Likelihood prediction with generalized linear mixed models under covariate uncertainty

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Abstract

This paper demonstrates the techniques of likelihood prediction with the generalized linear mixed models. Methods of likelihood prediction is explained through a series of examples; form a very classical to more complicated ones. The examples show that in simple cases likelihood prediction (LP) coincides with already known best frequentist practice such as the best linear unbiased predictor. The paper also outlines a way to deal with the covariate uncertainty while producing predictive inference. Using a Poisson error-in-variable generalized linear model, it has been shown that in complicated cases LP produces better results than already know methods and the one produced by ignoring the complication of the data generating procedure.

Key words: Predictive likelihood, Profile predictive likelihood, Stochastic covariate, Coverage interval, Future value prediction, Credit risk prediction.

1 Introduction

Predictive inference is a tricky task, especially for non-Bayesian statisticians (Bjørnstad, 1990 and Hinkley, 1979). The core of the problem was understood during the foundational period of statistics (see e.g. Pearson 1920) but it took a long time for the non-Bayesian statisticians to come up with a set of reasonable proposals on the predictive tools with Lauritzen (1974) and Hinkley (1979) being credited as the earliest theoretically most sound references. Unless

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otherwise stated, by prediction, we mean the prediction of one or more unobserved (observable or not) variable or some function of them after observing the observable variables. Let, $\mathbf{y} = (y_1, y_2, \cdots, y_n)^T$ be the vector observations on the response, Y, $\mathbf{X}_{n\times p}$ be the matrix of associated observed covariates, $\mathbf{y}^* = (y_1^*, y_2^*, \cdots, y_m^*)$ be the future observations on Y which are not observed and $\dot{\mathbf{X}}^*_{m\times p}$ be the associated covariate matrix where some of its elements are known and some are unknown.

Note that we use an asteric ("*") in the superscript (e.g. X^*) to indicate that the whole variable, vector or matrix or a part of it is not observed, but they are observable. The covariates and the design matrices associated y^* are denoted with an over head accent- dot (".", e.g. $\dot{X}$). As per convention, we use upper case letters to indicate variables, lower cases to indicate their realized values and bold faces to indicate vectors and matrices.

The unknown elements in $\dot{\mathbf{X}}$ are not necessarily the missing values in the ordinary sense, e.g. non-response in a survey as in Bjørnstad (1996) and Bjørnstad and Sommervoll (2001), rather they might be some future values which can be observed only in future time while the prediction is made at current time.

We further assume that, given $\mathbf{X}_{n\times p}$ and information on the clustering of Y, the response process, Y, can be modeled with a suitable generalized linear mixed model (GLMM). The unknown future covariates can also be modelled with a suitable stochastic model. The problem of interest is to predict Y^* itself or some function $S = s(Y^*)$ and provide a measure of uncertainty of those predictions based on observed data on Y and $\mathbf{X}$. Some illustrations of the above problem with known $\dot{\mathbf{X}}$ are given Lee et al. (2006).

Natural examples of stochastic covariates with generalized linear models come from the time series models (Slud and Kedem, 1994; Startz, 2008), dynamic panel discrete choice models (Honoré and Kyriazidou, 2000) and measurement error models (Buzas and Stefanski, 1996). Here we motivate the application of unknown future covariates from the credit risk modeling's view point. Assume, Y represent whether a credit is default or not and $\mathbf{X}$ consists of the respective firm level accounting data, industry classification of the firm, credit bureau observation (comments) and macro variables e.g. slope of yield curve, output gap etc. (see e.g. Carling et al. (2004) and Duffie et al. (2007)). Some of the covariates, e.g. firm's total debt, sales and macro economic indices, are stochastic and their future values can not be observed at current

time when the prediction is being made. Assume that we model Y given $\mathbf{X}$ using a suitable GLMM and the unobserved components of $\dot{\mathbf{X}}^*$ with missing future values are modelled with a suitable time-series model. Then, the problem remains to predict Y^* (or S) and to provide a measure of uncertainty associated with the prediction.

The issue of stochastic covariate is also dealt, in the literature of credit risk modelling, with so called doubly-stochastic models using the framework of survival analysis (Duffie et al., 2007; Pesaran et al., 2006). However, those work did not give proper attention to the uncertainties caused by the stochastic covariates nor did they distinguish the problem of estimation from the problem of prediction. Thus the predictive methods presented in this paper may also be applied to those early works with a view to possible improvement of the predictive performances of their models.

Given a prediction problem in hand one can either try to find a frequentist point prediction, e.g. the best linear unbiased predictor (BLUP), and associated prediction error or try to produce a likelihood prediction (Bjørnstad, 1990) or can follow the Bayesian approach. The first approach does not have a common analytical framework moreover the existence of the BLUP is not guaranteed, in general. Bayesian approach is rather straightforward however the choice of a particular prior as well as the concept of prior distribution may be criticized. Likelihood principle (Bjørnstad, 1996; Berger and Wolpert, 1988) provides a unified principle and analytical framework to deal with any statistical inference including the prediction of future and unobserved values. This paper explores the last option in the context of GLMM.

The contributions of this paper are as follows. It offers a short overview of the likelihood prediction through a series of rather simple prediction problems. The examples show that the likelihood prediction can be implemented in a straightforward way and its solutions often coincide with already known best frequentist prediction, where such a best prediction exists. The paper also demonstrates the application of likelihood prediction in rather complicated problems such as error in variable generalized linear models and GLMM where a best frequentist prediction such as BLUP is not available. Through an example with a Poisson error-in-variable model we show, through simulation, that likelihood prediction does a better job than the already existing solutions. The paper also outlines an analytical guideline to implement the likelihood prediction with GLMM under covariate uncertainty.

The rest of the paper is organized as follows. Section 2 briefly introduces the principles likelihood prediction through two classical examples. Section 3 extends likelihood prediction for GLMM with covariate uncertainty. Section 4 presents several examples of the likelihood prediction under covariate uncertainties. Section 5 offers a comparative discussions on the several proper predictive likelihoods. Section 6 concludes.

2 Likelihood prediction

An elegant survey on the methods of likelihood prediction is given in Bjørnstad (1990). Often, the prediction statement is summarized in terms of probability inequality which is called the prediction interval. A review of the different methods of producing non-Bayesian prediction interval is presented in Patel (1989). To illustrate the likelihood prediction we take a classic example (see example 1) that was presented in Pearson (1920), with a reference to Laplace (1774) as the originator, and is also discussed by many others including Hinkley (1979), Bjørnstad (1990) and Pawitan (2001).

Example 1. An event has occurred p times out of $p+q=n$ trials, where we have no *apriori* knowledge of the frequency of the events in the total population of occurrences. What is the probability of its occurring r times in a further $r+s=m$ trials?

The above problem (example 1) can be translated in terms of the notation system given in Section 1 as: $Y=(Y_1,Y_2,\cdots,Y_n)$ are iid Bernoulli distributed with $E(Y_i)=\theta$, $Y^*=\left(Y^*_{n+1},...,Y^*_{n+m}\right)$, $Y_i \perp Y_j \ \forall i \& j = 1,2,...,n+m$, $\sum_{i=1}^{n} y_i = p$, $S=\sum_{i=n+1}^{n+m} y_i^* = r$ and the interest is to predict r given p, n and m. Example 1 qualifies as a fundamental statistical problem which was solved in Laplace (1774) with some difficulty (see Pearson, 1920; Stigler, 1986) using Bayesian approach. The Bayesian solution to the problem is straightforward and with a flat prior for θ the posterior predictive distribution of r is given as (see Bjørnstad(1990))

$$p(r|p,n)=\frac{\binom{m}{r}\binom{n}{p}}{\binom{m+n}{r+p}}\frac{n+1}{n+m+1}, r=0,1,...,m \tag{1}$$

Due to the unavailability of the concept of prior distribution, a non-Bayesian solution is not easy to formulate. If θ were known the distribution of r would be Binomial with mean $m\theta$

hence a non-Bayesian mean predictor of r would be $E(r|\theta, m) = m\theta$. Thus a naive prediction (NP) of r is given as $\widetilde{r} = m\frac{p}{n}$ where θ is replaced by the maximum likelihood (ML) estimate of it obtained from the observed data. Though, $\widehat{\theta} = \frac{p}{n}$ is the maximum likelihood estimator of θ, $\widetilde{r}$ is not a maximum likelihood predictor. In fact, classical likelihood theory does not allow its application as a predictive criteria (Hinkley, 1979). A likelihoodist sees the above problem as the one dealing with two unknowns, θ and r where r is of inferential interest and θ being a nuisance parameter. The above line of thinking leads the likelihoodists to construct a joint likelihood function (Bjørnstad, 1990) of θ and r as

$$\begin{aligned} L(r, \theta|p, m, n) &= L(r|m, n, p, \theta) L(\theta|p, m, n) \\ &= \binom{m}{r}\binom{n}{p}\theta^{p+r}(1-\theta)^{n+m-p-r} \end{aligned}$$

Though the above $L(r, \theta|p, m, n)$ is justified as a likelihood for prediction, the likelihood principle does not clearly state as to what one should do with θ and how the information about r contained in $L(r, \theta|p, m, n)$ is to be extracted (Berger and Wolpert, 1989). At this point the likelihoodists introduce the method of profile likelihood (Pawitan, 2001) which essentially maximizes the likelihood with respect to a subset of parameters while treating the remaining parameters as constant (known). For example 1, we have the following profile likelihood.

$$L_p(r|p, m, n) = \sup_{\theta} L(r, \theta|p, m, n)$$

$$\Rightarrow L_p(r|p, m, n) \propto \binom{m}{r}\binom{n}{p}(p+r)^{p+r}(m+n-p-r)^{m+n-p-r}$$

The likelihhodists treat L_p differently from the formal (or estimative) likelihood in the sense that L_p is often normalize to mimic a Bayesian posterior density for r. Such a normalization is justified since r, unlike the fixed parameters θ, has a probability distribution. Using Stirling's approximation to $L_p(r|p, m, n)$ it can be shown that

$$L_p(r|p, m, n) \propto \frac{p(r|p, n)}{\sqrt{\widehat{\theta}^*\left(1-\widehat{\theta}^*\right)}} \tag{2}$$

where, $p(r|p,n)$ is the Bayesian posterior predictive density of r with respect to flat prior and $\widehat{\theta}^* = \frac{p+r}{m+n}$ is obtained by maximizing $L(r,\theta|p,m,n)$ w.r.t. θ. A critical drawback of $L_p(r|p,m,n)$ is that it replaces the nuisance parameter with its MLE which introduces an additional uncertainty in the predictive distribution thus some adjustment is necessary. We also see that a multiplicative adjustment term of $\sqrt{\widehat{\theta}^*\left(1-\widehat{\theta}^*\right)}$ makes $L_p^{(1)}(r|p,m,n) = p(r|p,n)$ where $L_p^{(1)} = \sqrt{\widehat{\theta}^*\left(1-\widehat{\theta}^*\right)}L_p$ is the profile adjusted predictive likelihood. Further note that the adjustment term has the form $\sqrt{\widehat{\theta}^*\left(1-\widehat{\theta}^*\right)} \propto \mathcal{I}^{-1/2}_{\theta=\widehat{\theta}^*}$ where $\mathcal{I}_{\theta=\widehat{\theta}^*}$ is the observed Fisher's information of θ obtained from $log\left(L(r,\theta|p,m,n)\right)$ i.e. $\mathcal{I} = -\frac{\partial^2 log(L(r,\theta|p,m,n))}{\partial\theta^2}$. In matter of fact, the above adjustment can always make $L_p^{(1)}(z|y) \propto p(z|y)$ up to an order $O\left(n^{-1}\right)$ (Davison, 1986). Thus we treat $L_p^{(1)}$ as equivalent to the Bayesian posterior prediction (PP) with flat prior. The above equivalence of the predictive likelihood and the posterior predictive density with flat prior is easy understood. Since, the Bayesian posterior with flat prior is mathematically equivalent to the (estimative) likelihood function hence if there exist any predictive likelihood then the latter should be equivalent to the posterior predictive distribution with flat prior.

Predictive statistics for examples 1 and 2 are given in Table 1. For $m=1$, $L_p^{(1)}$ (or PP) gives $E(r|p,m=1,n) = P(r=1|p,m=1,n) = \frac{p+1}{n+2}$ which is different from the NP which gives $\widetilde{r} = \frac{p}{n}$ (see Table 1). The above difference matters for the cases with small n and extreme observed p.

Example 1 is a nice example of statistical prediction with independently and identically distributed (iid) variables. Next we illustrate the problem for a situation with non-identical distribution by using an example of a linear regression model.

Example 2: Let us assume a regression model, $y_i = \alpha + \beta x_i + \varepsilon_i$ $(i = 1,2,...N)$ where, $\varepsilon_i \overset{iid}{\sim} N\left(0,\sigma^2\right)$ with σ being known. We observe the pair sequence $\{y_i, x_i\}$ for $i = 1,2,..n$ $(n < N)$, also x_i for $i = n+1, n+2, ..., N$ are known but we do not observe y_i for $i = n+1, n+2, ..., N$. The problem here is to predict those unobserved y_i's which are observable in future.

In example 2, we have observed data, $\mathbf{y} = \{y_i\}$ and $X = \{x_j\}$ $(i = 1,2,...,n)$, unobserved future values $\mathbf{y}^* = \left(y^*_{n+1}, y^*_{n+2}, ..., y^*_N\right)^T$, known future covariates, $\dot{X} = \{x_j\}$ $(j = n+1, n+2, ..., N)$ and nuisance parameters $\theta = (\alpha, \beta)$. A naive prediction of y^*_j $(j = n+1, n+2, ..., N)$ is given as $\widetilde{y}^*_j = \widehat{\alpha} + \widehat{\beta}x_j$ where, $\widehat{\alpha}$ and $\widehat{\beta}$ are the ordinary least square estimates (which are also the

MLEs in this case) of α and β respectively obtained from the observed data. A naive variance estimator for y_j^* is given as $Var\left(\widetilde{y}_j^*\right) = Var\left(\widehat{\alpha}\right) + x_j^2 Var\left(\widehat{\beta}\right) + 2x_j Cov\left(\widehat{\alpha},\widehat{\beta}\right)$ which does not account for the uncertainties involved with the estimation of the nuisance parameters. A reasonable measure of uncertainties in $\widetilde{y}_j^*$ is easily computed in this case and is given by $Var\left(\widetilde{y}_j^*\right) = \sigma^2\left(1 + \dot{\mathbf{x}}_j\left(\mathbf{X}^T\mathbf{X}\right)^{-1}\dot{\mathbf{x}}_j^T\right)$ where $\mathbf{X}$ is the design matrix of the observed data $i = 1, 2, ..., n$ and $\dot{\mathbf{x}}_j$ is the j^{th} row of the design matrix, $\dot{\mathbf{X}}$, associates with $\mathbf{y}^*$. The above $\widetilde{y}_j^*$ is known as the best (having minimum mean squared prediction error) linear unbiased predictor (BLUP). In cases where σ is unknown it is replaced by it's unbiased estimate, $\widetilde{\sigma}^2 = \frac{1}{n-2}\sum_{i=1}^{n}\left(y_i - \widehat{\alpha} - \widehat{\beta}x_i\right)^2$. The profile adjusted predictive likelihood for this problem (example 2) is given as

$$L_P^{(1)}\left(Y^*|y,\sigma\right) \propto \exp\left[-\frac{1}{2\sigma^2}\left(\mathbf{y}_F^* - \mathbf{X}_F\widehat{\boldsymbol{\beta}}^*\right)^T\left(\mathbf{y}_F^* - \mathbf{X}_F\widehat{\boldsymbol{\beta}}^*\right)\right]\left|\sigma^2\left(\mathbf{X}_F^T\mathbf{X}_F\right)^{-1}\right|^{-\frac{1}{2}}$$

$$\Rightarrow L_P^{(1)}\left(Y^*|y,\sigma\right) \propto \exp\left[-\frac{1}{2}\left(\mathbf{y}^* - \dot{\mathbf{X}}\widehat{\boldsymbol{\beta}}\right)^T\left(\sigma^2\left(\mathbf{I} + \dot{\mathbf{X}}\left(\mathbf{X}^T\mathbf{X}\right)^{-1}\dot{\mathbf{X}}^T\right)\right)^{-1}\left(\mathbf{y}^* - \dot{\mathbf{X}}\widehat{\boldsymbol{\beta}}\right)\right] \qquad (3)$$

where, $\mathbf{y}_F^{*T} = \left(\mathbf{y}^T, \mathbf{y}^{*T}\right)$, $\widehat{\boldsymbol{\beta}}^*$ is the MLE of $\boldsymbol{\beta} = (\alpha, \beta)^T$ based on the full data, $i = 1, 2, ...N$, $\mathbf{X}_F^T = \left(\mathbf{X}^T, \dot{\mathbf{X}}^T\right)$ and $\widehat{\boldsymbol{\beta}} = \left(\widehat{\alpha}, \widehat{\beta}\right)^T$ is the MLE based on the observed data, $i = 1, 2, ..., n$. We skip the detailed mathematical derivation of (3) and refer the readers to Eaton and Sudderth (1998) for the special matrix identities that facilitates the easy derivation of (3). The above predictive likelihood (3) is recognized as the kernel of a multivariate normal distribution i.e. $L_P^{(1)}\left(\mathbf{y}^*|\mathbf{y},\sigma\right) \sim N_{(N-n)}\left(\dot{\mathbf{X}}\widehat{\boldsymbol{\beta}}, \sigma^2\mathbf{V}\right)$ where, $\mathbf{V} = \mathbf{I} + \dot{\mathbf{X}}\left(\mathbf{X}^T\mathbf{X}\right)^{-1}\dot{\mathbf{X}}^T$. Therefore, in this case, the naive prediction coincides with the mean of the predictive likelihood. If σ^2 is unknown, the above mathematical derivation becomes very tedious therefore, we skip the latter case. Interested readers are referred to Bjørnstad (1990) for further results . The predictive statistics for example 2 obtained through the different methods are presented in table 1.

Table 1 Predictive statistics for examples 1 and 2 produced by different methods

Example	Methods	Point Predictor	Predictive Variance	Predictive distribution
Example 1	NP	$E(r)=m\frac{p}{n}$	$m\frac{p}{n}\left(1-\frac{p}{n}\right)$	$Binomial(m,\frac{p}{n})$
	$L_P^{(1)}$	$E(r)=\frac{m(p+1)}{n+2}$	$\frac{m(p+1)(n-p+1)}{(n+2)^2(n+3)}$	$\frac{\binom{m}{r}\binom{n}{p}}{\binom{m+n}{r+p}}\frac{n+1}{n+m+1}, r=0,1,...,m$
	BLUP	$E(r)=m\frac{p}{n}$	$m\frac{p}{n}\left(1-\frac{p}{n}\right)\frac{m+n-1}{n}$	NA
Example 2	NP	$E(Y^*)=\dot{\mathbf{X}}\widehat{\beta}$	$\sigma^2\dot{\mathbf{X}}\left(\mathbf{X}^T\mathbf{X}\right)^{-1}\dot{\mathbf{X}}^T$	$N\left(\dot{\mathbf{X}}\widehat{\beta},\sigma^2\dot{\mathbf{X}}\left(\mathbf{X}^T\mathbf{X}\right)^{-1}\dot{\mathbf{X}}^T\right)$
	$L_P^{(1)}$	$E(Y^*)=\dot{\mathbf{X}}\widehat{\beta}$	$\sigma^2\mathbf{V}$	$N\left(\dot{\mathbf{X}}\widehat{\beta},\sigma^2\mathbf{V}\right)$
	BLUP	$E(Y^*)=\dot{\mathbf{X}}\widehat{\beta}$	$\sigma^2\mathbf{V}$	$N\left(\dot{\mathbf{X}}\widehat{\beta},\sigma^2\mathbf{V}\right)$

Note: $\mathbf{V}=\mathbf{I}+\dot{\mathbf{X}}\left(\mathbf{X}^T\mathbf{X}\right)^{-1}\dot{\mathbf{X}}^T$

Example 2 is still a very simple one for the following three reasons. First, it considers $Y \perp Y^*$, second, the model can be presented in a form $y=X\beta+\varepsilon$ and third, the distribution of ε is multivariate normal which facilitates the easy derivation of the frequentist's predictive pivot. The independence of Y and Y^* disappears immediately as we consider a mixed model while we loose the second and third advantages as we adopt a GLMM other than a linear mixed model. The situation becomes more complicated for a pure friquentist as soon as the covariate uncertainty comes in while the likelihood approach is still applied in the same manner as shown above.

3 Prediction with GLMM

For observed Y and $\mathbf{X}$, a generalized linear mixed model can be presented through the following five assumptions: i) $Y=\{y_{ikt}\}$; $i=1,2,...,n_{kt}$; $k=1,2,...,K$; $t=1,2,...,T$; is observed independently at a given value of the covariate $\{\mathbf{x}_{ikt}\}$ where $\mathbf{x}_{ikt}$ is a $1\times q$ row vector representing the i^{th} row of the design matrix $\mathbf{X}$, and a given realization of the random effect u_{kt}, ii) as $\mathbf{x}_{ikt}$ and u_{kt} influence the distribution of y_{ki} through a linear function $\eta_{ikt}=\mathbf{x}_{ikt}\boldsymbol{\beta}+u_{kt}$ which is called the linear predictor, iii) conditional on u_{kt}, $\mu_{ki}=E(y_{ki}|u_{ki})$ satisfies $g(\mu)=\eta$ for some function g which is called a link function, iv) conditional on $\mathbf{u}_t=(u_{t1},u_{t2},...,u_{tK})^T$, the distribution of y_{ikt} belongs to the exponential family of distributions and v) $\mathbf{u}_t$ follows a marginal distribution, $h(\mathbf{u})$. Often, $\mathbf{u}_t$ is assumed to have an independent multivariate normal distribution *i.e.* $\mathbf{u}_t \backsim \mathbf{N}_K(\mathbf{0},\mathbf{D})$. Alam and Carling (2008) and Alam (2008) provides discussion on the above

GLMM in the context of credit risk modeling where i represents the loan, k represent the industry (sector) the loan belongs to and t represents time (quarter). The goal here is to predict future observation $Y^* = \left\{y^*_{i'kt'}\right\}$ or some function of it, $S = s\left(Y^*\right)$ based on the currently observed data where i' and t' may go beyond n_{kt} and T respectively but the number of industries (K) is assumed to be fixed. Further assume that the design matrix associated with $\mathbf{y}^*$ denoted as $\dot{\mathbf{X}}^*$ can be partitioned as $\dot{\mathbf{X}}^* = \left(\dot{\mathbf{X}}_C|\dot{\mathbf{X}}^*_S\right)$ where $\dot{\mathbf{X}}_C$ is currently known and $\dot{\mathbf{X}}^*_S$ is currently unknown and can only be observed in the future.

In a simpler case Booth and Hobert (1998) suggested a prediction method for GLMM which they called conditional mean squared error prediction (CMSEP). The prediction problem presented here is different from and more general than the usual prediction with GLMM, e.g. those considered in Booth and Hobert (1998), for the following reasons. The additional t-dimension was not considered in Booth and Hobert (1998) which enabled them to use the same estimate of $u_k|y$ for the prediction of $y^*_{j'k'}$ and they did not consider the prediction problem for $k' > K$. Therefore, CMSEP is suitable for the fitted values (in sample prediction) and not for the real (out of sample) prediction. Moreover, they did not consider covariate uncertainty, other than the uncertainties involved with the random effects.

The above prediction problem fits well under the framework of unobservable variables, nuisance variable and parameters' likelihood presented in Berger and Wolpert (1988; sections 3.5.2 and 3.5.3). In this case $\xi = \left(Y^*, \dot{X}^*_S\right)$ with Y^* being of interest, the random effects, $\mathbf{u}$ is the nuisance variable and any parameter involved with the distributions of Y, ξ and $\mathbf{u}$ is a nuisance parameter. For further derivation of the predictive criteria we can use the "nuisance variables likelihood principles" (Berger and Wolpert, 1988).

3.1 Derivation of the predictive likelihood for GLMM

In this case, we have observed data, $X = (X_C, X_S)$ where X_C consists of non-stochastic and X_S consists of stochastic covriates and Y $(i = 1, 2, ..., n_{kt}; k = 1, 2, ..., K;\ t = 1, 2, ..., T)$, future covariates $\dot{X}^* = \left\{\dot{X}_{i'kt',C}, \dot{X}^*_{i'kt',S}\right\}$ $(i' = 1, 2, ..., n_{k't'};\ t' \in 1, 2, ..., \max\left(t', T\right)))$ of which $\dot{X}_{i'kt',C}$ is currently known, future response, $\mathbf{y}^* = \left\{y^*_{i'kt'}\right\}$, which we want to predict and $\mathbf{u}_t$ and $\mathbf{u}_{t'}$ are the random effects which are independently distributed as $N\left(0, \mathbf{D}\right)$ where $\mathbf{D}$ is an unknown but fixed positive definitive matrix. Denoting $\boldsymbol{\theta} = \left(\boldsymbol{\beta}, \phi, vech\left(\mathbf{D}\right)\right)$ and $\boldsymbol{\kappa} = \left(\kappa_1, ..., \kappa_F\right)$ as the

parameter vector involved with the GLMM given X and $\dot{X}^*$ and with the distribution of $\dot{X}_S^*$ respectively. Assuming no overlap between $\boldsymbol{\theta}$ and $\boldsymbol{\kappa}$, i.e. $\boldsymbol{\theta} \cap \boldsymbol{\kappa} = \varnothing$, the joint likelihood function for this case is given by

$$\begin{aligned} L\left(\boldsymbol{\theta}, \mathbf{u}, \boldsymbol{\kappa}, \xi | \mathbf{y}, X, X_C\right) &= f\left(\mathbf{y}, \boldsymbol{\xi}, \mathbf{u}, \dot{X}_S^* | \boldsymbol{\theta}, \boldsymbol{\kappa}, X, \dot{X}_C\right) \quad (4) \\ &= f\left(\mathbf{y}, \mathbf{y}^* | X, \dot{X}^*, \mathbf{u}, \boldsymbol{\theta}\right) f\left(X_S, X_S^* | \boldsymbol{\kappa}\right) f\left(\mathbf{u} | \mathbf{D}\right) \quad (5) \end{aligned}$$

The principle of marginal likelihood (Berger and Wolpert, 1988) tells us that any nuisance variable should be integrated out from the likelihood at the first hand. Though we assumed $k' \in (1, 2, ..., K)$, the above likelihood (4) can easily be extended for $k' \notin (1, 2, ..., K)$. Without loss of generality we can denote the clusters (k dimension) in observed data with 1 to K and any cluster appears in the predictive space but not in observed data with $(k+1)$, $(k+2)$ and so on up to $K'$and do the same for t which goes up to T'. Therefore, the joint likelihood of $\boldsymbol{\theta}, \xi, \boldsymbol{\kappa}$ is given by

$$L\left(\boldsymbol{\theta}, \xi, \boldsymbol{\kappa} | Y\right) = \int \cdots \int_{-\infty}^{\infty} \prod_{t=1}^{\max(T,T')} f\left(\mathbf{y}, \mathbf{y}^* | X, \dot{X}^*, \mathbf{u}, \boldsymbol{\theta}\right) f\left(X_S, \dot{X}_S^* | X, \dot{X}_C^*, \boldsymbol{\kappa}\right) f\left(\mathbf{u}_t | \mathbf{D}\right) d\left(\mathbf{u}_t\right) \quad (6)$$

The integration involved with (6) is generally analytically intractable even only for the observed data likelihood (Lee et al. 2006). In general, for the GLMM, equation (6) can be presented, in matrix notations, as

$$L\left(\boldsymbol{\theta}, \xi, \boldsymbol{\kappa} | Y\right) = \left(\int \cdots \int_{-\infty}^{\infty} \prod_{t=1}^{\max(T,T^*)} \exp\left[\frac{\mathbf{y}_{F,t}^{*T} \zeta_t - \mathbf{1}^T b\left(\zeta_t\right)}{\phi} + \mathbf{1}^T c\left(\mathbf{y}_{F,t}^*, \phi\right) \right] f\left(\mathbf{u}_t\right) d\left(\mathbf{u}_t\right) \right) L\left(\dot{X}_S^*, \boldsymbol{\kappa}\right) \quad (7)$$

where, $\mathbf{y}_{F,t}^{*T} = \left(\mathbf{y}_t^T, \mathbf{y}_t^{*T}\right)$ is the vector of observed and unobserved responses, $\zeta = \{\zeta_{ikt}\}$ is the vector of canonical parameters such that with canonical link $\zeta_t = \eta_t = \mathbf{X}_{F,t}\boldsymbol{\beta} + \mathbf{Z}_t\mathbf{u}_t$ where $\mathbf{X}_F = \left(\mathbf{X}_t^T, \dot{\mathbf{X}}_t^{*T}\right)^T$ is the design matrix associated with $\boldsymbol{\beta}$ for the data set at t (quarter) and $\mathbf{Z}_t$ is the design matrix associated with $\mathbf{u}_t = \left(u_{1t}, u_{2t}, ..., u_{K't}\right)^T$, $b\left(\right)$ is called the cumulant function and it is a function in "S" convention i.e. $b\left(\zeta_1, \zeta_2\right) = \left(b\left(\zeta_1\right), b\left(\zeta_2\right)\right)$, ϕ is the dispersion parameter of the conditional mean model and $L\left(\dot{X}_S^*, \boldsymbol{\kappa}\right) = f\left(X_S, \dot{X}_S^* | X_C, \dot{X}_C, \boldsymbol{\kappa}\right)$. For binomial and

Poisson GLMM, $\phi = 1$.

Applying Laplace approximation to (7) the joint likelihood is simplified , after ignoring terms having zero expectation (see Breslow and Clayton, 1993; section 2.1), as

$$L\left(\boldsymbol{\theta},\xi,\boldsymbol{\kappa}|\mathbf{y}\right)\approx|\mathbf{I}+\mathbf{D}^{-1}\mathbf{Z}\mathbf{W}\mathbf{Z}^{T}|^{-\frac{1}{2}}\exp\left[-\frac{\mathbf{y}_{F}^{*T}\zeta-\mathbf{1}^{T}b\left(\zeta\right)}{\phi}-\frac{1}{2}tr\left(\mathbf{D}^{-1}\mathbf{u}^{T}\mathbf{u}\right)-\mathbf{1}^{T}c\left(\mathbf{y}_{F}^{*},\phi\right)\right]_{|\mathbf{u}=\widetilde{\mathbf{u}}}L\left(\dot{X}_{S}^{*},\boldsymbol{\kappa}\right) \tag{8}$$

where, $\mathbf{W}$ is the GLM weight matrix (McCullagh and Nelder, 1989) and $\widetilde{\mathbf{u}}=\{\mathbf{u}_{l}\}_{T'\times K'}$ is the maxima of the integrand function in (7) w.r.t. $\mathbf{u}$. For the detailed derivation of (8) readers are referred to Breslow and Clayton (1993) and Wand (2002). The remaining task is to eliminate the nuisance parameter $\boldsymbol{\theta}$, $\boldsymbol{\kappa}$ and $\dot{X}_{S}^{*}$ from the model. Since $\dot{X}_{S}^{*}$ has probability distribution it can either be integrated out or profiled out while $\boldsymbol{\theta}$ and $\boldsymbol{\kappa}$ can only be profiled out. Since, adjusted profile likelihood is same as integrating the nuisance parameter out using Laplace approximation, we can profile out $\boldsymbol{\omega}=\left(\boldsymbol{\theta},\boldsymbol{\kappa},\dot{X}_{S}^{*}\right)$ altogether from (8). Thus we obtain the profile adjusted predictive likelihood for Z as

$$L_{P}^{(1)}\left(\mathbf{y}^{*}|\mathbf{y},\mathbf{X},\dot{\mathbf{X}}_{C}\right)=L_{P}\left(\mathbf{y}^{*}|\mathbf{y},\mathbf{X},\dot{\mathbf{X}}_{C}\right)|\mathcal{I}^{*}\left(\widehat{\boldsymbol{\omega}}^{*}\right)|^{-1/2} \tag{9}$$

where, $L_{P}\left(\mathbf{y}^{*}|\mathbf{y},\mathbf{X},\dot{\mathbf{X}}_{C}\right)=\sup_{\boldsymbol{\omega}}\left\{l\left(\boldsymbol{\omega},\mathbf{y}^{*}|\mathbf{y},\mathbf{X},\dot{\mathbf{X}}_{C}\right)\right\}$ with $l=\log L\left(\boldsymbol{\omega},\mathbf{y}^{*}|\mathbf{y},\mathbf{X},\dot{\mathbf{X}}_{C}\right)$ and $\mathcal{I}^{*}\left(\widehat{\boldsymbol{\omega}}^{*}\right)=\{\mathcal{I}_{vw}^{*}\left(\widehat{\boldsymbol{\omega}}^{*}\right)\}$ with $\mathcal{I}_{vw}^{*}\left(\widehat{\boldsymbol{\omega}}^{*}\right)=-\frac{\partial^{2}l}{\partial\boldsymbol{\omega}_{v}\partial\boldsymbol{\omega}w}{}_{|\boldsymbol{\omega}=\widehat{\boldsymbol{\omega}}^{*}}$ is the observed information matrix for $\boldsymbol{\omega}$ with fixed $\mathbf{y}^{*}$. Though, equation (9) looks very simple, its exact analytical derivation may be a challenging job, depending on (8). After $L_{P}^{(1)}$ has been computed one can predict Z from (9) in the following two ways (Bjørnstad, 1996)

a) mean prediction: normalize $L_{P}^{(1)}\left(y^{*}|y\right)$ to make it a pdf (pmf) and predict $\hat{y}^{*}=E_{P}\left(y^{*}|y\right)$. Also base any statistical inference on the normalized $L_{P}^{(1)}\left(y^{*}|y\right)$ and

b) ML prediction: predict $\widehat{y}^{*}$ that maximizes $L_{P}^{(1)}\left(y^{*}|y\right)$, for continuous Y, and treat $L_{P}^{(1)}\left(y^{*}|y\right)$ as a likelihood function to make inference on y^{*}.

Bjørnstad (1996) inclined to prefer mean prediction over ML prediction considering the shortcomings of ML for the correlated data e.g. $\widehat{\boldsymbol{\theta}}^{*}$ and y^{*} are not, in general, invariant under one–to–one parameter transformation. Since, $L_{P}^{(1)}$ is the approximate Bayesian posterior pre-

dictive density with flat prior, we may use the available Bayesian MCMC procedures (Gelman et al., 2004) to facilitate the computation of $\hat{\mathbf{y}}^*$ as the posterior mode or the posterior mean.

The prediction problem and its approximate likelihood solution presented in (4)–(8) are very general. The above technique is also applicable to the prediction of credit defaults under the modeling framework of Carling et al. (2004) and Alam (2008). For further simplification of predictive density (9) we require specific model for Y and X_S. In the following section some special cases and their respective simplifications of (9) are presented through applied examples.

4 Examples of likelihood prediction under covariate uncertainty

Prediction problems with GLM and GLMM appear in may applications and they are dealt with a variety of ways, some of which are mentioned in section 1. Here we pick some examples from the existing literature and demonstrate their solutions via predictive likelihood approach. The papers containing the following examples are not purposively selected rather they are the only articles on prediction with GLM and GLMM under uncertainty in the response or covariates found in the existing literature. The following problem (example 3) is related to survey sampling and is motivated by an error-in-variable super population model presented in Bolfarine (1991).

Example 3 Assume, a finite population is denoted by $\mathcal{P} = (1, 2, ..., N)$ where N is known and we have a sample s of size n from $\mathcal{P}$. We denote the sample observations by $\mathbf{y} = (y_1, y_2, ..., y_n)$ and the unobserved part of the population by $\mathbf{y}^* = \left(y^*_{n+1}, ...y^*_N\right)$. After the sample $\mathcal{S}$ has been observed, our target is to predict the finite population total, i.e. $T = \sum_{i\in\mathcal{S}} y_i + \sum_{i\in(\mathcal{P}-\mathcal{S})} y^*_i$ and to provide a measure of uncertainty about the prediction. However, in reality the y_i's are not directly observable, rather we have to use some instrument to measure y_i which gives the observation X_i such that $X_i = y_i + \delta_i$ where δ_i is a random error which is independent of y_i.

Solution of Example 3 This problem is different from the ones concerning statistical modeling since the Y_i's are constants in the population, $\mathcal{P}$. However, that does not prohibit us to assume that y_i's are realizations of Y_i from a super population having normal distribution with some constant mean and variance. It is also assumed that δ_i's are distributes as normal with 0 mean and constant variance. Under the above assumption a naive predictor

of T is $\widetilde{T} = N\overline{X}_{\mathcal{S}}$, where $\overline{X}_{\mathcal{S}} = \frac{1}{n}\sum_{i=1}^{n} X_i$ and a variance of $\widetilde{T}$ is also easily calculated and it is found to be the BLUP in such situation (Bofarine, 1991). In order to work it out using likelihood approach we assume that $Y_i \tilde{} N\left(\mu, \sigma^2\right)$, $\delta_i \tilde{} N\left(0, \sigma_\delta^2\right)$ and $Y_i \perp \delta_i$ which imply $X_i|Y_i = y_i \tilde{} N\left(y_i, \sigma_\delta^2\right)$. Thus we have, $\theta = (\mu, \sigma, \sigma_\delta)$ and $\xi = (y_1, ..., y_N^*)$, $X = (X_1, X_2, ..., X_n)$, $X^* = \left(X_{n+1}^*, ..., X_N^*\right)$ with $T = \sum_{i\in\mathcal{S}} y_i + \sum_{i\in(\mathcal{P}-\mathcal{S})} y_i^*$ being of interest. For simplicity, we assume σ and σ_δ are known (see Bolfarine (1991) and Buzas and Stefanski (1996) for further discussion on the problems induces by unknown σ and σ_δ).

The above normality gives the following likelihood

$$\begin{aligned}
L_{\theta,\xi} &= \prod_{i=1}^{N} \left(f\left(X_i|y_i,\theta\right) f\left(y_i|\theta\right)\right) \\
&= \prod_{i=1}^{n} \left(f\left(X_i|y_i,\theta\right) f\left(y_i|\theta\right)\right) \prod_{i=n+1}^{N} \int_{X_i^*} f\left(X_i^*|y_i^*,\theta\right) f\left(y_i^*|\theta\right) dX_i^* \\
&= \prod_{i=1}^{n} \left(f\left(X_i|y_i,\theta\right) f\left(y_i|\theta\right)\right) \prod_{i=n+1}^{N} f\left(y_i^*|\theta\right) \\
\therefore\ L_{\theta,\xi} &\propto \exp\left[-\frac{1}{2}\left\{\sum_{i=1}^{n}\left(\frac{y_i - X_i}{\sigma_\delta}\right)^2 + \sum_{i=1}^{n}\left(\frac{y_i-\mu}{\sigma}\right)^2 + \sum_{i=1+1}^{N}\left(\frac{y_i^*-\mu}{\sigma}\right)^2\right\}\right] \quad (10)
\end{aligned}$$

Denoting, $\overline{Y}^* = \frac{1}{N}\left(\sum_{i=1}^{n} y_i + \sum_{i=n+1}^{N} y_i^*\right)$ we have

$$\Rightarrow L_P^{(1)}\left(\xi|X,\sigma_\delta,\sigma\right) \propto \exp\left[-\frac{1}{2}\left\{\sum_{i=1}^{n}\left(\frac{y_i - X_i}{\sigma_\delta}\right)^2 + \sum_{i=1}^{N}\left(\frac{y_i-\overline{Y}^*}{\sigma}\right)^2\right\}\right] \quad (11)$$

Differentiating (11) w.r.t. $y_i \forall i \in \mathcal{S}$ and setting them to zero gives $\sum_{i=1}^{n} y_i = \sum_{i=1}^{n} X_i$. Again doing the same for $i \notin \mathcal{S}$ we have $\sum_{i=n+1}^{N} y_i^* = \frac{N-n}{n}\sum_{i=1}^{n} X_i$. Adding the above two results we obtain $\widehat{T} = \frac{N}{n}\sum_{i=1}^{n} X_i = N\overline{X}_{\mathcal{S}}$. The above $\widehat{T}$ is an unbiased estimator for T and its variance can be calculated as

$$\begin{aligned}
Var\left(\widehat{T} - T\right) &= Var\left(N\overline{X}_s - \sum_{i=1}^{N} Y_i\right) \\
&= N\frac{1-f}{f}\sigma^2 + \frac{N}{f}\sigma_\delta^2
\end{aligned}$$

where, $f = \frac{n}{N}$.

From equation (10) we see that $L_{\theta,\xi}$ is proportional to the Bayesian posterior with flat prior. The Laplace approximation applied to $L_{\theta,\xi}$ in order to obtain $L_P^{(1)}(\xi|X, \sigma_\delta, \sigma)$ is exact since the log-posterior is a quadratic function. Thus the Bayesian solutions presented in Bolfarine (1991) are the same as the predictive likelihood solutions. The above $\widehat{T}$ is also the BLUP (Bolfarine, 1991).

The above example (example 3) is, in fact, the one deals with measurement uncertainty in the response but not in the covariate. A theoretical example of dealing with uncertainties both in the $\mathbf{Y}$ and the $\mathbf{X}$ space under the linear model's framework is also presented in Bolfarine (1991). Next, we see another example (see example 4) of prediction problem with GLM under covariate uncertainty. We consider a Poisson GLM with one covariate X which is measured with error. This example is originally presented in Huwang and Hwang (2002) but their method of solution is different.

Example 4: Consider a Poisson model, $Y_i|U_i \backsim Poisson(\mu_i)$, $\log(\mu_i) = \eta_i = \beta_0 + \beta_1 U_i$ and $X_i = U_i + \delta_i \ \forall i = 1, 2, ..., n$. We also assume that $U_i \backsim N\left(\mu_u, \sigma_u^2\right)$, $\delta_i \backsim N\left(0, \sigma_\delta^2\right)$ and $U_i \perp \delta_j \ \forall i \& j$. Our target is to predict $Y_{n+1} = y_{n+1}^*$ when X_i, $i = 1, 2, ...n+1$, and Y_i ,$i = 1, 2, ..., n$, are observed but U_i's are not observable.

Solution of Example 4 From the virtue of the normality and independence of U and δ we have $V_i = (U_i, X_i)^T = N_2(\mathbf{1}_2\mu_u, \mathbf{\Lambda})$ where, $\mathbf{1}_2$ is a 2×1 column vector of 1's and $\mathbf{\Lambda} = \begin{pmatrix} \sigma_u^2 & \sigma_u^2 \\ \sigma_u^2 & \sigma_u^2 + \sigma_\delta^2 \end{pmatrix}$. Denote, $\theta = \left(\beta_0, \beta_1, \mu_u, \sigma_u^2, \sigma_\delta^2\right)$ and $\xi = (Y_{n+1}, U_1, ...U_{n+1})$. Using the independence assumption we can construct the following joint likelihood

$$L_{\theta,\xi} = f\left(y_{n+1}^*|\theta, U_{n+1}, X_{n+1}\right) f(U_{n+1}, X_{n+1}|\theta) \prod_{i=1}^{n} f(y_i|\theta, U_i, X_i) f(U_i, X_i|\theta) \qquad (12)$$

The second term in the right-hand-side of equation (12) is a pdf of a bivariate normal distribution. Therefore, the joint distribution of $f(U_i, X_i|\theta)$ in the likelihood can be factored as

$$f(U_i, X_i|\theta) = f(U_i|X_i\theta) f(X_i|\theta)$$

Defining, $E\left(U_i|X_i\right)=\gamma_0+\gamma_1 X_i$ and $\tau^2=Var\left(U_i|X_i\right)$ where, $\gamma_0=\left(1-\gamma_1\right)\mu_u$, $\gamma_1=\frac{\sigma_u^2}{\sigma_u^2+\sigma_\delta^2}$ and $\tau^2=\sigma_u^2\left(1-\frac{\sigma_u^2}{\sigma_u^2+\sigma_\delta^2}\right)$. Now, using the usual tricks for bivariate normal distribution (see Berger and Wolpert (1988), pp–41.4) it can be shown that $X=(X_1,X_2,...X_n)$ is ancillary for γ_0,γ_1,τ and U. Hence, $f\left(X_i|\theta\right)$ carries no information about the parameters we need for prediction. Therefore, $f\left(X_i|\theta\right)$ can be ignored in the construction of the predictive likelihood. Thus the joint likelihood (12) reduces to

$$L_{\theta,\xi}\propto\exp\left(\mathbf{y}_F^T\eta-1^Tb\left(\eta\right)-c\left(\mathbf{y}_F\right)\right)\frac{1}{\tau^{n+1}}\exp\left[-\frac{1}{2\tau^2}\sum_{i=1}^{n+1}\left(u_i-\gamma_0-\gamma_1X_i\right)^2\right]$$

$$\Rightarrow L_{\theta,\xi}\propto\exp\left(\mathbf{y}_F^T\eta'-1^Tb\left(\eta'\right)-c\left(\mathbf{y}_F\right)\right)\frac{1}{\tau'^{n+1}}\exp\left[-\frac{1}{2\tau'^2}\sum_{i=1}^{n+1}u_i'^2\right]\qquad(13)$$

where, $\mathbf{y}_F^T=\left(y_1,...,y_n,y_{n+1}^*\right)$, $\eta'=\beta_0'+\beta_1'x_i+u_i'$, $\beta_0'=\beta_0+\beta_1\gamma_0$, $\beta_1'=\beta_1\gamma_1$, $\tau'=\tau\beta_1$ and $u_i'=\beta_1\left(u_i-\gamma_0-\gamma_1X_i\right)$. We notice that equation (13) is the joint likelihood of a Poisson-Normal mixed model. Thus we conclude that the prediction problem under the measurement error in GLM reduces to the prediction problem with its GLMM analogue. However, an exact analytical solution of the problem is not possible. In absence of an exact analytical solution we can implement $L_P^{(1)}$ through Bayesian posterior simulation.

For this problem, Huwang and Hwang (2002) suggested a pseudo likelihood (PsL) approach. In order to compare the performance of $L_P^{(1)}$ with PsL method we conduct a simulation study with $\beta_0=\beta_1=1$, $\mu_u=0$, $\sigma_u^2=0.25$ and $\sigma_\delta^2=0.1$ and 0.25. We consider the sample sizes to be $n=30$, 50, and 100 and predict one out of sample response (y_{n+1}) based on the observed data and X_{n+1}. The above choices of the parameter values and sample sizes are made according to Huwang and Hwang (2002). The computation of the $L_P^{(1)}$ is carried out through Bayesian posterior simulation implemented in OpenBugs (Spigelhalter, 2007). A flat prior, $Uniform(0,100)$ for τ' and $N\left(0,10000\right)$ for β_i', $i=0,1$; was used for the Bayesian model. We compare the performances of $L_P^{(1)}$ and PsL in terms of the coverage interval and the average length of prediction intervals for a nominal level, 0.95. We use

1000 Monte-Carlo replication to obtain our results which are presented in Table 2.

Table 2 Coverage Probabilities and the average length of prediction intervals for the Poisson error-in-variable prediction (Example 4) with nominal probability 0.95.

Sample Size	$Var(\delta_i)$	Coverage probability		Length of prediction interval	
n	σ_δ^2	$L_P^{(1)}$	PsL	$L_P^{(1)}$	PsL
30	0.25	0.982	0.945	8.733	8.825
50		0.969	0.958	8.355	8.362
100		0.976	0.961	7.909	8.231
30	0.1	0.984	0.954	8.405	8.386
50		0.984	0.964	7.737	7.785
100		0.986	0.943	7.518	7.642

Note: The results of the PsL are quoted from Huwang and Hwang (2002)

Though the coverage probability for $L_p^{(1)}$ exceeds the nominal level by a big margin (Table 1), it should may not be a problem of $L_P^{(1)}$ rather it may be due to discrete predictive distribution for which a 95% prediction interval may not be possible to construct. However, $L_p^{(1)}$ guarantees that the coverage probability is not less than the nominal level while keeps the average length of the prediction interval shorter than that of the PsL. It is interesting to note that, PsL coverage probability may be less than the nominal level but it is not the case for $L_P^{(1)}$. The average length of the $L_P^{(1)}$ decreases at a rate faster than PsL as the sample sizes increase. In the above simulation, σ_u^2 and σ_δ^2 are very small, in absolute value, therefore a naive prediction implemented through a simple Poisson GLM of y on X does not perform substantially bad. For example, with $n = 30, \sigma_u^2 = 0.25$ and $\sigma_\delta^2 = 0.25$ a 95% prediction interval of a simple GLM shows 94% coverage probability. However, as we increase the variance parameters to $\sigma_u^2 = 1.25$ and $\sigma_\delta^2 = 1.25$ and we change $\beta_0 = 0.5$ and $\beta_1 = 1.5$ with $n = 30$ the simulation results show that the 95% prediction interval of $L_P^{(1)}$ still has 98% coverage probability while a 95% naive GLM prediction interval covers the true future values only in 77% cases.

The next we present an example of prediction with GLMM under covariate uncertainty with a hypothetical model for credit risk prediction.

Example 5: Let us assume that a portfolio of loans consists of n_{kt} loans in industry k, $k = 1, 2, ..., K$ at time t, $t = 1, 2, ..., T$. The event that i^{th} loan in industry k is default at time t is given by y_{ikt} which takes value 1 if the loan is default and 0 otherwise. Further, assume that the default probability is modeled with a binomial GLMM. While predicting a default event at time $t+1$ having observed the information path at t some of the future covariates are unknown. For simplicity we assume that there are $p+1$ covariates and only the value of the last covariate, $\dot{X}^*_{ik(T+1)(p+1)}$ is unknown at time T while the covariate process of $X_{ikt(p+1)}$ follows $AR(1)$.

Solution of example 5: For simplicity we assume $p = 3$ and that the random time effects in cluster k at each time t is distributed as $u_{kt} \backsim N\left(0, \sigma_k^2\right)$, $u_{kt} \perp u_{k't'} \forall k \neq k'$ & $t \neq t'$. Denote, the future $\dot{X}^*_{ik(T+1)(p+1)} = x^*$ we want to predict $E\left(y^*_{ik(t+1)}\right) = \mu^*_{ik(t+1)}$. A naive approach would suggest predicting x^* from the historical data on X and then predict $\mu^*_{ik(t+1)}$ as though x^* is known and the other model parameters are known and are equal to MLE obtained from the observed data up to time t. The joint likelihood in this case is given as

$$l\left(\theta, \mathbf{y}^*, \kappa | y, x\right) = \int \exp\left[\mathbf{y}_F^{*T}\eta - 1^T diag\left\{b\left(\eta\right)\right\}\right] f\left(u\right) f\left(x^* | x\right) f\left(x\right) du dx^*$$

$$\Rightarrow \quad l\left(\theta, \mathbf{y}^*, \kappa | \mathbf{y}, x\right) = \int \exp\left[\sum_t \sum_k \left(\sum_i y_{ikt}\eta_{ikt} - b\left(\eta_{ikt}\right)\right)\right] \frac{1}{\sqrt{2\pi\sigma_k^2}} \exp\left[-\frac{u_{kt}^2}{2\sigma_k^2}\right] f\left(x^* | x, \kappa\right) f\left(x | \kappa\right) du dx^*$$

where $\eta_{ikt} = \beta_0 + \beta_1 x_{1ikt} + \beta_2 x_{2ikt} + u_{kt}$ and κ represents the parameter vector required to model X. Assuming, X_{2ikt} varies only over t an AR(1) precess on X is defined as $X_{t+1} = \mu + \rho X_t + e_t$; $|\rho| < 1$ and $e_t \tilde{} iid\ N\left(0, \sigma_e^2\right)$ thus giving $\kappa = \left(\mu, \rho, \sigma_e^2\right)$. The above

assumptions simplifies the joint likelihood as

$$l\left(\theta, y^*, \kappa | y, x\right) = \int \exp\left[\sum_t \sum_k \left(\sum_i y_{ikt}\eta_{ikt} - b\left(\eta_{ikt}\right)\right)\right] \frac{1}{\sqrt{2\pi\sigma_k^2}} \exp\left[-\frac{u_{kt}^2}{2\sigma_k^2}\right] \cdot$$
$$f\left(x_{T+1}^* | x_T, \kappa\right) f\left(x_1 | \kappa\right) \prod_{t=2}^{T+1} f\left(x_t | x_{t-1}, \kappa\right) du dx^* \quad (14)$$

Thus, in order to estimate κ parameters we only need to maximize the second line of (14). However, unlike the formal time series prediction, we have to consider the full likelihood (14) for the prediction of x^* and not just the second line.

5 Motivations of $L_P^{(1)}$

We provide likelihood solution of the selected examples through profile adjusted predictive likelihood, $L_P^{(1)}$. However, $L_P^{(1)}$ is not the the only choice to carry out likelihood prediction. Initially $L_P^{(1)}$ was motivated through its approximate equivalence of Bayesian posterior with flat prior (Davison, 1986). In this section we show that, apart from the Bayesian justification, $L_P^{(1)}$ does have other attractive explanations.

Bjørnstad (1990) surveyed 14 different types of predictive likelihoods. Many of them are equivalent but not all of them comply with the likelihood principle. Bjørnstad (1996) presented a definition of the proper predictive likelihood based on the likelihood principle. A predictive likelihood $L\left(y^*|Y\right)$ is said to be proper if, given two experiments E_1 and E_2, $L_\theta\left(y, y^*|E_1\right) \propto L_\theta\left(y, y^*|E_2\right)$ implies $L\left(y^*|y, E_1\right) \propto L\left(y^*|y, E_2\right)$. According to the above definition, only 5 out 14 predictive likelihoods surveyed in Bjørnstad (1990) qualify as the proper predictive likelihoods. Denoting $\widehat{\boldsymbol{\theta}}$ as the MLE of $\boldsymbol{\theta}$ based on observed data only and $\widehat{\boldsymbol{\theta}}^*$ as the MLE of $\boldsymbol{\theta}$ based on both observed and unobserved data the proper predictive likelihoods are given as

1. $L_e = L\left(y^*|y, \boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}_y\right)$ where, . L_e is called the estimative likelihood.
2. $L_P = L\left(y^*|y, \boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}^*\right)$ where, . L_P is called the profile likelihood.
3. $L_P^{(1)} = L\left(y^*|y, \boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}^*\right) |\mathcal{I}^*\left(\widehat{\boldsymbol{\theta}}^*\right)|^{-1/2}$ where, $\mathcal{I}^* = -\frac{\partial^2 \log(L_\theta(z,y))}{\partial\boldsymbol{\theta}\partial\boldsymbol{\theta}^T}|_{\boldsymbol{\theta}=\widehat{\boldsymbol{\theta}}^*}$ which is called profile adjusted predictive likelihood.

4. $L_P^{(2)} = L_P^{(1)} \left\| \frac{\partial \widehat{\theta}}{\partial \widehat{\theta}^*} \right\|$ which is a transformation invariant version of $L_P^{(1)}$.

5. $L_P^{(3)} = \sup_\theta \left\{ \frac{L_\theta(y,y^*)}{\sup_{y^*}\{f_\theta(y^*|y)\}} \right\}$

Bjørnstad (1996) did not offer any discussion as to whether all of the above 5 predictive likelihoods are equally as good. However, a careful inspection of the above 5 predictive likelihoods reveals that all of them are based on the joint likelihood and they differ only in the way they profile the nuisance parameters out of the joint likelihood. Like the naive approach, L_e does not take into account the fact that the parameter $\widehat{\boldsymbol{\theta}}_y$ is estimated. Hence, L_e undermines the uncertainty associated with the prediction. L_P can be recognized as the first order Taylor's approximation to the joint likelihood around $\boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}^*$ while the second order Taylor's approximation to $\log(L_\theta(y, y^*))$ around $\widehat{\boldsymbol{\theta}}^*$ gives

$$L_\theta(y, z) \approx L\left(z|y, \boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}^*\right) \exp\left[\left(\boldsymbol{\theta} - \widehat{\boldsymbol{\theta}}^*\right)^T \mathcal{I}^*\left(\widehat{\boldsymbol{\theta}}^*\right)\left(\boldsymbol{\theta} - \widehat{\boldsymbol{\theta}}^*\right)\right]$$

Assuming normality of $\widehat{\boldsymbol{\theta}}^*$ i.e. $g\left(\widehat{\boldsymbol{\theta}}^*|\boldsymbol{\theta}\right) = N\left(\boldsymbol{\theta}, \left(\mathcal{I}^*\left(\widehat{\boldsymbol{\theta}}^*\right)\right)^{-1}\right)$ we have

$$L_\theta(y, y^*) \approx \frac{L\left(y^*|y, \boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}^*\right) \exp\left[\left(\boldsymbol{\theta} - \widehat{\boldsymbol{\theta}}^*\right)^T \mathcal{I}^*\left(\widehat{\boldsymbol{\theta}}^*\right)\left(\boldsymbol{\theta} - \widehat{\boldsymbol{\theta}}^*\right)\right]}{g\left(\widehat{\boldsymbol{\theta}}^*|\boldsymbol{\theta}\right)} g\left(\widehat{\boldsymbol{\theta}}^*|\boldsymbol{\theta}\right)$$

$$\Rightarrow L_\theta(y, y^*) \approx L\left(y^*|y, \boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}_z\right) |\mathcal{I}^*\left(\widehat{\boldsymbol{\theta}}^*\right)|^{-1/2} g\left(\widehat{\boldsymbol{\theta}}^*|\boldsymbol{\theta}\right) \tag{15}$$

From (15), we see that

$$L_\theta(y, y^*) \approx L_P^{(1)} g\left(\widehat{\boldsymbol{\theta}}^*|\boldsymbol{\theta}\right)$$

where $L_P^{(1)}$ contains information only on y^* and $g\left(\widehat{\boldsymbol{\theta}}^*|\boldsymbol{\theta}\right)$ contains all the information on $\boldsymbol{\theta}$ in addition to partial information on y^*. Therefore, the amount of information on y^* contained in $g\left(\widehat{\boldsymbol{\theta}}^*|\boldsymbol{\theta}\right)$ is likely to be small compared to that contained in $L_P^{(1)}$ and may be negligible. Under the above, assumption, $L_P^{(1)}$ is also the partial likelihood of y^*. Again, $L_\theta(y, y^*) = f(y, y^*|\boldsymbol{\theta})$ and $f\left(y, y^*, \widehat{\theta}|\boldsymbol{\theta}\right) = f(y, y^*|\boldsymbol{\theta})$ implies that $L_P^{(1)}$ is the approximate conditional distribution of y and y^* given $\boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}^*$ i.e., $L_P^{(1)} \approx f\left(y, y^*|\boldsymbol{\theta} = \widehat{\boldsymbol{\theta}}^*\right)$. Thus, $L_P^{(1)}$ does not have to be motivated through the Bayesian argument rather it has its own frequentist interpretation which is missing for the

other proper predictive likelihoods. $L_P^{(2)}$ is applicable only if $\widehat{\theta}^*$ can be expressed as a function of $\widehat{\theta}$ which is not possible while we need to use numerical method to obtain the maximum likelihood estimator. $L_P^{(3)}$ is also a first order Taylor's approximation around a different estimate of $\boldsymbol{\theta}$ than $\widehat{\boldsymbol{\theta}}_y$ and $\widehat{\boldsymbol{\theta}}^*$.

6 Concluding discussion

This paper demonstrate that the likelihood principle gives us a unified analytic framework for predictive inference. For a particular problem in hand, one might be able to find a technique e.g. BLUP for linear models, which enjoy some nice frequentist properties however, a generalization of those techniques may not always be possible. While, profile predictive likelihood method provides a general and unified principle and method. The exact computation of the profile likelihood may be problematic. Moreover, the lack of computational procedures for profile predictive likelihood is also a hindrance in implementation. We leave the last two issues for possible future work.

Though there are many predictive likelihoods in the literature we prefer profile adjusted predictive likelihood, $L_P^{(1)}$, for the following reasons. First, it has nice frequentist explanation (see section 5) and second, due to its equivalence of Bayesian posterior distribution (Davison, 1986), the computation of it can be carried out by using existing Bayesian computational procedures such as by using WinBugs. For a Poisson error-in-variable GLM (example 4), we carry out predictive inference through Bayesian posterior simulation by using OpenBugs. Simulation results show that $L_P^{(1)}$ performs better than the pseudo likelihood approach and the naive approach.

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