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Abstract

We consider four orthant stochastic orderings between random vectors X and Y that have finitely discrete probability distributions in $\mathbb{R}^k$. For each of the orderings conditions have been developed that are necessary and sufficient for dominance of Y over X. We present an algorithm that checks these conditions in an efficient way by operating on a semilattice generated by the support of the two distributions. In particular, the algorithm can be used to compute multivariate Smirnov statistics.

Keywords: Multivariate stochastic orders, decision under risk, comparison of empirical distribution functions.

AMS Subject Classification: Primary 60E15, Secondary 90A43.

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1 Description and purpose of the algorithm

For random vectors X, Y in $\mathbb{R}^k$, the four orthant orderings $\preceq_{lo}$, $\preceq_{uo}$, $\preceq_{locc}$ and $\preceq_{uocx}$ are defined in the following way:

$$
\begin{aligned}
X \preceq_{lo} Y &\iff P[X \le a] \ge P[Y \le a] && \text{for all } a \in \mathbb{R}^k,\\
X \preceq_{uo} Y &\iff P[X \ge a] \le P[Y \ge a] && \text{for all } a \in \mathbb{R}^k,\\
X \preceq_{locc} Y &\iff \int_{]-\infty,a]} P[X \le z]dz \ge \int_{]-\infty,a]} P[Y \le z]dz && \text{for all } a \in \mathbb{R}^k,\\
X \preceq_{uocx} Y &\iff \int_{[a,\infty[} P[X \ge z]dz \le \int_{[a,\infty[} P[Y \ge z]dz && \text{for all } a \in \mathbb{R}^k.
\end{aligned}
$$

The orders are called *lower orthant order*, *upper orthant order*, *lower orthant concave order* and *upper orthant convex order*, respectively.

We provide an algorithm to check whether one of these four stochastic orderings holds, when X and Y have finitely discrete probability distributions.

This algorithm can also be used to compute four multivariate Smirnov statistics. Let

$$
\begin{aligned}
D_1^+(X,Y) &= \max_{x\in\mathbb{R}^k}(F(x)-G(x)), && (1)\\
D_1^-(X,Y) &= \min_{x\in\mathbb{R}^k}(F(x)-G(x)), && (2)\\
D_2^+(X,Y) &= \max_{x\in\mathbb{R}^k}(\overline{G}(x)-\overline{F}(x)), && (3)\\
D_2^-(X,Y) &= \min_{x\in\mathbb{R}^k}(\overline{G}(x)-\overline{F}(x)), && (4)
\end{aligned}
$$

where

$$F(x) = P[X \le x], \quad \overline{F}(x) = P[X \ge x], \quad G(x) = P[Y \le x], \quad \overline{G}(x) = P[Y \ge x].$$

When $k = 1$, both $\preceq_{lo}$ and $\preceq_{uo}$ become the usual stochastic order (= first degree stochastic dominance), while $\preceq_{locc}$ and $\preceq_{uocx}$ become the univariate concave, respectively convex, order (= second degree stochastic dominance). Then our problem reduces to checking two finite discrete distributions for first and second degree stochastic dominance. A number of computational approaches has been proposed in the literature to solve this problem when $k = 1$. See Porter et al. (1973), Markowitz (1977), Bawa et al. (1979), Levy and Sarnat (1984), Levy (1992), Aboudi and Thon (1994).

For general $k \ge 1$, Dyckerhoff and Mosler (1997) present the background, theory and applications of the four orthant stochastic orderings and the theoretical

justification of the present algorithm. Let S denote the joint support of the distributions of X and Y, and $J(S)$ the join-semilattice (Birkhoff 1940) generated by S. For each $s \in S$ let $\delta_s = P[X = s] - P[Y = s]$. We introduce Δ^{lo} by

$$\Delta^{lo}(z) = \sum_{s \in S, s \leq z} \delta_s \ , \quad z \in \mathbb{R}^k. \tag{5}$$

For a nonempty $I \subset \{1, 2, \ldots, k\}$ and $x \in \mathbb{R}^k$, let $x_I = (x_i)_{i \in I} \in \mathbb{R}^I$. Further, let X_I and Y_I be the marginals with respect to I, and S_I their joint support. Δ_I^{locc} is defined as follows:

$$\Delta_I^{locc}(z) = \sum_{s \in S, s_I \leq z} \delta_s \cdot \prod_{i \in I} (z_i - s_i) \ , \quad z \in \mathbb{R}^I. \tag{6}$$

Dyckerhoff and Mosler (1997) prove the following results.

Result 1. $X \preceq_{lo} Y$ if and only if

$$\Delta^{lo}(z) \geq 0 \quad \text{for all } z \in J(S). \tag{7}$$

Result 2. $X \preceq_{locc} Y$ if and only if

$$\Delta_I^{locc}(z) \geq 0 \quad \text{for all } z \in J(S_I) \text{ and all nonempty subsets } I \text{ of } \{1, \ldots, k\}. \tag{8}$$

Result 3. $X \preceq_{lo} Y \Rightarrow X \preceq_{locc} Y \Rightarrow$

$$E[X] \leq E[Y]. \tag{9}$$

Result 4.

$$\begin{aligned} X \leq_{uo} Y \quad &\Longleftrightarrow \quad -Y \leq_{lo} -X, \\ X \leq_{uocx} Y \quad &\Longleftrightarrow \quad -Y \leq_{locc} -X. \end{aligned}$$

The main subroutine in our algorithm is the procedure *CheckJoinSemilattice*. This procedure proceeds as follows:

Step 1 For a given set I of components the joint support S_I of the two distributions w.r.t. I is constructed. Further, the δ_s, $s \in S_I$, are computed.

Step 2 S_I is put into lexicographical order.

Step 3 In a recursive way, all joins z of at most k points of S which are not comparable in the usual componentwise ordering of $\mathbb{R}^k$ are determined. This generates all points of the join-semilattice $J(S_I)$. As soon as a point z is generated, one of the following steps is done.

Step 3a If the algorithm was called to check for $\preceq_{lo}$, inequality (7) is checked. Once a violation is detected the calculations are stopped.

Step 3b If the algorithm was called to check for $\preceq_{locc}$, inequality (8) is checked. Once a violation is detected the calculations are stopped.

Step 3c If the algorithm was called to compute the Smirnov statistics $D_1^+(X,Y)$ and $D_1^-(X,Y)$ the maximum and minimum of $\Delta^{lo}(z)$ over all z in the join-semilattice is computed.

To decide whether the *lower orthant order* holds between X and Y, our algorithm proceeds as follows: First, it is checked whether the necessary condition (9) holds. If not, the algorithm stops. If the inequality (9) holds, the procedure *CheckJoinSemilattice* is called with $I = \{1, \ldots, k\}$.

To compute the Smirnov statistics $D_1^+(X,Y)$ and $D_1^-(X,Y)$ *CheckJoinSemilattice* is again called with $I = \{1, \ldots, k\}$. Since $\Delta^{lo}(z) = F(z) - G(z)$, this procedure yields the desired result.

To check for the *lower orthant concave order* between X and Y, more extensive calculations have to be performed. Again, first we check the inequality (9) which is a necessary condition for the lower orthant concave order, too. Then the procedure *CheckAllMargins* is called. It constructs all subsets I of $\{1, \ldots, k\}$. This is again done by a recursive procedure. Whenever such a subset is constructed *CheckJoinSemilattice* is called with the I that was just constructed.

Upper orthant order and *upper orthant convex order* between X and Y are checked using Result 4, i.e., by applying the previous procedures to the transformed random Vectors $-Y$ and $-X$. The same holds for the Smirnov statistics $D_2^+(X,Y)$ and $D_2^-(X,Y)$. The transformation of the random vectors is done in Step 1 of *CheckJoinSemilattice*.

The algorithm has been used (Holz and Mosler 1994) to determine a nondominated (with respect to one of the orderings) set of distributions from a given finite set of distributions. This is a standard problem in multiattribute decision making under risk. The algorithm has also been employed to construct statistical tests on $F \succeq_{lo} G$ and $F \succeq_{uo} G$ which are based on resampling.

2 Structure

Language

ISO-Pascal (Level 0)

Procedures

PROCEDURE CheckForOrthantOrdering(PX, PY: PDistribution; Dim: Integer; VAR Info: TInfo; VAR IFault: Integer);

Global constant

MaxDim is the maximum dimension.

Global types

```
TPoint        =  ARRAY[1..MaxDim] OF Real;

PDistribution =  ^TDistribution;
TDistribution =  RECORD
                   Point : TPoint;
                   Prob : Real;
                   Link : PDistribution;
                 END;
```

Remark. Distributions are represented by simply linked lists of records of the type *TDistribution*. Every such record contains a point of the support, its probability, and a pointer at the next support point. If there is no further point, the value of the *Link*-field is *nil*. A distribution is identified with a variable of the type *PDistribution* which points at the first support point of the distribution.

```
TCheck  =  (lo,locc,uo,uocx,Smirnov1,Smirnov2);

TInfo   =  RECORD
             CASE Check:TCheck OF
               lo,uo,locc,uocx: ( Dominance: Boolean; Index: -1..1);
               Smirnov1,Smirnov2: ( DeltaMin, DeltaMax: Real );
             END;
```

Remark. A *TInfo*-record is used as an input-output parameter. The tag field *Check* specifies which check shall be done or which statistics shall be computed. It serves as an input parameter to the algorithm. Depending on the value of the tag field the algorithm returns the result in the following way.

If *Check* is *lo, uo, locc* or *uocx*, then *Dominance* is *true* if X dominates Y in the respective order or vice versa. In this case

Index = 1 if X dominates Y,
Index = –1 if Y dominates X,
Index = 0 if X and Y are equivalent.

If neither X dominates Y nor vice versa, then *Dominance* is *false* and *Index* is undefined.

If *Check* is *Smirnov1*, then *DeltaMax* is the value of $D_1^+(F,G)$ and *DeltaMin* is the value of $D_1^-(F,G)$.

If *Check* is *Smirnov2*, then *DeltaMax* is the value of $D_2^+(F,G)$ and *DeltaMin* is the value of $D_2^-(F,G)$.

Formal parameters

PX	PDistribution	value:	the distribution of X
PY	PDistribution	value:	the distribution of Y
Dim	Integer	value:	the dimension k
Info	TInfo	input/output:	the tag field *Check* specifies the operation to be made, the result is returned in the variant part of the record, see above
IFault	Integer	output:	the error indicator

Local constants

MaxSupport	is the maximum size of the joint support of *PX* and *PY*.
Eps	is the precision. Numbers whose absolute values are smaller than or equal to *Eps* will be treated as zero. This ensures that small rounding errors do not lead to an erroneous violation of (7) or (8). Thus, *Eps* should be set to at least the accuracy of the data.

Failure indications

IFault = 0	no error occurred.
IFault = 1	the constraint $1 \leq Dim \leq MaxDim$ is not satisfied.
IFault = 2	the joint support of *PX* and *PY* exceeds *MaxSupport*.
IFault = 3	*PX* or *PY* is not a probability distribution.

3 Accuracy and time

The accuracy of the results depends on the compiler. All constants are set in a declaration part and can be adapted to the machine and the compiler used. Since in calculating the Smirnov statistics only additions are involved, the accuracy of the Smirnov statistics is the same as the accuracy of the data.

Because the algorithm is very efficient it has been used in statistical resampling procedures and in building nondominated sets of distributions.

The CPU-times depend strongly on the given data. Consider two k-variate probability distributions with n points in the joint support. In the case of $\preceq_{lo}$ and $\preceq_{uo}$ to prove (7), at most $\sum_{i=1}^{k} \binom{n}{i}$ points have to be checked. This stems from the fact that every point in the join-semilattice $J(S)$ is the join of at most k points in S. To prove lower orthant concave order (or upper orthant convex order), all marginal distributions are examined. Thus in the worst case $\sum_{i=1}^{k} \sum_{j=1}^{i} \binom{k}{i}\binom{n}{j}$ points are constructed and checked.

In practical applications the parameters should stay within certain limits. For $k = 1$ a number of 100000 points in the joint support seems to be feasible, whereas for $k = 5$ the number of points in the joint support should not exceed 100.

It should be emphasized that the above bounds are no equalities. In general, the join-semilattice has cardinality much smaller than $\sum_{i=1}^{k} \binom{n}{i}$. Apart from n and k, the size of the semilattice depends strongly on how the points of S are dispersed in k-space. Further, if the algorithm just checks for one of the orthant orders, it stops as soon as (7) or (8) is violated at some $z \in J(S)$. This reduces the computation time when the distributions are not ordered and no Smirnov statistic is calculated.

Table 1 summarizes some computation times. Two samples of size $n/2$ were drawn from a k-variate normal distribution having expectations $\mu_1 = \mu_2 = \ldots = \mu_k = 0$ and covariances $\sigma_{ij} = \rho^{|i-j|}$, $i, j = 1, \ldots, k$. Then the one-sided Smirnov statistics (1) and (2) were computed. For every triple (n, k, ρ) this procedure was carried out ten times. The table shows the average computation times in seconds on a 60 MHz Pentium™.

		k						
ρ	n	2	3	4	5	6	7	8
	20	0.00	0.03	0.20	0.93	2.68	9.24	22.63
0.6	40	0.02	0.36	4.90	55.32			
	100	0.23	13.88	482.70				
	20	0.01	0.07	0.42	1.94	6.08	16.94	36.57
0.0	40	0.04	0.91	12.33	123.91	821.99	5336.62	
	100	0.53	34.38	1167.45				
	20	0.01	0.09	0.53	2.31	7.01	18.43	37.82
–0.6	40	0.07	1.38	16.66	150.94			
	100	0.93	51.27	1571.41				

Table 1. Computation times [in seconds] of the algorithm.

As can be seen from Table 1 the computation times depend not only on n and k. The greater the correlation of the distributions, as measured by ρ, the faster is the algorithm.

4 Additional comments

Although the algorithm works for every $k \geq 1$, for $k = 1$ a special approach is advisable. In the unidimensional case we have $J(S) = S$, since the support S is linearly ordered. Thus, the differences Δ^{lo} and Δ_I^{locc} can be easily calculated in a recursive way, which is simpler and more efficient than the above algorithm.

The algorithm as presented here is capable of checking for four different orders and of computing four different statistics. If one is interested only in some of these issues, its structure can be simplified in an obvious way.

However, it should be noted, that these modifications will only simplify the structure. They will not result in a significant reduction of computation times compared to our algorithm.

5 Availability

The algorithm is available by request from the authors or can be downloaded from our website `http://www.uni-koeln.de/wiso-fak/wisostatsem/algorithms`.

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