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February 2005

Working Paper # 05005

Department of Economics Working Papers Series

Ames, Iowa 50011

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Bayesian Analysis of Structural Effects in an Ordered Equation System

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February 2005

Abstract

We describe a simulation-based algorithm for Bayesian estimation of structural effects in models where the outcome of interest and an endogenous treatment variable are ordered. Our algorithm makes use of a reparameterization, suggested by Nandram and Chen (1996) and Li and Tobias (2005) in the context of a single equation ordered-probit model, which significantly improves the mixing of the standard Gibbs sampler. We illustrate the improvements afforded by this new algorithm in a generated data experiment, examine the implications of “default” priors for the reparameterized model parameters on priors for the “structural” coefficients, and also make use of our methods in an empirical application. Specifically, we take data from the National Longitudinal Survey of Youth (NLSY) and investigate the impact of maternal alcohol consumption on early infant health. Our results show clear evidence that the health outcomes of infants whose mothers drink while pregnant are worse than the outcomes of infants whose mothers never consumed alcohol while pregnant. In addition, the estimated parameters clearly suggest the need to control for the endogeneity of maternal alcohol consumption.

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1 Introduction

The isolation of “structural,” “causal” or “treatment” effects is a topic of central importance to economics and the social sciences. In recent years, we have witnessed an explosion of applied work in virtually all subfields of economics that seeks to identify and estimate “causal” impacts of various endogenous variables on outcomes of interest. For example (and to name just a few), recent studies have attempted to identify the effect of education on wages [e.g., Ashenfelter and Krueger (1994), Card (1999)], the effect of family size on female labor supply [e.g., Angrist and Evans (1998)], the effect of maternal inputs on subsequent outcomes of children [e.g., Li and Poirier (2001,2003a,2003b,2003c)], and the effect of health insurance on medical expenditure and number of physician visits [e.g., Munkin and Trivedi (2003)].

All empirical studies in this literature seek to surmount a common problem and share a similar statistical structure. In each case, based on our understanding of the institution under study, we are concerned that factors not directly observable by the researcher are potentially correlated with both the endogenous variable and the outcome of interest. To provide a specific and widely studied example, unobserved “ability” may affect the quantity of education that an individual chooses to receive, and at the same time, higher ability individuals may receive higher wages in the labor market. If this correlation is not properly accounted for, then estimates of the “causal” impact of education on wages will confound the true structural premium paid for education with an effect arising from a premium paid to unobserved ability. This correlation among the unobservables leads to a violation of mean-independence assumptions and consequently, default estimation methods like OLS are biased and inconsistent.

To overcome this potential problem of confounding on unobservables, many researchers have made use of instrumental variable (IV) estimators. While empirical researchers have become quite adept in choosing their instruments, and in many cases offer compelling stories as to the validity of the instruments employed, in another sense, IV studies are somewhat limiting. First, IV estimation methods typically focus only on the causal effect of interest and do not seek to recover other parameters of the full statistical model. For example, IV studies typically do not quantify the degree of confounding on unobservables, which is seemingly a parameter of significant interest. Second, it is often difficult to move beyond

estimation to conduct policy experiments or out of sample predictive exercises unless the full statistical model is supplied and estimates of parameters associated with that model are obtained. Finally, there is growing awareness of problems associated with weak instruments [e.g., Staiger and Stock (1997)] and an increasing emphasis on the proper interpretation of the IV estimator when returns are heterogeneous or the model is nonlinear [e.g., Imbens and Angrist (1994)].

In this paper, we aim to make an additional contribution to this literature and investigate a particular “treatment effects” or “causal”¹ effect model where both the outcome and endogenous variable of interest are generated by nonlinear specifications.² Specifically, we investigate the particular case of a two equation triangular simultaneous equations model where both the outcome and a potentially endogenous variable appearing in that outcome equation are ordered in nature. In such a setting, proper implementation of IV is greatly complicated by the nonlinearity of the model, and as a result, the nonlinearity may often be ignored in empirical practice.³

In this paper we employ a simulation-based Bayesian estimator for fitting such an ordered outcome model which contains an ordered endogenous variable, building upon the results in Li and Tobias (2005). Though standard tools for posterior simulation (namely the Gibbs sampler) can be directly applied to fit this model, it has been shown in the simplified context of a single-equation ordered probit that the standard Gibbs sampler suffers from slow mixing due to high degrees of correlation between the cutpoints and latent data.⁴ This slow mixing problem is likely to be even more severe in our elaborated system of ordered outcome equations.

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¹Our repeated use of the word “causal” may be something of an abuse of language. In the context of this study, a “causal” effect model is an empirical specification that seeks to consistently estimate parameters of the structural equation system (most notably the slope coefficient on the endogenous variable) in the presence of unobserved confounding. This use of language seems consistent with its current use in the applied literature, where “causal” effects are reported to be obtained when a convincing instrument or natural experiment has been used to surmount the endogeneity problem.

²Though our focus on models of this particular type may seem restrictive, there are many possible applications of such a model. For example, empirical researchers routinely worry about the endogeneity of education, which is often available as an ordered variable in a data set based on highest degree attained. When outcomes of interest such as health status, insurance status, or earnings are also available categorically, then the specification we consider here would be directly applicable for modeling such data.

³For example, it is somewhat common to see linear probability models used in models with endogeneity concerns even when the outcome of interest is binary or discrete. One possible explanation is that estimation is greatly simplified if the outcome is continuous. Thus, in some cases, computational simplicity appears to come at the expense of remaining true to the observed data.

⁴See, e.g., Cowles (1996).

Our estimation algorithm, which we feel is useful for other studies sharing a similar structure, mitigates this slow mixing problem by making use of a reparameterization building off the suggestion of Nandram and Chen (1996). Among other benefits, this reparameterization effectively eliminates one unknown cutpoint from each ordered equation so that, for example, if both the outcome and the endogenous variable take on only three values, the model will contain no unknown cutpoints. In addition, the reparameterization eliminates restrictions initially imposed on the structural covariance matrix (which can complicate a posterior simulator), and thus posterior simulation for the (reparameterized) covariance matrix can proceed using standard conjugate analysis.

We apply our techniques in practice to investigate the impact of maternal alcohol consumption during pregnancy on infant health during the first year of life. Our study makes use of rich data provided in the National Longitudinal Survey of Youth (NLSY). Both alcohol consumption and infant health (proxied by the number of months during the first year that the mother took the child to the doctor due to illness) are recorded as ordered variables in the NLSY data we employ, and thus our application fits directly into the framework of our maintained model. Unlike the majority of biomedical research on this topic, we recognize that maternal alcohol consumption may be endogenous, and thus allow for potential confounding on unobservables, even conditioned on a variety of controls.⁵ For our instrument, which is assumed to have a structural effect on maternal alcohol consumption but no effect on infant health given our included controls, we exploit data on whether or not the mother has a biological parent who has a drinking problem or is an alcoholic.⁶ Our argument is that individuals with at least one parent with a drinking problem would be more likely to drink themselves, while *grand*parental alcohol consumption patterns will have no structural effect on infant health conditioned on the health status and alcohol consumption patterns of the mother. We find that alcohol consumption has a large negative impact on number of doctor visits during the first year of life, and also find significant evidence regarding the endogeneity of maternal alcohol consumption.

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⁵For research in the biomedical literature, see, for example, Jacobson et al (1993, 1994) and Goldschmidt et al (1996). Notable exceptions include the careful and general structural equations analyses of Li and Poirier (2001, 2003a, 2003b, 2003c) who examine the impact of a variety of endogenous maternal inputs (including alcohol use) on early and subsequent child outcomes. Unlike our work, however, Li and Poirier focus on a different set of birth outcomes (such as birth weight, birth length, gestational age and childhood test scores) and model variables that are either continuous or binary.

⁶This determination is subjective, as the mothers in the sample are asked whether or not either of her parents had or has a “drinking problem.”

The outline of the paper is as follows. The following section describes the empirical specification and our suggested reparameterization. A generated data experiment illustrating the performance of our posterior simulator is presented in section 3 and a description of the data used in our empirical investigation is provided in Section 4. Section 5 contains the empirical results of our application, and the paper concludes with a summary in section 6. Technical details regarding our posterior simulator are completely provided in the appendix.

2 The Model

In general terms, the model we consider is a two-equation system containing two endogenous variables, denoted y and r . Both of these variables are discrete and ordered with $y_i \in \{1, 2, \dots, Y\}$ and $r_i \in \{1, 2, \dots, R\} \forall i$. In our two equation system, we consider the case of a triangular model where y has a structural dependence on r , and r is generated from a reduced form specification. To formally account for the discrete, ordered nature of each response we begin with a latent variable representation of the model:

$$z_{yi} = x_{yi}\beta_y + d_{ri}\theta + \epsilon_{yi} \quad (1)$$

$$z_{ri} = x_{ri}\beta_r + \epsilon_{ri}, \quad (2)$$

where d_{ri} is the $1 \times R$ dummy variable vector for r_i which contains a one in the r_i^{th} column and zeros elsewhere. We interpret the parameter vector θ as quantifying the *treatment effect* of levels of r on y . In our triangular system, like other “causal” effect models with continuous outcome and endogenous variables, we model the endogeneity of r_i by permitting correlation between ϵ_y and ϵ_r . Throughout this paper, we therefore assume⁷

$$\begin{bmatrix} \epsilon_{yi} \\ \epsilon_{ri} \end{bmatrix} \stackrel{iid}{\sim} N \left[\begin{pmatrix} 0 \\ 0 \end{pmatrix}, \begin{pmatrix} 1 & \sigma_{yr} \\ \sigma_{yr} & 1 \end{pmatrix} \right], \quad (3)$$

where the error variances in each of the latent variable equations have been normalized to unity for identification purposes.

We relate the observed ordered y and r variables to the latent z_y in (1) and z_r in (2) through the restrictions:

$$y_i = j \text{ iff } \gamma_j < z_{yi} \leq \gamma_{j+1}, \quad j = 1, 2, \dots, Y \quad (4)$$

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⁷Of course standard computational tricks, such as the addition of mixing variables to the disturbance variance function, can be used to generalize the distributional assumption employed.

and

$$r_i = k \text{ iff } \tilde{\gamma}_k < z_{ri} \leq \tilde{\gamma}_{k+1}, \quad k = 1, 2, \dots, R. \quad (5)$$

For identification purposes, we also impose standard restrictions on certain values of the *cutpoints* γ_j and $\tilde{\gamma}_k$, namely: $\gamma_1 = \tilde{\gamma}_1 = -\infty$, $\gamma_2 = \tilde{\gamma}_2 = 0$ and $\gamma_{Y+1} = \tilde{\gamma}_{R+1} = \infty$.

2.1 Estimation

While one could simply use a standard Gibbs sampler to fit the above model (upon specifying a prior for all of the model parameters), there is a potential concern associated with adopting such an approach. As described in Cowles (1996) in the context of a simplified one-equation ordered probit model, use of the standard Gibbs sampler in applications of moderate size can suffer from slow mixing due to high correlation between the simulated cutpoints and latent data. This slow mixing problem is likely to be even more severe in our two-equation ordered outcome model with an endogeneity problem. We will provide rather striking evidence of this slow mixing problem in the generated data experiments of the following section.

In attempt to mitigate the high degree of autocorrelation in our posterior simulations, we choose to work with a reparameterization of the model, building off the suggestion of Nandram and Chen (1996), which both improves the performance of the posterior simulator and offers some computational simplifications. In this regard it will prove useful to first separate the largest two unknown cutpoints γ_Y and γ_R from the remaining vector of cutpoints. We accomplish this by assembling the remaining sets of cutpoint parameters associated with y and r into the following $(Y - 3) \times 1$ and $(R - 3) \times 1$ vectors (respectively),

$$\gamma = [\gamma_3 \ \gamma_4 \ \dots \ \gamma_{(Y-1)}]' \quad \text{and} \quad \tilde{\gamma} = [\tilde{\gamma}_3 \ \tilde{\gamma}_4 \ \dots \ \tilde{\gamma}_{(R-1)}]'$$

Finally, we let $\delta = [\beta'_y \ \beta'_r \ \gamma' \ \tilde{\gamma}' \ \gamma_Y^2 \ \tilde{\gamma}_R^2 \ \sigma_{yr}]'$ denote the vector of parameters in our model.⁸

Before discussing our strategy for reparameterization, it is instructive to first derive the joint posterior for the “structural” parameters of this model. With an eye toward our eventual

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⁸Because both the covariates x_{yi} and the dummy variable vector d_{ri} enter equation (1) linearly, we simplify our notation henceforth by including the dummy variable vector d_{ri} in the covariates x_{yi} , and by including the parameter vector θ in the coefficients β_y .

reparameterization, we employ priors for these parameters of the following forms:

$$\beta_y | \gamma_Y \sim N(0, \gamma_Y^2 V_y) \quad (6)$$

$$\beta_r | \tilde{\gamma}_R \sim N(0, \tilde{\gamma}_R^2 V_r) \quad (7)$$

$$\gamma_j | \gamma_Y \sim U(0, \gamma_Y), \quad j = 3, 4, \dots, Y-1 \quad (8)$$

$$\tilde{\gamma}_k | \tilde{\gamma}_R \sim U(0, \tilde{\gamma}_R), \quad k = 3, 4, \dots, R-1 \quad (9)$$

$$\gamma_Y^2 | \sigma_{yr} \sim G[a, 2h_1(1 - \sigma_{yr}^2)] \quad (10)$$

$$\tilde{\gamma}_R^2 | \sigma_{yr} \sim G[a, 2h_2(1 - \sigma_{yr}^2)] \quad (11)$$

$$p(\sigma_{yr}) \propto (1 - \sigma_{yr}^2)^{a-(3/2)}, \quad |\sigma_{yr}| < 1, \quad (12)$$

with G denoting a Gamma distribution⁹ and $U(x_1, x_2)$ denoting the uniform distribution over the interval $[x_1, x_2]$.

Perhaps with the exception of (12), these prior specifications take somewhat nonstandard forms. In particular, the priors in (6) and (7) include the largest cutpoints γ_Y and γ_R in the variance function for β_y and β_r , respectively, and in (10) and (11), specify correlation between the largest cutpoints and the covariance term σ_{yr} . The prior does not impose a sequential ordering truncation on the cutpoints γ_j and $\tilde{\gamma}_j$, other than to say that all of these cutpoints must be smaller than the largest cutpoint in the model.¹⁰ The prior does, however, impose that the covariance matrix in (3) is positive definite since $|\sigma_{yr}| < 1$. As we will show below, use of these particular priors for the “structural” parameters proves to be computationally advantageous, as they will imply the use of “standard” conjugate priors for parameters in our reparameterized model. We will revisit this point and take up a more detailed discussion of the priors in (6) - (12) following our discussion of this reparameterization.

The priors described above, combined with the *complete data likelihood* implied by (1)-(3) give the *augmented posterior* distribution of the model parameters and latent data. This augmented posterior can be shown to be of the form:

$$\begin{aligned} p(\delta, z_y, z_r | y, r) &\propto \left\{ \prod_{i=1}^n \phi_2 \left[\begin{pmatrix} z_{yi} \\ z_{ri} \end{pmatrix}; \begin{pmatrix} x_{yi} \beta_y \\ x_{ri} \beta_r \end{pmatrix}, \begin{pmatrix} 1 & \sigma_{yr} \\ \sigma_{yr} & 1 \end{pmatrix} \right] \right. \\ &\quad \times \left. I(\gamma_{y_i} < z_{yi} \leq \gamma_{y_{i+1}}) I(\tilde{\gamma}_{r_i} < z_{ri} \leq \tilde{\gamma}_{r_{i+1}}) \right\} p(\delta), \end{aligned}$$

⁹See, e.g., Poirier (1995, page 98). With this parameterization $x \sim G(a, b)$ implies $p(x) \propto x^{a-1} \exp(-x/b)$.

¹⁰This point does not seem to be too problematic, since in most empirical work, improper priors on the cutpoints are often employed. These ordering restrictions will also be imposed in our posterior simulator through our choice of proposal density.

with $I(\cdot)$ denoting the standard indicator function and $\phi_k(x; \mu, V)$ denoting a k -dimensional normal density for x with mean μ and variance V . The prior density $p(\delta)$ is given in equations (6) - (12).

2.2 A Reparameterization

Let us now take the augmented joint posterior just discussed, and consider making a change of variables. Specifically, let

$$\sigma_y = 1/[\gamma_Y^2], \quad \beta_y^* = \sqrt{\sigma_y} \beta_y, \quad z_y^* = \sqrt{\sigma_y} z_y, \quad \gamma^* = \sqrt{\sigma_y} \gamma$$

and

$$\sigma_r = 1/[\tilde{\gamma}_R^2], \quad \beta_r^* = \sqrt{\sigma_r} \beta_r, \quad z_r^* = \sqrt{\sigma_r} z_r, \quad \tilde{\gamma}^* = \sqrt{\sigma_r} \tilde{\gamma}, \quad \tilde{\sigma}_{yr} = \sqrt{\sigma_y} \sqrt{\sigma_r} \sigma_{yr}.$$

With a bit of work, one can derive that the Jacobian of the transformation from $[\delta \ z_y \ z_r]$ to $[\delta^* \ z_y^* \ z_r^*]$ (with $\delta^* \equiv [\beta_y^{*'} \ \beta_r^{*'} \ \gamma^{*'} \ \tilde{\gamma}^{*'} \ \sigma_y \ \sigma_r \ \tilde{\sigma}_{yr}]'$) is $\sigma_y^{-[k_y+(Y-3)+n+5]/2} \sigma_r^{-[k_r+(R-3)+n+5]/2}$, with k_y and k_r denoting the number of elements in β_y and β_r , respectively.

Adding this Jacobian term to our previous expression of the joint posterior, and completing our change of variables, we obtain

$$\begin{aligned} p(\delta^*, z_y^*, z_r^* | y, r) &\propto \left\{ \prod_{i=1}^n \phi_2 \left[\begin{pmatrix} z_{yi}^* \\ z_{ri}^* \end{pmatrix}; \begin{pmatrix} x_{yi} \beta_y^* \\ x_{ri} \beta_r^* \end{pmatrix}, \begin{pmatrix} \sigma_y & \tilde{\sigma}_{yr} \\ \tilde{\sigma}_{yr} & \sigma_r \end{pmatrix} \right] \right. \\ &\quad \times \left. I(\gamma_{y_i}^* < z_{yi}^* \leq \gamma_{y_{i+1}}^*) I(\tilde{\gamma}_{r_i}^* < z_{ri}^* \leq \tilde{\gamma}_{r_{i+1}}^*) \right\} p(\delta^*), \end{aligned}$$

where the priors for the transformed parameters take on the convenient forms:¹¹

$$\beta_y^* \sim N(0, V_y) \tag{13}$$

$$\beta_r^* \sim N(0, V_r) \tag{14}$$

$$\gamma_j^* \sim U(0, 1), \quad j = 3, 4, \dots, Y-1 \tag{15}$$

$$\tilde{\gamma}_k^* \sim U(0, 1), \quad k = 3, 4, \dots, R-1 \tag{16}$$

$$\Sigma^* \sim IW(2a, H) \tag{17}$$

where IW denotes an inverted Wishart distribution,

$$\Sigma^* \equiv \begin{bmatrix} \sigma_y & \tilde{\sigma}_{yr} \\ \tilde{\sigma}_{yr} & \sigma_r \end{bmatrix}, \quad H \equiv \begin{bmatrix} h_1 & 0 \\ 0 & h_2 \end{bmatrix},$$

¹¹Note that the transformed cutpoints γ_j^* and $\tilde{\gamma}_k^*$ must lie between 0 and 1, and thus the uniform priors in (15) and (16) are quite natural choices.

and a , h_1 and h_2 are the hyperparameters employed in prior specifications (10)-(12).

We argue that there are several advantages to working with this reparameterization. First, as discussed in Nandram and Chen (1996) in the context of a single equation ordered probit, and clearly demonstrated in the following section for this system of ordered equations, the rescaling helps to mitigate correlation between the simulated cutpoints and latent data and thus improves the performance of our posterior simulator. Second, the reparameterization effectively eliminates one cutpoint from each equation in the model. For example, if there are three ordered choices for both y and r (i.e., $Y = 3$ and $R = 3$), then there are no unknown cutpoints in this specification; sampling the cutpoints follows from standard sampling of elements of the covariance matrix and no additional Metropolis-within-Gibbs steps are required. Finally, our reparameterization eliminates the diagonal restrictions on the covariance matrix in (3) and produces an unrestricted covariance matrix for the transformed latent data. This simplifies posterior simulation of the covariance parameter σ_{yr} , which can not be drawn using standard conjugate (i.e., inverse Wishart) sampling given the restrictions on the diagonal elements in (3).

Given the computational benefits afforded by the reparameterization, our recommended empirical approach is to use the reparameterized model as the working model, yet to proceed with caution, as the priors employed for the transformed parameters could potentially have unexpected implications for priors regarding the structural parameters. To this end, the priors in (6)-(12) are particularly useful, since they provide the implied priors on the structural coefficients of interest. Our view is that with suitably chosen hyperparameters, the implied priors on the structural coefficients are still sensible and suitably diffuse, and any costs associated with the choice of prior are more than outweighed by the computational benefits offered by the reparameterization.

To investigate features of the priors in (6)-(7) in more detail, one can derive the following marginal moments for the largest cutpoints γ_Y^2 and γ_R^2 .¹² $E(\gamma_Y^2) = h_1(2a - 1)$, $E(\gamma_R^2) = h_2(2a - 1)$, $\text{Var}(\gamma_Y^2) = 2h_1^2(2a - 1) = 2h_1E(\gamma_Y^2)$ and $\text{Var}(\gamma_R^2) = 2h_2^2(2a - 1) = 2h_2E(\gamma_R^2)$. In terms of the marginal prior for σ_{yr} in (12), it is a reasonably “default” choice with a prior mean of zero and a variance equal to $1/[2a]$. The prior is symmetric about zero and has a

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¹²This follows by noting from (12) that $\psi \equiv (1 - \sigma_{yr}^2)$ has a $\text{Beta}(a - [1/2], [1/2])$ density. Using the mean and variance of this random variable, one can then derive the unconditional prior mean and variance of γ_Y^2 and γ_R^2 .

mode equal to zero for $a \geq 3/2$.¹³ The marginal priors for β_r and β_y can be made suitably “flat” by simply choosing V_r and V_y to be diagonal with large elements on the diagonal. In our empirical work, we settle on $a = 2$, $h_1 = h_2 = 1$, $V_y = 1000I_{k_y}$, and $V_r = 1000I_{k_r}$. This implies a reasonably diffuse prior on the covariance parameter σ_{yr} , with a mean of zero and a variance of $1/4$. With these hyperparameter values, we also obtain $E(\gamma_Y^2) = E(\tilde{\gamma}_R^2) = 3$, and $\text{Var}(\gamma_Y^2) = \text{Var}(\tilde{\gamma}_R^2) = 6$.

3 A Generated Data Experiment

We illustrate the potential benefits of working with our reparameterization through a generated data experiment. Specifically, we generate 5,000 observations from the following three-alternative [i.e., $(Y = R = 3)$] ordered equation system:

$$\begin{aligned} z_{yi} &= \beta_{y0} + x_{1i}\beta_{y1} + I(0 < z_{ri} \leq \tilde{\gamma})\theta_1 + I(\tilde{\gamma} < z_{ri})\theta_2 + \epsilon_{yi} \\ z_{ri} &= \beta_{r0} + x_{1i}\beta_{r1} + x_{2i}\beta_{r2} + x_{3i}\beta_{r3} + \epsilon_{ri}, \end{aligned}$$

where x_{1i} , x_{2i} and x_{3i} are drawn independently from a $N(0, 1)$ distribution, and $[\epsilon_{yi} \ \epsilon_{ri}]'$ are drawn jointly from a bivariate normal distribution with

$$\begin{bmatrix} \epsilon_{yi} \\ \epsilon_{ri} \end{bmatrix} \stackrel{iid}{\sim} N \left[\begin{pmatrix} 0 \\ 0 \end{pmatrix}, \begin{pmatrix} 1 & -.5 \\ -.5 & 1 \end{pmatrix} \right].$$

For the regression parameters, we set $\beta_{y0} = 0.5$, $\beta_{y1} = -0.4$, $\beta_{r0} = 0.3$, $\beta_{r1} = -0.6$, $\beta_{r2} = 0.2$ and $\beta_{r3} = -0.5$. For the “causal” effects (i.e., the impacts of the endogenous variable r on y), we set $\theta_1 = 1$ and $\theta_2 = 2$. The latent variables z_y and z_r are related to the observed ordered variables y and r through the following restrictions:

$$y_i = \begin{cases} 1 & \text{if } z_{yi} \leq 0 \\ 2 & \text{if } 0 < z_{yi} \leq \gamma \\ 3 & \text{if } \gamma < z_{yi} \end{cases} \quad \text{and} \quad r_i = \begin{cases} 1 & \text{if } z_{ri} \leq 0 \\ 2 & \text{if } 0 < z_{ri} \leq \tilde{\gamma} \\ 3 & \text{if } \tilde{\gamma} < z_{ri} \end{cases}.$$

Finally, we choose the cutpoint values as follows: $\gamma = 3$ and $\tilde{\gamma} = 2$.¹⁴

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¹³It seems quite natural to us to center the model over a specification where endogeneity is not a problem (i.e. $\sigma_{yr} = 0$), yet to remain reasonably vague with this prior belief and permit the data to reveal that endogeneity is a concern.

¹⁴Under this design, 15.1%, 79.1%, and 5.8% of the y ’s fall into the categories of $y = 1$, $y = 2$, and $y = 3$, respectively. Additionally, 41.4%, 49.3%, and 9.3% of the r ’s have the values of $r = 1$, $r = 2$, and $r = 3$, respectively.

Table 1: True values and posterior estimates of the parameters, using reparameterized Gibbs sampler and standard Gibbs sampler

	True Value	Reparameterized Gibbs Sampler			Standard Gibbs Sampler		
		$E(\beta D)$	$\text{Std}(\beta D)$	$P(\beta > 0 D)$	$E(\beta D)$	$\text{Std}(\beta D)$	$P(\beta > 0 D)$
β_{r0}	0.3	0.284	0.0203	1	0.148	0.0278	1
β_{r1}	-0.6	-0.621	0.0195	0	-0.433	0.03	0
β_{r2}	0.2	0.192	0.0165	1	0.0736	0.0108	1
β_{r3}	-0.5	-0.505	0.018	0	-0.192	0.0171	0
β_{y0}	0.5	0.427	0.0633	1	-0.353	0.0195	0
β_{y1}	-0.4	-0.349	0.0319	0	0.0829	0.015	1
θ_1	1	1.1	0.0676	1	1.29	0.0597	1
θ_2	2	2.1	0.129	1	2.46	0.117	1
$\tilde{\gamma}$	2	1.99	0.0368	1	1.3	0.104	1
γ	3	2.96	0.0672	1	1.27	0.0761	1
σ_{yr}	-0.5	-0.538	0.0424	0	-0.972	0.00177	0

To evaluate the potential merits of using such a reparameterization, we fit the model using both our reparameterized Gibbs sampler and the standard Gibbs sampler. In each case, we use the priors described in (13)-(17) with hyperparameter values chosen as described in the previous section. Though not explicitly derived here, the standard Gibbs sampler involves sequentially simulating the cutpoints from their complete conditional distributions, which are uniform with bounds depending on the values of the neighboring cutpoints and latent data. For each parameterization, we ran the corresponding sampler for 1,000 iterations and discarded the first 200 draws as the burn-in period.

Results of this experimental exercise are summarized in Figure 1 and Table 1. In Figure 1, we plot the lagged autocorrelations up to order 20 for several selected parameters: β_{r0} , γ and σ_{yr} . As can be clearly seen from the figure, the posterior simulations from our recommended algorithm mix quite well and the lagged autocorrelations drop away reasonably quickly.¹⁵ In sharp contrast, the lagged autocorrelations obtained when using the standard Gibbs sampler exhibit much slower rates of decay, thus requiring substantially more simulations in order to obtain an equivalent level of numerical precision. In fact, for the cutpoint parameter γ , the lagged correlations were approximately 1 even up to order 50. Specifically, we found the lagged autocorrelations to be 0.9995, 0.9987, 0.9978, 0.9971 and 0.9963 at orders 10, 20, 30, 40 and 50, respectively.

¹⁵The lagged correlations for σ_{yr} were found to be approximately 0 for lag orders exceeding 30.

Figure 1: Lagged Autocorrelations of simulated posterior draws for β_{r0} , γ and σ_{yr} , using reparameterized Gibbs sampler (RGS) and standard Gibbs sampler (SGS)

Table 1 shows how this slow mixing problem can potentially lead to misleading inference regarding the regression and variance parameters. Clearly, the posterior means of the parameters obtained using the standard Gibbs sampler do not match the actual values used to generate the data, while estimates obtained using the reparameterized sampler match the actual values quite closely. In our view, this example clearly illustrates the limitations associated with use of the standard Gibbs sampler in our ordered equation system, and motivates the potential benefits afforded by working with our suggested reparameterization.

4 The Data

In the following section we provide an illustrative application of the described methodology using rich data provided by National Longitudinal Survey of Youth (NLSY79). This data set is a widely-used panel survey of young men and women ranging in age from 14-22 in the base year of the survey (1979), and contains a wealth of information on the labor market experiences, family background characteristics, health outcomes and other demographic information of the sampled individuals. In this study, we focus primarily on variables related to fertility and associated health outcomes, and describe the variables of primary interest below.

During the 1982 and 1983 interview waves, the NLSY significantly expanded its set of questions related to fertility. These expanded questions provide unusually rich information on maternal inputs during pregnancy and a variety of birth outcomes including birth weight, birth length, and information regarding early infant health. Most importantly for the purposes of our application, questionnaires in 1983 asked the female respondents to report (when appropriate) the frequency of alcohol consumption during her most recent pregnancy. In the data set, the alcohol consumption measure is recorded as a categorical (and naturally ordered) response: the mothers choose among 7 different categories which range from no alcohol consumption to consuming alcohol nearly every day.¹⁶ Additionally, in this wave of interviews, the mothers in the sample are asked to provide information on the early health outcomes of the youngest child. For the purposes of this paper, we focus on the number of

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¹⁶The raw NLSY data actually contain 8 different categories. Due to the small number of mothers found in the highest consumption categories, we chose to group the respondents in the “Nearly Every Day” consumption category and the “Every Day” category into a single group. Our highest consumption group which combines these two categories is labeled “Nearly Every Day.”

months during the first year of life that the child was taken to the doctor for reasons related to illness or injury, and use this variable as our measure of infant health. By “number of months,” we mean an aggregation of a set of 12 individual indicators that denote if the child was taken to see the doctor during her first month of life, during her second month of life, etc.¹⁷ This variable is, again, discrete and ordered and fits into the framework of the model described in the previous section.¹⁸ In terms of the model and notation described in (1) and (2), we make use of this data to investigate the “causal” effect of maternal alcohol consumption r on infant health y .

In the absence of an instrumental variable - some characteristic that is correlated with maternal alcohol consumption but has no structural effect on infant health conditioned on the employed controls - the parameters of the model in (1) and (2) are identified based on maintained distributional assumptions and the nonlinearity of the model. In empirical practice, of course, we prefer to make use of such an instrumental variable (when available) so that identification does not rely solely on functional form assumptions. To this end, we are able to gather information on whether or not the respondent’s (i.e., the mother’s) biological mother or father “has been an alcoholic or problem drinker at any time in their life,” and argue that this variable can serve as an adequate instrument. Aside from environmental factors that would seem to generate correlation between the alcohol consumption of parents and their children, there is a growing awareness in the medical literature that alcoholism, like many other diseases, has a genetic component (*e.g.*, NIAAA 2003). Seemingly, then, a strong case can be made that this instrument should be correlated with maternal alcohol consumption. We also argue that grandparental alcohol consumption should have no structural effect on infant health conditioned on maternal alcohol consumption and other included maternal

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¹⁷This variable may not be an ideal indicator of infant health for two reasons. First, it may be the case that the number of months the child was taken to the doctor is a poor proxy for the overall number of visits during the first year of life. (That is, one child may have gone to the doctor 10 times in a particular month but still be recorded as only visiting the doctor 1 month of her first year of life.) We believe, however, that this problem is likely to be minor and our indicator should be strongly correlated with the overall number of physician visits. Second, for a child to visit the doctor for reasons related to illness, she must both be sick and the mother must actually make the effort to take the child to the doctor. That is, a child may be ill frequently, but a particular mother may simply choose not to take that child to visit the doctor. As described in the following section, we attempt to mitigate this last concern by controlling for maternal “indifference” through correlation between the errors in equations (1) and (2).

¹⁸Though one might be tempted to treat number of visits as, say, a count variable, there is an upper limit on the number of possible visits in this application. This leads us to specify a latent variable specification, as in (1), which is assumed to generate the observed health status variable. Of course, there is also the possibility of measurement error with these data, as the alcohol consumption and infant health variables could be miscategorized. We do not take up this issue in this paper, but defer it as the subject for future work.

characteristics such as education, “ability,” family income, age and, importantly, a proxy for maternal health.¹⁹

In addition to the key variables listed above, we also include age of the mother at the time of childbirth, highest grade completed by the mother, an “ability” (test score)²⁰ measure, family income and an indicator for whether or not there are other (older) children present in the household in equations (1) and (2). These controls are added to account for characteristics of the mother that we believe may be associated with maternal alcohol consumption and infant health. After restricting our attention to models with complete data²¹ for the requisite variables, we are left with a final sample of 1,124 observations. Descriptive statistics for variables used in our final sample are provided in Table 2.

4.1 The Endogeneity of Maternal Alcohol Consumption and a Conceptual Framework

In equation (1) z_{yi} is a latent variable which is assumed to generate our observed infant health outcome, number of months during the first year of life in which the child visited the doctor for reasons related to illness or injury. As discussed in the previous section, this latent variable can be decomposed into two parts: one part which proxies the true health status of the child and another portion which picks up the mother’s willingness to take the child to the doctor for a given health level. To this end, we think that the error term ϵ_{yi} in (1) contains a mother-specific component (which is potentially correlated with observed maternal alcohol consumption), which quantifies the level of (for lack of a better term) “indifference” of the mother. That is, for a given health status of the child, more indifferent mothers are probably less likely to make the effort to take their children to the doctor, resulting in fewer observed doctor visits on average. This “indifference,” of course, is also likely to have a

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¹⁹Of course, one might argue that grandparental alcohol consumption influences maternal health independently of her decision to drink, and this unobserved maternal health may also affect infant health. As a result, the instrument would not be exogenous. To this end, we construct a proxy for maternal health as a dummy variable indicating if there are any health problems that prevents the mother from working at a job for pay, or limits the kind or the amount of work she can do on a job for pay prior to 1983. Though this may not be an ideal health status proxy, our belief is that it may pick up significant maternal health issues which, potentially, could arise due to the alcohol consumption patterns of her parents.

²⁰This ability measure is the AFQT score provided in the NLSY. This score is included after first being standardized by age.

²¹In cases where the age of the youngest child at the time of the interview was less than a year, we deleted these observations, as they could not provide information on doctor visits for the full 12 month period.

positive effect on the propensity to consume alcohol during pregnancy, thus contributing to a negative correlation between the errors in (1) and (2). On the other hand, more indifferent mothers are probably less likely to perform acts that are typically associated with positive health outcomes for the child (e.g., encouraging exercise, providing a well-balanced diet), thus increasing the latent index z_{yi} and increasing the number of observed doctor visits. The latter part of this story is suggestive of a possible positive correlation between the errors in (1) and (2). *A priori*, we are not sure which of these two effects should dominate, but both stories suggest the potential for correlation among the outcome errors in our system and thus motivate the need to control for the endogeneity of alcohol consumption.

Relatedly, in some cases the coefficients on the observables in our health outcome equation (1) may be difficult to interpret. To show why this might be the case, let us introduce an illustrative conceptual model which formally incorporates the effects described in the previous paragraph:

$$z_{yi} = \alpha_1 H_i + \alpha_2 P_i + \tilde{\epsilon}_{yi} \quad (18)$$

$$H_i = x_{1i}\beta_1 + d_{ri}\theta_1 + \nu_i \quad (19)$$

$$P_i = x_{2i}\theta_2 + \omega_i \quad (20)$$

$$z_{ri} = x_{ri}\beta + I_i + \tilde{\epsilon}_{ri} \quad (21)$$

Equation (18) writes the latent variable generating observed doctor visits, z_{yi} , as a combination of two factors: the “true” (but, unfortunately, unobserved) child health status, denoted H_i , and an effect arising from a second variable P_i , which denotes the mother’s unobserved propensity to take the child to the doctor (for a given health level). Both of these variables combine to form an overall index, which is assumed to generate the observed number of doctor visits. Quite naturally, we expect $\alpha_1 < 0$ and $\alpha_2 > 0$ so that children in poorer health are likely to have more doctor visits, and mothers with a predisposition to have their child examined by a physician at the onset of an illness are more likely to take their children to the doctor.

In equation (19), infant health level H is written as a function of observables x_1 and d_r , the latter denoting the observed amount of maternal alcohol consumption. Similarly, in (20) P_i is written as a linear function of observables x_2 [which could potentially contain the covariates in (19)]. In the final equation, the latent variable generating alcohol consumption z_r is written as a function of observables x_r , and we have decomposed the error term into

unobserved maternal “indifference” I and a random error $\tilde{\epsilon}_r$. As discussed previously, we expect that unobserved “indifference” I is negatively correlated with both ω and ν .

Of course, upon substituting the equations for H and P into equation (18), the four equation system in (18)-(21) reduces to our two equation ordered system as in (1) and (2). The resulting sign of the correlation between the final composite errors of the two equations is unclear, though we have strong reason to suspect that a non-zero correlation may exist. As an additional concern, if x_1 and x_2 share common elements, then the coefficients appearing on those variables common to (19) and (20) must be interpreted as picking up the combined contribution of those covariates on both H and P . For example, it seems reasonable to expect that having other children in the household may lower infant health H (since the infant will typically be exposed to more illnesses), but at the same time, the experience of having children before may make the mother more confident in handling health issues without needing to see a doctor (thus lowering P). So, this variable would presumably be present as a covariate in both equations H and P (with offsetting effects on our observed outcome variable), and upon estimating the model in (1) and (2), we are not able to identify its individual contribution to each of these equations.

We are less concerned, however, about drawing correct conclusions regarding the “significance” of our alcohol consumption variable, the primary covariate of interest. In particular, if one were to argue that maternal alcohol consumption should also be included as an explanatory variable in the equation generating P , then presumably it would be negatively correlated with P - mothers who are more likely to drink probably have a lower propensity to take their children to the doctor, holding other factors constant. Therefore, if we find that the coefficient estimates on maternal alcohol consumption in (1) are positive, then it must be the case that maternal alcohol consumption has a negative effect on infant health; there is no other way to obtain such a positive coefficient under the seemingly reasonable assumptions that $\alpha_1 < 0$, $\alpha_2 > 0$ and alcohol consumption correlates negatively with P .²² As we describe in the following section, we find strong evidence of positive coefficients associated with maternal alcohol consumption, and thus draw the conclusion that maternal alcohol consumption has a negative and significant impact on early infant health.

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²²Upon substitution, the “final” coefficient on the alcohol consumption variable is of the form $\alpha_1\theta_1 + \alpha_2\theta_{2r}$, where θ_{2r} denotes the coefficient on the alcohol consumption variables in (20). If $\alpha_1 < 0$, $\alpha_2 > 0$, $\theta_{2r} < 0$ and the entire sum is found to be positive, then it must be the case that $\theta_1 < 0$ so that maternal alcohol consumption has a negative impact on infant health.

5 Empirical Results

Before providing coefficient estimates from our preferred simultaneous equations model, it is, perhaps, useful to present estimates obtained when considering equations (1) and (2) separately. Such an estimation procedure would be appropriate if $\sigma_{yr} = 0$, thus eliminating the need to control for the endogeneity of maternal alcohol consumption. This assumption is often implicitly made in biomedical research on this topic, as single-equation methods are routinely used, and mean independence assumptions are assumed to hold given the inclusion of sufficient controls.

Results of these equation-by-equation ordered probit analyses are presented in Table 3. What is most important to note from this first pass at the data are the coefficients on the maternal alcohol consumption variables.²³ As we can see from the table, children of mothers consuming moderate to large amounts of alcohol while pregnant (i.e., drinking at least once or twice a week while pregnant) tend to experience more doctor visits during the first year of life than children whose mothers never consumed alcohol. The evidence in this regard, however, is not overwhelming, as we find small posterior probabilities that the coefficients for the highest consumption categories are positive (with the exception of the highest consumption group). In addition, there is little evidence that children whose mothers consumed small to moderate quantities of alcohol while pregnant are associated with any increase in the number of doctor visits. Of course, one might question these results and suspect that selection bias remains an important concern, as unobservable confounding may still exist even with the given set of controls. If the correlation among the unobservables in equations (1) and (2) is negative, for example, (as could be the case if more indifferent mothers have a higher propensity to drink and are also less likely to take their children to the doctor when sick), then we might suspect that the single-equation ordered probit estimates actually understate the true impact of alcohol consumption on infant health. To this end, we now take up the case of our more general model which allows for the endogeneity of maternal alcohol consumption.

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²³Mothers who report to have “never” consumed alcohol while pregnant are the excluded group, so the coefficients on the remaining dummies should be interpreted as relative to that group.

5.1 Posterior Results for the Two Equation System

We fit our system of ordered outcomes using the posterior simulator described in the appendix. This posterior simulator makes use of Gibbs steps to simulate the majority of parameters in the model, but uses Metropolis-within-Gibbs steps based on Dirichlet proposal densities to simulate the transformed cutpoints γ^* and $\tilde{\gamma}^*$. The posterior simulator is run for 20,000 iterations and the first 4,000 are discarded as the burn-in. Coefficient posterior means, standard deviations, probabilities of being positive, and point estimates of marginal effects are provided in Table 4.²⁴

The top panel of Table 4 presents posterior results for the parameters of equation (2) describing the quantity of alcohol consumption during pregnancy. We first see that the instrument, an indicator denoting if the mother had a biological parent who was a “problem drinker or alcoholic” is strongly correlated with maternal alcohol consumption. Mothers with at least one parent who was a problem drinker are approximately 9 percent more likely to consume at least some amount of alcohol during pregnancy than those mothers whose parents were not problem drinkers. Somewhat surprisingly, the coefficients associated with the other variables are often insignificant and typically possess unexpected signs. The coefficients associated with education and test scores, for example, are positive, and for the case of test scores, have a very low posterior probability of being negative. As can be seen from the magnitude of the marginal effect estimates, however, we should not make too much of these positive coefficients, since these variables seemingly play minor roles in explaining maternal alcohol consumption decisions.

Posterior results for our health outcome equations are presented in the bottom panel of Table 4. Most importantly, we see positive coefficients associated with our maternal alcohol consumption variables, and these coefficients are generally increasing with the level of alcohol consumption. Specifically, mothers who reported to “drink nearly every day” during their pregnancies are estimated to take their children to the doctor nearly 7 more months during the child’s first year of life than mothers who report “never” consuming alcohol while pregnant. Those children of mothers consuming “small” but positive amounts of alcohol while pregnant (say, fewer than 3 or 4 days a month) are estimated to experience approximately

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²⁴For the sake of brevity, we do not present posterior information regarding the cutpoints from each equation, though these details are available upon request.

1.5 additional physician visits than children of mothers who completely avoid alcohol while pregnant. Older and more educated mothers tend to have children associated with more doctor visits, while more experienced mothers (i.e., those who have had children before) tend to make fewer physician visits. Again, similar to our discussion in the previous sections, these variables are likely to proxy a mother’s unobserved propensity to take the child to the physician rather than reflecting a structural effect related to infant health. Finally, we also note that our proxy for maternal health status (denoted “Health Problem” in Tables 3 and 4) plays some role in our equation describing the number of observed doctor visits. In particular, children of mothers who report having a health problem limiting their ability to work are associated with approximately .2 additional doctor visits per year, potentially suggesting that maternal health (or lack thereof) is, perhaps to a small degree, transmitted to the child. We also reiterate that the inclusion of our proxy for maternal health in (1) helps to strengthen our claims regarding the validity of our instrument - we argue that grandparental alcohol consumption plays no structural role in predicting infant health conditioned on maternal alcohol consumption, a proxy for maternal health and other employed controls.

We conclude by noting that the magnitude of the impacts of maternal alcohol consumption from our joint estimation procedure are larger than those suggested by our previous single equation analyses. We expected to observe such an increase if selection bias was indeed an important concern, and in particular, if there was a negative correlation between the unobservables of equations (1) and (2). The last row of Table 4 provides rather strong evidence that a non-zero correlation exists. The posterior mean of the correlation between the errors of our two equations is -.31, and the marginal posterior density places most of its mass over negative values (i.e., the posterior probability that the coefficient is negative is .943). This result clearly suggests the need to allow for the potential of unobservable confounding in our application, even with a reasonably rich set of employed controls.

6 Conclusion

We have described a new simulation-based Bayesian algorithm for fitting “treatment” effect models when both the outcome of interest and the endogenous “treatment” variable are ordered. We showed in generated data experiments how this new posterior simulator (based on a rescaling transformation) can lead to improved mixing of the simulated parameters

relative to use of the standard Gibbs sampler. This rescaling transformation was also shown to simplify some of the posterior computations, and in the specific case where there are 3 possible alternatives for either outcome, the need for “traditional” methods to simulate cutpoints associated with that variable is eliminated. It is our hope that the algorithm provided will be useful to other empirical researchers seeking to estimate treatment effect models with a similar structure.

Using data from the National Longitudinal Survey of Youth (NLSY) we also applied our methods in practice and investigated the effect of maternal alcohol consumption on early infant health. Our results revealed clear evidence that the health outcomes of infants whose mothers consumed alcohol while pregnant were worse than the outcomes of infants whose mothers never consumed alcohol while pregnant. In addition, the estimated parameters of our model clearly suggested the need to allow for the endogeneity of maternal alcohol consumption when seeking to identify its effect on early infant health.

Appendix: The Gibbs Algorithm

We employ the Gibbs sampler to fit the model described by (1) and (2). As mentioned in section 2, to improve the performance of the standard sampler, we follow Nandram and Chen (1996) and introduce a rescaling transformation in each of the ordered outcome equations. Specifically, we introduce the reparameterizations:

$$\sigma_y = 1/[\gamma_Y^2], \quad \beta_y^* = \sqrt{\sigma_y}\beta_y, \quad z_y^* = \sqrt{\sigma_y}z_y, \quad \gamma^* = \sqrt{\sigma_y}\gamma$$

and

$$\sigma_r = 1/[\tilde{\gamma}_R^2], \quad \beta_r^* = \sqrt{\sigma_r}\beta_r, \quad z_r^* = \sqrt{\sigma_r}z_r, \quad \tilde{\gamma}^* = \sqrt{\sigma_r}\tilde{\gamma}, \quad \tilde{\sigma}_{yr} = \sqrt{\sigma_y}\sqrt{\sigma_r}\sigma_{yr}.$$

Multiplying the latent variable equation in (1) on both sides by $\sqrt{\sigma_y}$, multiplying (2) on both sides by $\sqrt{\sigma_r}$, and using the parameterization above, we obtain an equivalent model of the form

$$z_{yi}^* = x_{yi}\beta_y^* + u_{yi} \quad (22)$$

$$z_{ri}^* = x_{ri}\beta_r^* + u_{ri} \quad (23)$$

with $y_i = j$ if $\gamma_j^* < z_{yi}^* \leq \gamma_{j+1}^*$ and $r_i = k$ if $\tilde{\gamma}_k^* < z_{ri}^* \leq \tilde{\gamma}_{k+1}^*$. The Normality assumption in (3) implies

$$\begin{bmatrix} u_{yi} \\ u_{ri} \end{bmatrix} \stackrel{iid}{\sim} N(0_2, \Sigma) \quad \text{where} \quad \Sigma = \begin{bmatrix} \sigma_y & \tilde{\sigma}_{yr} \\ \tilde{\sigma}_{yr} & \sigma_r \end{bmatrix} \quad (24)$$

and $\tilde{\sigma}_{yr} \equiv \sigma_{yr}\sqrt{\sigma_y}\sqrt{\sigma_r}$. In the algorithm below, we employ *blocking steps* where the transformed cutpoints and transformed latent data are drawn together in a single block to improve the overall performance of our sampler.

Gibbs Algorithm

1. Sample the coefficients $\beta^* = [\beta_y^* \ \beta_r^*]'$:

$$\beta^* | \Xi_{-\beta^*}, \text{Data} \sim N(D_\beta d_\beta, D_\beta),$$

where $\Xi_{-\theta}$ denotes all the parameters other than the parameter θ , $D_\beta = [X'(\Sigma^{*-1} \otimes I_n)X + V_\beta^{-1}]^{-1}$, $d_\beta = X'(\Sigma^{*-1} \otimes I_n)z^* + V_\beta^{-1}\beta_0$, $X = \begin{pmatrix} X_y & 0_{n \times k_r} \\ 0_{n \times k_y} & X_r \end{pmatrix}$, $V_\beta = \begin{pmatrix} V_y & 0_{k_y \times k_r} \\ 0_{k_r \times k_y} & V_r \end{pmatrix}$, $\beta_0 = \begin{pmatrix} 0_{k_y \times 1} \\ 0_{k_r \times 1} \end{pmatrix}$, and $z^* = \begin{pmatrix} z_y^* \\ z_r^* \end{pmatrix}$.

2. Sample the truncation points in the doctor visit equation, $\{\gamma_j^*\}_{j=3}^{Y-1}$, from its conditional posterior marginalized over z_y^* :

$$p(\{\gamma_j^*\}_{j=3}^{Y-1} | \Xi_{-\{\gamma_j^*\}_{j=3}^{Y-1}, z_y^*}, \text{Data}) \propto \prod_{i=1}^n [\Phi([\gamma_{y_{i+1}}^* - \mu_{y|r}]/\sqrt{\sigma_{y|r}}) - \Phi([\gamma_{y_i}^* - \mu_{y|r}]/\sqrt{\sigma_{y|r}})],$$

where Φ denotes the cumulative distribution function of the Normal density, $\mu_{y|r} \equiv x_{yi}\beta_y^* + \tilde{\sigma}_{yr}\sigma_r^{-1}(z_{ri}^* - x_{ri}\beta_r^*)$, and $\sigma_{y|r} \equiv \sigma_y - \tilde{\sigma}_{yr}^2\sigma_r^{-1}$. Following the reasoning of Nandram and Chen

(1996), we use a Dirichlet proposal density to sample the *differences* between cutpoint values, $q_j \equiv \gamma_{j+1}^* - \gamma_j^*$, $j = 3, \dots, Y-1$, and then solve back for $\{\gamma_j^*\}$. Specifically, we sample a candidate value, say $\{q_j^{can}\}_{j=3}^{Y-1} \sim \text{Dirichlet}(\{\alpha_j n_j + 1\}_{j=3}^{Y-1})$, where “can” denotes the candidate draw, $\{\alpha_j\}_{j=3}^{Y-1} = 0.1$ are tuning parameters, and $n_j \equiv \sum_{i=1}^n I(y_i = j)$, $j = 3, \dots, Y-1$ are the numbers of individuals falling into each category of the outcome variable. The probability of accepting the candidate draw is $\min(R, 1)$, where

$$R = \left[\prod_{i=1}^n \frac{\Phi([\gamma_{y_i+1}^{can} - \mu_{y|r}]/\sqrt{\sigma_{y|r}}) - \Phi([\gamma_{y_i}^{can} - \mu_{y|r}]/\sqrt{\sigma_{y|r}})}{\Phi([\gamma_{y_i+1, l-1} - \mu_{y|r}]/\sqrt{\sigma_{y|r}}) - \Phi([\gamma_{y_i, l-1} - \mu_{y|r}]/\sqrt{\sigma_{y|r}})} \right] \left[\prod_{j=3}^{Y-1} \left(\frac{q_{j, l-1}}{q_j^{can}} \right)^{\alpha_j n_j} \right],$$

and “ $l-1$ ” denotes the current value of the algorithm.

3. Sample the latent outcome in the doctor visit equation, z_{yi}^* , $i = 1, 2, \dots, n$, from the complete conditional:

$$z_{yi}^* | \Xi_{-z_{yi}^*}, \text{Data} \stackrel{ind}{\sim} TN_{(\gamma_{y_i}^*, \gamma_{y_i+1}^*)}(\mu_{y|r}, \sigma_{y|r}),$$

where $TN_{(a,b)}(\mu, \sigma)$ denotes a Normal distribution with mean μ and variance σ truncated to the interval between a and b .

4. Sample the cutpoints relevant to the drinking frequency equation from the posterior conditional for $\{\tilde{\gamma}_k^*\}_{k=3}^{R-1}$ marginalized over z_r^* :

$$p(\{\tilde{\gamma}_k^*\}_{k=3}^{R-1} | \Xi_{-\{\tilde{\gamma}_k^*\}_{k=3}^{R-1}, z_r^*}, \text{Data}) \propto \prod_{i=1}^n [\Phi([\tilde{\gamma}_{r_i+1}^* - \mu_{r|y}]/\sqrt{\sigma_{r|y}}) - \Phi([\tilde{\gamma}_{r_i}^* - \mu_{r|y}]/\sqrt{\sigma_{r|y}})],$$

where $\mu_{r|y} = x_{ri} \beta_r^* + \tilde{\sigma}_{yr} \sigma_y^{-1} (z_{yi}^* - x_{yi} \beta_y^*)$, and $\sigma_{r|y} = \sigma_r - \tilde{\sigma}_{yr}^2 \sigma_y^{-1}$. As in step (2) we use a Dirichlet proposal density to sample the differences between the cutpoints $\tilde{q}_k \equiv \tilde{\gamma}_{k+1}^* - \tilde{\gamma}_k^*$, $k = 3, \dots, R-1$, and specifically sample these differences from a $\text{Dirichlet}(\{\tilde{\alpha}_k \tilde{n}_k + 1\}_{k=3}^{R-1})$ proposal density, where $\{\tilde{\alpha}_k\}_{k=3}^{R-1} = 0.05$ are the tuning parameters and $\tilde{n}_k \equiv \sum_{i=1}^n I(r_i = k)$, $k = 3, \dots, R-1$ are the numbers of individuals falling into each category of the outcome variable. The probability of accepting the candidate draw is $\min(R, 1)$, where

$$R = \left[\prod_{i=1}^n \frac{\Phi([\tilde{\gamma}_{r_i+1}^{can} - \mu_{r|y}]/\sqrt{\sigma_{r|y}}) - \Phi([\tilde{\gamma}_{r_i}^{can} - \mu_{r|y}]/\sqrt{\sigma_{r|y}})}{\Phi([\tilde{\gamma}_{r_i+1, l-1} - \mu_{r|y}]/\sqrt{\sigma_{r|y}}) - \Phi([\tilde{\gamma}_{r_i, l-1} - \mu_{r|y}]/\sqrt{\sigma_{r|y}})} \right] \left[\prod_{k=3}^{R-1} \left(\frac{\tilde{q}_{k, l-1}}{\tilde{q}_k^{can}} \right)^{\tilde{\alpha}_k \tilde{n}_k} \right].$$

5. Sample the latent outcomes in the drinking frequency equation:

$$z_{ri}^* | \Xi_{-z_{ri}^*}, \text{Data} \stackrel{ind}{\sim} TN_{(\tilde{\gamma}_{r_i}^*, \tilde{\gamma}_{r_i+1}^*)}(\mu_{r|y}, \sigma_{r|y}),$$

for $i = 1, 2, 3, \dots, n$.

6. Sample the covariance matrix Σ^* :

$$\Sigma^* | \Xi_{-\Sigma^*}, Data \sim IW \left(2a + n, \{H^{-1} + \sum_{i=1}^n [(z_{yi}^* - x_{yi}\beta_y^*) (z_{ri}^* - x_{ri}\beta_r^*)]' [(z_{yi}^* - x_{yi}\beta_y^*) (z_{ri}^* - x_{ri}\beta_r^*)]\}^{-1} \right).$$

After each iteration we rescale all the parameters by dividing $\sqrt{\sigma_y}$ into β_y^* and $\{\gamma_j^*\}_{j=3}^Y$, and by dividing $\sqrt{\sigma_r}$ into β_r^* and $\{\tilde{\gamma}_k^*\}_{k=3}^R$. We provide the posterior summary statistics for these coefficients in the tables.

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Table 2: Descriptive statistics: drinking frequency equation and doctor visit equation

	Drinking Frequency Equation	
	Sample Mean	Standard Error
Number of days drinking per month ^a	0.806	2.33
Race ^b		
Hispanic	0.165	0.371
Black	0.335	0.472
Cognitive test score	0	1
Education	11.4	1.85
Age	20.1	2.21
Having children before	0.387	0.487
Biological parent alcoholic	0.298	0.457
	Additional Covariates in Doctor Visit Equation	
	Sample Mean	Standard Error
Number of months treated for illness	1.57	2.45
Youngest child female	0.476	0.499
Family income (\$10,000)	1.57	1.2
Health problem	0.369	0.483

^aThe listed descriptive statistics are the overall sample mean and standard error of drinking frequency. The mothers reported their drinking frequencies during pregnancies in one of the following categories: never [0], less than once a month [1], about once a month [2], 3 or 4 days a month [3], 1 or 2 days a week [4], 3 or 4 days a week [5], and nearly every day [6].

^bFor race, the excluded group are whites.

Table 3: Single equation estimates: drinking frequency equation and doctor visit equation

	Drinking Frequency Equation			
	$E(\beta D)$	$Std(\beta D)$	$P(\beta > 0 D)$	$\Delta P(r > 1 \Delta x_r, D)^a$
Constant	-0.997	0.392	0.00456	
Race				
Hispanic	-0.216	0.11	0.0241	-0.0735
Black	-0.0364	0.096	0.351	-0.0125
Cognitive test score	0.103	0.0452	0.989	0.0383
Education	0.0121	0.0256	0.682	0.00447
Age	0.0197	0.0187	0.853	0.00726
Having children before	0.0727	0.0842	0.806	0.0271
Biological parent alcoholic	0.211	0.0783	0.997	0.0804
	Doctor Visit Equation			
	$E(\beta D)$	$Std(\beta D)$	$P(\beta > 0 D)$	Marginal Effect ^b
Constant	-1.02	0.357	0.00175	
Race				
Hispanic	0.00391	0.0944	0.515	0.016
Black	-0.324	0.0869	0.000125	-0.528
Cognitive test score	-0.0435	0.0426	0.155	-0.0804
Education	0.0429	0.0228	0.97	0.0847
Age	0.0472	0.0171	0.997	0.0927
Having children before	-0.0727	0.0755	0.166	-0.129
Youngest child female	-0.0656	0.0653	0.157	-0.118
Family income (\$10,000)	-0.0129	0.0294	0.33	-0.0237
Health problem	0.103	0.0677	0.94	0.213
Drinking frequency				
Less than once a month	0.154	0.0902	0.954	0.326
About once a month	-0.0372	0.128	0.385	-0.0555
3 or 4 days a month	-0.13	0.15	0.193	-0.218
1 or 2 days a week	0.0591	0.165	0.641	0.143
3 or 4 days a week	0.162	0.327	0.692	0.435
Nearly every day	1.1	0.587	0.969	3.42

^aThe quantity $\Delta P(r > 1|\Delta x_r, Data)$ measures the marginal effect of any control variable x_r on the probability of having any alcohol consumption during pregnancy $P(r > 1)$.

^bThis quantity measures the marginal effect of any control variable on the number of months in the first year during which the youngest child was treated by doctor for illness.

Table 4: Simultaneous equation estimates: drinking frequency equation and doctor visit equation

	Drinking Frequency Equation			
	$E(\beta D)$	$Std(\beta D)$	$P(\beta > 0 D)$	$\Delta P(r > 1 \Delta x_r, D)^a$
Constant	-1.01	0.389	0.004	
Race				
Hispanic	-0.211	0.108	0.0251	-0.0717
Black	-0.0104	0.096	0.46	-0.00325
Cognitive test score	0.109	0.045	0.992	0.0409
Education	0.00766	0.0256	0.619	0.00293
Age	0.0219	0.0189	0.877	0.00812
Having children before	0.0677	0.0833	0.792	0.0256
Biological parent alcoholic	0.241	0.0754	0.999	0.0916
	Doctor Visit Equation			
	$E(\beta D)$	$Std(\beta D)$	$P(\beta > 0 D)$	Marginal Effect ^b
Constant	-1.07	0.349	0.001	
Race				
Hispanic	0.047	0.0971	0.689	0.107
Black	-0.3	0.0875	0.000188	-0.521
Cognitive test score	-0.0663	0.0435	0.0646	-0.13
Education	0.0405	0.0223	0.965	0.0837
Age	0.0408	0.0174	0.991	0.0843
Having children before	-0.0833	0.0755	0.133	-0.158
Youngest child female	-0.0609	0.0617	0.16	-0.116
Family income (\$10,000)	-0.0109	0.028	0.352	-0.0208
Health problem	0.0971	0.0642	0.937	0.208
Drinking frequency				
Less than once a month	0.526	0.235	0.97	1.41
About once a month	0.493	0.336	0.921	1.37
3 or 4 days a month	0.503	0.401	0.892	1.45
1 or 2 days a week	0.809	0.472	0.943	2.48
3 or 4 days a week	1.09	0.627	0.946	3.54
Nearly every day	2.11	0.818	0.986	6.9
Correlation: $\sigma_{yr} = \rho_{yr}$	-0.312	0.184	0.0571	

^aThe quantity $\Delta P(r > 1|\Delta x_r, Data)$ measures the marginal effect of any control variable x_r on the probability of having any alcohol consumption during pregnancy $P(r > 1)$.

^bThis quantity measures the marginal effect of any control variable on the number of months in the first year during which the youngest child was treated by doctor for illness.