Risk & Asset Allocation
Case for Week 4

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Cramér–Rao lower bound

The Cramér–Rao lower bound is a classic result in statistics. I provide below an outline of a proof in the multi-parameter setting. See for example [1] chapter 8.

Consider an unbiased estimator $\hat{\theta}(x)$ for an unknown parameter vector θ with likelihood $f_X(x)$ at sample x.

$$0 = \mathrm{E}\left[\hat{\theta}(X) - \theta\right] = \int \left(\hat{\theta}(x) - \theta\right) f_X(x)\, dx$$

If we take the (vector) derivative with respect to the parameters, and we are allowed to distribute it, we get

$$0 = \int \left(\hat{\theta}(x) - \theta\right) \frac{\partial f_X(x)}{\partial \theta}\, dx - I \int f_X(x)\, dx$$

or, with some manipulation,

$$\int \left(\left(\hat{\theta}(x) - \theta\right) \sqrt{f_X(x)}\right) \left(\frac{\partial \log f_X(x)}{\partial \theta} \sqrt{f_X(x)}\right) dx = I$$

Consider any vectors a and b in parameter space. The previous result means

$$\int \left(a' \left(\hat{\theta}(x) - \theta\right) \sqrt{f_X(x)}\right) \left(\frac{\partial \log f_X(x)}{\partial \theta} \sqrt{f_X(x)}\, b\right) dx = a'b$$

This can be thought of as an inner product in the Hilbert space L^2, which means we can apply Cauchy-Schwarz to get

$$a' \left(\int \left(\hat{\theta}(x) - \theta\right) \left(\hat{\theta}(x) - \theta\right)' f_X(x)\, dx\right) a \qquad b' \left(\int \frac{\partial \log f_X(x)}{\partial \theta'} \frac{\partial \log f_X(x)}{\partial \theta} f_X(x)\, dx\right) b \geq \left(a'b\right)^2$$

Fisher Information

Define the Fisher information to be

$$\begin{aligned}\mathcal{I}(\theta) &\triangleq \mathrm{E}\left[\frac{\partial \log f_X(X)}{\partial \theta'}\frac{\partial \log f_X(X)}{\partial \theta}\right] \\ &= \operatorname{cov}\left[\frac{\partial \log f_X(X)}{\partial \theta'}\right] \\ &= E\left[-\frac{\partial^2}{\partial \theta' \, \partial \theta}\log f_X(X)\right]\end{aligned}$$

if the log-likelihood is twice differentiable on its support in the last instance.

With $b \triangleq \mathcal{I}^{-1}(\theta)\, a$, the previous result translates to

$$\left(a' \operatorname{cov}\left[\hat{\theta}(X)\right] a\right)\left(a'\mathcal{I}^{-1}(\theta)\, a\right) \geq \left(a'\mathcal{I}^{-1}(\theta)\, a\right)^2$$

So we can conclude that

$$a'\left(\operatorname{cov}\left[\hat{\theta}(X)\right] - \mathcal{I}^{-1}(\theta)\right) a \geq 0$$

for all vectors a.

This conforms with the definition of a positive semi-definite matrix, and can be written as

$$\operatorname{cov}\left[\hat{\theta}(X)\right] \geq \mathcal{I}^{-1}(\theta) \tag{1}$$

Note that the Cramér–Rao lower bound is a special case of the Kullback inequality about the relative entropy of one measure with respect to another.

References

[1] Morris H DeGroot and Mark J. Schervish. *Probability and Statistics*. Pearson Higher Education, Boston, fourth edition, 2011.