Which Robust Versions of Variance and Covariance Are Most Appropriate for Econometrics: Symmetry-Based Analysis

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Abstract

In many practical situations, we do not know the shape of the corresponding probability distributions and therefore, we need to use robust statistical techniques, i.e., techniques that are applicable to all possible distributions. Empirically, it turns out the the most efficient robust version of variance is the average value of the $p$-th powers of the deviations $|x_i - \hat{a}|$ from the (estimated) mean $\hat{a}$. In this paper, we use natural symmetries to provide a theoretical explanation for this empirical success, and to show how this optimal robust version of variance can be naturally extended to a robust version of covariance.

1 Formulation of the Problem

Need to determine a parameter: traditional case. Often, we observe a sample of several instances $x_1, \ldots, x_n$ of a random variable $X$.

In many practical situations, we know that the random variable $X$ has a distribution with the probability density function (pdf) $\rho(x) = \rho_0(x - a)$, where $\rho_0(x)$ is a known function, and $a$ is an unknown parameter. For example, $X$ may be the measurement result, which can be represented as $X = a + X_0$, where
\( a \) is the actual (unknown) value of the corresponding quantity, and \( X_0 \) is the measurement error with a known pdf \( \rho_0(x) \).

In such situations, to estimate the value \( a \) based on the observations \( x_1, \ldots, x_n \), we can use, e.g., the maximum likelihood method, i.e., find the value \( a \) for which the product

\[
L \overset{\text{def}}{=} \prod_{i=1}^{n} \rho(x_i) = \prod_{i=1}^{n} \rho_0(x_i - a)
\]

is the largest possible; see, e.g., [20].

The corresponding optimization problem is equivalent to minimizing the sum

\[
-\ln(L) = \sum \psi_0(x_i - a),
\]

where \( \psi_0(x) \overset{\text{def}}{=} -\ln(\rho_0(x)) \). This is the equivalent form most frequently used for optimization, since most optimization techniques involve differentiation of the objective function, and differentiating the sum is much easier than differentiating the product – we get fewer terms in the expression for the derivative.

In particular, in the frequent case when the distribution \( \rho_0(x) \) is Gaussian, i.e., when

\[
\rho_0(x) = \frac{1}{\sqrt{2\pi} \cdot \sigma} \cdot \exp \left( -\frac{x_0^2}{2\sigma^2} \right)
\]

with a known standard deviation \( \sigma \), the maximum likelihood method \( L \to \max \) is equivalent to \(-\ln(L) \to \min \) and is, thus, equivalent to the Least Square method

\[
\sum_{i=1}^{n} (x_i - a)^2 \to \min_a.
\]

For this problem, the Least Squares method results in the known estimate

\[
\hat{a} = \frac{x_1 + \ldots + x_n}{n}.
\]

Once we have found the estimate \( \hat{a} \) for the parameter \( a \), we can then estimate the variance as

\[
\hat{V} = \frac{1}{n} \cdot \sum_{i=1}^{n} (x_i - \hat{a})^2.
\]

This value is proportional to \( X^2 \), so, as a measure of deviation of the random variable \( X \) from \( \hat{a} \), we can take \( \hat{\sigma} \overset{\text{def}}{=} \sqrt{\hat{V}} \).

If we have two random variables \( X \) and \( Y \), with parameters \( a \) and \( b \), then their covariance \( C \) can be estimated, similarly, as

\[
\hat{C} = \frac{1}{n} \cdot \sum_{i=1}^{n} (x_i - \hat{a}) \cdot (y_i - \hat{b}).
\]
Gaussian distributions are ubiquitous. Their ubiquity comes from the fact that, according to the Central Limit Theorem, the distribution of the sum of a large number of independent small random components is close to Gaussian [20]. Not surprisingly, the empirical analysis of measuring instruments shows that for about 60% of them, the corresponding probability distribution is close to Gaussian [16, 17]. Because of this ubiquity, the Gaussian-motivated formulas are the ones (and often the only ones) that engineering and science students learn in their studies, and these formulas are the ones most frequently used in practice.

**Need for robust estimations.** In many practical situations, we do not know the shape $\rho_0(x)$ of the corresponding probability distribution. In such situations, several different probability distributions are consistent with our knowledge.

In some such situations, we can estimate how frequently in different situations we can encounter different possible distributions, i.e., we know the (prior) distribution on the class of all possible distributions. In such situations, we can use the usual Bayesian techniques. However, in many other situations, this prior information is not available.

Sometimes, in such situations, practitioners use Gaussian-motivated estimators – since, as we have mentioned, these are the only estimators that these practitioners know. The results are often misleading, even for distributions which are rather close to Gaussian.

As an example, let us consider the case when 99% percent of the values $X$ are normally distributed with mean 0 and standard deviation 0.1, but 1% represent outliers with standard deviation 1000. Then, with one such outlier of size 1000 in a sample of size 100, the arithmetic average $\hat{a}$ of this sample will be close to 10 – very far away from the actual 0 mean. The resulting estimate $\hat{V}$ for the variance will also be very misleading.

The results are also misleading for the case of heavy-tailed distributions, a very typical situation in econometrics (see, e.g., [3, 4, 5, 10, 12, 14, 21, 22]) and in many other application areas [2, 7, 11, 13, 19]. For heavy-tailed distributions, variance is infinite. So, due to the Large Numbers Theorem, the corresponding variance $\hat{V}$ tends to infinity as the sample size $n$ grows – and thus, does not provide us with any meaningful measure of how far the random variable deviates from $\hat{a}$.

To cover such cases, we need to use techniques which are applicable not only for one of the possible distributions, but rather for all possible distributions. Such techniques are known as robust; see, e.g., [8].

The classical example of a robust estimate is the median, that corresponds to minimizing the sum $\sum_{i=1}^{n} |x_i - a|$. The resulting smallest value of this sum can serve – after dividing by $n$ – as a robust estimate of how far the random variable deviates from $\hat{a}$:

$$\hat{V} = \frac{1}{n} \cdot \sum_{i=1}^{n} |x_i - \hat{a}|.$$ 

Many other robust techniques have been proposed. Most of these methods
come from selecting among the methods optimal for some distribution \( \psi_0(x) \), and thus, have the form \( \sum_{i=1}^{n} \psi_0(x_i - a) \to \min \) for an appropriate function \( \psi_0(x) \). Empirically, the most efficient techniques are the so-called \( \ell^p \)-techniques in which we minimize the sum \( \sum_{i=1}^{n} |x_i - a|^p \); see, e.g., [8]. A natural analogue of the variance is then the value

\[
\hat{V} = \sum_{i=1}^{n} |x_i - \hat{a}|^p.
\]

This value is proportional to \( X^p \), so we can estimate the deviation of the random variable \( x \) from \( \hat{a} \) by the value \( \hat{\sigma} = (\hat{V})^{1/p} \).

**Remaining problems.** While the above estimate \( \hat{a} \) (and the related estimates \( \hat{V} \) and \( \hat{\sigma} \)) work well in many practical situations, there is no convincing theoretical explanation for this success. As a result, it is not clear whether the corresponding function \( \psi_0(x) = |x|^p \) is indeed the best – or it is simply empirically the best among the few functions that were tried, and a different function \( \psi_0(x) \) may be even better.

Another problem is that while we have a good robust version of the variance, it is not clear how to transform it into a robust version of covariance – and covariance is an important statistical characteristics describing the relation between two random variables.

**What we do in this paper.** In this paper, we show that both problems can be resolved if we use natural symmetries.

## 2 Natural Symmetries: Main Idea

**What are natural symmetries.** Numerical values \( x_i \) of physical quantities depend on the choice of a measuring unit. If instead of the original measuring unit, we use a new unit which is \( \lambda \) times smaller, then all the numerical values will be multiplied by \( \lambda \).

For example, if we use centimeters instead of meters, with \( \lambda = 100 \), then a height of \( x = 1.7 \) m becomes \( x_{\text{new}} = \lambda \cdot x = 170 \) cm.

In econometric problems, where money-valued quantities like price, income, profit, etc., are important, similarly, the numerical values of the corresponding money quantities depend on the choice of the monetary unit: the salary in dollars has a different numerical value when translated into Euros.

The numerical value of a quantity also depends on the starting point: e.g., for C and F temperature scales, the starting points are different. However, when we consider the different \( x_i - a \) between two values of the same quantity, this difference disappears, and the only natural symmetry is scaling \( x \to \lambda \cdot x \).

**Natural symmetries for utilities.** Econometrics is about human economic behavior. It is known, from decision theory (see, e.g., [6, 9, 15, 18]), that
rational human behavior can be described in terms of utility, and that utility is determined uniquely modulo a linear transformation \( u \rightarrow u_{\text{new}} = \lambda \cdot u + c_a \). Thus, when we describe the differences \( x_i - a \), it also makes sense to consider scalings.

In general, there is no easy way to compare individual utilities; the utility of each person can be independently re-scaled. Thus, if we have several differences \( x_i - a \) and \( y_i - b \), then it makes sense to consider re-scalings \( x_i - a \rightarrow \lambda \cdot (x_i - a) \) and \( y_i - b \rightarrow \mu \cdot (y_i - b) \) for different values \( \lambda \) and \( \mu \).

### 3 Symmetry-Invariance: From Idea to Precise Definitions

**What is symmetry-invariance.** We select the value \( a \) for which the sum \( \sum_{i=1}^{n} \psi_0(\Delta_i) \) is the smallest possible, where we denoted \( \Delta_i \defeq x_i - a \). Thus, we compare the two tuples \( \Delta = (\Delta_1, \ldots, \Delta_n) \) and \( \Delta' = (\Delta'_1, \ldots, \Delta'_n) \) by the value of the corresponding sum.

If we apply scaling to both tuples \( \Delta \) and \( \Delta' \), we get different numerical values \( \Delta_i \) and \( \Delta'_i \). However, these new numerical values describe the same two situations as the original values \( \Delta_i \) and \( \Delta'_i \). It is therefore reasonable to require that the result of this comparison be the same whether we apply the scaling or not, i.e., whether we use the old or the new units to describe the corresponding quantities.

**How to describe symmetry-invariance in precise terms.** For \( n = 2 \), symmetry-invariance means, in particular, that if the two tuples \( \Delta \) and \( \Delta' \) are equivalent, i.e., if

\[
\psi_0(\Delta_1) + \psi_0(\Delta_2) = \psi_0(\Delta'_1) + \psi_0(\Delta'_2),
\]

then they should remain equivalent after re-scaling, i.e., we should have

\[
\psi_0(\lambda \cdot \Delta_1) + \psi_0(\lambda \cdot \Delta_2) = \psi_0(\lambda \cdot \Delta'_1) + \psi_0(\lambda \cdot \Delta'_2).
\]

**Monotonicity.** If the random variable is located at the value \( a \) with probability 1, i.e., if all the values \( x_i \) are equal to \( a \), then the minimization of the sum \( \sum_{i=1}^{n} |x_i - a| \) should result in \( \hat{a} = a \).

In mathematical terms, the tuple \((0, \ldots, 0)\) (which corresponds to \( \hat{a} = a \)) should have a smaller value of the sum than a tuple \((c, \ldots, c)\) corresponding to any other constant \( c = a - \hat{a} \).

This requirement implies that \( n \cdot \psi_0(0) < n \cdot \psi_0(c) \), i.e., that \( \psi_0(0) \psi_0(c) \) for all \( c \neq 0 \).

**Differentiability.** For simplicity of analysis, we will also assume that the function \( \psi_0(x) \) is twice differentiable for \( x > 0 \).
We can make this assumption without losing generality, since any continuous function can be approximated, with any given accuracy on any given interval, by a twice-differentiable function – for example, by a polynomial.

**Sign-invariance.** In many physical situations, the sign of the quantity is also chosen arbitrarily: e.g., traditionally we consider the flow of electrons as a negative current, but we could have as well treat it as a positive one.

Because of this, it is reasonable to require that the value of the minimized function not change if we simply change the sign, i.e., that we should have \( \psi_0(-x) = \psi_0(x) \) – i.e., that the function \( \psi_0(x) \) is even.

Now, we are ready for formulate our first result.

### 4 First Result: Explaining Empirically Success of Robust \( \ell_p \) Techniques

**Definition 1.** We say that an even function \( \rho_0(x) \) which is twice differentiable for \( x > 0 \) is scale-invariant if for every \( \Delta_1, \Delta_2 \), and \( \lambda > 0 \), if

\[
\psi_0(\Delta_1) + \psi_0(\Delta_2) = \psi_0(\Delta'_1) + \psi_0(\Delta'_2),
\]

then

\[
\psi_0(\lambda \cdot \Delta_1) + \psi_0(\lambda \cdot \Delta_2) = \psi_0(\lambda \cdot \Delta'_1) + \psi_0(\lambda \cdot \Delta'_2).
\]

**Definition 2.** We say that a scale-invariant function \( \rho_0(x) \) is monotonic if \( \psi_0(0) < \psi_0(c) \) for all \( c \neq 0 \).

**Definition 3.** We say that two functions \( \psi_0(x) \) and \( \psi(x) \) are equivalent if for all possible tuples \( \Delta \) and \( \Delta' \), the condition \( \sum_{i=1}^{n} \psi_0(\Delta_i) \geq \sum_{i=1}^{n} \psi_0(\Delta'_i) \) is equivalent to \( \sum_{i=1}^{n} \psi(\Delta_i) \geq \sum_{i=1}^{n} \psi(\Delta'_i) \).

**Proposition 1.** Every monotonic scale-invariant function \( \psi_0(x) \) is equivalent to either \( |x|^p \) for some \( p > 0 \) or to \( \ln(|x|) \).

**Comment.** The function \( \psi_0(x) = \ln(x) \) can be viewed as a limit of \( x^p \) when \( p \rightarrow 0 \). Indeed, in this case,

\[
x^p = \exp(p \cdot \ln(x)) = 1 + p \cdot \ln(x) + o(p).
\]

Thus, for small \( p \), minimizing the sum \( \sum_{i=1}^{n} |x_i|^p \) is equivalent to minimizing the sum of the logarithms.

If we impose an additional condition that the function \( \psi_0(x) \) is continuous for all \( x \), then we only get \( |x|^p \).
Proof. Let us consider the case when $\Delta'_1 = \Delta_1 + \delta$ and $\Delta'_2 = \Delta_2 + k \cdot \delta$ for some small $\delta$ and for an appropriate value $k$. In this case,

$$\psi_0(\Delta'_1) = \psi_0(\Delta_1 + \delta) = \psi_0(\Delta_1) + \delta \cdot \psi'_0(\Delta_1) + o(\delta),$$

where $\psi'_0(x)$ denotes the derivative of the function $\psi_0(x)$. Similarly,

$$\psi_0(\Delta'_2) = \psi_0(\Delta_2 + k \cdot \delta) = \psi_0(\Delta_2) + \delta \cdot k \cdot \psi'_0(\Delta_2) + o(\delta).$$

Thus, the original equality $\psi_0(\Delta_1) + \psi_0(\Delta_2) = \psi_0(\Delta'_1) + \psi_0(\Delta'_2)$ takes the form $\psi'_0(\Delta_1) \cdot \delta + \psi'_0(\Delta_2) \cdot k \cdot \delta + o(\delta) = 0$. Dividing both sides by $\delta$, we get

$$\psi_0(\Delta_1) + k \cdot \psi'_0(\Delta_2) + o(1) = 0.$$

Thus, when $\delta \to 0$, this equality holds for $k = -\frac{\psi'_0(\Delta_1)}{\psi'_0(\Delta_2)}$.

Similarly, the equality

$$\psi_0(\lambda \cdot \Delta_1) + \psi_0(\lambda \cdot \Delta_2) = \psi_0(\lambda \cdot \Delta'_1) + \psi_0(\lambda \cdot \Delta'_2),$$

which is obtained after $\lambda$-rescaling, implies that

$$k = -\frac{\psi'_0(\lambda \cdot \Delta_1)}{\psi'_0(\lambda \cdot \Delta_2)},$$

for the same value $k$. Therefore, for every $\Delta_1$, $\Delta_2$, and $\lambda$, we have

$$\frac{\psi'_0(\lambda \cdot \Delta_1)}{\psi'_0(\lambda \cdot \Delta_2)} = \frac{\psi'_0(\Delta_1)}{\psi'_0(\Delta_2)}.$$

This equality can be represented in the following equivalent form:

$$\frac{\psi'_0(\lambda \cdot \Delta_1)}{\psi'_0(\Delta_1)} = \frac{\psi'_0(\lambda \cdot \Delta_2)}{\psi'_0(\Delta_2)}.$$

This means that the ratio

$$\frac{\psi'_0(\lambda \cdot \Delta)}{\psi'_0(\Delta)}$$

does not depend on $\Delta$, it only depends on $\lambda$. Let us denote this ration by $r(\lambda)$. From

$$\frac{\psi'_0(\lambda \cdot \Delta)}{\psi'_0(\Delta)} = r(\lambda),$$

we conclude that

$$\psi'_0(\lambda \cdot \Delta) = r(\lambda) \cdot \psi'_0(\Delta). \quad (1)$$

Let us consider the case when we first re-scale by $\lambda_2$ and then by $\lambda_1$. In this case, we have

$$\psi'_0(\lambda_2 \cdot \Delta) = r(\lambda_2) \cdot \psi'_0(\Delta),$$
and thus,

$$\psi_0'(\lambda_1 \cdot \lambda_2 \cdot \Delta) = r(\lambda_1) \cdot \psi_0'(\lambda_2 \cdot \Delta) = r(\lambda_1) \cdot r(\lambda_2) \cdot \psi_0'(\Delta).$$  \hspace{1cm} (2)

On the other hand, the same result can be obtained if we re-scale by $\lambda_1 \cdot \lambda_2$:

$$\psi_0'(\lambda_1 \cdot \lambda_2 \cdot \Delta) = r(\lambda_1 \cdot \lambda_2) \cdot \psi_0'(\Delta).$$  \hspace{1cm} (3)

Since the left-hand sides of the last two formulas (2) and (3) coincide, the right-hand sides must be equal as well, so we have

$$r(\lambda_1 \cdot \lambda_2) = r(\lambda_1) \cdot r(\lambda_2).$$  \hspace{1cm} (4)

The function $r(\lambda)$ is a ratio of two differentiable functions and is, thus, differentiable itself. It is known (see, e.g., [1]) that all differentiable functions that satisfy the above equality (4) have the form $r(\lambda) = \lambda^q$ for some $q$. Substituting this expression and $\Delta = 1$ into the formula (1), we conclude that

$$\psi_0'(x) = C_1 \cdot x^p \text{ for } x > 0,$$

where $C_1 \equiv \psi_0'(1)$.

Integrating, for $q \neq -1$, we get $\psi_0(x) = C \cdot x^p + c_1$ for $p = q + 1$ and some $C$, and for $q = -1$, we get $\psi_0(x) = C_1 \cdot \ln(x) + c_1$. The fact that $\psi_0(x)$ is an even function enables us to get the values for $x < 0$ as $\psi_0(x) = \psi_0(|x|)$. Monotonicity implies that $C > 0$ and $C_1 > 0$, and thus, these functions are indeed equivalent to $|x|^p$ and $\ln(|x|)$.

The proposition is proven.

5 Second Result: Invariant Generalizations of Covariance

Discussion. Let us consider expressions of the type $\sum_{i=1}^{n} f(a_i, b_i)$, where $a_i \equiv x_i - a$ and $b_i \equiv y_i - b$.

Similar to the standard covariance, we want the expression $f(x, y)$ to change sign when we change the sign of either $x$ or $y$: $f(-x, y) = f(x, -y) = -f(x, y)$. We also want this expression to be symmetric: $f(x, y) = f(y, x)$.

And, of course, we want the resulting comparison to be scale-invariant, i.e., if $\sum_{i=1}^{n} f(a_i, b_i) = \sum_{i=1}^{n} f(a_i', b_i')$, then $\sum_{i=1}^{n} f(\lambda \cdot a_i, \mu \cdot b_i) = \sum_{i=1}^{n} f(\lambda \cdot a_i', \mu \cdot b_i')$. Similarly to the previous section, in the following definition, we will use the $n = 2$ case of this requirement.

When $x_i = y_i$, we want the covariance to be positive. Thus, we arrive at the following definitions.

**Definition 4.** We say that a function $f(x, y)$ is a covariance function if it is continuous, twice differentiable for $x \neq 0$ and $y \neq 0$, and satisfies the following conditions for all $x$ and $y$:

- $f(x, y) = f(y, x)$,
• \( f(-x, y) = f(x, -y) = -f(x, y) \), and
• \( f(x, x) > 0 \) for \( x \neq 0 \).

**Definition 5.** We say that a covariance function \( f(x, y) \) is scale-invariant if for every combination of \( a_i, b_i, \lambda > 0, \) and \( \mu > 0 \), the equality

\[
f(a_1, b_1) + f(a_2, b_2) = f(a'_1, b'_1) + f(a'_2, b'_2)
\]

implies that

\[
f(\lambda \cdot a_1, \mu \cdot b_1) + f(\lambda \cdot a_2, \mu \cdot b_2) = f(\lambda \cdot a'_1, \mu \cdot b'_1) + f(\lambda \cdot a'_2, \mu \cdot b'_2).
\]

**Proposition 2.** Every scale-invariant covariance function has the form

\[
f(x, y) = \text{sign}(x) \cdot \text{sign}(y) \cdot (|x| \cdot |y|)^q
\]

for some real number \( q > 0 \).

**Discussion.** Thus, as a robust version of estimating covariance, we can take the expression

\[
\hat{C} = \frac{1}{n} \cdot \sum_{i=1}^{n} \text{sign}(x_i) \cdot \text{sign}(y_i) \cdot (|x_i| \cdot |y_i|)^q.
\]

If we additionally require that for \( y_i = x_i \), the resulting version of covariance coincide with the above invariant version of variance \( \frac{1}{n} \cdot \sum_{i=1}^{n} |x_i|^p \), then we conclude that \( q = p/2 \). In particular, for the median case \( p = 1 \), we should thus consider

\[
\hat{C}' = \frac{1}{n} \cdot \sum_{i=1}^{n} \text{sign}(x_i) \cdot \text{sign}(y_i) \cdot \sqrt{|x_i| \cdot |y_i|}.
\]

**Comment.** Please note that while the original covariance function \( f(x, y) = x \cdot y \) is associative, the new function is, in general, not associative. Indeed, for \( x, y, z > 0 \), we have

\[
f(f(x, y), z) = f((x \cdot y)^q, z) = ((x \cdot y)^q \cdot z)^q = x^{q^2} \cdot y^{q^2} \cdot z^q,
\]

while

\[
f(x, f(y, z)) = f(x, (y \cdot z)^q) = (x \cdot (y \cdot z)^q)^q = x^{q} \cdot y^{q^2} \cdot z^q,
\]
i.e., a different expression.

However, we still have some weaker form of associativity: namely, for every four values \( x, y, z, \) and \( t \), the value \( f(f(x, y), f(z, t)) \) does not change if we permute these four values.

**Proof of Proposition 2.** Let us first consider transformations with \( \mu = 1 \), i.e., transformations that do not change \( y \). Then, for a fixed \( y > 0 \), arguments provided in the proof of Proposition 1 imply that for \( x > 0 \), we have \( f(x, y) = \)
\( C(y) \cdot x^p(y) + c_1(y) \), where the parameters \( C, p, \) and \( c_1 \) are, in general, dependent on \( y \). By continuity, we get a similar expression for all \( x \geq 0 \).

Please note that since we explicitly required that the function \( f(x, y) \) be continuous for all \( x \) and \( y \), we no longer have the logarithm option.

The requirement that \( f(-x, y) = -f(x, y) \) implies that \( f(0, y) = 0 \), so \( c_1(y) = 0 \) and \( f(x, y) = C(y) \cdot x^p(y) \). By taking logarithm of both sides, we conclude that

\[
\ln(f(x, y)) = p(y) \cdot \ln(x) + \ln(C(y)),
\]

i.e., that \( \ln(f(x, y)) \) is a linear function of \( \ln(x) \).

Similarly, we can conclude that \( \ln(f(x, y)) \) is a linear function of \( \ln(y) \). Thus, \( \ln(f(x, y)) \) is a bilinear function of the two variables \( \ln(x) \) and \( \ln(y) \). Due to symmetry, we thus have

\[
\ln(f(x, y)) = k_0 + k_1 \cdot \ln(x) + k_1 \cdot \ln(y) + k_2 \cdot \ln(x) \cdot \ln(y)
\]

for some parameters \( k_i \).

In particular, for \( x = y \), we get

\[
\ln(f(x, y)) = k_0 + 2k_1 \cdot \ln(x) + k_2 \cdot (\ln(x))^2.
\]

We can also consider the case when we take \( y = x \) and apply the same rescaling to both variables. In this case, we get \( f(x, x) = C \cdot x^p \) for some \( p \), i.e., in logarithm terms,

\[
\ln(f(x, x)) = \ln(C) + p \cdot \ln(x).
\]

By comparing the expressions (5) and (6), we conclude that \( k_2 = 0 \). Thus,

\[
\ln(f(x, y)) = k_0 + k_1 \cdot \ln(x) + k_1 \cdot \ln(y)
\]

and \( f(x, y) = \text{const} \cdot (x \cdot y)^{k_1} \). Positivity implies that the constant is positive, and thus, the expression is equivalent to \( (x \cdot y)^{k_1} \) for \( x \geq 0 \) and \( y \geq 0 \).

By using the equalities \( f(-x, y) = f(x, -y) = f(x, y) \), we can extend this expression to all possible values of \( x \) and \( y \).

The proposition is proven.

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