The allowed correlation for these models depends on the nuisance parameter γ (hence the nuisance). Table 2 lists the correlation for a few values of γ . The correlation is about $.3\omega$ for mid-range values of γ .

On first glance, it appears that the allowed correlation is quite limited for the various models, compared with the familiar bivariate normal distribution. However, even if one develops a bivariate duration selection model based on the normal distribution, the correlation between the duration variable and the selection variable is much less than unity in general. To be precise, consider the bivariate normal duration selection (BNDS) model, which consists of (1), (3), (4), and

$$\log(y_i^*) = \beta'x_i + u_i, \quad (22)$$

Duration	Logit Selection	Probit Selection
Exponential	0.276ω	0.282ω
Weibull		
$\gamma = 0.25$	0.313ω	0.320ω
$\gamma = 0.5$	0.309ω	0.316ω
$\gamma = 1$	0.276ω	0.282ω
$\gamma = 2$	0.185ω	0.189ω
$\gamma = 5$	0.034ω	0.034ω
Log-logistic		
$\lim_{\gamma \downarrow 0}$	0.304ω	0.311ω
$\gamma = 0.1$	0.297ω	0.304ω
$\gamma = 0.25$	0.264ω	0.270ω
$\gamma = 0.4$	0.183ω	0.187ω
$\lim_{\gamma \uparrow 0.5}$	0	0

Table 2: Allowed Correlation for the GPS Duration Models

where (u_i, ε_i) are distributed mean zero bivariate normal, with covariance matrix

$$\Sigma = \begin{bmatrix} \sigma^2 & \sigma\rho \\ \sigma\rho & 1 \end{bmatrix}. \quad (23)$$

The BNDS model is a natural transformation of the Type 2 Tobit Model for duration data, and is in fact a special case of Lee’s model with $\log(y_i^*)$ replacing y_i^* in (2), $F_\varepsilon = \Phi$ in (6), and $F_u(u_i) = \Phi(u_i/\sigma)$ in (7).¹⁶ Although the transformed duration variable $\log(y_i^*)$ has the full range of correlation with d_i^* , the correlation between y_i^* and d_i^* can be shown to be $r(\sigma) = \rho\sigma(e^{\sigma^2} - 1)^{-1/2}$ (see footnote 4).¹⁷ The correlation function r goes to zero rapidly as σ increases. The correlation function is plotted in figure 4. The comparable correlation functions for the exponential and Weibull GPS models and Lee’s model for exponential durations (all with probit selection) are also given in figure 4.¹⁸

The comparison reveals that the BNDS model allows for more correlation than the exponential

¹⁶Most of the original labor applications of the sample selection model (e.g., Heckman, 1974) used the BNDS, although because y^* was a wage, it was not interpreted as a duration model.

¹⁷In general for Lee’s model, $|\text{corr}(Y^*, D^*)| \leq \rho$, with equality only when (Y^*, D^*) are bivariate normal (Mardia, 1970a, p.33).

¹⁸The GPS correlations are functions of γ . To make them comparable to $r(\sigma)$, I reparameterized them to be functions of δ such that $\log(y)$ has variance δ^2 , just as $\log(y)$ for the lognormal model has variance σ^2 . For the Weibull model $\delta = \pi/\sqrt{6}\gamma$; for the log-logistic model $\delta = \pi/\sqrt{3}\gamma$. The x -axis in figure 4 is σ for the lognormal curves and δ for the other curves.

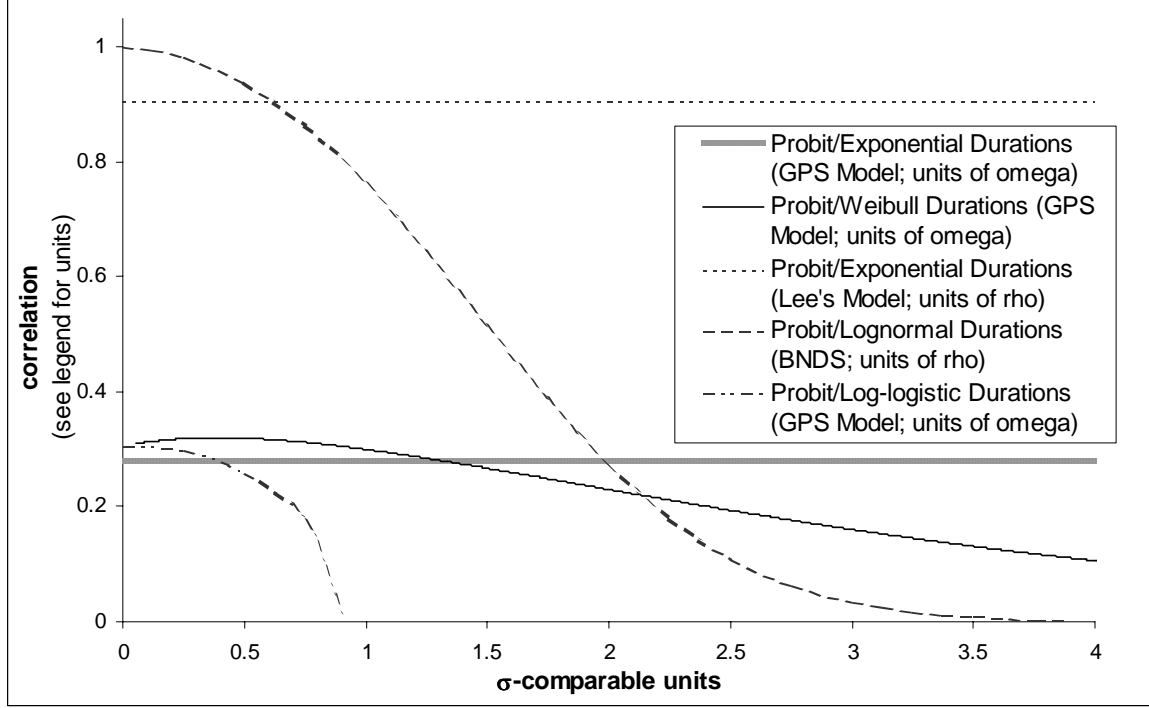


Figure 4: Comparison of allowed correlation in the duration selection models

and Weibull GPS models when σ is less than about two but admits less correlation for higher levels of σ . The log-logistic GPS model has severely limited correlation, due to the rapidity with which the variance of the log-logistic distribution approaches infinity. Lee's model clearly allows more correlation than the GPS models. Allowed correlation is only one dimension along which to judge a model, however, and the GPS model may be preferred over Lee's model for other reasons, which is the case in section 5.

4 Application to Count Models

The other main application of the GPS model I explore is to selection in count models, in which \mathcal{Y} is a countably infinite subset of \mathbb{R} (typically \mathbb{I}_+). The two main parametric count models in use are the Poisson and the negative binomial. The discrete version of the GPS model can handle both,

Distribution	PDF $f_{Y^*}(y^* \beta'x, \theta)$	CDF $F_{Y^*}(y^* \beta'x, \theta)$	Mean $\mu(\beta'x, \theta)$	Variance $\varsigma^2(\beta'x, \theta)$
Poisson	$e^{-\lambda}\lambda^{y^*}/y^*!$	$\sum_{i=0}^{y^*-1} f_{Y^*}(i) = \Gamma(y, \lambda)/\Gamma(y)$	λ	λ
negative binomial	see (26)	see (27)	$\gamma\lambda$	$\gamma\lambda(1 + \lambda)$

For all models, $\lambda = e^{-\beta'x}$. $\Gamma(a)$ is the Gamma function and $\Gamma(a, z)$ is the incomplete Gamma function, $\int_z^\infty e^{-t}t^{a-1}dt$.

Table 3: Distributions for Count Data

again with either the logit or probit form of the selection equation. Lee's model does not apply to count models,¹⁹ although other parametric alternatives have been developed.

The Poisson model is the baseline model for counts because of the Markovian property of its interarrival spells, and because Poisson MLE is consistent even when the data are not generated by a Poisson process (as long as the conditional mean is correctly specified).²⁰ The Poisson model has one parameter, $\lambda = e^{-\beta'x}$, which is both the mean and the variance (see table 3). The likelihood of a sample (d_i, y_i) from the incidental truncation model follows directly from (15). The selection equation may take either the logit or the probit form, as in the previous section. The allowed correlation depends on λ , starting from zero at $\lambda = 0$ and converging to about 0.32ω for the probit version as λ increases (see figure 5).

As with the duration models and the BNDS in the previous section, a natural comparison is with a bivariate normal count selection model (BNCS).²¹ In the count model literature, previous selection models have been of this type (Crepon and Duguet, 1997; Terza, 1998; Winkelmann, 1998). In particular, the model is given by (1), (3), (4), and (23), but (22) is replaced with

$$y_i^* \sim \text{Poisson with } \log(1/\lambda_i) = \beta'x_i + u_i. \quad (24)$$

¹⁹See footnote 3.

²⁰See Cameron and Trivedi (1998) for an excellent introduction to count data modeling, estimation, and inference. For a general reference work on discrete distributions, see Johnson, Kotz and Kemp (1993).

²¹Crepon and Duguet (1997) termed this the *heterogeneous Probit-Poisson* model.

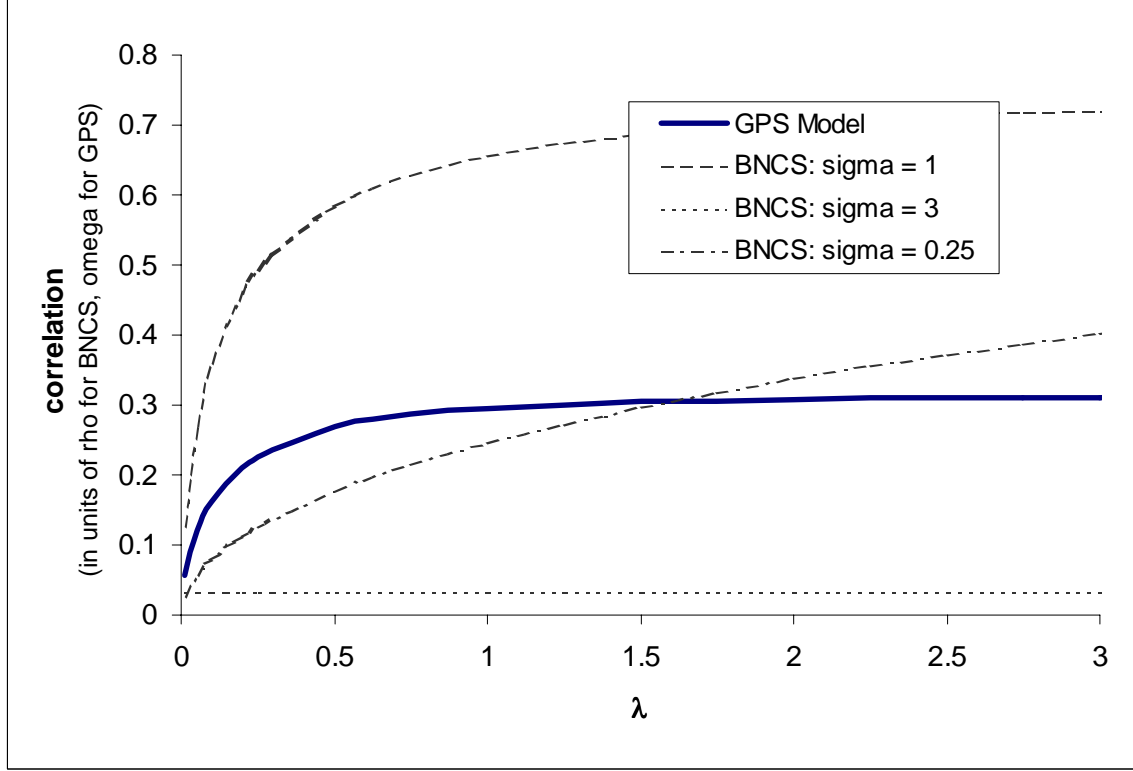


Figure 5: Comparison of allowed correlation in the Poisson selection models

The likelihood of a pairwise iid sample (d_i, y_i) is

$$L(\alpha, \beta) = \left[\prod_{d_i=0} \Phi(-\alpha' z_i) \right] \left[\prod_{d_i=1} \int_0^\infty \phi(d_i^* - \alpha' z_i) E[f(y_i | u_i) | d_i^*] dd_i^* \right] \quad (25)$$

(see Crepon and Duguet, 1997), where $f(y_i | u_i)$ is the Poisson pdf given $\lambda_i = \exp[-(\beta' x_i + u_i)]$. Note that evaluation of the likelihood requires a double integration for each observation, which is computationally expensive.²² The GPS likelihood does not require integration, which makes it an attractive alternative.

For large and small values of σ^2 , the GPS model allows more correlation than the Poisson BNCS model does. For intermediate values of σ^2 , either the Poisson BNCS model allows more correlation or the comparison depends on λ . Figure 5 also shows the correlation curves for the

²²See Stern (1997) and the references therein for methods for estimation with such likelihoods.

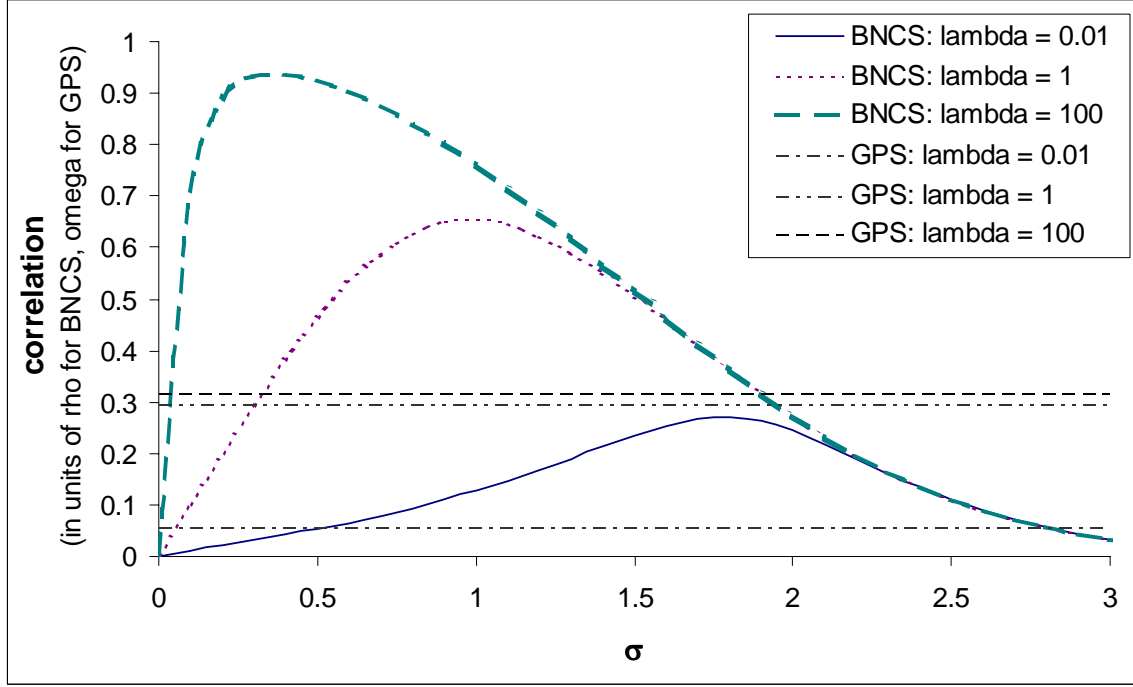


Figure 6: Comparison of allowed correlation in the Poisson selection models

Poisson BNCS model, plotted for a few fixed values of σ^2 . Note that the shifting of the BNCS curves is not monotonic in σ^2 . The non-monotonicity is clearly seen in Figure 6, which plots the Poisson BNCS correlation curves as a function of σ for a few values of λ (and the corresponding GPS curves, for reference).

The negative binomial distribution (NBD) is another common count model that relaxes the Poisson model's restriction that the variance equal the mean. The NBD model has pdf

$$f_{Y^*}(y^*|x, \theta) = \frac{\Gamma(y + \gamma)}{\Gamma(y + 1)\Gamma(\gamma)} \left(\frac{1}{1 + \lambda}\right)^\gamma \left(\frac{\lambda}{1 + \lambda}\right)^y, \quad \lambda > 0, \gamma > 0 \quad (26)$$

where again $\lambda = e^{-\beta'x}$. The cdf may be expressed as

$$F_{Y^*}(y^*|x, \theta) = 1 - \frac{\Gamma(y + k)}{\Gamma(y + 1)\Gamma(k)} \left(\frac{1}{1 + \lambda}\right)^k \left(\frac{\lambda}{1 + \lambda}\right)^y {}_2F_1\left(1, y + k, y + 1; \frac{\lambda}{1 + \lambda}\right), \quad (27)$$

where ${}_2F_1$ is the hypergeometric function.²³ The mean and variance depend on γ and λ (see table

²³The hypergeometric function is defined for integers a, b, c and complex z to be ${}_2F_1(a, b, c; z) =$

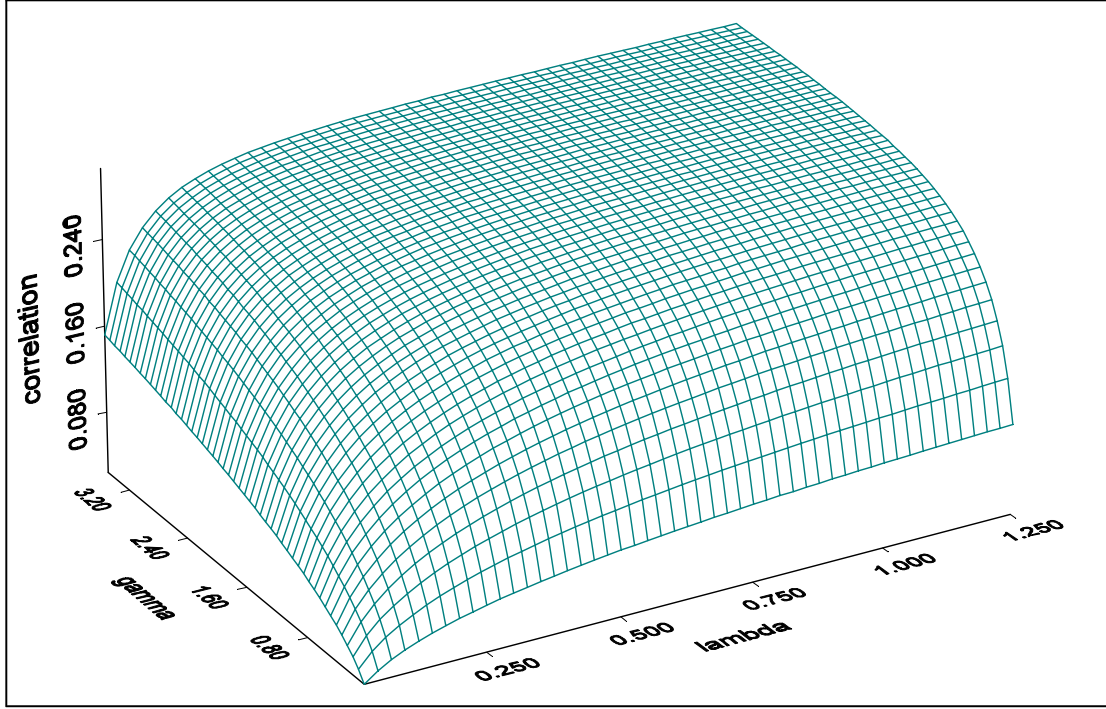


Figure 7: Allowed correlation in the GPS NBD model (in units of ω)

3). The likelihood of a sample (d_i, y_i) from the incidental truncation model follows directly from (15), (26), and (27). The selection equation may take either the logit or the probit form, as in the previous section. The nuisance parameter adds another dimension to the correlation function; in this model the correlation depends on both γ and λ . Figure 7 shows the shape of the correlation function. Given γ , the correlation function has roughly the same shape as the GPS Poisson case (see figure 5).

The BNCS model for the NBD distribution²⁴ replaces (22) with

$$y_i^* \sim \text{NBD with } \log(1/\lambda_i) = \beta' x_i + u_i. \quad (28)$$

As with the Poisson case, it is still roughly true that for large and small values of σ^2 , the GPS model allows more correlation than the NBD BNCS model does. For intermediate values of σ^2 , the

$\sum_{i=0}^{\infty} \frac{\Gamma(a+i)}{\Gamma(a)} \frac{\Gamma(b+i)}{\Gamma(b)} \frac{\Gamma(c)}{\Gamma(c+i)} z^i / i!$.

²⁴Winkelmann (1998) notes that the NBD BNCS model is likely to suffer from overparameterization.

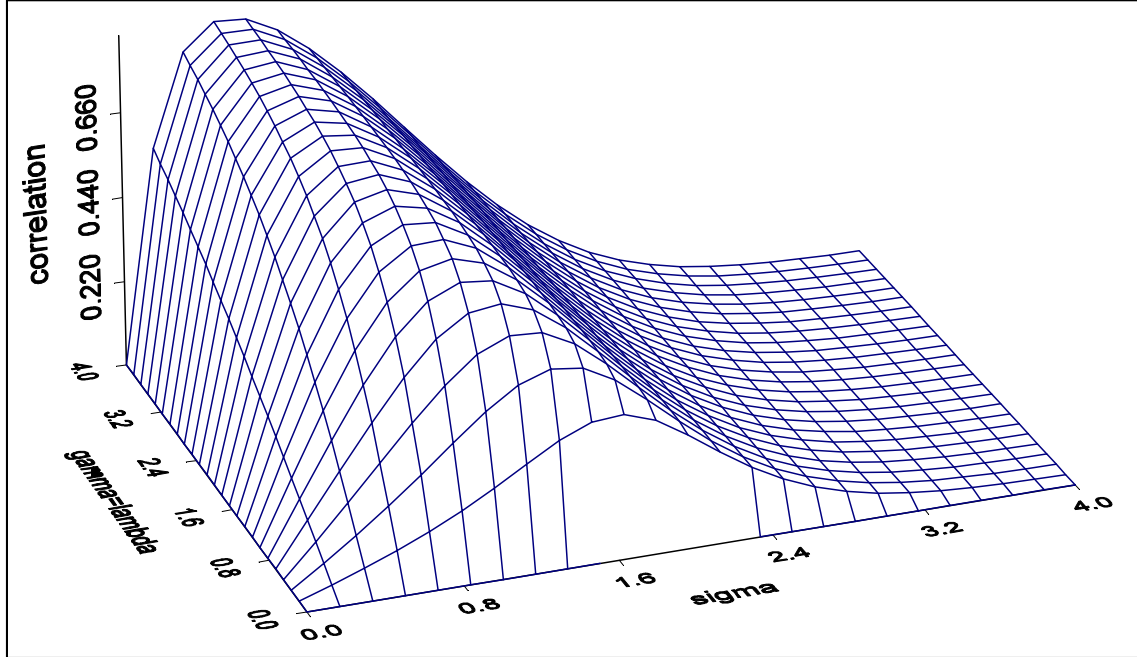


Figure 8: Allowed correlation in the BNCS NBD model (in units of ρ)

comparison depends on λ and γ . Figure 8 shows the correlation surface for the NBD BNCS model, where the dimension of the plot is reduced by setting $\gamma = \lambda$. The overall shape of the surface is about the same when plotted by fixing γ or λ and allowing the other to vary. In cross sections, the pattern of correlation curves are similar to the BNDS curves in figures 5 and 6.

5 An Empirical Illustration

I now demonstrate the utility of the GPS model by applying it to duration data with sample selection. The duration data are the length of hospital stays in 1996 by participants in the Medical Expenditure Panel Survey (MEPS), a nationally representative survey of U.S. medical care and expenditures.²⁵ The selection variable represents whether an individual had a hospital stay. Of

²⁵See <<http://www.meps.ahrpr.gov/>> for more information on MEPS. Various data from the 1987 wave of the survey have been studied by many authors (e.g., Madrian, 1994; Deb and Trivedi, 1997; Gilleskie, 1998). The duration of hospitalization has been previously studied by Welch (1985), Frank and Lave (1989), and Rosenman (1993).

primary interest is the effect of insurance coverage and managed care on the probability of admittance to the hospital and the duration of stay. If insurance status and HMO membership are important determinants of whether an individual is hospitalized, then sample selection is an issue when analyzing the length of stay.

Three major forms of insurance are present in the sample: Medicare (MEDICARE), Medicaid (MEDICAID), and private insurance (PRIVINS) (see table 4). Medicare is available to all U.S. residents who are 65 or older. Medicare participants may also purchase additional private insurance (known as Medigap insurance). Medicaid is available to low-income individuals; most individuals on Medicaid do not have private insurance. Each of these types of coverage may be through a health maintenance organization (HMO). About half of those in the sample with private insurance are enrolled in HMOs. For Medicare and Medicaid, 22% and 38% of enrollees, respectively, are in HMOs.

HMOs are the most common form of *managed care* plans. Managed care is a catch-all term for mechanisms that attempt to reduce the cost of health care by moving away from unrestricted fee-for-service contracts with health care providers, and may save up to one-third relative to fee-for-service care (American Academy of Actuaries, 1996).²⁶ Under fee-for-service contracts and marginal cost pricing, the health care provider has the incentive to maximize the quality of care (where quality is broadly construed to include patient health, reputation of the institution, etc.), which has led to quality levels in the U.S. health care industry that have been criticized as inefficiently high. If the goal of the HMO is to reduce the quality of care (again, broadly construed), then one expects hospital stays to be less likely and shorter for individuals in HMO plans.²⁷

Furthermore, whether the individual is insured and the type of insurance will affect the probability and duration of a stay. On the demand side, since insurance greatly reduces the price of

²⁶Managed care components may include limits on the length of hospital stays or full capitation, in which payment is received per head regardless of health care usage. See Frank and Lave (1989) for a discussion of reimbursement types and the incentives they provide to health care providers.

²⁷Whether HMOs reduce *patient care* quality in particular is disputed. See Levinson and Ullman (1996) for an indication that infant health quality is preserved under managed care.

	Insured	Private Insurance	Medicare	Medicaid
Insured	12,524			
Private Insurance	10,224	10,224		
Medicare	2,736	1,482	2,736	
Medicaid	1,345	96	391	1,345
HMO	5,787	5,129	598	519

Table note: Cell entries are the number of individuals (out of 15,692 observations) who have insurance of both the column and the row type. An additional 150 persons were insured but not by Medicare, Medicaid, or private sources.

Table 4: MEPS Insurance Data

health care for the insured, individuals would be more likely to agree to hospitalization (when it is elective). On the supply side, health care institutions may be more willing to admit insured patients, believing that payment from uninsured patients is less likely.²⁸ Once in the hospital, the duration of the patient's stay may be presumed to be up to the medical staff. Whether the hospital has incentive to release the uninsured earlier than the insured will depend on their beliefs about the probability of payment from the uninsured and the form of contract with the insurance companies for the insured. There is evidence that hospitals respond to incentives to alter their care provided based on the expected generosity of the payer (Dor and Farley, 1996).

Given that individuals are likely to take into account their future expected health when choosing private insurance (and to a much lesser extent Medicaid) (Ettner, 1997), I control for health status as much as possible. Medicare coverage may be considered exogenous because of its automatic enrollment procedure (Deb and Trivedi, 1997). I include several measures of health status reported at the beginning of the survey:²⁹ two self-perceived measures of the individual's health (POORHLTH and EXCLHLTH), the number of reported medical conditions (CONDN), the num-

²⁸The uninsured tend to be low wage workers who earn just enough to disqualify themselves for Medicaid. Of those employed but earning less than \$20,000 in 1996, over half were uninsured; of the uninsured, 57% worked full time (or their spouse did) (Gardner, 1997).

²⁹The first round of the survey took place from March to August 1996. The hospital stay data cover the entire calendar year.

ber of those conditions that are on a priority list (PRIOLIST), and an indicator for disability (ADLHELP).³⁰ The priority list contains conditions deemed important due to their prevalence, expense, or relevance to policy, so that PRIOLIST may be viewed as a proxy for the number of severe conditions an individual has.³¹ Demographic variables such as region (MIDWEST, SOUTH, WEST), sex (FEMALE),³² age (AGE),³³ years of education (EDUC), race (BLACK, HISPANIC), and marriage and employment status (MARRIED, EMPLOYED) were included to capture additional heterogeneity among respondents. These covariates are available for 14,955 individuals out of the 15,692 adults in the survey. A list of variables, definitions, and summary statistics is in table 5.

What is an appropriate duration model to use for the length of hospital stays? Figure 9 contains a non-parametric estimate of the baseline integrated hazard of the total hospital stays.³⁴ The integrated hazard is linear if the hazard rate is constant, and concave if the hazard rate is declining. The figure suggests a declining hazard rate for the first few days, and a roughly constant rate after about 10 days.³⁵ Thus an appropriate model might be the Weibull model, which allows both declining and constant hazard rates. The lognormal and finite-mean log-logistic distributions, with their \cap -shaped hazard rates, do not appear to be appropriate. Because the lognormal distribution is not appropriate, the BNDS model is not as attractive as the GPS or Lee

³⁰ADLHELP is a dummy variable indicating that the individual requires help or supervision carrying out Instrumental Activities of Daily Living (IADL) or Activities of Daily Living (ADL). IADL includes using the telephone, paying bills, taking medications, preparing light meals, doing laundry, or going shopping. ADL includes personal care such as bathing, dressing, or getting around the house.

³¹Conditions on the priority list include long-term life-threatening conditions (cancer, diabetes, emphysema, high cholesterol, HIV/AIDS, hypertension, stroke), chronic manageable conditions (arthritis, asthma, gall bladder disease, stomach ulcers, and back problems), and certain mental health conditions (Alzheimer's disease, dementias, depression, and anxiety disorders).

³²I exclude pregnancy and pregnancy-related conditions from the data set.

³³My sample excludes children (below 18 years of age).

³⁴Points are plotted for each day that has at least one duration ending then. The estimate is from the Cox (1972; 1975) semiparametric proportional hazards model and the Breslow's estimate (Fleming and Harrington, 1984) of the survival curve. The Cox model takes the hazard rate to be $h_0(t)e^{\beta'x_i}$, where h_0 is an unspecified baseline hazard rate common to all individuals. The survival curve is $S_i(t) = \exp(-H_i(t))$, where H_i is the integrated hazard. Given the Cox coefficient estimates, the survival curve is estimated, from which the baseline integrated hazard, $H_0(t) = \int_0^t h_0(s)ds$, is recovered. The integrated hazard is plotted instead of the hazard rate because H_0 is much smoother than h_0 .

³⁵The two points on the far right represent two outliers.

Variable	Description	Mean	SD
HOSPSTAY	Binary variable: 1=individual had hospital stay in 1996	0.09	0.28
HOSPDUR	Number of nights of all hospital stays in 1996	1.19	1.07
ADLHELP	1 = requires assistance with daily living tasks	0.04	0.20
AGE	Age	44.40	17.31
BLACK	1 = black (not hispanic)	0.12	0.33
CONDN	Number of self-reported medical conditions	1.68	1.91
EDUC	Years of education	12.38	3.16
EMPLOYED	Employment status: 1=currently employed	0.65	0.48
EXCLHLTH	1 = individual reports health to be “excellent”	0.29	0.45
FEMALE	1 = female	0.54	0.50
HISPANIC	1 = of hispanic ethnicity	0.18	0.38
HMO	1 = enrolled in a health maintenance organization	0.38	0.48
MARRIED	Marital status: 1 = currently married	0.57	0.49
MEDICAID	1 = currently covered by Medicaid	0.09	0.28
MEDICARE	1 = currently covered by Medicare	0.17	0.38
MIDWEST	Regional indicator (EAST is the excluded dummy)	0.22	0.42
POORHLTH	1 = individual reports health to be “poor”	0.04	0.20
PRIOLIST	Number of conditions on the priority list	0.54	1.00
PRIVINS	1 = covered by private insurance of any type	0.66	0.47
PRIVMCARE	1 = covered by Medicare <i>and</i> private insurance	0.10	0.29
SOUTH	Regional indicator (EAST is the excluded dummy)	0.35	0.48
WEST	Regional indicator (EAST is the excluded dummy)	0.23	0.42

Table 5: MEPS Data: Variable Definitions and Summary Statistics

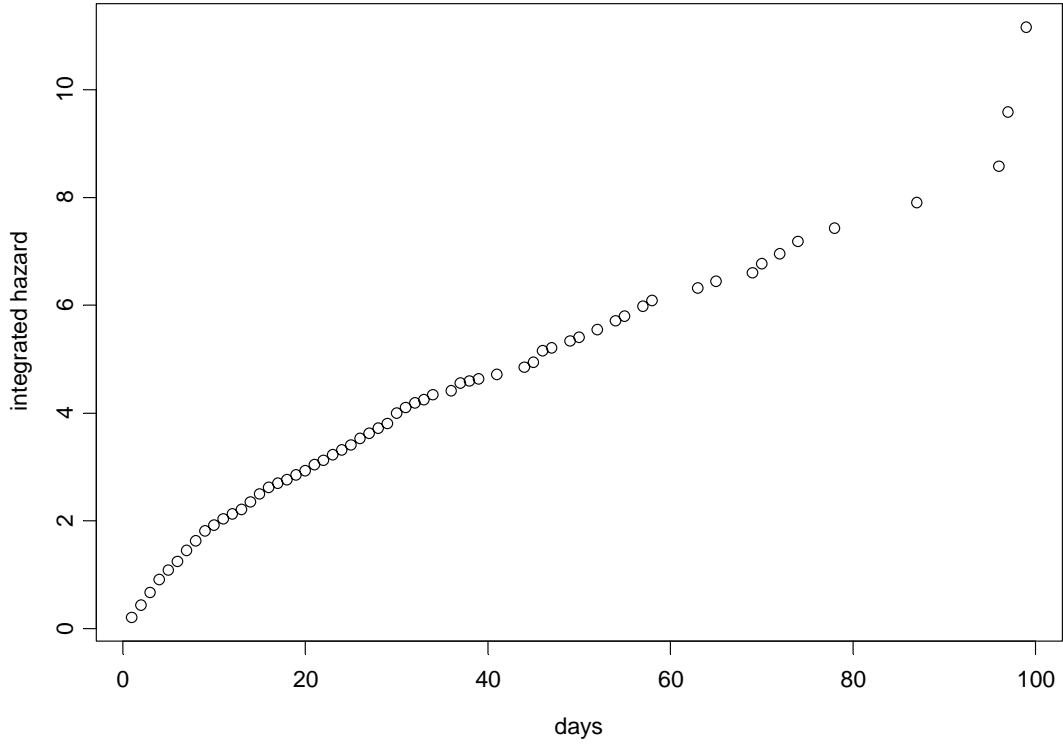


Figure 9: Duration of hospitalization: nonparametric estimate of the baseline integrated hazard

models in this case, which allow more flexibility in the specification of the hazard.

In the GPS specification, the joint determination of whether an individual enters the hospital and the length of the hospital stay are allowed to be correlated through ω . Correlation between admittance and length of stay might have the following interpretation. If unobserved factors cause a person to have poorer health than average, that individual may be both more likely to enter the hospital and to need to stay longer than average, resulting in positive correlation. Negative correlation might arise a correction effect: if an individual enters the hospital when the observables indicate that he should not (on average), then his condition may not be as severe as the average condition of admitted patients and the hospital stay consequently may be shorter. In this application, we have no *a priori* expectation on the sign of the correlation.

Variable	Baseline Model		GPS Model		Lee's Model	
	<i>Estimate</i>	<i>s.e.</i>	<i>Estimate</i>	<i>s.e.</i>	<i>Estimate</i>	<i>s.e.</i>
<i>Probit Selection</i>						
PRIVINS	0.12	(0.05)**	0.12	(0.05)**	0.12	(0.05)**
MEDICARE	0.28	(0.07)***	0.27	(0.07)***	0.28	(0.07)***
MEDICAID	0.26	(0.06)***	0.26	(0.06)***	0.26	(0.06)***
HMO	0.04	(0.04)	0.04	(0.04)	0.04	(0.04)
PRIVMCARE	-0.02	(0.07)	-0.02	(0.07)	-0.02	(0.07)
CONDN	0.08	(0.01)***	0.08	(0.01)***	0.08	(0.01)***
PRIOLIST	0.06	(0.02)***	0.06	(0.02)***	0.06	(0.02)***
EXCLHLTH	-0.14	(0.04)***	-0.14	(0.04)***	-0.14	(0.04)***
POORHLTH	0.18	(0.06)***	0.18	(0.06)***	0.18	(0.06)***
ADLHELP	0.36	(0.06)***	0.36	(0.06)***	0.36	(0.06)***
MIDWEST	0.05	(0.05)	0.05	(0.05)	0.05	(0.05)
SOUTH	0.02	(0.04)	0.01	(0.04)	0.02	(0.04)
WEST	-0.09	(0.05)*	-0.10	(0.05)*	-0.09	(0.05)*
FEMALE	0.15	(0.03)***	0.14	(0.03)***	0.14	(0.03)***
AGE	0.00	(0.00)	0.00	(0.00)	0.00	(0.00)
BLACK	-0.04	(0.05)	-0.04	(0.05)	-0.04	(0.05)
HISPANIC	0.07	(0.05)	0.07	(0.05)	0.07	(0.05)
EDUC	0.00	(0.01)	0.00	(0.01)	0.00	(0.01)
MARRIED	0.06	(0.03)*	0.06	(0.03)*	0.06	(0.03)*
EMPLOYED	-0.21	(0.04)***	-0.22	(0.04)***	-0.21	(0.04)***
CONSTANT	-1.65	(0.11)***	-1.64	(0.11)***	-1.65	(0.11)***
<i>Exponential Durations</i>						
PRIVINS	0.05	(0.07)	0.00	(0.10)	0.06	(0.09)
MEDICARE	-0.02	(0.10)	-0.05	(0.13)	-0.01	(0.11)
MEDICAID	0.09	(0.09)	0.06	(0.10)	0.10	(0.09)
HMO	-0.13	(0.05)**	-0.12	(0.07)*	-0.13	(0.06)**
PRIVMCARE	-0.06	(0.11)	-0.04	(0.14)	-0.06	(0.12)
CONDN	0.01	(0.01)	-0.01	(0.02)	0.01	(0.02)
PRIOLIST	0.04	(0.03)	0.04	(0.03)	0.04	(0.03)
EXCLHLTH	-0.01	(0.07)	-0.05	(0.09)	-0.01	(0.08)
POORHLTH	0.43	(0.08)***	0.38	(0.10)***	0.44	(0.09)***
ADLHELP	0.32	(0.08)***	0.27	(0.10)***	0.34	(0.09)***
MIDWEST	-0.17	(0.08)**	-0.16	(0.09)*	-0.17	(0.08)**
SOUTH	-0.08	(0.06)	-0.07	(0.09)	-0.08	(0.08)
WEST	-0.27	(0.07)***	-0.26	(0.10)***	-0.28	(0.09)***
FEMALE	-0.39	(0.06)***	-0.37	(0.07)***	-0.39	(0.06)***
AGE	0.01	(0.00)***	0.01	(0.00)***	0.01	(0.00)***
BLACK	0.19	(0.08)**	0.17	(0.10)*	0.19	(0.09)**
HISPANIC	0.06	(0.07)	0.05	(0.09)	0.06	(0.08)
EDUC	0.00	(0.01)	0.00	(0.01)	0.00	(0.01)
MARRIED	-0.18	(0.05)***	-0.19	(0.07)***	-0.18	(0.06)***
EMPLOYED	-0.21	(0.06)***	-0.19	(0.08)**	-0.22	(0.07)***
CONSTANT	1.57	(0.17)***	2.05	(0.22)***	1.43	(0.21)***
Corr. parameter (ω or ρ)			0.88	(0.05)***	0.08	(0.04)**

N = 14,955. * indicates 10% level significance, ** 5% level significance, and *** 1% level significance. All estimates are MLE. See table 7 for the marginal effects and table 8 for model selection criteria.

Table 6: Hospitalization Incidence and Duration: Estimation Results

The estimation results are presented in table 6. All results presented are for probit selection and the exponential model for durations (specification testing of the Weibull model does not reject simplifying to the nested exponential model; in any case the coefficients differed little). The first estimation, presented in the first two columns, is the baseline model, in which the selection and duration equations are assumed independent. This is the equivalent of fixing $\omega = 0$ in the GPS model (or $\rho = 0$ in Lee's model). The second estimation, in columns three and four, is the GPS model with ω free, from MLE based on (21).³⁶ The coefficient estimates are similar in the two models, although ω differs significantly from zero. The marginal effects of the covariates are presented in table 7. The major results are as follows.

- Enrollment in an HMO has no discernable effect on hospital admittance, but decreases the length of stay by 1.1 days on average (see table 7). To put that figure in perspective, note that the average stay was only 1.2 days. This finding is further evidence that HMO's are successful in limiting health care expenditures and, consequently, reducing the quality of care. Expenditures are reduced by not be declining admittance but by shortening the hospitalization.
- The insurance variables (PRIVINS, MEDICARE, and MEDICAID) all increase the probability of admittance to the hospital, but have no significant impact on the duration of stay. That insured individuals are more likely to receive medical care has been documented in other studies for measures such as visits to doctors' offices (Deb and Trivedi, 1997).³⁷ Of more novel interest is that insured persons (under any plan) do not appear to stay in the hospital any longer or shorter than uninsured persons. Contrast this with Dor and Farley's (1996) finding that hospitals tend to spend differing amounts on patients covered by medicare, medicaid,

³⁶Since ω is restricted to the interval $[-1, 1]$, it is computationally convenient to reparametrize as $\tilde{\omega} = \Phi^{-1}[(\omega + 1)/2] \in \mathbb{R}$. Standard errors reported for ω in table 6 are calculated by the delta method.

³⁷Endogeneity of insurance choice would also lead to this result, if the health status controls do not adequately deal with the potential problem. Note however that the increased likelihood of hospitalization is as pronounced for MEDICAID as for the other two types of insurance, although Medicaid enrollment is exogenous.

private insurance, and not covered, depending on the generosity of the payer. This finding indicates that whether the plan is an HMO is a more important determinant of quality of care than the source (public or private) of the coverage.

- The health status controls all have expected signs in both equations. The number of medical and priority conditions (CONDN and PRIOLIST), disability status (ADLHELP), and self-perceived poor health (POORHLTH) all increase the probability of hospital admittance and the duration of the subsequent stay (although only the latter two are significant in the duration equation). Self-perceived good health (EXCLHLTH) has the opposite impacts.
- Some of the demographic factors affect admittance and duration of stay, but many do not. Among those with the strongest effects, employed individuals are both more likely to stay out of the hospital and to leave with shorter stays. Women are more likely to enter the hospital but have shorter stays than men. Married individuals and people in the western region have shorter stays; blacks have longer stays.
- The correlation between the selection and duration variables is significantly positive. The estimate $\hat{\omega} = 0.88$ implies that the correlation between D^* and Y^* is about 0.24 (see table 2). The positive correlation indicates that unobserved factors may make individuals both more likely to enter the hospital and to have longer stays than average (and vice versa). Note, however, that because the marginal effects of the covariates in the probit selection are small (table 7), the correlation does not much affect the marginal effects for the conditional (on observation) mean of the durations.

A final issue is the relative performance of the GPS model versus the baseline model and Lee's model. Recall that for duration data (unlike count data, where Lee's model is not available), both the GPS and Lee's model can incorporate any functional form for the hazard rate, they are of comparable computational ease, but that Lee's model allows for more correlation (see figure 4).

For comparison with the GPS model, estimates from Lee’s model (also with exponential durations) are in the last two columns of table 6. The estimates are very similar to the GPS model in general, although the correlation implied by $\hat{\rho} = 0.08$ is only 0.07, less than one-third of the GPS estimate. Because neither the GPS model nor Lee’s model nests the other but both nest the baseline model, I use information criteria and Vuong’s test for model selection. The Akaike Information Criterion (AIC), Schwarz’s Bayesian Information Criterion (BIC), and the Consistent AIC all lead one to choose the GPS model over both Lee’s model and the baseline model.³⁸ The BIC and consistent AIC prefer the baseline model over Lee’s model. These information criteria are not entirely satisfactory for distinguishing between the GPS and Lee models, however, since in that case they reduce to comparing the likelihoods. A more formal guide to model selection, Vuong’s (1989) test for non-nested hypotheses, also prefers the GPS model.³⁹ Thus the GPS model appears to be the most appropriate model in this case.

6 Conclusion

The GPS model provides a useful alternative to Lee’s model for continuous selected variables and is more flexible than alternatives based on the bivariate normal distribution. Although Lee’s model allows for more correlation between the selection disturbance and the selected variable, the GPS model may provide a better fit to the data, as the application in the previous section demonstrated. The GPS model can also be used when the selected variable represents count data. Existing parametric alternatives for count data are inflexible, computationally expensive to calculate, and less tractable to work with.

³⁸The AIC (Akaike, 1974) is $-2\log L + 2k$, the BIC (Schwarz, 1978) is $-2\log L + k\log n$, and the consistent AIC (Bozdogan, 1987) is $-2\log L + (1 + \log n)k$, where L is the likelihood, k is the number of parameters, and n is the number of observations. The criteria give increasingly large penalties in k and n .

³⁹These models are *overlapping*, because although neither nests the other, when $\omega = \rho = 0$ they are equivalent. To implement Vuong’s (1989) two step test for overlapping models, I first reject the null hypothesis that the models are equivalent. In the present case, such rejection is immediate because ω and ρ each differ significantly from zero (Vuong, 1989, footnote 6). In the second step, the two models are discriminated based on their Kullback-Leibler information content. By this metric and using Vuong’s terminology, the GPS model is (statistically significantly) *better* than Lee’s model (p -value: 0.007).

Although I have not directly compared the GPS model to semiparametric approaches, the ability of the GPS model to incorporate any functional form gives it much flexibility. For example, $f_{Y^*}(y^*)$ could take the “semi-nonparametric” series expansion form of Gallant and Nychka (1987) (Cameron and Johansson (1997) adapt the semi-nonparametric approach for count models). Such methods blur the distinction between parametric and semiparametric inference and lend an arbitrary amount of flexibility to maximum likelihood estimation. Another future research avenue is the application of the GPS distribution to other problems requiring bivariate distributions, such as bivariate count models, bivariate multinomial choice problems, and the like.

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Variable	Probit Slope or Δ <i>in</i> $\Pr(d = 1)$	Duration Slope or Δ <i>in days</i>
PRIVINS	0.015	-0.003
MEDICARE	0.032	-0.462
MEDICAID	0.031	0.548
HMO	0.006	-1.130
PRIVMCARE	-0.003	-0.375
CONDN	0.011	-0.072
PRIOLIST	0.008	0.374
EXCLHLTH	-0.021	-0.438
POORHLTH	0.022	2.883
ADLHELP	0.039	2.163
MIDWEST	0.006	-1.564
SOUTH	0.002	-0.696
WEST	-0.014	-2.693
FEMALE	0.018	-4.026
AGE	0.000	0.121
BLACK	-0.005	1.449
HISPANIC	0.009	0.405
EDUC	-0.001	0.019
MARRIED	0.008	-1.849
EMPLOYED	-0.035	-1.880

Notes: the figures are slopes (i.e., the derivative of the conditional mean $[E(d|z)$ for probit, $E(y|x, z, d = 1)$ for duration] with respect to the covariate) for continuous covariates, and discrete changes in the conditional mean for indicator variables (i.e., the change in the conditional mean when the indicator takes the value 1). The duration figures are very similar when not conditioning on observation (i.e., for $E(y|x, z)$ instead of $E(y|x, z, d = 1)$). All figures are calculated as the average slope or change in the sample (which is more appropriate than calculating at average covariates, given the large number of dummy variables).

Table 7: Hospitalization Incidence and Duration: Marginal Effects of Covariates

Selection Criterion	Baseline Model	GPS Model	Lee's Model
Log Likelihood	-7593.4	-7560.1	-7591.5
Parameters	42	43	43
Observations	14955	14955	14955
AIC	15270.8	15206.1*	15269.0
BIC	15590.6	15533.5*	15596.4
Consistent AIC	15632.6	15576.5*	15639.4
Vuong's test		preferred*	not preferred

Table notes: * denotes preferred model by a particular criterion. See footnotes 38 and 39.

Table 8: Hospitalization Incidence and Duration: Model Selection Criteria