Generalized Method of Moments Estimation When a Parameter Is on a Boundary

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This article establishes the asymptotic distributions of generalized method of moments (GMM) estimators when the true parameter lies on the boundary of the parameter space. The conditions allow the estimator objective function to be nonsmooth and to depend on preliminary estimators. The boundary of the parameter space may be curved and/or kinked. The article discusses three examples: (1) instrumental variables (IV) estimation of a regression model with nonlinear equality and/or inequality restrictions on the parameters; (2) method of simulated moments estimation of a multinomial discrete response model with some random coefficient variances equal to 0, some random effect variances equal to 0, or some measurement error variances equal to 0; and (3) semiparametric least squares estimation of a partially linear regression model with nonlinear equality and/or inequality restrictions on the parameters.

KEY WORDS: Asymptotic distribution; Boundary; Equality restriction; Inequality restriction; Partially linear model; Semiparametric estimator.

1. INTRODUCTION

Hansen's (1982) seminal article on generalized method of moments (GMM) estimation provides sufficient conditions for the asymptotic normality of GMM estimators. A key assumption is that the parameter lies in the interior of the parameter space. Pakes and Pollard (1989) extended the results of Hansen to allow for cases in which the sample moment conditions are not smooth functions of $\theta$. In addition, they allowed the weight matrix to depend on $\theta$ and hence cover estimators now referred to as continuously updated GMM estimators (CUE). Like Hansen (1982), Pakes and Pollard (1989) assumed that the true parameter lies in the interior of the parameter space.

This article extends the results of Hansen (1982) and Pakes and Pollard (1989) to cover cases in which the true parameter is not in the interior of the parameter space. In such cases, the asymptotic distribution of the GMM estimator is no longer normal. The results given here allow for nonsmooth sample moments, the CUE, and sample moments that depend on preliminary finite- or infinite-dimensional preliminary nuisance parameters.

The results of this article are obtained by applying more general results for extremum estimators given by Andrews (1999). The latter rely on high-level assumptions. This article provides a number of (more) primitive sufficient conditions for the case of GMM estimators. These sufficient conditions are used to determine the asymptotic distributions of GMM estimators under primitive conditions in three examples.

The approach used by Andrews (1999) is to approximate the estimator objective function by a quadratic function rather than rely on first-order conditions. This approach was used by Chernoff (1954) to establish the asymptotic distribution of the likelihood ratio test in iid models with smooth likelihoods when the true parameter may be on a boundary. It has also been used by various authors to obtain the asymptotic properties of estimators when the true parameter is in the interior of the parameter space (see, e.g., Le Cam 1960; Jeganathan 1982; Pollard 1985; Pakes and Pollard 1989).

A number of papers in the literature also consider the asymptotic properties of estimators and tests when the true parameter lies on the boundary of the parameter space (Chernoff 1954; Aitchison and Silvey 1958; Moran 1971; Chant 1974; Self and Liang 1987; Gourieroux and Monfort 1989, chap. 21; Geyer 1994; Wang 1996; Andrews 1999, 2001). Andrews (1999, 2001) has given brief discussions of these papers. The results here are most similar to those of Geyer (1994), who considered estimators that minimize a sample average depending on a parameter $\theta$ when the true parameter $\theta_0$ lies on a boundary of the parameter space.

The method of establishing the asymptotic distribution of the GMM estimator when the true parameter is on a boundary is now outlined. Let $\hat{\theta}$ be the GMM estimator that minimizes the GMM criterion function $L_T(\theta)$ over the parameter space $\Theta \subset \mathbb{R}^p$. First, one shows that the GMM criterion function equals a quadratic function,

$$q_T(T^{1/2}(\theta - \theta_0)) = (T^{1/2}(\theta - \theta_0) - Z_T)' \mathcal{J} (T^{1/2}(\theta - \theta_0) - Z_T),$$

(1)

plus a term that does not depend on $\theta$ and another term that depends on $\theta$ but is sufficiently small so that it does not affect the asymptotics. In (1), $\mathcal{J}$ is a nonsingular matrix and $Z_T$ is an asymptotically normal random vector. In particular, suppose that $G_T(\theta)$ is the vector of sample moments that defines the GMM estimator, $M$ is the limit of the GMM weight matrix, and $\Gamma = \lim_{T \to \infty} (\partial^2/\partial \theta^2)G_T(\theta_0)$. Then

$$\mathcal{J} = \Gamma M \Gamma$$

(2)

and

$$Z_T = \mathcal{J}^{-1} \Gamma M^{1/2} G_T(\theta_0).$$

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Under suitable conditions, a central limit theorem (CLT) implies that

\[ T^{1/2} G_T(\theta_0) \rightarrow_d N(0, \nu) \quad \text{and} \quad Z_T \rightarrow_d Z \sim N(0, \gamma^{-1} \Gamma MV^\Gamma \gamma^{-1}) \text{ as } T \to \infty. \tag{3} \]

Combining (1) and (3) gives

\[ q_T(\lambda) \rightarrow_d q(\lambda) \text{ for each } \lambda \in \mathbb{R}^r, \]

where

\[ q(\lambda) = (\lambda - Z)^\gamma (\lambda - Z). \tag{4} \]

If the GMM estimator \( \hat{\theta} \) is \( T^{1/2} \) consistent, then the only part of the parameter space \( \Theta \) that affects the asymptotic distribution of \( \hat{\theta} \) is the part of \( \Theta \) near the true parameter \( \theta_0 \). Equivalently, the only part of the shifted parameter space \( \Theta - \theta_0 \) that is relevant is the part near the origin. The case is considered where the shifted parameter space \( \Theta - \theta_0 \) can be approximated near the origin by a convex cone \( \Lambda \). The approximation concept used is due to Chernoff (1954).

Now, by definition, \( \hat{\theta} \) minimizes \( L_T(\theta) \) over \( \Theta \). Hence the normalized estimator \( \hat{\lambda} = T^{-1/2}(\hat{\theta} - \theta_0) \) minimizes \( L_T(\theta_0 + \lambda/T^{1/2}) \) over \( T^{1/2}(\Theta - \theta_0) \). Asymptotically, \( L_T(\theta_0 + \lambda/T^{1/2}) \) behaves like \( q_T(\lambda) \) by (1), \( q_T(\lambda) \) behaves like \( q(\lambda) \) by (4), and \( T^{1/2}(\Theta - \theta_0) \) behaves like \( \lambda \) for \( \theta \) near \( \theta_0 \). Consequently, \( \hat{\lambda} = T^{1/2}(\hat{\theta} - \theta_0) \) can be shown to behave asymptotically like the minimizer \( \lambda \) of \( q(\lambda) \) over \( \lambda \in \Lambda \). That is,

\[ T^{1/2}(\hat{\theta} - \theta_0) \rightarrow_d \hat{\lambda}, \]

where

\[ \hat{\lambda} \text{ minimizes } q(\lambda) = (\lambda - Z)^\gamma (\lambda - Z) \text{ over } \Lambda. \tag{5} \]

Typically, the convex cone \( \Lambda \) is defined by linear equality and/or inequality constraints, and \( \lambda \) is the solution to a quadratic programming problem. Consequently, the asymptotic distribution of \( T^{1/2}(\hat{\theta} - \theta_0) \) can be simulated using standard GAUSS or Matlab programs quite quickly and easily.

If only one element of \( \theta_0 \) is on a boundary and it is constrained from above or below, then the corresponding element of \( \hat{\theta} \) has a half-normal asymptotic distribution. In this case the asymptotic distributions of the other parameters are affected and are nonnormal unless a block diagonality condition is satisfied.

Note that if \( \theta_0 \) lies in the interior of \( \Theta \), then

\[ \Lambda = \mathbb{R}^r, \quad \hat{\lambda} = Z, \quad \text{and} \]

\[ T^{1/2}(\hat{\theta} - \theta_0) \rightarrow_d Z \sim N(0, \gamma^{-1} \Gamma MV^\Gamma \gamma^{-1}). \tag{6} \]

which is the result of Hansen (1982) and Pakes and Pollard (1989).

Note that the assumptions used here are such that one often can use existing results in the literature (that are designed for the case where the true parameter is an interior point) to help verify the assumptions. This is particularly useful for semiparametric estimators. One does not need to reprove results regarding the effect of preliminary nonparametric estimators on the properties of the estimator objective function. This is illustrated in an example.

The results given here cover both minimum distance (MD) and GMM estimators. Details are given later.

The results of this article cover models with deterministic time trends via the method of Andrews and McDermott (1995). But the results do not cover models with stochastic trends. (See Andrews 1999 for results that do cover such cases.)

Three examples are considered in this article. The first example is a linear regression model estimated by instrumental variables (IV) with nonlinear equality and/or inequality restrictions on the regression parameters. The errors, regressors, and IVs are assumed to be iid. This example exhibits curved and kinked boundaries to the parameter space. Nonlinear equality restrictions arise in utility, cost, and profit function estimation when convexity, quasi-convexity, concavity, or quasi-concavity is imposed at some point(s) in the sample (see Gallant and Golub 1984).

The second example is a multinomial discrete response model estimated via a method of simulated moments (MSM) estimator as done by McFadden (1989) and Pakes and Pollard (1989). Considered here is the case where the model includes random coefficients (as in Hausman and Wise 1978), random effects (as in McFadden 1989), or measurement error (as in McFadden 1989), and the variances of some of these random terms are 0. This example illustrates the case of an estimator objective function that is discontinuous. A related class of GMM estimators of discrete response models with random coefficients used in the industrial organization literature is that of Berry (1994) and Berry, Levinsohn, and Pakes (1995). The results given in this article could also be applied to determine the asymptotic distribution of these estimators when some of the random coefficient variances are 0.

The third example is a partially linear model estimated by the semiparametric least squares (LS) estimator of Robinson (1988), but subject to nonlinear equality and/or inequality constraints. This example illustrates the application of the general results to a semiparametric estimator and to an estimator that depends on a preliminary estimator. The example shows that one can derive the limit distribution for the estimator when the parameter is on the boundary with very little additional work beyond that which is needed to establish its distribution when the true parameter is in the interior of the parameter space. In particular, the hard parts of the verification of the assumptions follow directly from the results of Robinson (1988) with no additional work.

Note that the results of the article apply to parametric two-step estimators, although none of the examples herein are of this form. For example, consider the Heckman two-step estimator of a sample selection model. If the correlation between the errors in the two equations of the model is generated by a common random effect, then the coefficient on the selection bias correction term in the main equation is necessarily nonnegative. In this case the regression parameter of the main equation is on the boundary of the parameter space when true random effect variance is 0, which corresponds to the case where there is no selectivity bias. The results herein apply to this case.

The rest of the article is organized as follows. Section 2 introduces the three examples. Section 3 presents the general results. Section 4 applies the general results to the IV
regression example. Section 5 applies the general results to the multinomial response example. Section 6 does likewise for the partially linear regression example. An Appendix provides proofs of the results.

All limits are taken “as $T \to \infty$” unless stated otherwise. Let “for all $\gamma_T \to 0$" abbreviate “for all sequences of positive scalar constants $\{\gamma_T: T \geq 1\}$ for which $\gamma_T \to 0$.” Let $\to_a$ and $\to_d$ denote convergence in probability and distribution. Let $\lambda_{\min}(A)$ and $\lambda_{\max}(A)$ denote the smallest and largest eigenvalues of a matrix $A$. Let $c(A)$ denote the closure of a set $A$. Let $S(\theta, \varepsilon)$ denote an open sphere centered at $\theta$ with radius $\varepsilon$. Let $C(\theta, \varepsilon)$ denote an open cube centered at $\theta$ with sides of length $2\varepsilon$.

2. EXAMPLES

This section introduces three examples. These examples cover parameter spaces with linear and nonlinear boundaries. One example has a GMM criterion function that is not smooth; another has a GMM criterion function that depends on a preliminary infinite-dimensional nuisance parameter.

2.1 Instrumental Variables Regression

With Restricted Parameters

The first example is an iid linear regression model estimated by IVs with equality and/or inequality restrictions on the regression parameters. Both linear and nonlinear restrictions are considered. The asymptotic distribution of the IV estimator (subject to the restrictions) when some of the inequality restrictions are satisfied as equalities is determined. In this case the true regression parameter is on a linear or nonlinear boundary of the parameter space.

The model is

$$ Y_t = X_t' \theta + \varepsilon_t, $$

where $\{(Y_t, X_t, Z_t): t \leq T\}$ are observed iid dependent, regressor, and instrumental variables; $\{\varepsilon_t: t \leq T\}$ are iid unobserved errors; $X_t, \theta \in \mathbb{R}^p$; $Y_t, \varepsilon_t \in \mathbb{R}$; and $Z_t \in \mathbb{R}^q$. The regressors may be correlated with the errors.

The parameter $\theta$ is assumed to satisfy the restrictions

$$ m_a(\theta) = 0, \quad m_b(\theta) \leq 0, \quad \text{and} \quad h(\theta) \leq 0, $$

where $m_j(\cdot) \in \mathbb{R}^q$; for $j = a, b$ and $h(\cdot)$ is vector-valued.

Suppose that the true parameter $\theta_0$ satisfies the restrictions of (8) with

$$ m_a(\theta_0) = 0, \quad m_b(\theta_0) = 0, \quad \text{and} \quad h(\theta_0) < 0. $$

Thus $\theta_0$ is on the part of the boundary of the parameter space, $\Theta$, that is determined by $m_a(\cdot)$ and $m_b(\cdot)$. The estimator considered here is an IV estimator that satisfies the restrictions.

2.2 Multinomial Response Model

This example is a multinomial response model estimated by the method of simulated moments (MSM). The notation is the same as used by McFadden (1989) and Pakes and Pollard (1989). The $r$th individual has $m$ alternatives to choose between. The $\ell$th choice is associated with a utility (or profit) of $Z_{it}h(\eta_i, \theta)$ for $\ell = 1, \ldots, m$, where $Z_{it}$ is a $b$-vector of covariates for the $\ell$th choice and the $r$th individual, $\theta \in \mathbb{R}^p$ is an unknown parameter, $\eta_i \in \mathbb{R}^q$ is a vector of errors with known distribution, and $h(\cdot, \cdot)$ is a known $\mathbb{R}^q$-valued function. The $r$th individual chooses the alternative with the greatest utility. Thus the response vector $d_r \in \{0, 1\}^m$ can be written as

$$ d_r = D(Z_r, h(\eta_i, \theta)), \quad \text{where} \quad Z_r = [Z_{r1} \cdots Z_{rm}] \in \mathbb{R}^{m \times b}, $$

and $D(\cdot): \mathbb{R}^m \to \{0, 1\}^m$ puts a 1 in the position of the largest component and a 0 elsewhere. The choice is indicated by the component with a 1. That there is zero probability of a tie is assumed. The random variables $\{(Z_r, \eta_i): r = 1, \ldots, T\}$ are assumed to be iid.

By specifying different covariate vectors $Z_{it}$, error vectors $\eta_i$, parameter vectors $\theta$, and functional forms $h(\cdot, \cdot)$, a variety of different models is obtained. For example, if $\eta_i$ has a standard multivariate normal distribution, then the model is in the family of probit models. Several such models are considered here. The first model is a random coefficient probit model considered by Hausman and Wise (1978) and, more recently, by Horowitz (1993), among others. In this case the element of $h(\eta_i, \theta)$ that corresponds to a covariate in $Z_{it}$ whose coefficient is random is of the form $\theta_1 + \theta_2^\prime \eta_{i2} \sim N(\theta_1, \theta_2)$. The case where $p (\geq 1)$ random coefficient variances are zero and hence the true parameter $\theta_0$ is on the boundary of the parameter space is considered. For notational convenience, the parameters are ordered such that the first $p$ elements of $\theta$ are these parameters.

The second model is a binary probit panel data model with autocorrelated errors and random effects (see McFadden 1989, sec. 5). Let the first element of $\theta$ be the proportion of the total error variance due to the random effect. The case where the true proportion is zero and hence the parameter $\theta_0$ is on the boundary of the parameter space is considered.

The third model is a probit model with measurement error on some covariates (see McFadden 1989, sec. 6). In this case some of the elements of $\theta$ correspond to the variance parameters of the measurement errors. The case where $p (\geq 1)$ of these variance parameters equal zero and $\theta_0$ is on a boundary is analyzed. As before, the elements of $\theta$ are ordered such that these are the first $p$ elements of $\theta$.

All of the foregoing cases can be treated simultaneously by analyzing the general multinomial response model introduced earlier with a parameter vector $\theta$ whose first $p$ or more elements must be nonnegative and whose true value $\theta_0$ has its first $p$ elements equal to 0.

2.3 Partially Linear Regression Model

This example is a partially linear regression model with nonlinear equality and/or inequality restrictions on the parameter vector. The partially linear model is a semiparametric model.
Estimation of the finite-dimensional parameter of the model is considered using a semiparametric least squares (LS) method introduced by Robinson (1988), who considered the partially linear regression model without any restrictions. The model is defined and the same assumptions are used as in Robinson (1988). In fact, Robinson’s results can be used to establish the only difficult parts of the proof of the asymptotic distribution of the semiparametric LS estimator under nonlinear equality and/or inequality restrictions.

The model is
\[ Y_t = X_t'\theta + \mu(Z_t) + \epsilon_t, \]  
(11)
where \{Y_t, X_t, Z_t : t = 1, 2, \ldots, T\} are the observed random variables, \(\theta\) is the unknown parameter to be estimated, \(\mu(\cdot)\) is an unknown function, and \(\epsilon_t\) is an unobserved error. Following Robinson (1988), \((Y_t, X_t, Z_t)\) are assumed to be iid across \(t\), \(E\epsilon_t = 0\), and \(\epsilon_t\) is independent of \((X_t, Z_t)\).

The parameter \(\theta\) is assumed to satisfy the same nonlinear restrictions as in (8) of the IV example. In addition, the true parameter \(\theta_0\) is assumed to satisfy (9). In this case the parameter \(\theta_0\) is on the boundary of the parameter space.

3. GENERAL RESULTS

3.1 Definition of the Generalized Method of Moments Estimator

Let \(Y_T = \{Y_t : t = 1, \ldots, T\}\) denote the sample with sample size \(T\) for \(T = 1, 2, \ldots\). Considered here is a GMM objective function \(L_T(\theta)\) that depends on \(Y_T\),
\[ L_T(\theta) = \frac{\|A_T(\theta)G_T(\theta)\|^2}{2}, \]  
(12)
where \(G_T(\theta) : \Theta \to \mathbb{R}^k\) is a vector of sample moments, \(A_T(\theta) : \Theta \to \mathbb{R}^{n \times k}\) is a random weight matrix, and \(\|\cdot\|\) denotes the Euclidean norm. (The division by 2 is strictly for convenience. It eliminates some constants in the formulas that follow.) The random variables \(G_T(\theta)\) and \(A_T(\theta)\) are normalized such that each is \(O_p(1)\), but not \(o_p(1)\) [except \(G_T(\theta_0)\), which is \(O_p(T^{-1/2})\)]. Note that the notation for GMM estimators is the same as that of Pakes and Pollard (1989), but with the sample size given by \(T\) rather than \(n\).

Typically, the vector of moment conditions \(G_T(\theta)\) is of the form
\[ G_T(\theta) = T^{-1} \sum_{t=1}^{T} g(Y_t, \theta), \]  
(13)
g\((Y, \cdot) : \Theta \to \mathbb{R}^k\) is a known function, and \(\theta_0\) is the true value. But \(G_T(\theta)\) could also depend on some finite- or infinite-dimensional preliminary estimator. For example, \(G_T(\theta)\) could be of the form
\[ G_T(\theta) = T^{-1} \sum_{t=1}^{T} g(Y_t, \theta, \hat{\tau}) \]  or
\[ G_T(\theta) = T^{-1} \sum_{t=1}^{T} g(Y_t, \theta, \tilde{\tau}(Y_t)), \]  
(14)
where \(\hat{\tau}\) denotes a finite-dimensional preliminary estimator; \(\tilde{\tau} \to \theta_0\) for some \(\theta_0 \in \mathbb{R}^d;\) \(Eg(Y_t, \theta_0, \tilde{\tau}) = 0, \) \(\tilde{\tau}(Y_t)\) denotes an infinite-dimensional estimator evaluated at \(Y_{\cdot}\), such as a nonparametric regression or density estimator; \(\tilde{\tau}(y) \to \theta_0, \tilde{\tau}(y) \in \mathbb{R}^d\) for all \(y\) in the support of \(Y_{\cdot}\); and \(Eg(Y_t, \theta_0, \tilde{\tau}(Y_t)) = 0\). For example, the partially linear regression example uses preliminary nonparametric regression estimators.

The framework considered here covers minimum distance (MD) estimators as well as GMM estimators. The MD objective function is the same as the GMM objective function, except that \(G_T(\theta)\) is not a vector of moment conditions, but rather the difference between an unrestricted estimator \(\hat{\xi}_T\) of a parameter \(\xi_0\) and a vector of restrictions \(h(\theta)\) on \(\xi_0\). That is,
\[ G_T(\theta) = \hat{\xi}_T - h(\theta), \]  
(15)
and \(\theta_0\) is the true value. Henceforth, for simplicity, the estimator and criterion function are called the GMM estimator and criterion function, but it should be understood that they also could be a MD estimator and criterion function.

By definition, the GMM estimator \(\hat{\theta}\) satisfies \(\hat{\theta} \in \Theta\) and
\[ L_T(\hat{\theta}) = \inf_{\theta \in \Theta} L_T(\theta) + o_p(1). \]  
(16)
That is, \(\hat{\theta}\) minimizes the GMM criterion function over \(\Theta\) up to some term that is \(o_p(1)\) (which allows for some tolerance in the numerical minimization).

3.2 Assumptions

First, consistency of \(\hat{\theta}\) is considered. The same methods for establishing consistency can be used whether \(\hat{\theta}\) is on a boundary of the parameter space or is in the interior. Hence \(\hat{\theta}\) is assumed to be consistent, and a standard sufficient condition is provided for this result.

**Assumption GMM1.** \(\hat{\theta} = \theta_0 + o_p(1),\) where \(\theta_0 \in \text{cl}(\Theta)\).

A well-known sufficient condition for assumption GMM1 is the following.

**Assumption GMM1′.** (a) For some function \(L(\theta) : \Theta \to \mathbb{R},\) \(\sup_{\theta \in \Theta} \left| L(\theta) - L(\theta_0) \right| \to 0.\) (b) For all \(\varepsilon > 0,\) \(\inf_{\theta \in \Theta} \left| L(\theta) - L(\theta_0) \right| > L(\theta_0),\) where \(\Theta/S(\theta_0, \varepsilon)\) denotes all vectors \(\theta\) in \(\Theta\) but not in \(S(\theta_0, \varepsilon)\).

Note that here and below that a superscript *, 2*, or 3* on an assumption denotes that the assumption is sufficient (sometimes only in the presence of other specified assumptions) for the unsuperscripted assumption.

Alternatively, assumption GMM1 can be established using theorem 3.1 and lemma 3.4 of Pakes and Pollard (1989), which is applicable even if \(\theta_0\) is on the boundary of \(\Theta\).

Next, the basic assumptions used to derive the asymptotic distribution of the GMM estimator are stated. These assumptions are quite similar to the assumptions used by Pakes and Pollard (1989), except they do not require that the true value \(\theta_0\) is in the interior of the parameter space. In particular, the assumptions allow for nonsmooth sample moments, such as sample moments that depend on indicator functions. The assumptions also allow for sample moments that depend on preliminary estimators.
Assumption GMM2. (a) For some nonrandom function $G(\theta), \quad G_f (\theta) \to G(\theta) \forall \theta \in \Theta \cap S(\theta_0, \varepsilon)$ for some $\varepsilon > 0.$
(b) $G(\theta) = \Gamma(\theta_0) + \alpha(\theta - \theta_0) + o(\|\theta - \theta_0\|)$ as $\|\theta - \theta_0\| \to 0$ for $\theta \in \Theta \cap S(\theta_0, \varepsilon)$ for some $\varepsilon > 0,$ where $\Gamma$ is a nonrandom $k \times s$ matrix with full random rank $s \leq k.$
(c) $G(\theta_0) = 0.$
(d) For all $\gamma_T \to 0,$ $\sup_{\theta \in \Theta \cap S(\theta_0, \varepsilon)} \|G_T(\theta) - G(\theta) - G_f (\theta_0)\|/\sqrt{1 + T^{1/2} \|\theta - \theta_0\|} = o_p(1)$ under $\Theta_0.$
(e) For some nonrandom nonsingular $k \times k$ matrix $A$ and for all $\gamma_T \to 0,$ $\sup_{\theta \in \Theta \cap S(\theta_0, \varepsilon)} \|A_T(\theta) - A\| = o_p(1).$

Assumption GMM3. $T^{-1/2}G_T(\theta_0) \to d \tilde{G} \sim N(0, V)$ for some nonrandom matrix $V.$

Section 3.3 provides sufficient conditions for assumption GMM2. Here assumptions GMM2 and GMM3 are discussed and how they are verified in the most regular cases is illustrated.

Assumption GMM2(a) can be verified using a pointwise weak law of large numbers (WLLN) when $G_T(\theta)$ is of the form in (13). Assumption GMM2(a) is used because it serves to define the limit function $G(\theta).$ It is not actually used in any of the proofs. Any function $G(\theta)$ that satisfies assumption GMM2(d) could be used to define $G(\theta).$ There is little to be gained by this, however, because it is hard to imagine a case for which assumption GMM2(d) holds for a function $G(\cdot)$ that does not satisfy assumption GMM2(a).

Assumption GMM2(b) holds if $G(\theta)$ is differentiable at $\theta_0.$ In this case, $\Gamma = (\partial / \partial \theta') G_T(\theta_0).$ This requires that $G(\theta)$ is defined on a neighborhood of $\theta_0.$ Section 3.3 provides sufficient conditions for assumption GMM2(b) when $G(\theta)$ is not defined on a neighborhood of $\theta_0$ using left/right partial derivatives.

Assumption GMM2(c) holds if the moment conditions are correctly specified in the GMM context or if the parameter $\xi_0$ satisfies the restrictions $\xi_0 = h(\theta_0)$ in the MD context.

Assumption GMM2(d) is a stochastic equicontinuity condition. It can be verified using the empirical process results of Pakes and Pollard (1989), van der Vaart and Wellner (1996), or Andrews (1994). In such cases, the condition is actually verified with the denominator “$1 + T^{1/2} \|\theta - \theta_0\|$” replaced by “1.”

Alternatively, if $G(\theta)$ is smooth in $\theta,$ then assumption GMM2(d) can be verified easily with the denominator “$1 + T^{1/2} \|\theta - \theta_0\|$” replaced by “$T^{1/2} \|\theta - \theta_0\|.”” To see this, suppose that $G_f (\theta)$ is differentiable at $\theta_0$ with derivative matrix $(\partial / \partial \theta') G_f (\theta)$ that satisfies the following: for all $\gamma_T \to 0,$

$$\sup_{\theta \in \Theta \cap S(\theta_0, \varepsilon)} \left\| \frac{\partial}{\partial \theta'} G_f (\theta) - \Gamma \right\| = o_p(1).$$

This condition can be verified using a uniform WLLN and continuity of the probability limit of $(\partial / \partial \theta') G_T(\theta)$ at $\theta_0.$

Then, applying the mean-value theorem element by element yields

$$G_f (\theta) = G_f (\theta_0) + \frac{\partial}{\partial \theta'} G_f (\theta') (\theta - \theta_0)
= G_f (\theta_0) + \Gamma(\theta - \theta_0) + o_p(\|\theta - \theta_0\|)$$

uniformly over $\{\theta \in \Theta : \|\theta - \theta_0\| \leq \gamma_T\},$ where $\theta'$ lies between $\theta$ and $\theta_0$ and may differ across rows. Combining this result with assumptions GMM2(b) and GMM2(c) gives

$$\|G_f (\theta) - G_f (\theta_0) - G(\theta)\| = o_p(\|\theta - \theta_0\|)$$

uniformly over $\{\theta \in \Theta : \|\theta - \theta_0\| \leq \gamma_T\}.$ This immediately implies assumption GMM2(d) using the “$T^{1/2} \|\theta - \theta_0\|$” part of the denominator in assumption GMM2(d).

In summary, if assumptions GMM2(a)–(c) hold and $G_f (\theta)$ is differentiable in a neighborhood of $\theta_0$ with partial derivative matrix that satisfies (17), then assumption GMM2(d) holds.

The above verification of assumption GMM2(d) using smoothness relies on $G_f (\theta)$ being defined on a neighborhood of $\theta_0$ (to define the derivative of $G_f (\theta)$ at $\theta_0$). Later it is shown that assumption GMM2(d) can be verified using smoothness even when $G_f (\theta)$ is not defined on a neighborhood of $\theta_0$ by using left/right partial differentiability of $G_f (\theta).$ Furthermore, assumption GMM2(d) can be verified without smoothness of $G_f (\theta).$ This is illustrated in the multinomial response example.

Assumption GMM2(e) requires that the weight matrix $A_T(\theta)$ is well behaved. Typically, it can be verified using a uniform WLLN and continuity of the probability limit of $A_T(\theta)$ at $\theta_0.$

Note that an asymptotically optimal choice of the weight matrix for the GMM estimator when $\theta_0$ is not on a boundary is such that $A'A = V^{-1}.$

Assumption GMM3 is verified when $G_f (\theta)$ is as in (13) by the application of a CLT. It can be verified when $G_f (\theta)$ is as in the first case of (14) by (a) taking a mean-value expansion of $T^{1/2} G_T(\theta_0)$ about $\hat{\theta}$ (b) using the asymptotic normality of $T^{1/2} (\hat{\theta} - \theta_0),$ and (c) applying a CLT to $T^{-1/2} \sum_{t=1}^{n} Y_t(\theta, \theta_0).$

Assumption GMM3 can be verified when $G_f (\theta)$ is as in the second case of (14) by applying results in the literature for sample averages that depend on preliminary infinite-dimensional nuisance parameters (see, e.g., Andrews 1991, Newey 1994).

The stochastic equicontinuity condition of assumption GMM2(d) is quite similar to, but slightly different from, that used by Pakes and Pollard (1989). The following result, however, shows that it is equivalent to that of Pakes and Pollard (1989) given the other assumptions. Assumption GMM2(d) is stated as is, because it is in the most convenient form for verification.

Lemma 1. Under assumptions GMM2 and GMM3 except GMM2(d), Assumption GMM2(d) is equivalent to each of the following two conditions: For all $\gamma_T \to 0,$

(a) $\sup_{\theta \in \Theta \cap S(\theta_0, \varepsilon)} \|G_f (\theta) - G(\theta) - G_f (\theta_0)\|/\sqrt{T} = o_p(1)$ and $\sup_{\theta \in \Theta \cap S(\theta_0, \varepsilon)} \|G_f (\theta) - G(\theta) - G_f (\theta_0)\|/\sqrt{T} = o_p(1)$ and

(b) $\sup_{\theta \in \Theta \cap S(\theta_0, \varepsilon)} \|G_f (\theta) - G(\theta) - G_f (\theta_0)\|/\sqrt{T} = o_p(1)$ and $\sup_{\theta \in \Theta \cap S(\theta_0, \varepsilon)} \|G_f (\theta) - G(\theta) - G_f (\theta_0)\|/\sqrt{T} = o_p(1)$.

Comment. Condition (b) of Lemma 1 is the same as that of Pakes and Pollard [1989, condition (iii) of thm. 3.3].

3.3 Sufficient Conditions for Assumptions GMM2 and GMM3

This section states several sufficient conditions for assumptions GMM2 and GMM3. First, it provides sufficient conditions for assumptions GMM2 and GMM3 that are essentially
the same as Hansen's (1982) conditions for asymptotic normality of the GMM estimator, except that \( \theta_0 \) need not be an interior point of \( \Theta \). These conditions rely on smoothness of \( G_r(\theta) \) in a neighborhood of \( \theta_0 \) and use the argument of (17)–(19) to establish assumption GMM2(d).

**Assumption GMM2**. (a) \( \{Y_t: t = \ldots, 0, 1, \ldots\} \) is stationary and ergodic.

(b) \( G_r(\theta) = T^{-1} \sum_{t=1}^{T-r} g(Y_t, \theta) \) for some function \( g(\cdot, \cdot) \).

(c) For some \( \varepsilon > 0 \), \( g(y, \theta) \) is continuously differentiable in \( \theta \) on \( S(\theta_0, \varepsilon) \) for \( y \) in the support of \( Y_t \), \( E|g(Y_t, \theta)| < \infty \) for \( \theta \in S(\theta_0, \varepsilon) \), and \( Esup_{\theta \in S(\theta_0, \varepsilon)} ||(\partial/\partial \theta)g(Y_t, \theta)|| < \infty \).

(d) \( \Gamma = E(\partial/\partial \theta)g(Y_t, \theta_0) \) is full column rank.

(e) \( E_g(Y_t, \theta_0) = 0 \).

(f) Assumption GMM2(c) holds.

Define
\[
W_t = g(Y_t, \theta_0) \\
V_t = E(W_0|W_{-j}, W_{-j-1}, \ldots) - E(W_0|W_{-j-1}, W_{-j-2}, \ldots) \quad \text{for } j \geq 0. \tag{20}
\]

**Assumption GMM3**. (a) \( E\sum_{t=0}^{T} ||g(Y_t, \theta_0)||^2 < \infty \).

(b) \( E\sum_{t=0}^{T} ||V_t|| < \infty \).

(c) \( \sum_{t=0}^{T} E||V_t|| < \infty \).

Next, simple smoothness conditions are provided that are sufficient for Assumption GMM2 and that apply even when \( G(\theta) \) and \( G_r(\theta) \) are not defined on a neighborhood of \( \theta_0 \). Some terminology must be introduced. Let \( f \) be a function whose domain includes \( X \subset R^s \). Let \( a \in X \). A Taylor expansion of \( f(x) \) about \( f(a) \) to hold for points \( x \in X \) is desired. It is supposed that \( X - a \) equals the intersection of a union of orthants and an open cube, \( C(0, \varepsilon) \), centered at 0 with edges of length \( 2\varepsilon \) for some \( \varepsilon > 0 \). (Thus \( X - a \) is locally equal to a union of orthants.) As defined, \( X \) is a cube centered at 0 with some “orthants” of the cube removed.

The function \( f \) is said to have left/right (l/r) partial derivatives (of order 1) on \( X \) if it has partial derivatives at each interior point of \( X \); if it has partial derivatives at each boundary point of \( X \) with respect to coordinates that can be perturbed to the left and right; and if it has (left) partial derivatives at each boundary point of \( X \) with respect to coordinates that can be perturbed only to the left (right). Note that the shape of \( X \) is such that \( \forall x \in X \) and for all coordinates \( x_j \) of \( x \), it is possible to perturb \( x_j \) to the right or left or both and stay within \( X \). Thus it is possible to define the left, the right, or the two-sided partial derivative of \( f \) with respect to \( x_j \) at \( x \) \( \forall j \leq s \) and \( \forall x \in X \).

The function \( f \) is said to have l/r partial derivatives of order \( k \) on \( X \) for \( k \geq 2 \) if \( f \) has l/r partial derivatives of order \( k - 1 \) on \( X \) and each of the latter has l/r partial derivatives on \( X \). \( f \) has continuous l/r partial derivatives of order \( k \) on \( X \) if \( f \) has l/r partial derivatives of order \( k \) on \( X \). Each of which is continuous at all points in \( X \), where continuity is defined in terms of local perturbations only within \( X \).

**Assumption GMM2**. (a) Assumptions GMM2(a), GMM2(c), and GMM2(e) hold.

The domain of \( G(\theta) \) includes a set \( \Theta^+ \) that satisfies \( \Theta^+ - \theta_0 \) equals the intersection of a union of orthants and an open cube \( C(0, \varepsilon) \) for some \( \varepsilon > 0 \) and \( \Theta \cap S(\theta_0, \varepsilon) \subset \Theta^+ \) for some \( \varepsilon > 0 \), where \( \Theta \) is the parameter space. Each element of the \( k \)-vector–valued function \( G(\theta) \) has continuous l/r partial derivatives of order 1 on \( \Theta^+ \).

(b) Each element of the \( k \)-vector–valued function \( G_r(\theta) \) has continuous l/r partial derivatives of order 1 on \( \Theta^+ \forall T \geq 1 \) with probability 1.

(d) For all \( \gamma_r \rightarrow 0 \),

\[
\sup_{\theta \in S(\theta_0, \varepsilon)} \left| \frac{\partial}{\partial \theta} G(\theta) - \frac{\partial}{\partial \theta} G_r(\theta_0) \right| = o_p(1).
\]

where \((\partial/\partial \theta)G(\theta)\) denotes the \( k \times s \) matrix of l/r partial derivatives of \( G(\theta) \).

(e) \((\partial/\partial \theta)G_r(\theta_0) \rightarrow \Gamma = (\partial/\partial \theta)G(\theta_0)\), where \((\partial/\partial \theta)\times G(\theta_0)\) denotes the \( k \times s \) matrix of l/r partial derivatives of \( G(\theta) \) at \( \theta_0 \).

**Lemma 2.** (a) Assumption GMM2 implies assumption GMM2 with \( G(\theta) = E_g(Y_t, \theta) \).

(b) Assumptions GMM2 and GMM3 imply that assumption GMM3 holds with \( V = \sum_{t=0}^{T} E_g(Y_t, \theta_0)g(Y_{-j}, \theta_0) \).

(c) Assumption GMM2 implies assumption GMM2.

**Comment.** Assumptions GMM2 and GMM3 also imply that the autocovariances \( \{E_g(Y_{-j}, \theta_0)g(Y_{-j}, \theta_0) : j = 0, 1, \ldots \} \) are absolutely summable.

Next, MD estimators are considered. It is easy to see that assumption GMM2 holds in the MD case with \( G(\theta) = \xi_0 - h(\theta) \) under the following conditions.

**Assumption MD.** (a) \( \xi_t \rightarrow p \xi_0 \).

(b) \( h(\theta) = h(\theta_0) + \Gamma(\theta - \theta_0) + o(\|\theta - \theta_0\|) \) as \( \|\theta - \theta_0\| \rightarrow 0 \) for \( \theta \in \Theta \cap S(\theta_0, \varepsilon) \) for some \( \varepsilon > 0 \), where \( \Gamma \) is a nonrandom \( k \times s \) matrix with full column rank.

(c) \( \xi_0 = h(\theta_0) \).

(d) The weight matrix \( A_r(\theta) \) satisfies assumption GMM2(e).

With the MD estimator, assumption GMM2(d) holds automatically because \( G_r(\theta) - G(\theta) - G_r(\theta_0) = 0 \). Assumption GMM3 is established for the MD estimator by showing that \( T^{1/2}(\xi_t - \xi_0) \rightarrow d \tilde{G} \sim N(0, \Psi) \) for some nonrandom matrix \( \Psi \).

### 3.4 Quadratic Approximation of the Generalized Method of Moments Criterion Function

The criterion function \( L_r(\theta) \) has a quadratic approximation given by

\[
L_r(\theta) = \left[ A_r(\theta_0)G_r(\theta_0)\right]^{1/2} + G_r(\theta_0)MT(\theta - \theta_0) \\
+ \frac{1}{2}(\theta - \theta_0)(M^T\Gamma(\theta - \theta_0) + R_r(\theta)), \quad \text{where} \\
M = \Lambda A
\]

and \( R_r(\theta) \) is a remainder term. Under assumptions GMM2 and GMM3, it can be shown that the remainder \( R_r(\theta) \) is small.
Lemma 3. Assumptions GMM2 and GMM3 imply that for all $\gamma_T \to 0$,

$$\sup_{\theta \in \Theta, \|\theta - \theta_0\| \leq \gamma_T} T | R_T(\theta) | / (1 + \| T^{1/2}(\theta - \theta_0) \| )^2 \to o_p(1).$$ (22)

Comment. The property of the remainder in (22) is shown to be sufficiently strong that the difference between the normalized GMM estimator, $T^{1/2}(\theta - \theta_0)$, and the normalized estimators that minimize the quadratic approximation to $L_T(\theta)$, say $T^{1/2}(\theta - \theta_0)$, is $o_p(1)$, and hence the two estimators have the same asymptotic distribution. Of course, it is much simpler to determine the asymptotic distribution of $T^{1/2}(\theta - \theta_0)$ than that of $T^{1/2}(\theta - \theta_0)$, because a quadratic criterion function is very well behaved.

Next, the quadratic approximation to the GMM criterion function $L_T(\theta)$ is simplified. Define

$$J = \Gamma M \Gamma,$$

$$Z_T = \Gamma^{-1/2} \Gamma M T^{-1/2} G_T(\theta_0),$$

and

$$q_T(\lambda) = (\lambda - Z_T)' J (\lambda - Z_T)$$

for $\lambda \in R'$. (23)

Then (21) can be written as

$$L_T(\theta) = L_T(\theta_0) + (\Gamma M \Gamma(\theta_0))'(\theta - \theta_0) + \frac{1}{2} (\theta - \theta_0)' J (\theta - \theta_0) + R_T(\theta)$$

$$= L_T(\theta_0) - \frac{1}{2 T} Z_T' J Z_T$$

$$+ \frac{1}{2 T} q_T(\theta) R_T(\theta).$$ (24)

Note that the estimator that minimizes the quadratic approximation to $L_T(\theta)$ (i.e., the right side of (24) excluding $R_T(\theta)$), call this estimator $\hat{\theta}_T$, equals $\hat{\theta}_0 + T^{-1/2} Z_T$. Hence, $T^{1/2}(\hat{\theta}_T - \theta_0) = Z_T$ and $Z_T$ determines the asymptotic distribution of the unrestricted estimator.

3.5 The Parameter Space

This section provides conditions on the parameter space under which the asymptotic distribution of the GMM estimator $\hat{\theta}$ is derived. The condition used is from Chernoff (1954), who considered likelihood ratio tests when a parameter is on a boundary.

The asymptotic distribution of $\hat{\theta}$ depends on a local approximation to the shifted parameter space $\Theta - \theta_0$. The local approximation is given by a cone. By definition, a set $\Lambda \subset R'$ is a cone if $\Lambda \in \Lambda$ implies $a \Lambda \in \Lambda \forall a \in R$ with $a > 0$. Examples of cones include $R'$, linear subspaces, orthants, unions of orthants, and sets defined by linear equalities and/or inequalities of the form $\Gamma_0 \lambda = 0$ and $\Gamma_0 \lambda \leq 0$, where $\Gamma_j$ is a $k_j \times s$ matrix for $j = a, b$.

Define the distance between a point $y \in R'$ and a set $\Lambda \subset R'$ by

$$\text{dist}(y, \Lambda) = \inf_{\lambda \in \Lambda} \| y - \lambda \|.$$ (25)

A set $\Phi \subset R'$ is locally approximated (at the origin) by a cone $\Lambda \subset R'$ if

$$\text{dist}(\phi, \Lambda) = o(\| \phi \|)$$

as $\| \phi \| \to 0$ for $\phi \in \Phi$.

and

$$\text{dist}(\lambda, \Phi) = o(\| \lambda \|)$$

as $\| \lambda \| \to 0$ for $\lambda \in \Lambda$. (26)

Assumption GMM4. $\Theta - \theta_0$ is locally approximated by a cone $\Lambda$.

Assumption GMM4 allows for linear, kinked, and curved boundaries.

Now two easily verifiable sufficient conditions for Assumption GMM4 are given. The conditions are specified in terms of the parameter space $\Theta$ shifted to be centered at the origin rather than at $\theta_0$, that is, in terms of $\Theta - \theta_0$. A set $\Gamma \subset R'$ is said to be locally equal to a set $\Lambda \subset R'$ if $\Gamma \cap S(0, \varepsilon) = \Lambda \cap S(0, \varepsilon)$ for some $\varepsilon > 0$.

Assumption GMM4a. $\Theta - \theta_0$ is locally equal to a cone $\Lambda \subset R'$.

Assumption GMM4a allows for parameter spaces $\Theta - \theta_0$, which are defined by multivariate linear equality and/or inequality constraints. For example, one could have

$$\Theta = \{ \theta \in R' : \Gamma_1 \theta = r_1, \Gamma_2 \theta \leq r_2, \| \theta \| < c < \infty \}.$$ (27)

$\Gamma_1 \theta = r_1$, and $\Gamma_2 \theta \leq r_2$ with equality for zero or more elements of $r_2$, where $\Gamma_j$ is an $e_j \times s$ matrix, $r_j$ is an $e_j$-vector, and $0 \leq e_j \leq s$ for $j = a, b$. In this example,

$$\Lambda = \{ \lambda \in R' : \Gamma_1 \lambda = 0, \Gamma_2 \lambda \leq \theta \}.$$ (28)

where $\Gamma_{\theta_1}$ denotes the submatrix of $\Gamma_1$ that consists of the rows of $\Gamma_1$, for which $\Gamma_{\theta_1} \theta \leq r_2$ holds as an equality.

Assumption GMM4 does not allow for any curvature in the boundary of $\Theta$ near $\theta_0$. Such curvature arises in some examples, such as cases where $\Theta$ is a sphere, ellipse, cylinder, or a set defined by smooth nonlinear equality and/or inequality constraints and $\theta_0$ is on its boundary. Assumption GMM4 can be verified in these cases using the following conditions.

The following sufficient condition for assumption GMM4 considers the case where $\theta_0$ is on the boundary of $\Theta$ and some smooth nonlinear equality and/or inequality constraints are binding at $\theta_0$.

Assumption GMM4a. For some $\varepsilon > 0$, $\Theta \cap S(\theta_0, \varepsilon) = \{ \theta \in R' : m_a(\theta) = 0, \| \theta - \theta_0 \| \leq \varepsilon \}$, where $m_a(\theta) \in R'$. For $0 \leq c_0 < \infty$ for $j = a, b$; $m_a(\theta_0) = 0$ for $j = a, b$; and $m_a(\cdot) = (m_a(\cdot), m_a(\cdot))$ is continuously differentiable on some neighborhood of $\theta_0$ with $\partial m_a(\theta_0)/\partial m_a(\theta_0)$ of full row rank.

Note that Assumption GMM4a specifies the parameter space only locally to $\theta_0$ and, by definition, $m_a(\theta_0) = 0$ and $m_a(\theta_0) < 0$ are constraints that are binding at $\theta_0$. If the true parameter vector $\theta_0$ changes, then the inequality constraints that are binding at $\theta_0$, $m_a(\cdot)$, typically change as well.

Lemma 4. Each of assumptions GMM4a and GMM4a is sufficient for assumption GMM4. Under assumption GMM4a, assumption GMM4 holds with $\Lambda = \{ \lambda \in R' : (\partial m_a/\partial \theta')m_a(\theta_0)\lambda = 0, (\partial m_a/\partial \theta')m_a(\theta_0)\lambda \leq 0 \}$. 

The approximating cone \( \Lambda \) depends on the inequality constraints that are binding at \( \theta_0 \), that is, \( m_\beta(\theta) = 0 \) and \( m_\delta(\theta) < 0 \) in the case of assumption GMM4\(^*\). For a different true parameter vector, \( \Lambda \) typically is different.

Obtaining the asymptotic distribution of \( \hat{\theta} \) requires the following assumption.

**Assumption GMM5.** \( \Lambda \) is convex.

Assumption GMM5 holds for all of the examples of Section 2.

### 3.6 Asymptotic Distribution of the Generalized Method of Moments Estimator

This section specifies the asymptotic distribution of \( \hat{\theta} \). First, note that by assumptions GMM2(e) and GMM3,

\[
Z_T \overset{d}{\longrightarrow} Z = \mathcal{J}^{-1} G, \text{ where } G = \Gamma' M \widetilde{G} \quad \text{ and } \quad q_T(\lambda) \overset{d}{\rightarrow} q(\lambda) = (\lambda - Z)' \mathcal{J}(\lambda - Z) \quad (29)
\]

for each \( \lambda \in \mathbb{R}^s \).

Define \( \hat{\lambda} \) by \( \hat{\lambda} \in \text{cl}(\Lambda) \) and

\[
q(\hat{\lambda}) = \inf_{\lambda \in \Lambda} q(\lambda). \quad (30)
\]

Under assumption GMM5, \( \hat{\lambda} \) is uniquely defined.

The asymptotic distribution of \( T^{1/2}(\hat{\theta} - \theta_0) \) is that of \( \hat{\lambda} \). This is the main result of this article.

**Theorem 1.** Suppose that assumptions GMM1–GMM5 hold. Then \( T^{1/2}(\hat{\theta} - \theta_0) \overset{d}{\longrightarrow} \hat{\lambda} \).

**Comment.** The proof of Theorem 1 is made by verifying the conditions of theorem 3 of Andrews (1999), which applies to general extremum estimators.

### 3.7 Asymptotic Distributions of Subvectors of the Generalized Method of Moments Estimator

In this section the asymptotic distribution of \( T^{1/2}(\hat{\theta} - \theta_0) \) is simplified by partitioning \( \theta \) into two subvectors and providing separate expressions for each of the two corresponding subvectors of \( \hat{\lambda} \).

\( \theta \) is partitioned as follows:

\[
\theta = \begin{pmatrix} \beta \\ \delta \end{pmatrix} \quad \text{and} \quad \theta_0 = \begin{pmatrix} \beta_0 \\ \delta_0 \end{pmatrix}, \quad (31)
\]

where \( \beta, \beta_0 \in \mathbb{R}^p, \delta, \delta_0 \in \mathbb{R}^s, 0 \leq p, q \leq s, \) and \( p + q = s \). Later it is assumed that \( \delta_0 \) is a parameter not on a boundary. This feature characterizes the subvectors \( \beta \) and \( \delta \).

The vectors and matrices \( \theta, G, Z, \mathcal{J}, \beta_T, \) and \( \lambda \) are partitioned conformly with \( \theta \). Let

\[
\hat{\theta} = \begin{pmatrix} \hat{\beta} \\ \hat{\delta} \end{pmatrix}, \quad G = \begin{pmatrix} G_\beta \\ G_\delta \end{pmatrix}, \quad Z = \begin{pmatrix} Z_\beta \\ Z_\delta \end{pmatrix},
\]

\[
\mathcal{J} = \begin{pmatrix} \mathcal{J}_\beta & \mathcal{J}_{\beta\delta} \\ \mathcal{J}_{\delta\beta} & \mathcal{J}_\delta \end{pmatrix}, \quad \beta_T = \begin{pmatrix} \hat{\lambda}_\beta \\ \hat{\lambda}_{\beta\delta} \end{pmatrix}, \quad \lambda = \begin{pmatrix} \hat{\lambda}_\beta \\ \hat{\lambda}_\delta \end{pmatrix}. \quad (32)
\]

The defining feature of the parameter \( \hat{\delta} \) is given in part (b) of the following assumption.

**Assumption GMM6.** (a) The cone \( \Lambda \) of assumption GMM4 is a product set \( \Lambda_\beta \times \Lambda_\delta \), where \( \Lambda_\beta \subset \mathbb{R}^p \) and \( \Lambda_\delta \subset \mathbb{R}^s \).

(b) \( \Lambda_\delta = \mathbb{R}^s \).

Assumption GMM6 requires that \( \delta_0 \) is not on a boundary. Any element of \( \theta \) that does not satisfy this condition is lumped in with \( \beta \).

Some calculations show that

\[
Z_\beta = HZ = \mathcal{J}_\beta^{-1} G_\beta + \mathcal{J}_{\beta\delta}^{-1} \mathcal{J}_{\beta\delta} (\delta_\delta - \delta_\beta \delta_\beta \mathcal{J}_\delta^{-1} \mathcal{J}_{\delta\beta})^{-1} \times (\delta_\beta \mathcal{J}_\beta^{-1} G_\beta - G_\delta), \quad (33)
\]

Define

\[
q_\beta(\hat{\lambda}_\beta) = (\lambda_\beta - Z_\beta)' \left( H \mathcal{J}^{-1} H' \right)^{-1} (\lambda_\beta - Z_\beta). \quad (34)
\]

**Theorem 2.** Suppose that assumptions GMM1–GMM6 hold. Then,

\[
T^{1/2}(\hat{\beta} - \beta_0) \overset{d}{\longrightarrow} \hat{\lambda}_\beta, \text{ where } \hat{\lambda}_\beta \in \text{cl}(\Lambda_\beta) \text{ solves } q_\beta(\hat{\lambda}_\beta) = \inf_{\lambda_\beta \in \Lambda_\beta} q_\beta(\lambda_\beta),
\]

\[
T^{1/2}(\hat{\delta} - \delta_0) \overset{d}{\longrightarrow} \hat{\lambda}_\delta = \mathcal{J}_\delta^{-1} G_\delta - \mathcal{J}_{\delta\beta}^{-1} \mathcal{J}_{\delta\beta} \hat{\lambda}_\beta,
\]

and the convergence of the two terms holds jointly.

**Comments.** 1. Theorem 2 shows that the asymptotic distribution of \( \hat{\delta} \) depends on whether \( \beta_0 \) is on a boundary if and only if \( \mathcal{J}_{\beta\delta} \neq 0 \).

2. Theorem 2 is a special case of corollary 1(b) of Andrews (1999).

### 3.8 A Closed-Form Expression for \( \hat{\lambda}_\beta \)

Now an assumption on \( \Lambda_\beta \) is considered under which there is a closed-form expression for \( \hat{\lambda}_\beta \) and hence for \( \hat{\lambda}_\delta \) as well.

**Assumption GMM7.** \( \Lambda_\beta = \{ \lambda_\beta \in \mathbb{R}^p : \Gamma_\beta \lambda_\beta = 0, \Gamma_\mu \lambda_\beta \leq 0 \} \), where \( \Gamma_\beta = [\Gamma_{\beta1} : \Gamma_{\beta2}]' \) is a full-row rank matrix.

Note that assumption GMM7 allows for the case where \( \Gamma_\beta \) or \( \Gamma_\delta \) does not appear. Assumption GMM7 holds in all of the examples considered in this article. For \( \Lambda_\beta \) as in assumption GMM7, \( \hat{\lambda}_\beta \) is the solution to a quadratic programming (QP) problem with mixed linear equality and inequality constraints. Andrews’s (1999) theorem 5 gives a closed-form solution to this problem. As an example, suppose that \( \Lambda_\beta = R^p \times R^{s-1} \). Then

\[
\hat{\lambda}_\beta = \begin{cases} 
KZ_{\beta\delta} & \text{if } Z_{\beta\delta} \geq 0 \\
K(0, Z_{\beta\delta} - \rho_{12} Z_{\beta\beta}, \ldots, Z_{\beta\beta}, \rho_{p1} Z_{\beta\beta})' & \text{otherwise},
\end{cases}
\]

where

\[
K = \text{diag}^{1/2}(H \mathcal{J}^{-1} H'), \quad Z_{\beta\beta} = (Z_{\beta\beta1}, \ldots, Z_{\beta\betas})' = K^{-1}Z_\beta,
\]

and

\[
\rho_{ij} = [K^{-1} H \mathcal{J}^{-1} H' K^{-1}]_{ij} \quad \text{for } i, j = 1, \ldots, p. \quad (35)
\]

When \( \Lambda_\beta = R^p \times R^{s-1} \), the inequality in (35) is reversed.
As a second example, suppose that \( \Lambda = (R^-)^2 \times R^{p-2} \). Then
\[
\hat{\lambda}_b = KP_{\lambda,0} Z_{\beta,k},
\]
where
\[
P_{\lambda,0} Z_{\beta,k} = \begin{cases} 1(Z_{\beta,k} > 0, Z_{\beta,k} > 0) Z_{\beta,k} \\ + 1(Z_{\beta,k} = 0, Z_{\beta,k} > 0) Z_{\beta,k} \\ - (Z_{\beta,k} > 0, Z_{\beta,k} = 0) Z_{\beta,k} \\ \cdot \cdot \cdot \cdot \cdot \\ (Z_{\beta,k} > 0, Z_{\beta,k} > 0) \end{cases}
\]
and the right side is \( o_p(1) \) by the WLLN and the assumption that \( \Theta \) is compact, and \( A_T(\theta)' A_T(\theta) \to_p (EZ, Z')^{-1} > 0 \) by the WLLN and Slutsky’s theorem.

In this example,
\[
G_T(\theta) = T^{-1} \sum_{i=1}^{T} (Y_i - X_i' \theta) Z_i, \quad A_T(\theta) = \left( T^{-1} \sum_{i=1}^{T} Z_i Z_i' \right)^{-1/2},
\]
\[
G(\theta) = E(Y_i - X_i' \theta) Z_i, \quad \Gamma = -EZ, \quad M = (EZ, Z')^{-1},
\]
and
\[
\beta = EX, Z'(EZ, Z')^{-1} EX, X' > 0 \quad (40)
\]

Assumption GMM1(a) holds because
\[
\sup_{\theta \in \Theta} \left\| G_T(\theta) - G(\theta) \right\| = \sup_{\theta \in \Theta} \left\| T^{-1} \sum_{i=1}^{T} \epsilon_i Z_i - T^{-1} \sum_{i=1}^{T} (Z_i X_i' - EZ, X') (\theta - \theta_0) \right\|
\]
\[
\leq \left\| T^{-1} \sum_{i=1}^{T} \epsilon_i Z_i \right\| + \sup_{\theta \in \Theta} \| \theta - \theta_0 \|
\]
\[
\cdot \left\| T^{-1} \sum_{i=1}^{T} Z_i X_i' - EZ, X' \right\|, \quad (41)
\]

the right side is \( o_p(1) \) by the WLLN and the assumption that \( \Theta \) is compact, and \( A_T(\theta)' A_T(\theta) \to_p (EZ, Z')^{-1} > 0 \) by the WLLN and Slutsky’s theorem.

Assumption GMM1(b) holds because
\[
L(\theta) = \| AG(\theta) \|^2 / 2
\]
\[
= (\theta - \theta_0)' EX, Z'(EZ, Z')^{-1} EX, X' (\theta - \theta_0) / 2 \quad (42)
\]
and hence for \( \epsilon > 0 \),
\[
\inf_{\theta \in \Theta} \left\{ L(\theta) \right\} \geq \lambda_{\min}(\beta) \epsilon > 0 = L(\theta_0) \quad (43)
\]

Assumption GMM2(a) holds by the WLLN. Assumption GMM2(b) holds because \( G_T(\theta) \) is differentiable in \( \theta \) with partial derivative matrix \( \Gamma = -EZ, X' \). Assumption GMM2(c) holds because \( G(\theta_0) = EX, Z = 0 \). Assumption GMM2(d) holds because
\[
G_T(\theta) - G(\theta_0) = -T^{-1} \sum_{i=1}^{T} (Z_i X_i' - EZ, X') (\theta - \theta_0)
\]
and
\[
\sup_{\| \theta - \theta_0 \| \leq \gamma} \left\{ T^{-1/2} \left\| T^{-1} \sum_{i=1}^{T} (Z_i X_i' - EZ, X') (\theta - \theta_0) \right\| \right\}
\]
\[
\leq T^{-1/2} \left\{ \left\| (1 + T^{1/2} \| \theta - \theta_0 \|) \right\| \right\}
\]
\[
\leq T^{-1} \sum_{i=1}^{T} (Z_i X_i' - EZ, X') \right\| = o_p(1) \quad (44)
\]
using the WLLN.
Assumption GMM2(e) holds by the WLLN and Slutsky’s theorem given that $EZ_iZ_i'$ is positive definite. Assumption GMM3 holds with

$$\tilde{G} \sim N(0, \mathcal{V}), \text{ where } \mathcal{V} = Ee_i^2Z_iZ_i'.$$  

(45)

This follows from the CLT for iid mean 0 finite variance random variables.

### 4.2 Parameter Space

Assumption GMM4** holds in this example provided that $m_a(\theta)$ and $m_b(\theta)$ are continuously differentiable on some neighborhood of $\theta_0$ and $(\partial/\partial \theta) m(\theta_0)$ is full row rank, where $m(\theta) = (m_a(\theta)', m_b(\theta)')'$. In consequence, by Lemma 4, assumption GMM4 holds with

$$\Lambda = \{ \lambda \in R^t : \frac{\partial}{\partial \theta} m_a(\theta_0)\lambda = 0, \frac{\partial}{\partial \theta} m_b(\theta_0)\lambda \leq 0 \}.$$  

(46)

For $\Lambda$ as such, assumption GMM5 holds.

For example, suppose that

$$m_j(\theta) = v_j'\theta - d_j$$  

(47)

for some given $v_j \in R^t$ and $d_j \in R^t$ for $j = a, b$. Then

$$\Lambda = \{ \lambda \in R^t : v_a'\lambda = 0, v_b'\lambda \leq 0 \}.$$  

(48)

Alternatively, suppose

$$m_j(\theta) = \theta'v_j - d_j$$  

(49)

for $v_j \in R^{s \times t}$ and $d_j$, as before for $j = a, b$. Then the boundary of $\Theta$ at $\theta_0$ is elliptical and

$$\Lambda = \{ \lambda \in R^t : \theta_0'v_a\lambda = 0, \theta_0'v_b\lambda \leq 0 \}.$$  

(50)

### 4.3 Asymptotic Distribution of the Instrumental Variables Estimator

In this example the quadratic approximation of (24) holds with

$$Z_t = \mathcal{J}^{-1}\Gamma' MT^{-1/2} \sum_{t=1}^T \varepsilon_t Z_t, \text{ and}$$

$$\mathcal{J} = EXZ(EZ'Z)^{-1}EZ'X'.$$  

(51)

By Theorem 1, $T^{1/2}(\hat{\theta} - \theta_0) \rightarrow_d \hat{\lambda}$. By definition, $\hat{\lambda} \in \text{cl}(\Lambda)$ and

$$q(\hat{\lambda}) = \inf_{\lambda \in \Lambda} q(\lambda),$$

where

$$q(\lambda) = (\lambda - \mathcal{J})' \mathcal{J}(\lambda - \mathcal{J});$$

$$G = \Gamma'M\tilde{G} \sim N(0, \mathcal{J});$$

$$\mathcal{J} = \Gamma'M\mathcal{V}M'\Gamma;$$

$$Z = \mathcal{J}^{-1}G \sim N(0, \mathcal{J}^{-1}\mathcal{J}\mathcal{J}^{-1});$$

(52)

$\Gamma$, $M$, and $\mathcal{J}$ are defined in (40); and $\Lambda$ is defined in (46). If the errors $\{\varepsilon_t: t \geq 1\}$ are homoscedastic given $Z_t$, [i.e., $E(\varepsilon(Z_t) = \sigma^2$ a.s.], then $\mathcal{J} = \sigma^2\mathcal{J}$ and $Z \sim N(0, \sigma^2\mathcal{J})$.

### 4.4 Asymptotic Distribution of Subvectors of the Instrumental Variables Estimator

Typically, the restrictions $m_a(\theta) = 0$ and $m_b(\theta) = 0$ of the IV example involve only some of the elements of $\theta$. In this case, the vector $(\partial/\partial \theta') m(\theta_0)$, where $m(\theta) = (m_a(\theta)', m_b(\theta)')'$, determines $\Lambda$ contains some nonzero columns, say $p$ of them, and some columns of zeros, say $s - p$ of them. Without loss of generality, assume that the first $p$ columns of $(\partial/\partial \theta') m(\theta_0)$ are nonzero vectors and that the last $q = s - p$ columns are zero vectors for $1 \leq p \leq s$.

The vectors $\hat{\theta}$, $\hat{\beta}_0$, and $\theta$ are partitioned such that

$$\hat{\theta} = (\hat{\beta}', \hat{\delta}'), \theta_0 = (\beta_0', \delta_0'), \text{ and } \theta = (\beta', \delta').$$

(53)

where $\hat{\beta}, \beta_0, \beta \in R^p$, and $\hat{\delta}, \delta_0, \delta \in R^q$.

Now, with the foregoing partitioning, Assumption GMM6 holds. The set $\Lambda$ is a product set $\Lambda_{\beta} \times \Lambda_{\delta}$ with

$$\Lambda_{\beta} = \{ \lambda_{\beta} \in R^p : \frac{\partial}{\partial \beta} m_a(\theta_0)\lambda_{\beta} = 0, \frac{\partial}{\partial \beta} m_b(\theta_0)\lambda_{\beta} \leq 0 \}$$

and

$$\Lambda_{\delta} = R^q,$$  

where $\frac{\partial}{\partial \beta} m(\theta_0) \in R^{p \times p}$ for $j = a, b$.  

(54)

For example, if $m_j(\theta) = v_j'\theta - d_j$ with $v_j = (v_{j0}', 0)'$ and $v_{j0} \in R^p$ for $j = a, b$, then

$$\Lambda_{\beta} = \{ \lambda_{\beta} \in R^p : v_{a0}'\lambda_{\beta} = 0, v_{b0}'\lambda_{\beta} \leq 0 \}.$$  

(55)

Alternatively, if $m_j(\theta) = \theta'v_j - d_j$ with $V_j = \text{diag}(V_{j0}, 0)$ and $V_{j0} \in R^{p \times p}$ for $j = a, b$, then

$$\Lambda_{\beta} = \{ \lambda_{\beta} \in R^p : \beta_0'v_{a0}\lambda_{\beta} = 0, \beta_0'v_{b0}\lambda_{\beta} \leq 0 \}.$$  

(56)

By Theorem 2,

$$T^{1/2}(\hat{\beta} - \beta_0) \rightarrow_d \hat{\lambda}_{\beta},$$  

(57)

where $\hat{\lambda}_{\beta}$ solves $q_{\beta}(\hat{\lambda}_{\beta}) = \inf_{\beta} q_{\beta}(\lambda_{\beta})$ with $\Lambda_{\beta}$ as in (54) and $q_{\beta}(\lambda_{\beta})$ defined in (34). In the simplest case where $p = 1$, which occurs when $m(\theta)$ places an upper or lower bound on a single parameter at $\theta = \theta_0$, the closed-form expression for $\hat{\lambda}_{\beta}$ given in (35) is applicable. If $p > 1$, then a closed-form expression for $\hat{\lambda}_{\beta}$ is given in (36) or theorem 5 of Andrews (1999).

By Theorem 2,

$$T^{1/2}(\hat{\delta} - \delta_0) \rightarrow_d \hat{\lambda}_{\delta} = \hat{G}_{\beta}^{-1}G_\delta - \hat{G}_{\delta}^{-1}G_\delta \hat{\lambda}_{\beta},$$

where

$$G = \begin{bmatrix} G_{\beta} \\ G_{\delta} \end{bmatrix}, \text{ and } G_{\delta} \sim N(0, J_\delta).$$

$$\mathcal{J} = \begin{bmatrix} J_{\beta} & J_{\beta\delta} \\ J_{\delta\beta} & J_\delta \end{bmatrix}, \text{ and } \mathcal{J}_{\delta\beta} = \begin{bmatrix} J_{\beta} & J_{\beta\delta} \\ J_{\delta\beta} & J_\delta \end{bmatrix}. $$

(58)

$G_\delta \in R^p$, and $J_{\delta\beta} \in R^{p \times q}$. 
5. MULTINOMIAL RESPONSE MODEL EXAMPLE

5.1 Method of Simulated Moments Estimator

This example considers a method of simulated moments (MSM) estimator. This is a GMM estimator. The moment conditions are defined as follows. Let \( \pi(Z_i, \theta) \) denote the conditional expectation of \( D(Z_i, h(\eta_i, \theta)) \) given \( Z_i \). Let \( W(Z_i, \theta) \) denote an \( s \times m \) matrix of instruments (see McFadden 1989 regarding the choice of instruments). Then the moment conditions are

\[
T^{-1} \sum_{i=1}^{T} W(Z_i, \theta)(d_i - \pi(Z_i, \theta)).
\]  

These moment conditions have expectation zero when \( \theta = \theta_0 \), as desired. Following McFadden (1989) and Pakes and Pollard (1989), the number of moment conditions is taken to equal the dimension \( s \) of \( \theta \). In this case the choice of weight matrix is immaterial, so \( A_T(\theta) = I \).

The conditional probability vector \( \pi(Z_i, \theta) \) is computationally intractable in many cases because it is a vector of high-dimensional integrals. Consequently, it is replaced in the moment conditions by a simulated probability

\[
\hat{\pi}_s(Z_i, \theta) = S^{-1} \sum_{s} D(Z, h(\eta_i, \theta)),
\]

where \( \eta_1, \ldots, \eta_s \) are simulated random variables each with the same distribution as \( \eta \), and \( \xi = (Z, \eta_1, \eta_2, \ldots, \eta_s) \) is iid across \( t = 1, \ldots, T \). (With crude frequency simulators, \( \eta_1, \ldots, \eta_s \) are iid. With variance-reduced simulators, they are not necessarily independent.) The same simulated random variables are used for all \( \theta \).

The simulated moment conditions on which the GMM estimator is based are

\[
G_T(\theta) = T^{-1} \sum_{i=1}^{T} W(Z_i, \theta)(d_i - \hat{\pi}_s(Z_i, \theta)).
\]

The true parameter vector is

\[
\theta_0 = (\theta'_{10}, \theta'_{20}, \theta'_{30})' = (\theta'_{10}, \theta'_{20}, \theta'_{30})',
\]

where \( \theta_{10} \in R^p \), \( \theta_{20}, \theta_{30} > 0 \) (element by element), \( (\theta_{10}, \theta_{20}) \) are the parameters that must be nonnegative, and \( \theta_{30} \) contains the remaining parameters. The parameter space \( \Theta \) is

\[
\Theta = \{ \theta \in R^c : \theta = (\theta_1', \theta_2', \theta_3'), \theta_1 \geq 0, \theta_2 \geq 0, \theta_3 = (\theta_{31}, \ldots, \theta_{3J}),
\]

\[
c_{ij} \leq \theta_{ij} \leq c_{ij} \quad \forall j = 1, \ldots, J \}
\]

for some constants \( -\infty \leq c_{ij} < c_{ij} \leq \infty \) for \( j = 1, \ldots, J \). The true subvector \( \theta_{30} \) of \( \theta_0 \) is assumed to not lie on a boundary. The parameter space could incorporate additional restrictions without affecting the results given later, provided that none are binding at \( \theta_0 \). Note that \( \Theta \) is not necessarily a bounded subset of \( R^c \).

5.2 Verification of Assumptions GMM1–GMM3

The function \( G(\theta) \) and the matrix \( \Gamma \) that appear in assumption GMM2 are

\[
G(\theta) = EG_T(\theta) = EW(Z_i, \theta)(\pi(Z_i, \theta_0) - \pi(Z_i, \theta)),
\]

\[
\Gamma = \frac{\partial}{\partial \theta} G(\theta) = \frac{\partial}{\partial \theta} EW(Z_i, \theta_0)(\pi(Z_i, \theta_0)).
\]

(64)

where \( (\partial/\partial \theta)G(\theta) \) and \( (\partial/\partial \theta)\pi(Z_i, \theta_0) \) denote the matrices of right partial derivatives of \( G(\theta) \) and \( \pi(Z_i, \theta_0) \) at \( \theta_0 \) (see Sec. 3.3).

The quadratic approximation of the GMM criterion function depends on

\[
Z_T = \Gamma^{-1/2} G_T(\theta_0) \quad \text{and} \quad \beta = \Gamma T.
\]

(65)

Assumptions GMM1–GMM3 are verified for this example taking the approach of Pakes and Pollard (1989, Sec. 4.2), using the previously stated assumptions plus the following:

- \( \inf_{\theta \in \Theta} \| G(\theta) \| > 0 \forall \varepsilon > 0 \),

- \( G(\theta) \) has continuous right partial derivatives with respect to \( \theta_1 \) and continuous partial derivatives with respect to \( \theta_2 \) and \( \theta_3 \) at \( \theta_0 \),

- \( \Gamma \) is nonsingular,

- \( \sup_{\theta \in \Theta} \| W(Z, \theta) \| < \infty \),

- \( \sup_{\theta \in \Theta} \| W(Z, \theta) \|^2 < \infty \) for some \( \varepsilon > 0 \),

- \( \{ B(\theta) : \theta \in \Theta \} \) is a VC class of sets, where \( B(\theta) = \{ (z, \eta) \in R^d \times R^d : h(\eta, \theta) \geq 0 \} \),

- \( \mathcal{F}_w = \{ W(\cdot, \theta) : \theta \in \Theta \} \) is a Euclidean class of functions with envelope \( F \) that satisfies \( \mathcal{E} \mathcal{F}_w(Z) < \infty \).

VC and Euclidean classes were defined by Pakes and Pollard (1989, Sec. 2).

A sufficient condition for (a) is that \( \Theta \) is compact, \( G(\theta) \) is continuous on \( \Theta \), and \( G(\theta) \) has a unique zero at \( \theta_0 \). A sufficient condition for (f) is that \( h(\eta, \theta) \) is of the form

\[
h(\eta, \theta) = \beta_1(\theta) + \beta_2(\theta) \eta + \eta \beta_3(\theta) \eta
\]

(67)

for some functions \( \beta_j(\theta), j = 1, 2, 3 \). This holds for the probit models considered by McFadden (1989) and those discussed earlier. Sufficient conditions for (g) are that \( \Theta \) is bounded, condition (e) holds, and \( W(\cdot, \theta) \) satisfies the Lipschitz condition

\[
\| W(Z, \theta^*) - W(Z, \theta) \| \leq \phi(Z) \| \theta^* - \theta \| \forall Z \in R^k \times m, \forall \theta^*, \theta \in \Theta
\]

(68)

Sufficiency of these conditions was shown by Pakes and Pollard (1989, Sec. 4.2).

Now assumptions GMM1–GMM3 are verified. Assumption GMM1 is verified by verifying assumption GMM1*. Assumption GMM1*(a) holds by an empirical process uniform WLLN by the argument of Pakes and Pollard (1989, Sec. 4.2) using (d), (f), and (g). Assumption GMM1*(b) holds by (a).
Assumption GMM2(a) holds by a pointwise WLLN for iid random variables with finite mean using (d). GMM2(b) holds by the one-term Taylor expansion of theorem 6 of Andrews (1999) and (c). GMM2(c) holds because $E\pi = E\pi(Z, \theta_0) = E\tilde{\pi}_\delta(Z, \theta_0)$ using the assumption of identical distributions of $\eta, \eta_1, \ldots, \eta_N$. GMM2(d) holds via empirical process results by the argument of Pakes and Pollard (1989, Sec. 4.2) using (e)-(g). GMM2(e) holds because $A_j(\theta) = I$.

Assumption GMM3 holds by the CLT for iid square-integrable random variables using (v) with

$$
\hat{G} \sim N(0, \Gamma') \quad \text{and}
$$

$$
\gamma = EW(Z, \theta_0)(d, \pi_\delta(Z, \theta_0))
\times (d, \pi_\delta(Z, \theta_0))' W(Z, \theta_0)'.
$$

(69)

If $\eta, \eta_1, \ldots, \eta_N$ are independent conditional on $Z$, a.s., then $\gamma$ simplifies to

$$
\gamma = \left(1 + \frac{1}{S}\right) EW(Z, \theta_0)(\text{diag}(\pi(Z, \theta_0)))
$$

$$
- \pi(Z, \theta_0)\pi(Z, \theta_0)' W(Z, \theta_0)'.
$$

(70)

Hence in this example,

$$
G = \Gamma'\hat{G} \sim N(0, \Gamma'\gamma \Gamma') \quad \text{and}
$$

$$
Z = \gamma^{-1}G = \Gamma^{-1}\hat{G} \sim N(0, \Gamma^{-1}\gamma(\Gamma^{-1})').
$$

(71)

5.3 Parameter Space

Assumptions GMM4* and GMM5 hold in this example with $\Lambda = (R^n)^p \times R^{r-p}$.

5.4 Asymptotic Distribution of the Method of Simulated Moments Estimator

By Theorem 1, $T^{1/2}(\hat{\theta} - \theta_0) \rightarrow_d \hat{\Lambda}$, where $\hat{\Lambda}$ satisfies (30) with $(Z, J)$ defined in (65) and (71) and $\Lambda = (R^n)^p \times R^{r-p}$.

5.5 Asymptotic Distribution of Subvectors of the Method of Simulated Moments Estimator

In this case, write

$$
\theta = (\beta', \delta'). \quad \beta = \theta_1, \quad \text{and} \quad \delta = (\theta_2', \theta_3').
$$

(72)

The set $\Lambda$ is a product set $\Lambda_\beta \times \Lambda_\delta$ with

$$
\Lambda_\beta = (R^n)^p \quad \text{and} \quad \Lambda_\delta = R^{r-p}.
$$

(73)

Thus assumption GMM6 holds.

Recall that the parameter $\theta_1(=\beta)$ corresponds to the random coefficient variances that are zero in the random coefficient probit model, the proportion of the error variance due to the random effect in the binary probit panel data model, or the measurement error variances that are zero in the measurement error probit model. By Theorem 2, the MSM estimator of this parameter has asymptotic distribution given by

$$
T^{1/2}(\hat{\theta}_1 - \theta_{10}) \rightarrow_d \hat{\Lambda}_\beta,
$$

(74)

where $\hat{\lambda}_\beta = Z_{\beta}1(Z_{\beta} \geq 0)$ and $\hat{\lambda}_\beta$ has a half-normal distribution when $p = 1$, $\hat{\lambda}_\beta$ is as in (36) when $p = 2$, and $\hat{\lambda}_\beta$ is as in theorem 5 of Andrews (1999) for $p > 2$.

Also, by Theorem 2, the asymptotic distribution of the remaining parameters is given by

$$
T^{1/2}(\hat{\theta}_2, \hat{\theta}_3) \rightarrow_d \hat{\lambda}_\delta.
$$

(75)

and $\gamma$ is partitioned as before.

6. PARTIALLY LINEAR REGRESSION EXAMPLE

In this example, the estimator objective function is semiparametric,

$$
L_T(\theta) = \left\{ T^{-1} \sum_{i=1}^T \left( Y_i - \hat{E}(Y_i \mid Z_i) \right) + \left( X_i - \hat{E}(X_i \mid Z_i) \right) \theta \right\}^2 / 2,
$$

(76)

where $\hat{E}(Y_i \mid Z_i)$ and $\hat{E}(X_i \mid Z_i)$ are nonparametric bias-reducing kernel estimators of $\eta_1(Z_i) = E(Y_i \mid Z_i)$ and $\eta_2(Z_i) = E(X_i \mid Z_i)$, as defined by Robinson (1988). The parameter space is the same as in (38) for the IV example.

In addition to the assumptions stated in Section 2.3, assume that

$$
\Phi = E(X_i - E(X_i \mid Z_i))(X_i - E(X_i \mid Z_i))' > 0,
$$

$$
E\varepsilon_i^2 = \sigma_i^2 < \infty, \quad E|X_i|^4 < \infty;
$$

(77)

$Z_i$ has a density $f(\cdot)$ with respect to Lebesgue measure; the functions $\mu(\cdot), \eta_1(\cdot),$ and $\eta_2(\cdot)$ satisfy the smoothness and boundedness conditions of Robinson (1988, thm. 1); and the bandwidth and trimming parameters and the kernel used in the kernel estimators $\hat{E}(Y_i \mid X_i, Z_i)$ and $\hat{E}(X_i \mid Z_i)$ satisfy the conditions of Robinson (1988, thm. 1). In this example, $\hat{G}_T(\theta)$ equals the average inside the absolute value signs in (76) and $A_j(\theta) = I_j$.

Assumption GMM1* holds by the same argument as in the IV example using the propositions in the appendix of Robinson (1988) to establish that

$$
T^{-1} \sum_{i=1}^T \hat{E}(Y_i \mid Z_i) - E(Y_i \mid Z_i) \rightarrow 0
$$

and

$$
T^{-1} \sum_{i=1}^T \hat{E}(X_i \mid Z_i) - E(X_i \mid Z_i) \rightarrow 0.
$$

(78)

The function $G(\theta)$ in this example is

$$
G(\theta) = -E(Y_i - E(Y_i \mid Z_i))(X_i - E(X_i \mid Z_i))' \theta
$$

$$
\times [X_i - E(X_i \mid Z_i)]
$$

$$
= -\Phi(\theta - \theta_0).
$$

(79)

where the second equality uses $E(Y_i \mid Z_i) = E(X_i \mid Z_i)\theta_0 + \mu(Z_i)$, $E\varepsilon_i = 0$, and $\varepsilon_i$ is independent of $X_i$ and $Z_i$.
Assumption GMM2(a) holds by (78) and the WLLN. Assumption GMM2(b) holds with $\Gamma = -\Phi$ because $G(\theta)$ is differentiable. Assumption GMM2(c) holds by (79). Assumption GMM2(d) holds by the same argument as in (44) for the IV example with $X_i$ and $Z_i$ each replaced by $X_i - E(X_i | Z_i)$.

Assumption GMM3 holds in this example with
\[ \hat{\nu} \sim N(0, \nu) \quad \text{and} \quad \nu = \sigma^2 \Phi, \] (80)
by the propositions in the appendix of Robinson (1988). Hence,
\[ \Gamma = -\Phi, \quad M = I, \quad \beta = \Gamma^2 - \Phi^2 > 0, \]
\[ G = -\Phi \hat{\nu} \sim N(0, \sigma^2 \Phi^2), \]
and
\[ Z = \beta^{-1} \Gamma M \hat{\nu} = \Gamma^{-2} G \sim N(0, \sigma^2 \Phi^{-1}). \] (81)

Assumptions GMM42 and GMM5 hold in this example under the same conditions on $m_1(\theta)$ and $m_2(\theta)$ and with the same $\Lambda$ matrix as in the IV example. Given the foregoing results, by Theorem 1, $T^{(H/2)}(\theta - \theta_0) \rightarrow \tilde{\lambda}$, where $\tilde{\lambda}$ satisfies (30) with $(Z, \beta)$ defined in (81) and $\Lambda$ defined in (46).

The parameter $\theta$ can be partitioned in this example in the same way as in the IV example. Then the asymptotic distributions of $T^{1/2} (\hat{\beta} - \beta_0)$ and $T^{1/2} (\hat{\delta} - \delta_0)$ are the same as in the IV example but with $(Z, \beta)$ defined as in (81).

**APPENDIX: PROOFS**

**Proof of Lemma 1**

Condition (a) and Assumption GMM2(d) are easily shown to be equivalent given the assumption that $G(\theta) = \Gamma(\theta - \theta_0) + o(\|\theta - \theta_0\|)$. Condition (a) obviously implies Condition (b). To obtain the converse, assume that Condition (b) holds and write, uniformly over $\{\theta \in \Theta : \|\theta - \theta_0\| \leq \gamma \}$,
\[ \|G(\theta) - G(\theta) - G(\theta_0)\| \]
\[ = o_{P}(T^{-1/2} + \|G(\theta)\| + \|G(\theta)\|) \]
\[ \leq o_{P}(T^{-1/2} + \|G(\theta)\| + \|G(\theta)\| - \|G(\theta) - G(\theta_0)\|) \]
\[ + \|G(\theta_0)\| + 2\|G(\theta)\|, \] (A.1)

where the first equality uses condition (b) and the second uses Minkowski’s inequality. Rearranging this equation and using the assumption that $\|G(\theta_0)\| = O_P(T^{-1/2})$ yields
\[ \|G(\theta) - G(\theta) - G(\theta_0)\| = o_{P}(T^{-1/2} + \|G(\theta)\|) \] (A.2)
uniformly over $\{\theta \in \Theta : \|\theta - \theta_0\| \leq \gamma \}$. Hence Condition (a) of the lemma holds.

**Proof of Lemma 2**

Part (a) of the lemma is proved as follows. Assumption GMM2(a) holds by GMM2(a)–(c) and the ergodic theorem. Assumption GMM2(b) holds with $G(\theta) = \bar{E}(Y, \theta)$ and $\Gamma = \bar{E}(\partial / \partial \theta^T) g(Y, \theta) \theta_0$ by GMM2(c) and (d) using the mean value and dominated convergence theorems. Assumption GMM2(c) holds by GMM2(e). Assumption GMM2(d) holds by the argument of (17)–(19). Equation (17) holds by GMM2(a)–(c) using a uniform WLLN such as theorem 5 of Andrews (1992) applied with assumption TSE-1D plus continuity of $E(\partial / \partial \theta) g(Y, \theta)$ at $\theta_0$ which holds by the dominated convergence theorem.

Part (b) of the lemma follows by a CLT of Gordin, as in Hansen (1982).

Part (c) is established as follows. Assumption GMM2(b) implies Assumption GMM2(b) by theorem 6 of Andrews (1999). To establish Assumption GMM2(d), write
\[ G(\theta) - G(\theta) - G(\theta) = \frac{\partial}{\partial \theta^T} G(\theta) (\theta - \theta_0) - G(\theta) \]
\[ = \left( \frac{\partial}{\partial \theta} G(\theta) (\theta - \theta_0) + o(1) \right) (\theta - \theta_0) \]
\[ - \Gamma(\theta - \theta_0) + o(\|\theta - \theta_0\|) \]
\[ = o(\|\theta - \theta_0\|) \] (A.3)
uniformly over $\theta \in \tilde{\Theta} : \|\theta - \theta_0\| \leq \gamma$, where the first equality holds for some $\theta'$ between $\theta$ and $\theta_0$ by theorem 6 of Andrews (1999) [where $\theta'$ may differ across rows of $(\partial / \partial \theta) G(\theta)$], the second equality holds by Assumptions GMM2(d) and GMM2(b), and the last equality holds by Assumption GMM2(e). Multiplying (A.3) by $T^{1/2} / \|T^{1/2}(\theta - \theta_0)\|$ and taking the supremum over $\{\theta \in \Theta : \|\theta - \theta_0\| \leq \gamma \}$ establishes Assumption GMM2(d).

**Proof of Lemma 3**

First, the case where $A_T(\theta) = I_1$ is considered. Define the remainder term $R_T(\theta)$ and a close approximation to it, $R_T^*(\theta)$, which is obtained by replacing $\Gamma(\theta - \theta_0)$ by $G(\theta)$:
\[ R_T(\theta) = G(\theta) G(\theta) / 2 - G(\theta) G(\theta) / 2 \]
\[ - G(\theta) \Gamma(\theta - \theta_0) - (\theta - \theta_0) \Gamma(\theta - \theta_0) / 2 \]
\[ \text{and} \]
\[ \text{and} \]
\[ R_T^*(\theta) = G(\theta) G(\theta) / 2 - G(\theta) G(\theta) / 2 \]
\[ - G(\theta) G(\theta) - G(\theta) G(\theta) / 2. \] (A.4)

Let $a, b, c$ be $k$-vectors for which $a = b + c$. By the Cauchy–Schwarz inequality,
\[ \|a' a - b' b\| = \|c' c + 2b' c\| \leq c' c + 2b' b \cdot ||c||. \] (A.5)

Now,
\[ \sup_{\theta \in \Theta : \|\theta - \theta_0\| \leq \gamma} T|R_T^*(\theta) - R_T(\theta)| / (1 + T^{1/2} \|\theta - \theta_0\|)^2 \]
\[ = \frac{1}{2} \sup_{\theta \in \Theta : \|\theta - \theta_0\| \leq \gamma} T|2G(\theta) G(\theta) - \Gamma(\theta - \theta_0)| \]
\[ + G(\theta) G(\theta) - (\theta - \theta_0) \Gamma(\theta - \theta_0) \]
\[ / (1 + T^{1/2} \|\theta - \theta_0\|)^2 = o_P(1), \]

where the first part of the second equality holds because $G(\theta) - \Gamma(\theta - \theta_0) = o(\|\theta - \theta_0\|)$ and $T^{1/2} G(\theta) = O_P(1)$, and the second part of the second equality holds by applying (A.5)
with \( a = G(\theta), b = \Gamma(\theta - \theta_0), \) and \( c = o(\|\theta - \theta_0\|) \). Thus it suffices to show that (22) holds with \( R_T(\theta) \) replaced by \( R_T^*(\theta) \).

Some algebra shows that

\[
R_T^*(\theta) = (G_T(\theta) - G(\theta) - G_T(\theta_0))' \\
\times (G_T(\theta) - G(\theta) - G_T(\theta_0))/2 \\
+ (G(\theta) + G_T(\theta))(G_T(\theta) - G(\theta) - G_T(\theta_0))/2 \\
\times (G_T(\theta) - G(\theta) - G_T(\theta_0)).
\]

where the second equality uses assumptions GMM2(b) and (c).

Define

\[
\eta_T = \sup_{\theta \in \Theta: \|\theta - \theta_0\| \leq \gamma_T} \frac{T^{1/2}\|G_T(\theta) - G(\theta) - G_T(\theta_0)\|}{1 + T^{1/2}\|\theta - \theta_0\|}.
\]

By assumption GMM2(d), \( \eta_T = o_p(1) \).

By (A.6) and (A.7),

\[
\sup_{\theta \in \Theta: \|\theta - \theta_0\| \leq \gamma_T} \frac{2T|G_T^*(\theta)|}{1 + T^{1/2}\|\theta - \theta_0\|} \leq \eta_T^2 + 2 \sup_{\theta \in \Theta: \|\theta - \theta_0\| \leq \gamma_T} \frac{T^{1/2}O_p(\|\theta - \theta_0\|) + T^{1/2}G_T(\theta_0)}{(1 + T^{1/2}\|\theta - \theta_0\|)} \eta_T
\]

\[
= \eta_T^2 + O_p(1) \eta_T
\]

\[
= o_p(1),
\]

which establishes the lemma for the case where \( A_T(\theta) = I \).

Next, part (a) is established for the case where \( A_T(\theta) \) is as

in assumption GMM2(c). The idea is to use the same proof as before, but with \( G_T(\theta), G(\theta), \) and \( \Gamma \) replaced by \( A_T(\theta)G_T(\theta), AG(\theta), \) and \( AT \). This method worked in previous cases of assumptions GMM2(b), GMM2(c), and GMM2(d), which are used in the foregoing proof, hold with the same changes. Assumptions GMM2(b) and GMM2(c) obviously do. By Lemma 3.5 of Pakes and Pollard (1989), assumption GMM2(e) and condition (b) of Lemma 1 imply that condition (b) of Lemma 1 holds with \( G_T(\theta) \) and \( G(\theta) \) replaced by \( A_T(\theta)G_T(\theta) \) and \( AG(\theta) \). In addition, Lemma 1 holds with these changes made to its conditions (a) and (b) and to assumption GMM2(d) by the proof given for the lemma. The last two results imply that assumption GMM2(d) holds with the aforementioned changes, as desired.

**Proof of Lemma 4**

The proof that assumption GMM4' implies assumption GMM4 is immediate given the definition of local approxima
tion by a cone.

We now show that assumption GMM4\(^2\) implies assumption GMM4. By assumption, \( m_j(\theta_0) = 0 \) for \( j = a, b \). Let

\[
\Gamma = \begin{bmatrix} \Gamma^a \\ \Gamma^b \\ \Gamma^c \end{bmatrix} \quad \text{and} \quad m^c(\theta) = \begin{bmatrix} m_j(\theta) \\ m_k(\theta) \\ \Gamma^c(\theta - \theta_0) \end{bmatrix},
\]

where \( \Gamma^c \in \mathbb{R}^{(c-c-c-c-c-c-c-c)} \) is chosen such that \( \Gamma \) is nonsingular.

Then \( m^c(\theta_0) = 0 \) and \( (\partial/\partial \theta') m^c(\theta_0) = \Gamma \).

Let \( \Phi = \Theta - \theta_0 \). Given \( \Phi \in \Phi \) with \( \Phi \) close to \( 0 \), define

\[
\lambda^* = \Gamma^{-1}m^c(\theta_0 + \Phi).
\]

Then \( \Gamma \lambda^* = m^c(\theta_0 + \Phi), \Gamma \lambda^* = m^c(\theta_0 + \Phi), \) and \( m^c(\theta) \leq 0 \) for \( \theta = \theta_0 + \Phi \in \Theta \). Hence \( \lambda^* \in \Lambda \). Element-by-element mean-value expansions give

\[
\lambda^* = \Gamma^{-1}m^c(\theta_0 + \Phi)
\]

\[
= \Gamma^{-1}m^c(\theta_0) + \Gamma^{-1}(\partial/\partial \Phi)m^c(\theta_0)\Phi + o(\|\Phi\|)
\]

\[
= 0 + \Gamma^{-1}\Gamma \Phi + o(\|\Phi\|) = \Phi + o(\|\Phi\|).
\]

It is concluded that \( \text{dist}(\Phi, \Lambda) \leq \|\Phi - \lambda^*\| = o(\|\Phi\|) \), as required by assumption GMM4.

Next, the function \( m(\cdot + \cdot) = m(\theta_0 + \cdot) : R^c \to R^c \) is continuously differentiable on a neighborhood of \( 0 \) with nonsingular Jacobian matrix at \( 0 \) and \( m(0) = 0 \). Hence, by the inverse function theorem, there exists a function \( \hat{m}^{-1}(\cdot) : R^c \to R^c \) that satisfies \( \hat{m}^{-1}(\Phi) \) is continuously differentiable and \( \hat{m}(\hat{m}^{-1}(\Phi)) = \Phi \) for all \( \Phi \) in a neighborhood of \( 0 \), \( \hat{m}^{-1}(0) = 0 \), and \( (\partial/\partial \Phi)\hat{m}^{-1}(0) = [(\partial/\partial \Phi)\hat{m}(0)]^{-1} = \Gamma^{-1} \).

Given \( \lambda \in \Lambda \) with \( \lambda \) close to \( 0 \), define

\[
\Phi^* = \hat{m}^{-1}(\Gamma \lambda).
\]

Then \( m(\theta_0 + \Phi^*) = \hat{m}(\Phi^*) = \hat{m}(\hat{m}^{-1}(\Gamma \lambda)) = \Gamma \lambda, m(\theta_0, \Phi^*) = \Gamma \lambda = 0, \) and \( m(\theta_0, \Phi^*) = \Gamma \lambda \leq 0 \). Hence \( \Phi^* \in \Phi \).

Element-by-element mean-value expansions give

\[
\Phi^* = \hat{m}^{-1}(\Gamma \lambda) = \hat{m}^{-1}(0) + (\partial/\partial \Phi)\hat{m}^{-1}(0)(\Gamma \lambda + o(\|\lambda\|))
\]

\[
= 0 + \left(\frac{\partial}{\partial \Phi}\hat{m}(0)^{-1}\Gamma \lambda + o(\|\lambda\|)\right)
\]

Hence \( \text{dist}(\lambda, \Theta - \theta_0) \leq \|\lambda - \Phi^*\| = o(\|\lambda\|) \), and Assumption GMM4 holds.

**Proof of Theorem 1**

The theorem holds by theorem 3 of Andrews (1999) with \( \ell_T(\theta), B_T, \) and \( R_T(\theta) \) of Andrews (1999) equal to \( -TL_T(\theta), T^{1/2}I, \) and \( -TR_T(\theta) \) of this article provided that assumptions 2–6 of Andrews (1999) hold. The latter are implied by Andrews’s (1999) assumptions 1, 2, 3, 4, and 5. These are verified as follows. Andrews’s assumption 1 holds by assumption GMM1. Assumption 2 holds by lemma 3 given assumptions GMM2 and GMM3. Assumption 3 holds immediately from assumption GMM3 and same as in the nonsingularity of \( \beta \), which holds by assumption GMM2. Assumptions 5 and 6 are implied by assumptions GMM4 and GMM5.

**Proof of Theorem 2**

Theorem 2 is a special case of corollary 1(b) of Andrews (1999).
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