Bayesian and Frequentist Inference in Partially Identified Models

Supplementary Material: Proofs and Derivations

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This supplement contains proofs and derivations for results presented in the paper “Bayesian and Frequentist Inference in Partially Identified Models” by H. Moon and F. Schorfheide.

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A Proofs of Theorems and Corollary in Main Text

This section contains proofs for Theorems 1 and 2 as well as Corollary 1. The proof of Theorem 1 requires Lemma A.1 stated below.

Proof of Theorem 1(ii): Since the $L_1$ distance satisfies the triangle inequality

$$\|P_{Y^n} - P_{\hat{\phi}_n}^\theta\| \leq \|P_{Y^n} - P_{N,Y^n}^\theta\| + \|P_{N,Y^n}^\theta - P_{\hat{\phi}_n}^\theta\|$$

it suffices to show that $\|P_{N,Y^n}^\theta - P_{\hat{\phi}_n}^\theta\| \xrightarrow{p} 0$.

$$\begin{align*}
\|P_{N,Y^n}^\theta - P_{\hat{\phi}_n}^\theta\| & \leq \int_{\mathbb{R}^m} \left| P_{\phi_n + \hat{j}_n^{-1/2}D_n^{-1}s}^\theta - P_{\hat{\phi}_n}^\theta \right| dN(0, I)(s) \\
& \leq \int_{\mathbb{R}^m} I\{\|\hat{\phi}_n - \phi_0\| < \delta\} I\{\|\hat{\phi}_n - \phi_0 + \hat{j}_n^{-1/2}D_n^{-1}s\| < \delta\} \left| P_{\phi_n + \hat{j}_n^{-1/2}D_n^{-1}s}^\theta - P_{\hat{\phi}_n}^\theta \right| dN(0, I)(s) \\
& \quad + 2I\{\|\hat{\phi}_n - \phi_0\| \geq \delta\} + 2 \int_{\mathbb{R}^m} I\{\|\hat{\phi}_n - \phi_0 + \hat{j}_n^{-1/2}D_n^{-1}s\| \geq \delta\} dN(0, I)(s) \\
& \leq \int_{\mathbb{R}^m} M(\phi_0, \delta) \|\hat{j}_n^{-1/2}D_n^{-1}s\| dN(0, I)(s) + 2I\{\|\hat{\phi}_n - \phi_0\| \geq \delta\} + 2 \int_{\mathbb{R}^m} I\{\|\hat{j}_n^{-1/2}D_n^{-1}s\| \geq \delta/2\} dN(0, I)(s) \\
& \leq M(\phi_0, \delta) \|\hat{j}_n^{-1/2}D_n^{-1}\| \int_{\mathbb{R}^m} \|s\| dN(0, I)(s) + o_p(1) \xrightarrow{p} 0.
\end{align*}$$

For the second inequality we bound the $L_1$ distance $\|P_{\phi_n + \hat{j}_n^{-1/2}D_n^{-1}s}^\theta - P_{\hat{\phi}_n}^\theta\|$ by 2 if either $\hat{\phi}_n$ or $\hat{\phi}_n + \hat{j}_n^{-1/2}D_n^{-1}s$ lie outside of the $N_\delta(\phi_0)$ neighborhood. For the third inequality we use the Lipschitz bound of Assumption 2 and the inequality $I\{\|x + y\| \geq \delta\} \leq I\{\|x\| \geq \delta/2\} + I\{\|y\| \geq \delta/2\}$. The last line follows from Assumption 1 that $\hat{\phi}_n$ converges in probability to $\phi_0$, $\|D_n\| \uparrow \infty$, and $\hat{j}_n^{-1/2} = O_p(1)$. A similar argument can be used to establish the convergence of $P_{Y^n}^\theta$ to $P_{\phi_0}^\theta$. ■

The following Lemma is needed for the subsequent proof of Theorem 2. To simplify the notation let $p_Y(\theta) = p(\theta|Y^n)$, and $p_0(\theta) = p(\theta|\phi_0)$. Similarly, we abbreviate the thresholds $\kappa_{Y^n}$ and $\kappa_{\phi_0}$ by $\kappa_Y$ and $\kappa_0$. A proof is provided in the Online Appendix.
Lemma A.1 Suppose that \( \int |p_Y(\theta) - p_0(\theta)|d\theta = o_p(1) \) and \( \int I\{p_0(\theta) = \kappa_0\}p_0(\theta)d\theta = 0 \), where \( \kappa_0 < \infty \). Then
\[
\int \left| I\{p_Y(\theta) \geq \kappa_0\} - I\{p_0(\theta) \geq \kappa_0\} \right| p_Y(\theta)d\theta = o_p(1).
\]

Proof of Lemma A.1: (This Lemma is used to prove Theorem 2. Write
\[
\int \left| I\{p_Y(\theta) \geq \kappa_0\} - I\{p_0(\theta) \geq \kappa_0\} \right| p_Y(\theta)d\theta
= \int \left| I\{p_Y(\theta) \geq \kappa_0, p_0(\theta) < \kappa_0\} \right| p_Y(\theta)d\theta + \int \left| I\{p_Y(\theta) < \kappa_0, p_0(\theta) \geq \kappa_0\} \right| p_Y(\theta)d\theta
= \int_{\theta \in A_n} p_Y(\theta)d\theta + \int_{\theta \in B_n} p_Y(\theta)d\theta = (I) + (II),
\]
say. We will subsequently construct \( o_p(1) \) bounds for terms \( (I) \) and \( (II) \).

Bound for \( (I) \): We deduce from the \( L_1 \) convergence assumption of \( p_Y(\theta) \) to \( p_0(\theta) \) that
\[
(I) = \int_{\theta \in A_n} p_Y(\theta)d\theta = \int_{\theta \in A_n} p_0(\theta)d\theta + o_p(1) = (Ia) + o_p(1).
\]

Thus, it suffices construct an \( o_p(1) \) bound for \( Ia \). Define the function
\[
f_n(\theta) = p_Y(\theta) - p_0(\theta)
\]
and notice that \( f_n(\theta) > 0 \) for \( \theta \in A_n \). With this definition,
\[
\int_{A_n} f_n(\theta)p_0(\theta)d\theta
= \int_{A_n} |p_Y(\theta) - p_0(\theta)|p_0(\theta)d\theta \leq \kappa_0 \int_{A_n} |p_Y(\theta) - p_0(\theta)|d\theta = o_p(1). \tag{A.1}
\]

The inequality follows from \( p_0(\theta) < \kappa_0 \) on the set \( A_n \). The \( o_p(1) \) statement is a consequence of the assumptions that \( p_Y(\theta) \) converges to \( p_0(\theta) \) in \( L_1 \) and that \( \kappa_0 \) is finite.

Now notice that
\[
I\{\theta \in A_n\} = I\left\{ I\{\theta \in A_n\}f_n(\theta) > 0 \right\}. \tag{A.2}
\]

If \( \theta \in A_n \) then \( f_n(\theta) > 0 \), which means that \( I\{\theta \in A_n\}f_n(\theta) > 0 \). Moreover, for any \( \eta > 0 \) we obtain the inequality
\[
I\left\{ I\{\theta \in A_n\}f_n(\theta) > \eta \right\} \leq \frac{1}{\eta} I\{\theta \in A_n\}f_n(\theta). \tag{A.3}
\]
Thus,

\[(Ia) = \int I\{\theta \in A_n, f_n(\theta) > 0\} p_0(\theta) d\theta \]
\[\leq \int I\{\theta \in A_n, f_n(\theta) > 0\} p_0(\theta) d\theta - \int I\{\theta \in A_n, f_n(\theta) > \eta\} p_0(\theta) d\theta \]
\[- \frac{1}{\eta} \int_{A_n} f_n(\theta) p_0(\theta) d\theta \]
\[= \int I\{0 < I\{\theta \in A_n\} f_n(\theta) \leq \eta\} p_0(\theta) d\theta + \frac{1}{\eta} \int_{A_n} f_n(\theta) p_0(\theta) d\theta \]
\[= (Ib) + (Ic),\]

say. The first equality follows from (A.2). The inequality is a consequence of (A.3).

To bound \((Ib)\) notice that

\[I\{0 < I\{\theta \in A_n\} f_n(\theta) \leq \eta\} \leq I\{\kappa_0 - \eta \leq p_0(\theta) \leq \kappa_0 + \eta\}.\]

For the indicator function on the left-hand-side to be one, it has to be the case that \(\theta \in A_n\) and \(f_n(\theta) \leq \eta\). On the set \(A_n\) \(p_Y(\theta) \geq \kappa_0\) which leads to

\[\kappa_0 \leq p_Y(\theta) = p_0(\theta) + f_n(\theta) \leq p_0(\theta) + \eta,\]

that is,

\[\kappa_0 - \eta \leq p_0(\theta).\]

Moreover, \(p_0(\theta) < \kappa_0 \leq \kappa_0 + \eta\) and therefore the following inequality is satisfied:

\[\kappa_0 - \eta \leq p_0(\theta) \leq \kappa_0 + \eta.\]

Thus,

\[(Ib) \leq \int I\{\kappa_0 - \eta \leq p_0(\theta) \leq \kappa_0 + \eta\} p_0(\theta) d\theta.\]

Based on the Dominated Convergence Theorem and the assumption \(\int I\{p_0(\theta) = \kappa_0\} p_0(\theta) = 0\) we deduce that

\[\lim_{\eta \to 0} \int I\{\kappa_0 - \eta \leq p_0(\theta) \leq \kappa_0 + \eta\} p_0(\theta) d\theta = \int I\{p_0(\theta) = \kappa_0\} p_0(\theta) = 0. \quad (A.4)\]
Notice that our bound for $(Ib)$ is deterministic.

To establish that $(Ia) \overset{P}{\to} 0$ it suffices to show that for every $\epsilon > 0$ and $\delta > 0$ there exists an $N(\epsilon, \delta)$ such that for $n \geq N(\epsilon, \delta)$

$$\mathbb{P}\{Ia > \epsilon\} \leq \mathbb{P}\{Ib > \epsilon/2\} + \mathbb{P}\{Ic > \epsilon/2\} < \delta.$$ 

Based on (A.4) we can find an $\eta(\epsilon) > 0$ such that $\mathbb{P}\{Ib > \epsilon/2\} = 0$. To obtain a bound for $(Ic)$ define $Z_n = \int_{A_n} f_n(\theta)p_0(\theta)d\theta$ such that $(Ic) = Z_n/\eta$. According to (A.1), $Z_n = o_p(1)$. Thus, we can find an $N(\epsilon, \delta)$ such that

$$\mathbb{P}\left\{|Z_n| > \eta(\epsilon)\frac{\epsilon}{2}\right\} < \delta$$

whenever $n \geq N(\epsilon, \delta)$, which shows that $(Ia) = o_p(1)$.

**Bound for (II):** This bound can be obtained following the same steps. Change the definition of $f_n(\theta)$ to

$$f_n(\theta) = p_0(\theta) - p_Y(\theta).$$

Using this definition we obtain that

$$\int_{\theta \in B_n} f_n(\theta)p_Y(\theta)d\theta = \int_{\theta \in B_n} (p_0(\theta) - p_Y(\theta))p_Y(\theta)d\theta$$

$$\leq \kappa_0 \int_{\theta \in B_n} |p_0(\theta) - p_Y(\theta)|d\theta = o_p(1)$$

because on the set $B_n$ the density $p_Y(\theta)$ is bounded by $\kappa_0$. Now consider

$$(II) = \int_{B_n} p_Y(\theta)d\theta = \int I\left\{I\{\theta \in B_n\}f_n(\theta) > 0\right\}p_Y(\theta)d\theta$$

$$\leq \int I\left\{I\{\theta \in B_n\}f_n(\theta) > 0\right\}p_Y(\theta)d\theta - \int I\left\{I\{\theta \in B_n\}f_n(\theta) > \eta\right\}p_Y(\theta)d\theta$$

$$+ \frac{1}{\eta} \int_{B_n} f_n(\theta)p_Y(\theta)d\theta$$

$$= \int I\left\{0 < I\{\theta \in B_n\}f_n(\theta) \leq \eta\right\}p_0(\theta)d\theta + \frac{1}{\eta} \int_{B_n} f_n(\theta)p_Y(\theta)d\theta + o_p(1)$$

$$= (IIb) + (IIc) + o_p(1).$$

In the last line we used the $L_1$ convergence to replace $p_Y(\theta)$ by $p_0(\theta)$ in the definition of term $(IIb)$ which introduces an additional $o_p(1)$ term.
To bound \((IIb)\) notice that

\[ I\left\{ 0 < I\{ \theta \in B_n\} f_n(\theta) \leq \eta \right\} \leq I\left\{ \kappa_0 - \eta \leq p_n(\theta) \leq \kappa_0 + \eta \right\}. \]

For the indicator function on the left-hand-side to be one, it has to be the case that \(\theta \in B_n\) and \(f_n(\theta) \leq \eta\). On the set \(B_n\) \(p_Y(\theta) < \kappa_0\) which leads to

\[ \kappa_0 > p_Y(\theta) = p_0(\theta) - f_n(\theta) \geq p_0(\theta) - \eta. \]

that is,

\[ \kappa_0 + \eta \geq p_0(\theta). \]

Moreover, \(p_0(\theta) \geq \kappa_0 \geq \kappa_0 - \eta\) and therefore the following inequality is satisfied:

\[ \kappa_0 - \eta \leq p_0(\theta) \leq \kappa_0 + \eta. \]

Thus,

\[ (IIb) \leq \int I\left\{ \kappa_0 \leq p_0(\theta) < \kappa_0 + \eta \right\} p_0(\theta) d\theta. \]

Dominated convergence implies that the bound converges to zero as \(\eta \rightarrow 0\). The remaining steps needed to establish that \((II) = o_p(1)\) are identical to the steps followed for term \((I)\).

\[ \blacksquare \]

**Proof of Theorem 2:** Throughout the proof we express the symmetric difference between two sets in terms of indicator functions: \(A \ominus B = |I\{ x \in A \} - I\{ x \in B \}|\). Part (i): To simplify the notation let \(p_Y(\theta) = p(\theta|Y^n)\) and \(p_0(\theta) = p(\theta|\phi_0)\). Similarly, we abbreviate the thresholds \(\kappa_{Y^n}\) and \(\kappa_{\phi_0}\) by \(\kappa_Y\) and \(\kappa_0\). Write

\[ \begin{align*}
\int \left| I\{p_Y(\theta) \geq \kappa_Y\} - I\{p_0(\theta) \geq \kappa_0\} \right| p_Y(\theta) d\theta \\
= \int \left| I\{p_Y(\theta) \geq \kappa_0\} - I\{p_Y(\theta) \geq \kappa_Y\} \right| p_Y(\theta) d\theta \\
+ \int \left| I\{p_Y(\theta) \geq \kappa_0\} - I\{p_0(\theta) \geq \kappa_0\} \right| p_Y(\theta) d\theta \\
= (I) + (II),
\end{align*} \]
say. In view of our assumptions Lemma A.1 provides an $o_p(1)$ bound for term (II). Now consider term (I). Since by construction

$$
\int I\{p_Y(\theta) \geq \kappa_Y\}p_Y(\theta)d\theta = 1 - \tau,
$$

we can write term I as

$$(I) = \int I\{p_Y(\theta) \geq \min \{\kappa_0, \kappa_Y\}\}p_Y(\theta)d\theta - \int I\{p_Y(\theta) \geq \max \{\kappa_0, \kappa_Y\}\}p_Y(\theta)d\theta
+ I\{\kappa_0 > \kappa_Y\}\left[\int I\{p_Y(\theta) \geq \min \{\kappa_0, \kappa_Y\}\}p_Y(\theta)d\theta - (1 - \tau)\right]
= \left|\int I\{p_Y(\theta) \geq \kappa_0\}p_Y(\theta)d\theta - (1 - \tau)\right|.
$$

In order to show that $I = o_p(1)$ we add and subtract $\int I\{p_0(\theta) \geq \kappa_0\}p_Y(\theta)d\theta$ and using the triangle inequality:

$$(I) \leq \left|\int I\{p_Y(\theta) \geq \kappa_0\}p_Y(\theta)d\theta - \int I\{p_0(\theta) \geq \kappa_0\}p_Y(\theta)d\theta\right|
+ \left|\int I\{p_0(\theta) \geq \kappa_0\}p_Y(\theta)d\theta - (1 - \tau)\right|
\leq \left|\int I\{p_Y(\theta) \geq \kappa_0\} - I\{p_0(\theta) \geq \kappa_0\}\right|p_Y(\theta)d\theta
+ \left|\int I\{p_0(\theta) \geq \kappa_0\}\right|p_Y(\theta)d\theta - p_0(\theta)d\theta = o_p(1).
$$

The first equality holds because $\int I\{p_0(\theta) \geq \kappa_0\}p_0(\theta)d\theta = 1 - \tau$. The final $o_p(1)$ result follows from Lemma A.1 and the $L_1$ convergence of the posterior densities established in Theorem 1.

Part (ii): The triangle inequality implies that

$$
\|P_{\phi_n}^\theta - P_{\phi_0}^\theta\| \leq \|P_Y^\theta - P_{\phi_n}^\theta\| + \|P_Y^\theta - P_{\phi_0}^\theta\| \xrightarrow{p} 0
$$
by Theorem 1(ii). Let \( p_n(\theta) = p(\theta|\hat{\phi}_n) \) and \( \kappa_n = \kappa_{\hat{\phi}_n} \). Then using the same argument as for Part (i), replacing \( p_Y(\theta) \) by \( p_n(\theta) \) and \( \kappa_Y \) by \( \kappa_n \) we can easily establish that

\[
\int \left| I\{\theta \in CS_{HPD}(\hat{\phi}_n)\} - I\{\theta \in CS_{HPD}(\phi_0)\} \right| dP_{Y_n} \xrightarrow{p} 0.
\] (A.5)

Now consider the following inequality

\[
|I\{\theta \in A\} - I\{\theta \in B\}| \leq |I\{\theta \in A\} - I\{\theta \in C\}| + |I\{\theta \in B\} - I\{\theta \in C\}|
\] (A.6)

\[
= (I) + (II).
\]

If the left-hand side of (A.6) is zero, then the inequality is trivially satisfied. The left-hand side of (A.6) is one if \( \theta \in A \) and \( \theta \notin B \) or if \( \theta \notin A \) and \( \theta \in B \). Since the statement of the inequality is symmetric in \( A \) and \( B \) we focus on the first case. If \( \theta \in A \), \( \theta \notin B \), and \( \theta \in C \), then \( (I) = |1 - 1| = 0 \) and \( (II) = |0 - 1| = 1 \). If \( \theta \in A \), \( \theta \notin B \), and \( \theta \notin C \), then \( (I) = |1 - 0| = 1 \) and \( (II) = |0 + 0| = 0 \). We deduce that whenever the left-hand side of (A.6) is equal to one, the right-hand side is equal to one as well, which confirms the inequality.

Now let

\[ A = CS_{HPD}(Y^n), \quad B = CS_{HPD}(\hat{\phi}_n), \quad \text{and} \quad C = CS_{HPD}(\phi_0). \]

Integrating both sides of (A.6) yields

\[
\int |I\{\theta \in A\} - I\{\theta \in B\}| p_Y(\theta) d\theta
\leq \int |I\{\theta \in A\} - I\{\theta \in C\}| p_Y(\theta) d\theta + \int |I\{\theta \in B\} - I\{\theta \in C\}| p_Y(\theta) d\theta = o_p(1).
\]

The \( o_p(1) \) statement follows from Part (i) and (A.5).

**Proof of Corollary 1:** Recall that \( \Theta(\hat{\phi}_n) \subset CS_F(Y^n) \) and \( CS_{HPD}(Y^n) \subset \Theta \). Part (i) follows from the inequalities

\[
P_{Y_n}(CS_{HPD}(Y^n)|CS_F(Y^n))
\leq P_{Y_n}(\Theta|\Theta(\hat{\phi}_n))
= 1 - P_{Y_n}(\Theta(\hat{\phi}_n))
\leq 1 - P_{\phi_n}(\Theta(\hat{\phi}_n)) + \left| P_{\phi_n}(\Theta(\hat{\phi}_n)) - P_{Y_n}(\Theta(\hat{\phi}_n)) \right|
\xrightarrow{p} 0.
\]
The probability limit is obtained from $P_{\hat{\phi}_n}(\Theta(\hat{\phi}_n)) = 1$ and Theorem 1(ii).

Part (ii) can be deduced from the following inequalities:

\[
P_Y^n(CS^\theta_F(Y^n)\backslash CS^\theta_{HPD}(Y^n)) \\
\geq P_Y^n(\Theta(\hat{\phi}_n)\backslash CS^\theta_{HPD}(Y^n)) \\
\geq P_Y^n(\Theta(\hat{\phi}_n)) - P_Y^n(CS^\theta_{HPD}(Y^n)) \\
\geq P_{\hat{\phi}_n}(\Theta(\hat{\phi}_n)) - P_Y^n(CS^\theta_{HPD}(Y^n)) - \left| P_{\hat{\phi}_n}(\Theta(\hat{\phi}_n)) - P_{\hat{\phi}_n}(\Theta(\hat{\phi}_n)) \right| \\
\xrightarrow{P} 1 - (1 - \tau) = \tau.
\]

The probability limit is obtained from $P_{\hat{\phi}_n}(\Theta(\hat{\phi}_n)) = 1$, $P_Y^n(CS^\theta_{HPD}(Y^n)) = 1 - \tau$, and Theorem 1(ii). ■
B Derivations of Results Presented in Main Text

This section contains derivations for Section 2, derivations for Remark 2 in Section 3, as well as detailed derivations for the entry game illustration in Section 4.

Derivations for Section 2

Direct calculation of the posterior density of $\theta$:

\[
p(\theta | Y^n) = \frac{1}{\sqrt{2\pi/n}} \int_{-\infty}^{\infty} \frac{1}{\lambda} I\{\phi \leq \theta \leq \phi + \lambda\} \exp\left\{-\frac{n}{2}(\phi - \hat{\phi}_n)^2\right\} d\phi
\]

\[
= \frac{1}{\lambda} \frac{1}{\sqrt{2\pi}} \int_{\sqrt{n}(\theta - \hat{\phi}_n)}^{\sqrt{n}(\theta - \hat{\phi}_n - \lambda)} \exp\left\{-\frac{s^2}{2}\right\} ds
\]

\[
= \frac{1}{\lambda} \left[ \Phi_N(\sqrt{n}(\theta - \hat{\phi}_n)) - \Phi_N(\sqrt{n}(\theta - \hat{\phi}_n - \lambda)) \right].
\]

The second equality follows from re-arranging the inequalities in the indicator function and the change of variables $s = \sqrt{n}(\phi - \hat{\phi}_n)$. It is straightforward to verify that $p(\theta | Y^n)$ has a single mode at $\theta = \hat{\phi}_n + \lambda/2$ and is symmetric around the mode. ■

Derivations for Section 3

Direct Calculations to Verify Equation (18): We begin with the change of variable $s = \hat{J}_n^{1/2}D_n(\theta - \hat{\phi}_n + \tilde{s})$, which leads to

\[
p(\theta | Y^n) = p_N(\theta | Y^n)
\]

\[
= \frac{1}{\lambda_n} \int f\left(\frac{\theta - \hat{\phi}_n - \hat{J}_n^{-1/2}D_n^{-1}s}{\lambda_n}\right) \varphi_N(s) ds
\]

\[
= \frac{1}{\lambda_n} |\hat{J}_n^{1/2}D_n| \int_{\tilde{s} = -\lambda_n}^{0} f(-\lambda_n^{-1}\tilde{s}) \varphi_N(\hat{J}_n^{1/2}D_n(\theta - \hat{\phi}_n + \tilde{s})) d\tilde{s}.
\]
The second equality makes use of the assumption that \( f(x) = 0 \) outside of the unit interval. The \( L_1 \) distance can be bounded as follows:

\[
\int_{\theta} \left| \frac{1}{p_n(\theta)} - \left| \frac{1}{\tilde{f}_{n/2} D_n} \right| \varphi_N(\tilde{f}_{n/2} D_n(\theta - \phi_n)) \right| d\theta \\
= \left| \frac{1}{\tilde{f}_{n/2} D_n} \right| \int_{\theta} \int_{\bar{s}} \frac{1}{\lambda_n} f(-\lambda_n^{-1} \bar{s}) \left[ \varphi_N(\tilde{f}_{n/2} D_n(\theta - \phi_n + \bar{s})) - \varphi_N(\tilde{f}_{n/2} D_n(\theta - \phi_n)) \right] d\bar{s} d\theta \\
\leq \left| \frac{1}{\tilde{f}_{n/2} D_n} \right| \int_{\theta} \int_{\bar{s}} \frac{1}{\lambda_n} f(-\lambda_n^{-1} \bar{s}) \left| \varphi_N(\tilde{f}_{n/2} D_n(\theta - \phi_n + \bar{s})) - \varphi_N(\tilde{f}_{n/2} D_n(\theta - \phi_n)) \right| d\theta d\bar{s} \\
\leq \int_{\theta} \frac{1}{\lambda_n} f(-\lambda_n^{-1} \bar{s}) \left| \varphi_N(\tilde{\theta} + \tilde{f}_{n/2} D_n \bar{s}) - \varphi_N(\tilde{\theta}) \right| d\tilde{\theta} d\bar{s}. \\
\text{(B.1)}
\]

The first equality follows because \( \int_0^1 f(x) dx = 1 \) and \( \varphi_N(\tilde{f}_{n/2} D_n(\theta - \phi_n)) \) does not depend on \( \bar{s} \). The last inequality is based on the change of variables \( \tilde{\theta} = \tilde{f}_{n/2} D_n(\theta - \phi_n) \).

Now consider the difference \( \varphi_N(\tilde{\theta} + h) - \varphi_N(\tilde{\theta}) \) for \( -\bar{h} \leq h \leq 0 \). By direct calculation we obtain

\[
|\varphi_N(\tilde{\theta} + h) - \varphi_N(\tilde{\theta})| = \left| (2\pi)^{-1/2} \exp \left\{ -\frac{1}{2} (\tilde{\theta} + h)^2 \right\} - \varphi_N(\tilde{\theta}) \right| \\
= \left| \exp \left\{ -\frac{1}{2} (2\tilde{\theta} h + h^2) \right\} - 1 \right| \varphi_N(\tilde{\theta}).
\]

A first-order Taylor series expansion around \( h = 0 \) yields

\[
\exp \left\{ -\frac{1}{2} (2\tilde{\theta} h + h^2) \right\} - 1 = - (\tilde{\theta} + h, \tilde{\theta}) \exp \{ -\tilde{\theta} h, \tilde{\theta} \} \exp \{ -h^2 / 2 \} h,
\]

where \( -\bar{h} \leq h, \tilde{\theta} \leq 0 \). Thus, on the interval \( -\bar{h} \leq h \leq 0 \) we obtain the bound

\[
\left| \exp \left\{ -\frac{1}{2} (2\tilde{\theta} h + h^2) \right\} - 1 \right| \varphi_N(\tilde{\theta}) \leq (|\tilde{\theta}| + \bar{h}) \exp \{ -\tilde{\theta} h I \{ \tilde{\theta} \leq 0 \} \} \bar{h} \varphi_N(\tilde{\theta}). \\
\text{(B.2)}
\]

Replacing \( \bar{h} \) by \( \tilde{f}_{n/2} D_n \lambda_n \) in (B.2) and combining (B.1) with (B.2) leads to

\[
\int_{\theta} \left| \frac{1}{p_n(\theta)} - \left| \frac{1}{\tilde{f}_{n/2} D_n} \right| \varphi_N(\tilde{f}_{n/2} D_n(\theta - \phi_n)) \right| d\theta \\
\leq \tilde{f}_{n/2} D_n \lambda_n \int_{\tilde{\theta}} \left| (|\tilde{\theta}| + \tilde{f}_{n/2} D_n \lambda_n) \exp \{ -\tilde{\theta} \tilde{f}_{n/2} D_n \lambda_n I \{ \tilde{\theta} \leq 0 \} \} \varphi_N(\tilde{\theta}) d\tilde{\theta} = o_p(1).
\]
The $o_p(1)$ statement follows because $D_n\lambda_n \to 0$ and we can find a finite constant $M$ and an $N_M$ such that for $n > N_M$

$$\int_{\tilde{\theta}} ((\tilde{\theta} + \tilde{j}_n^{1/2}D_n\lambda_n) \exp\{-\tilde{\theta}\tilde{j}_n^{1/2}D_n\lambda_nI\{\tilde{\theta} \leq 0\}\} \varphi_N(\tilde{\theta})d\tilde{\theta} \leq M$$

with probability approaching one. ■

**Derivations for Section 4**

The probabilities that firm $i$ is profitable as monopolist and duopolist are

$$m_i = \Phi_N(\beta_i) \quad \text{and} \quad d_i = \Phi_N(\beta_i - \gamma_i). \quad (B.3)$$

The relationship between the reduced-form entry probabilities and $m_i$ and $d_i$, $i = 1, 2$ is given by

$$\phi_{11} = d_1d_2 \quad (B.4)$$

$$\phi_{00} = (1-m_1)(1-m_2) \quad (B.5)$$

$$\phi_{10} = m_1(1-m_2) + d_1(m_2 - d_2) + \psi(m_1 - d_1)(m_2 - d_2) \quad (B.6)$$

$$= m_1(1-d_2) - (1-\psi)(m_1 - d_1)(m_2 - d_2),$$

where $\psi \in [0, 1]$. The vector of non-redundant reduced form parameters is given by $\phi = [\phi_{11}, \phi_{00}, \phi_{10}]'$ and the structural parameters are $\theta = [\beta_1, \gamma_1, \beta_2, \gamma_2]'$. In addition, there is an auxiliary parameter $\psi$.

**Identified Set**

We will now provide a characterization of the identified set $\Theta(\phi)$. Define

$$G(\theta, \alpha) = \begin{bmatrix} G_1(\theta) \\ G_2(\theta) \end{bmatrix} - \begin{bmatrix} 0_{2 \times 1} \\ \alpha \end{bmatrix}, \quad (B.7)$$
where
\[
G_1(\theta) = \begin{bmatrix} d_1 d_2 \\ (1-m_1)(1-m_2) \end{bmatrix}, \quad G_2(\theta) = m_1(1-d_2).
\]
and
\[
\alpha = (1-\psi)(m_1-d_1)(m_2-d_2).
\]
Moreover, let
\[
\bar{\alpha}(\theta) = (m_1-d_1)(m_2-d_2) \tag{B.8}
\]
and
\[
Q(\theta; \phi) = \min_{0 \leq \alpha \leq \bar{\alpha}(\theta)} \| \phi - G(\theta, \alpha) \|. \tag{B.9}
\]
Notice that by construction \(Q(\theta; \phi) \geq 0\). In view of (B.4) to (B.6) and (B.7) it is straightforward to verify that the identified set can be characterized as follows:
\[
\theta \in \Theta(\phi) \text{ iff } Q(\theta; \phi) = 0.
\]
Suppose we partition \(\theta\) into \(\theta = [\theta'_1, \theta'_2]'\). (B.4) and (B.5) imply that conditional on \(\phi\) and \(\theta_1\) the subvector \(\theta_2\) is uniquely determined. Thus, the dimension of the identified set \(\Theta(\phi)\) is 2. Since the entry game is symmetric with respect to Firm 1 and Firm 2, our illustration focuses on inference for \(\theta_1\). We denote the identified set for this subvector by \(\Theta_1(\phi)\) and it can be characterized by the projection
\[
\Theta_1(\phi) = \left\{ \theta_1 \mid \exists \theta_2 \text{ s.t. } Q([\theta'_1, \theta'_2]'; \phi) = 0 \right\}.
\]

**Frequentist Inference**

Starting point of the frequentist inference is a large sample approximation of the sampling distribution of \(\hat{\phi}_n\), defined as
\[
\hat{\phi}_n = \begin{bmatrix} \frac{n_{11}}{n} \quad \frac{n_{00}}{n} \quad \frac{n_{10}}{n} \end{bmatrix}', \tag{B.10}
\]
where \(n_{11}\) is the number of markets with a duopoly, \(n_{00}\) is the number of markets without entry, and \(n_{10}\) is the number of markets with a Firm 1 monopoly. We assume that
\[
\sqrt{n}(\hat{\phi}_n - \phi) \Rightarrow N(0, \Lambda(\phi)) \tag{B.11}
\]
uniformly in \( \phi \), where \( \Lambda(\phi) \) can be consistently estimated by \( \hat{\Lambda} \). Now define

\[
Q_n(\theta; \hat{\phi}_n) = \min_{0 \leq \alpha \leq \bar{\alpha}(\theta)} n \| \hat{\phi}_n - G(\theta, \alpha) \|_{\hat{\Lambda}^{-1}}.
\]

We shall construct a confidence set for \( \theta \) as a level set of \( Q_n(\theta; \hat{\phi}_n) \). To do so, we examine the sampling distribution of \( Q_n(\theta; \hat{\phi}_n) \) for \( \theta \in \Theta(\phi) \).

We partition \( \hat{\phi}_n \) into \( \hat{\phi}_{1,n} \) and \( \hat{\phi}_{2,n} \) where the partitions conform with \( G_1(\theta) \) and \( G_2(\theta) \). Moreover, define

\[
\hat{H}_1(\theta) = \hat{\phi}_{1,n} - G_1(\theta), \quad \hat{H}_2(\theta) = \hat{\phi}_{2,n} - G_2(\theta),
\]

and partition \( \hat{\Lambda} \) accordingly. In addition, let

\[
\hat{H}_{2,11}(\theta) = \hat{H}_2(\theta) - \hat{\Lambda}_{21}\hat{\Lambda}_{11}^{-1}\hat{H}_1(\theta), \quad \hat{\Lambda}_{21} = \hat{\Lambda}_{22} - \hat{\Lambda}_{21}\hat{\Lambda}_{11}^{-1}\hat{\Lambda}_{12}.
\]

Using the formula for factorizing a joint normal density into a marginal and a conditional density we can re-write the objective function as

\[
Q_n(\theta; \hat{\phi}_n) = n \left( \| \hat{H}_1(\theta) \|_{\hat{\Lambda}_{11}^{-1}} + \| \hat{H}_{2,11}(\theta) + \alpha \|_{\hat{\Lambda}_{2,11}^{-1}} \right).
\]

The minimizing value of \( \alpha \) which we denote by \( \hat{\alpha}(\theta) \) is given by

\[
\hat{\alpha}(\theta) = \begin{cases} 
0 & \text{if } 0 \leq \hat{H}_{2,11}(\theta) \\
-\hat{H}_{2,11}(\theta) & \text{if } -\hat{\alpha}(\theta) \leq \hat{H}_{2,11}(\theta) < 0 \\
\hat{\alpha}(\theta) & \text{otherwise}
\end{cases}
\]

In turn, the objective function becomes

\[
Q_n(\theta; \hat{\phi}_n) = \begin{cases} 
n\| \hat{H}_1(\theta) \|_{\hat{\Lambda}_{11}^{-1}} + n\| \hat{H}_{2,11}(\theta) \|_{\hat{\Lambda}_{2,11}^{-1}} & \text{if } 0 \leq \hat{H}_{2,11}(\theta) \\
n\| \hat{H}_1(\theta) \|_{\hat{\Lambda}_{11}^{-1}} & \text{if } -\hat{\alpha}(\theta) \leq \hat{H}_{2,11}(\theta) < 0 \\
n\| \hat{H}_1(\theta) \|_{\hat{\Lambda}_{11}^{-1}} + n\| \hat{H}_{2,11}(\theta) + \hat{\alpha}(\theta) \|_{\hat{\Lambda}_{2,11}^{-1}} & \text{otherwise}
\end{cases}
\]

As shown in Andrews and Guggenberger (2009), critical values for the construction of uniformly valid confidence sets can be obtained by considering the behavior of the objective
function $Q_n(\cdot)$ under sequences of parameters. To do so, suppose data are generated based on $\phi_n = G(\theta_n, \alpha_n)$. To approximate the distribution of $Q_n(\theta_n; \hat{\phi}_n)$, notice that

$$
\hat{H}_1(\theta_n) = \hat{\phi}_{1,n} - G_1(\theta_n) = \hat{\phi}_{1,n} - \phi_{1,n}
$$

$$
\hat{H}_{2,11}(\theta_n) = \hat{\phi}_{2,n} - G_2(\theta_n) - \hat{\Lambda}_{21}\hat{\Lambda}_{11}^{-1}[\hat{\phi}_{1,n} - G_1(\theta_n)] = \hat{\phi}_{2,n} - \phi_{2,n} - \alpha_n - \hat{\Lambda}_{21}\hat{\Lambda}_{11}^{-1}(\hat{\phi}_{1,n} - \phi_{1,n}).
$$

Let

$$
Z_{1,n} = \sqrt{n}\hat{\Lambda}_{11}^{-1/2}(\hat{\phi}_{1,n} - \phi_{1,n}), \quad Z_{2,11,n} = \sqrt{n}\hat{\Lambda}_{21,11}^{-1/2}[\hat{\phi}_{2,n} - \phi_{2,n} - \hat{\Lambda}_{21}\hat{\Lambda}_{11}^{-1}(\hat{\phi}_{1,n} - \phi_{1,n})].
$$

Using this notation, we can rewrite the objective function as

$$
Q_n(\theta_n; \hat{\phi}_n) = \begin{cases} 
\left\| Z_{1,n} \right\| + \left\| Z_{2,11,n} - \sqrt{n}\hat{\Lambda}_{21,11}^{-1/2}\alpha_n \right\| & \text{if } \sqrt{n}\hat{\Lambda}_{21,11}^{-1/2}\alpha_n \leq Z_{2,11,n} \\
\left\| Z_{1,n} \right\| + \left\| Z_{2,11,n} + \sqrt{n}\hat{\Lambda}_{21,11}^{-1/2}(\hat{\alpha}(\theta_n) - \alpha_n) \right\| & \text{if } Z_{2,11,n} < -\sqrt{n}\hat{\Lambda}_{21,11}^{-1/2}(\hat{\alpha}(\theta_n) - \alpha_n) \\
\left\| Z_{1,n} \right\| & \text{otherwise}
\end{cases}
$$

(B.16)

Now suppose that $\sqrt{n}\Lambda_{21,11}^{-1/2}\alpha_n \to a$, $\sqrt{n}\Lambda_{21,11}^{-1/2}(\hat{\alpha}(\theta_n) - \alpha_n) \to \bar{a}$, where $a \in \mathbb{R}^+ \cup \infty$ and $\bar{a} \in \mathbb{R}^+ \cup \infty$. Thus,

$$
Q_n(\theta_n; \hat{\phi}_n) \Rightarrow \begin{cases} 
\left\| Z_1 \right\| + \left\| Z_{2,11} - a \right\| & \text{if } a \leq Z_{2,11} \\
\left\| Z_1 \right\| + \left\| Z_{2,11} + \bar{a} \right\| & \text{if } Z_{2,11} < -\bar{a} \\
\left\| Z_1 \right\| & \text{otherwise}
\end{cases}
$$

(B.17)

where $Z_1 \sim N(0, I_2)$ and $Z_{2,11} \sim N(0, 1)$ and $Z_1$ and $Z_{2,11}$ are independent. We have to distinguish three cases. First,

$$
Q_n(\theta_n; \hat{\phi}_n) \Rightarrow \left\| Z_1 \right\| \leq \left\| Z_1 \right\| + \left\| Z_{2,11} \right\| I\{Z_{2,11} \geq 0\} \quad \text{if} \quad a = \infty, \quad \bar{a} = \infty.
$$

Second,

$$
Q_n(\theta_n; \hat{\phi}_n) \Rightarrow \left\| Z_1 \right\| + \left\| Z_{2,11} - a \right\| I\{Z_{2,11} \geq a\} \leq \left\| Z_1 \right\| + \left\| Z_{2,11} \right\| I\{Z_{2,11} \geq 0\} \quad \text{if} \quad a < \infty, \quad \bar{a} = \infty.
$$
Third,

\[ Q_n(\theta_n; \hat{\varphi}_n) \Rightarrow \|Z_1\| + \|Z_{2.11} - a\|I\{Z_{2.11} \geq a\} + \|Z_{2.11} + \bar{a}\|I\{Z_{2.11} < -\bar{a}\} \text{ if } a < \infty, \bar{a} < \infty \leq \|Z_1\| + \|Z_{2.11}\| \]

The bound for this last case is weaker than the bounds for the first two cases. The case \( \bar{a} < 0 \) arises only if \( \bar{\alpha}(\theta_n) \rightarrow 0 \) sufficiently fast, meaning that \( \theta_n \) approaches an area of the parameter space in which the model is point identified. From the definition of \( \bar{\alpha}(\theta) \) in (B.8) it follows that the third case arises if one of the interaction parameters is close to zero. In our numerical illustration we use a conservative fixed critical value obtained from the \( 1 - \tau \) quantile of a \( \chi^2(df = 3) \).

A frequentist confidence set for the 4-dimensional parameter vector \( \theta \) can then be defined as the level set

\[ CS_{F}^{\theta}(Y^n) = \{ \theta \mid Q_n(\theta; \hat{\varphi}_n) \leq c^2_{\tau} \}. \tag{B.18} \]

We are restricting our attention to confidence sets constructed from fixed (rather than sample-size and \( \theta \) dependent) critical values. In principle, one can construct the set \( CS_{F}^{\theta}(Y^n) \) by evaluating the objective function \( Q_n(\theta; \hat{\varphi}_n) \) on a 4-dimensional grid. However, since the identified set \( \Theta(\phi) \) lies in a 2-dimensional subspace the specification of a suitable grid is difficult. Moreover, our goal is to construct a confidence set for the subvector \( \theta_1 \). Thus, we let

\[ \underline{Q}_n(\theta_1; \hat{\varphi}_n) = \min_{\theta_2} Q_n([\theta_1; \theta_2]'; \hat{\varphi}_n) \]

and define

\[ CS_{F}^{\theta_1}(Y^n) = \{ \theta \mid \underline{Q}_n(\theta_1; \hat{\varphi}_n) \leq c^2_{\tau} \}. \tag{B.19} \]

The confidence set \( CS_{F}^{\theta_1}(Y^n) \) is the projection of \( CS_{F}^{\theta}(Y^n) \) onto the domain of \( \theta_1 \). To compute the projection-based confidence set we specify a 2-dimensional grid for \( \theta_1 \) and evaluate the objective function \( \underline{Q}_n(\theta_1; \hat{\varphi}_n) \) for each grid point. A parameter value is included in the confidence set if \( \underline{Q}_n(\theta_1; \hat{\varphi}_n) \leq c^2_{\tau} \).
Bayesian Inference – Draws from Conditional Prior

Prior 1 and Prior 2 are specified on the $\theta - \psi$ space through densities $p(\theta, \psi)$. These priors induce a prior distribution on the reduced form parameters $\phi$. As explained in the main text, the conditional prior of $\theta$ given $\phi$ will not get updated through the likelihood function and the posterior will converge to $p(\theta | \hat{\phi}_n)$. In order to characterize the conditional prior $p(\theta_1 | \phi)$ we conduct the following change of variables. Let

$$Z = [\beta_1, \gamma_1, \beta_2, \gamma_2, \psi]'$$

(B.20)

and

$$X = [\beta_1, \gamma_1, \phi_{11}, \phi_{00}, \phi_{10}]'.$$

(B.21)

To convert a prior density for $Z = f(X)$ into a prior for $X$, we can use

$$p_X(X) = \frac{p_Z(f(X))|f'(X)|}{|f'(X)|}.$$  

(B.22)

Once we have derived $p_X(X)$ we can proceed as follows. Notice that

$$p(\theta_1 | \phi) \propto p(\theta_1, \phi).$$  

(B.23)

We use a Random-Walk Metropolis Algorithm to generate draws from $p(\theta_1 | \phi)$. For this algorithm it is sufficient to be able evaluate the joint density $p(\theta_1, \phi)$ numerically. Descriptions of the algorithm can be found in many textbooks, e.g., Geweke (2005). Our proposal density is multivariate Gaussian with a covariance matrix that equals a suitably scaled identity matrix.

We shall proceed by characterizing the function $f(X)$, component by component and then derive the Jacobian $f'(X)$. The following functional relationships will be useful:

$$m_1 = \Phi_N(\beta_1), \quad m_2 = \Phi_N(\beta_2), \quad d_1 = \Phi_N(\beta_1 - \gamma_1), \quad d_2 = \Phi_N(\beta_2 - \gamma_2).$$

Since we will have to solve for $\beta_2$ and $\gamma_2$, notice that

$$\beta_2 = \Phi^{-1}_N(m_2), \quad \gamma_2 = \Phi^{-1}_N(m_2) - \Phi^{-1}_N(d_2).$$
The Nash equilibrium conditions imply that

\[
\phi_{00} = (1 - m_1)(1 - m_2)
\]
\[
\phi_{11} = d_1d_2
\]
\[
\phi_{10} = m_1(1 - m_2) + d_1(m_2 - d_2) + \psi(m_1 - d_1)(m_2 - d_2).
\]

We can use these conditions to solve for \(m_2\), \(d_2\), and \(\psi\):

\[
m_2 = 1 - \frac{\phi_{00}}{1 - m_1}
\]
\[
d_2 = \frac{\phi_{11}}{d_1}
\]
\[
\psi = \frac{\phi_{10} - m_1(1 - m_2) - d_1(m_2 - d_2)}{(m_1 - d_1)(m_2 - d_2)}.
\]

The expression for \(\psi\) can be simplified by replacing \(m_2\) and \(d_2\):

\[
\psi = \frac{\phi_{10} - m_1(1 - m_2) - d_1(m_2 - d_2)}{(m_1 - d_1)(m_2 - d_2)}
\]
\[
= \frac{\phi_{10} - \phi_{00} \frac{m_1}{1 - m_1} - d_1 \left(1 - \frac{\phi_{00}}{1 - m_1} - \frac{\phi_{11}}{d_1}\right)}{(m_1 - d_1) \left(1 - \frac{\phi_{00}}{1 - m_1} - \frac{\phi_{11}}{d_1}\right)}
\]
\[
= \frac{\phi_{10}(1 - m_1) - \phi_{00}m_1 - d_1 g(X)}{(m_1 - d_1) g(X)},
\]

where

\[
g(X) = \left(1 - m_1 - \phi_{00} - \frac{\phi_{11}(1 - m_1)}{d_1}\right).
\]

Combining terms, we obtain the following expressions for the components of \(f(X)\):

\[
f_1(X) = \beta_1
\]
\[
f_2(X) = \gamma_1
\]
\[
f_3(X) = \frac{1}{\Phi_N^{-1}} \left(1 - \frac{\phi_{00}}{1 - \Phi_N(\beta_1)}\right)
\]
\[
f_4(X) = \frac{\phi_{11}}{\Phi_N(\beta_1 - \gamma_1)}
\]
\[
f_5(X) = \frac{A_5(X)}{B_5(X)} = \frac{\phi_{10}(1 - \Phi_N(\beta_1)) - \phi_{00}\Phi_N(\beta_1) - \Phi_N(\beta_1 - \gamma_1)g(X)}{(\Phi_N(\beta_1) - \Phi_N(\beta_1 - \gamma_1))g(X)}
\]
where
\[ g(X) = \left( 1 - \Phi_N(\beta_1) - \phi_{00} - \frac{\phi_{11}(1 - \Phi_N(\beta_1))}{\Phi_N(\beta_1 - \gamma_1)} \right). \]

Now we can calculate the derivatives for the jacobian matrix. For this define
\[ \psi(z) = \frac{\partial \Phi_N^{-1}(z)}{\partial z} = \frac{1}{\phi_N(\Phi_N^{-1}(z))}. \]

Term \( f_1(X) \):
\[ \frac{\partial f_1(X)}{\partial \beta_1} = 1. \]

Term \( f_2(X) \):
\[ \frac{\partial f_2(X)}{\partial \gamma_1} = 1. \]

Term \( f_3(X) \):
\[ \frac{\partial f_3(X)}{\partial \beta_1} = -\psi \left( 1 - \frac{\phi_{00}}{1 - \Phi_N(\beta_1)} \right) \frac{\phi_{00}}{[1 - \Phi_N(\beta_1)]^2} \phi_N(\beta_1), \]
\[ \frac{\partial f_3(X)}{\partial \phi_{00}} = -\psi \left( 1 - \frac{\phi_{00}}{1 - \Phi_N(\beta_1)} \right) \frac{1}{1 - \Phi_N(\beta_1)}. \]

Term \( f_4(X) \):
\[ \frac{\partial f_4(X)}{\partial \beta_1} = \frac{\partial f_3(X)}{\partial \beta_1} + \psi \left( \frac{\phi_{11}}{\Phi_N(\beta_1 - \gamma_1)} \right) \frac{\phi_{11} \phi_N(\beta_1 - \gamma_1)}{\Phi_N^2(\beta_1 - \gamma_1)}, \]
\[ \frac{\partial f_4(X)}{\partial \gamma_1} = -\psi \left( \frac{\phi_{11}}{\Phi_N(\beta_1 - \gamma_1)} \right) \frac{\phi_{11} \phi_N(\beta_1 - \gamma_1)}{\Phi_N^2(\beta_1 - \gamma_1)}, \]
\[ \frac{\partial f_4(X)}{\partial \phi_{11}} = -\psi \left( \frac{\phi_{11}}{\Phi_N(\beta_1 - \gamma_1)} \right) \frac{1}{\Phi_N(\beta_1 - \gamma_1)}, \]
\[ \frac{\partial f_4(X)}{\partial \phi_{00}} = \frac{\partial f_3(X)}{\partial \phi_{00}}. \]

Term \( f_5(X) \):
\[ \frac{\partial f_5(X)}{\partial x} = \frac{\partial A(X)}{\partial x} B(X) - A(X) \frac{\partial B(X)}{\partial x} \frac{B(X)}{B(X)^2}. \]
Term $A(X)$:

\[
\begin{align*}
\frac{\partial A(X)}{\partial \beta_1} &= -(\phi_{10} + \phi_{00})\phi_N(\beta_1) - \phi_N(\beta_1 - \gamma_1)g(X) - \Phi_N(\beta_1 - \gamma_1)\frac{\partial g(X)}{\partial \beta_1} \\
\frac{\partial A(X)}{\partial \gamma_1} &= \phi_N(\beta_1 - \gamma_1)g(X) - \Phi_N(\beta_1 - \gamma_1)\frac{\partial g(X)}{\partial \gamma_1} \\
\frac{\partial A(X)}{\partial \phi_{11}} &= -\Phi_N(\beta_1 - \gamma_1)\frac{\partial g(X)}{\partial \phi_{11}} \\
\frac{\partial A(X)}{\partial \phi_{00}} &= -\Phi_N(\beta_1 - \gamma_1)\frac{\partial g(X)}{\partial \phi_{00}} \\
\frac{\partial A(X)}{\partial \phi_{10}} &= (1 - \Phi_N(\beta_1)) - \Phi_N(\beta_1 - \gamma_1)\frac{\partial g(X)}{\partial \phi_{10}}.
\end{align*}
\]

Term $B(X)$:

\[
\begin{align*}
\frac{\partial B(X)}{\partial \beta_1} &= (\phi_N(\beta_1) - \phi_N(\beta_1 - \gamma_1))g(X) + (\Phi_N(\beta_1) - \Phi_N(\beta_1 - \gamma_1))\frac{\partial g(X)}{\partial \beta_1} \\
\frac{\partial B(X)}{\partial \gamma_1} &= \phi_N(\beta_1 - \gamma_1)g(X) + (\Phi_N(\beta_1) - \Phi_N(\beta_1 - \gamma_1))\frac{\partial g(X)}{\partial \gamma_1} \\
\frac{\partial B(X)}{\partial \phi_{11}} &= (\Phi_N(\beta_1) - \Phi_N(\beta_1 - \gamma_1))\frac{\partial g(X)}{\partial \phi_{11}} \\
\frac{\partial B(X)}{\partial \phi_{00}} &= (\Phi_N(\beta_1) - \Phi_N(\beta_1 - \gamma_1))\frac{\partial g(X)}{\partial \phi_{00}}.
\end{align*}
\]

Term $g(X)$:

\[
\begin{align*}
\frac{\partial g(X)}{\partial \beta_1} &= -\phi_N(\beta_1) + \frac{\phi_{11}\phi_N(\beta_1)}{\Phi_N(\beta_1 - \gamma_1)} + \frac{\phi_{00}\phi_N(\beta_1)}{\Phi_N(\beta_1 - \gamma_1)} \\
\frac{\partial g(X)}{\partial \gamma_1} &= -\Phi_N(\beta_1 - \gamma_1) \\
\frac{\partial g(X)}{\partial \phi_{11}} &= -\Phi_N(\beta_1 - \gamma_1) \\
\frac{\partial g(X)}{\partial \phi_{00}} &= -1.
\end{align*}
\]

Bayesian Inference – Draws from Posterior

According to Equations (B.3) to (B.6) we can express the reduced form probabilities as functions of $\theta$ and $\psi$. Thus, the likelihood function is given by

\[
p(Y^n|\theta, \psi) = \phi_{11}^{n_{11}}(\theta, \psi)\phi_{00}^{n_{00}}(\theta, \psi)\phi_{10}^{n_{10}}(\theta, \psi)\phi_{01}^{n_{01}}(\theta, \psi).
\]
If this prior distribution is combined with a prior specified on the $\theta - \psi$ space, then the posterior is given by

$$p(\theta, \psi|Y^n) \propto p(Y^n|\theta, \psi)p(\theta, \psi) \tag{B.25}$$

and draws can be generated with a Random Walk Metropolis Algorithm.

In addition to Priors 1 and 2 we consider a prior that is flat with respect to the reduced form parameters. Conditional on $\phi$, the prior for $\theta_1$ is uniform on the identified set $\Theta_1(\phi)$. In order to obtain draws from the posterior distribution of $\theta_1$ we sample from (i) $p(\phi|Y^n)$ and (ii) from $p(\theta_1|\phi)$. For Step (i) notice that under the flat prior for $\phi$, the posterior distribution $P_{Y^n}^\phi$ takes the form of a Dirichlet distribution

$$[\phi_{11}, \phi_{00}, \phi_{10}, \phi_{01}]' \sim \text{Dirichlet} (n_{11} + 1, n_{00} + 1, n_{10} + 1, n_{01}).$$

A draw from this Dirichlet distribution can be generated as follows: Let $a_j \sim \mathcal{G}(n_j + 1, 1)$, where $j \in \{11, 00, 10, 01\}$ and $\mathcal{G}(\alpha, 1)$ denotes a Gamma distribution with shape parameter $\alpha$ and scale parameter 1. Then set

$$\phi = [a_{11}, a_{00}, a_{10}, a_{01}]'/(a_{11} + a_{00} + a_{10} + a_{01}).$$

For Step (ii) we specify a two-dimensional grid for $\theta_1$ in order construct projections of the identified set $\Theta_1(\phi)$ onto the $\beta_1$ and $\gamma_1$ ordinates. Let these projections be delimited by $\beta_1$, $\bar{\beta}_1$, $\gamma_1$, and $\bar{\gamma}_1$. We then use an acceptance sampler with a proposal density that is uniform on $[\beta_1, \bar{\beta}_1] \otimes [\gamma_1, \bar{\gamma}_1]$ to obtain a draw of $\theta_1$ conditional on $\phi$.

**Bayesian Inference – Credible Sets**

Credible sets are computed according to the following steps:

1. Construct two independent sequences $\{\theta_{1,s}^{(1)}\}_{s=1}^S$ and $\{\theta_{1,s}^{(2)}\}_{s=1}^S$ of draws from the distribution of $\theta_1$.

2. Use the $\{\theta_{1,s}^{(1)}\}_{s=1}^S$ draws to construct Kernel density estimates $\hat{p}(\theta_{1,s}^{(2)})$ for each $\theta_{1,s}^{(2)}$, $s = 1, \ldots, S$. 
3. Find a cutoff $\kappa$ such that $(1 - \tau)S$ of the density estimates $\hat{p}(\theta_{1,s}^{(2)})$ are greater or equal than $\kappa$.

4. Use the $\{\theta_{1,s}^{(1)}\}_{s=1}^S$ draws to construct Kernel density estimates $\hat{p}(\theta_1)$ for values of $\theta_1$ on a 2-dimensional grid. Include a particular grid point into the credible set if $\hat{p}(\theta_1) \geq \kappa$. 