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Abstract

This paper proposes a test for whether data are over-represented in a given production zone, i.e. a subset of a production possibility set which has been estimated using the non-parametric Data Envelopment Analysis (DEA) approach. A binomial test is used that relates the number of observations inside such a zone to a discrete probability weighted relative volume of that zone. A Monte Carlo simulation illustrates the performance of the proposed test statistic and provides good estimation of both facet probabilities and the assumed common inefficiency distribution in a three dimensional input space.

Keywords: Data Envelopment Analysis (DEA), Over-representation, Data density, Binomial test, Convex hull.

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1 Introduction

This paper introduces a test for whether observed data points are over-represented in certain production zones, i.e. subsets of (input sets of) the production space. The test is based on considerations of the relative volumes of these zones, weighted by probability estimates of observation frequencies. Specifically we consider the number of observations located in a certain zone, relative to the number that could be expected based on its relative weighted volume.

To motivate the need for such a test, consider for example the hypothesis of rational inefficiency put forward by Bogetoft and Hougaard (2003). Given a set of common and known input prices, one might expect all observations to be located close to the cost minimizing input combination if the production units are assumed to be rational. Within the rational inefficiency framework, arguments are made, however, that it is still rational to be located inside the cone dominated by the cost minimizing point since production units may derive utility from the consumption of excess resources, leading to the notion of rational inefficiency. Thus, according to the rational inefficiency hypothesis one should expect over-representation of data point within this cone. If we further assume that a Data Envelopment Analysis (DEA) estimated frontier is a good approximation of the true underlying production possibilities, rejection of a test for no over-representation of data points inside the cone dominated by the cost minimizing input combination provides empirical support for the hypothesis of rational inefficiency. In this paper, we will derive such a test based on a Data Generating Process (DGP) suggested in Simar and Wilson (2000).

Another potential use of the proposed test concerns benchmarks in DEA, where the set of undominated observations is typically considered as benchmark units for the inefficient producers. However, not all benchmarks may be equally influential and part of the literature on outlier detection uses counts on how many times a given efficient firm enters as part of a benchmark to detect outliers, see e.g. Thanassoulis (2001) and Tran, Shively and Preckel (2010). Such methods undoubtedly provide important information but to

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the best of our knowledge no formal test-statistics exist that allow us to test whether a given benchmark unit dominates more observations than what is expected[1]. The test-statistic proposed in this paper fills this gap by allowing a formal test on under/overrepresentation of observations in areas of the input space dominated by frontier facets spanned partly by any of the efficient firms.

Since the proposed test considers the number of points in certain zones relative to the weighted volumes of those subsets of the production space, what we call over-representation could also be viewed as higher (weighted) data density. Empirical investigation of data density can be approached in different ways. Statistical cluster analysis aims at identifying groups or clusters of data points. Parametric cluster analysis (Fraley and Raftery 1998, 1999, McLachlan and Peel 2000) is based on the assumption that each group of data points is represented by a density function belonging to some parametric family. The analysis then estimates the number of groups and their parameters from the observed data. In contrast, non-parametric statistical clustering approaches identify the center or mode of various groups and assign each data point to the domain of attraction of a mode. These approaches were originally introduced by Wishart (1969) and have subsequently been expanded on by especially Hartigan (1975, 1981, 1985). Common for the statistical cluster analysis approaches is that they aim at detecting the presence of clusters rather than considering differences in density in pre-specified production zones.

Within the realm of DEA, data density is at least indirectly considered in the recently quite popular bootstrapping approaches (see e.g. Simar and Wilson 1998, 2000). For example a distinction is made between a homogeneous and a heterogeneous bootstrap, reflecting whether or not it is reasonable to assume that the inefficiency distribution is independent of the choice of output levels and of input mix. Bootstrapping in this context analyzes the sensitivity of efficiency estimates to sampling variations of the estimated frontier and is used as a tool for bias correction and statistical inference. Hence, this stream of the bootstrapping literature has focussed on estimating statistical properties of the efficiency estimators.

The focus in this paper is quite different since we aim at getting estimators

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[1]There exists several other outlier detection methods which are more remotely related to the approach proposed in this paper. An example is the Wilson (1995) outlier detection based on the leave-one-out efficiency.

of the probabilities of being located in pre-specified production zones and to the best of our knowledge no test like the one proposed here, building on such probabilities, has been developed before. Yet, our approach is related to Simar and Wilson (2000a) where a density estimation approach combining a bootstrap estimator of a distance function with a general multidimensional Gausian kernel based density estimation is proposed. The test we propose in this paper could alternatively be constructed by specifying an estimator $\widehat{p}$ of the probability of a projected data point being located within a specific production zone from the Simar-Wilson density estimator. Specifically, in principle an estimator $\widehat{p}$ could be provided by plugging the estimator of Simar and Wilson (2000a) into equation (9) below.

Compared to the rather complicated and computationally intensive Simar-Wilson density estimator we propose a more direct approach based on a discrete approximation of the true density, using the facet structure of the DEA-estimation to define discrete areas. The probability related to each of these areas is estimated based on probability estimates on i) input mix in cones spanned by facets, and ii) distance function values in certain intervals. It is worth noting that while the Simar-Wilson estimator is consistent, we here through Monte-Carlo simulations only demonstrate that our estimator seems to converge. It is, however, left for future research to explicitly compare these two different approaches for testing over-representation of observations.

To sum up, we derive a binomial test that relates the number of observations inside certain production zones to a discrete probability weighted relative volume of these zones. This is done by considering the ratio between the volume of the zone and the volume of the total production possibility set, where these volumes are weighted by probability estimates of observations belonging to given facets and efficiency levels. The ratios of volumes provide estimates of expected frequencies which are then related to the observed frequencies given as the ratio between the number of observations inside the zone and the total number of observations.

2   Methodology

Consider a set of n observed production plans $N = \{(x_i, y_i), i = 1, \ldots, n\}$ originating from a production process where r inputs are used to produce s outputs, i.e. $(x_i, y_i) \in \mathbf{R}_+^{r+s}$. Following the DEA tradition (cf. Banker, Charnes and Cooper 1984) we impose the following set of maintained hy-

potheses on the true underlying production technology: Convexity, Ray Unboundedness (constant returns to scale), Strong input and output Disposability and Minimal Extrapolation. Furthermore, we need some additional assumptions on the Data Generating Process (DGP). For the purpose of this paper we follow an input oriented version of the DGP suggested in Simar and Wilson (2000). We represent an input vector x_i in polar coordinates, which means that the angles of $x_i \in \mathbf{R}_+^r$ can be expressed as

$$\eta_{ik} = \begin{cases} \arctan x_{ik+1}/x_{ik} & \text{if } x_{ik} > 0 \\ \pi/2 & \text{if } x_{ik} = 0 \end{cases} \tag{1}$$

for $k = 1, \ldots r - 1$ and the modulus of the input vector is $\omega(x_i) = \|x_i\|_2 \equiv \sqrt{x_i^t x_i}$. Assume that, given a true technology P, each firm 'draws' an output vector $y \in \mathbf{R}_+^s$ from a distribution with density $f(y)$. Conditioned on this output vector the firm subsequently 'draws' an input mix vector $\eta \in [0, \pi/2]^{r-1}$ from a distribution with density $f_{(\bullet|y)}(\eta|y)$. Finally, conditioned on the choice of output and input mix vectors the firm 'draws' a modulus $\omega \in \mathbf{R}_+^1$ from a distribution with density $f_{(\bullet|\eta,y)}(\omega|\eta, y)^2$. Specifically, we maintain that the DGP satisfies the following assumptions:

The observations $(x_i, y_i) \in \mathbf{R}_+^{r+s}, i = 1, \ldots, n$ are realizations of i.i.d. random variables with probability density function $g_{(x,y)}(x, y)$, which has a support over $P \subset R_+^{r+s}$, where P is a production set defined by

$$P = \{(x, y) \mid x \text{ can produce } y\} \tag{2}$$

and $S(y) = \{x \mid (x, y) \in P\}$ is the input set. We define the radial efficiency measure $\theta(x, y) = \min\{\theta \mid (\theta x, y) \in P\}$. For any given (y, η), the corresponding point on the boundary of P is denoted $x^\partial(y, \eta)$ and has a modulus

$$\omega(x^\partial(y, \eta)) = \min\{\omega \in \mathbf{R}_+^1 : f_{(\bullet|\eta,y)}(\omega|\eta, y) > 0\} \tag{3}$$

and the related radial efficiency measure $\theta(x, y)$ can be expressed as

$$0 \le \theta(x, y) = \frac{\omega(x^\partial(y, \eta))}{\omega(x)} \le 1. \tag{4}$$

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[2]The use of polar coordinates allows us to specify a meaningful sequence of production decisions, such that the first decision made by the production unit is how much output to produce. Conditioned on this first decision the unit next decides in what proportions to use the various inputs. Finally, conditioned on these two decisions the unit finally decides on how much of this composite input bundle to use.

Note that the density $f_{(\bullet|\eta,y)}(\omega|\eta,y)$ with support $[\omega(x^\partial(y,\eta)),\infty)$ induces a density $g_{(\bullet|\eta,y)}(\theta|\eta,y)$ on $[0,1]$. The advantage of representing the input vector in terms of polar coordinates is that the joint density $g_{(x,y)}(x,y)$ can now be described as a product of three densities

$$g_{(\omega,\eta,y)}(\omega,\eta,y) = f_{(\bullet|\eta,y)}(\omega|\eta,y)\, f_{(\bullet|y)}(\eta|y)\, f(y) \qquad (5)$$

where the ordering of the conditioning reflects the assumed sequence of the DGP mentioned above.

Specifically, in the following we propose a test for whether data are over-represented in certain subsets of a DEA-estimated technology with input sets

$$\mathcal{S}^{CCR}(y') = \{x \mid \sum_{j\in N}\lambda_j x_j \le x, \sum_{j\in N}\lambda_j y_j \ge y', \lambda_j \ge 0, j \in N\}, \qquad (6)$$

for output level y'. Since the proposed test is based on volumes of production zones, the technology must be bounded. Let θ_j be the radial inefficiency of the j'th production plan and define the projected (possibly weakly) efficient production plans $(\widetilde{x}_j, y_j) \equiv (\theta_j x_j, y_j), j \in N$. Let θ^α be defined such that $\Pr(\theta \le \theta^\alpha) = \alpha$. In the following we will focus on the bounded family of input sets given by

$$\begin{aligned}
\widetilde{\mathcal{S}}(y',\alpha) = \{\, x \mid & \sum_{i\in N}\lambda_i \widetilde{x}_i + (\theta^\alpha)^{-1}\sum_{i\in N}\widetilde{\lambda}_i\widetilde{x}_i = x, \\
& \sum_{i\in N}\lambda_i y_i + \sum_{i\in N}\widetilde{\lambda}_i y_i = y', \lambda_i, \widetilde{\lambda}_i \ge 0, i \in N \,\} \\
& \setminus \{\, x \mid (\theta^\alpha)^{-1}\sum_{i\in N}\widetilde{\lambda}_i\widetilde{x}_i = x, \sum_{i\in N}\widetilde{\lambda}_i y_i = y', \widetilde{\lambda}_i \ge 0, i \in N \,\}
\end{aligned} \qquad (7)$$

Choosing a small value for α means only ignoring production plans from areas of the production space with low probability[3] when considering only the bounded cone $\widetilde{\mathcal{S}}(y,\alpha) \subset \mathcal{S}^{CCR}(y)$ instead of the full set $\mathcal{S}^{CCR}(y)$.

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[3]The choice of α should reflect to what extend the analyst needs to ignore input vectors from very inefficient production units to avoid including large areas void of observations. In the generated data in Figure 1-2, $\alpha = 0$. Hence, all observed input vectors are included in $\widetilde{\mathcal{S}}(y',0)$ and hence in the analysis. This is a proper choice if we have no "outlier" observations with atypically large input inefficiency.

Moreover, for some point $(x', y') \in \mathcal{N}$, denote by

$$\mathcal{K}(x', y') = \{x \in \widetilde{\mathcal{S}}(y', \alpha) | x \geq x'\} \tag{8}$$

the bounded cone of input combinations in $\widetilde{\mathcal{S}}(y', \alpha)$ dominated by x'.

The various concepts are illustrated in Figure 1 below. We have generated 200 data points according to a two input version of the DGP from the Monte Carlo simulation described in section 5. An envelopment is provided by 10 facets denoted f$i, i = 1, \ldots, 10$. Two of these facets, f9 and f5, are part of unbounded exterior facets. These two facets are spanned by a CCR-efficient observation and one of the two projected inefficient observations indicated by the two arrows in Figure 1. Notice that strong disposability is imposed. Otherwise we would not need these two projected inefficient observations included in the set of points spanning the frontier. The set $\widetilde{\mathcal{S}}(y', \alpha)$ is the intersection of the 13 halfspaces corresponding to the 13 facets generating the boundary of the convex hull of all 200 observation except for the subset below facet f13 but above the facets f$i, i = 1, \ldots, 10$ expanded by the factor $(\theta^\alpha)^{-1}$ (approximately equal to 2 in the figure). We have indicated in the figure the dominance cone of an efficient input combination x' (located near the label "f3"). If this point was the only cost efficient input combination and if the rational inefficiency hypothesis was true then we would expect to see observations concentrated within the intersection of this dominance cone and $\widetilde{\mathcal{S}}(y', \alpha)$.

2.1 The proposed test

As mentioned in the introduction we aim to identify over-representation of data points in certain subsets of the input set, for instance a dominance cone with vertex in an efficient production plan (x', y'), e.g. a cost minimizing observation.

The true probability p of a projected data point being located within the bounded cone $\mathcal{K}(x', y')$ is given by,

$$p = p(y') = \int_{(\eta, \omega) \in \mathcal{K}(x', y')} g(\omega, \eta, y') d(\eta, \omega) \tag{9}$$
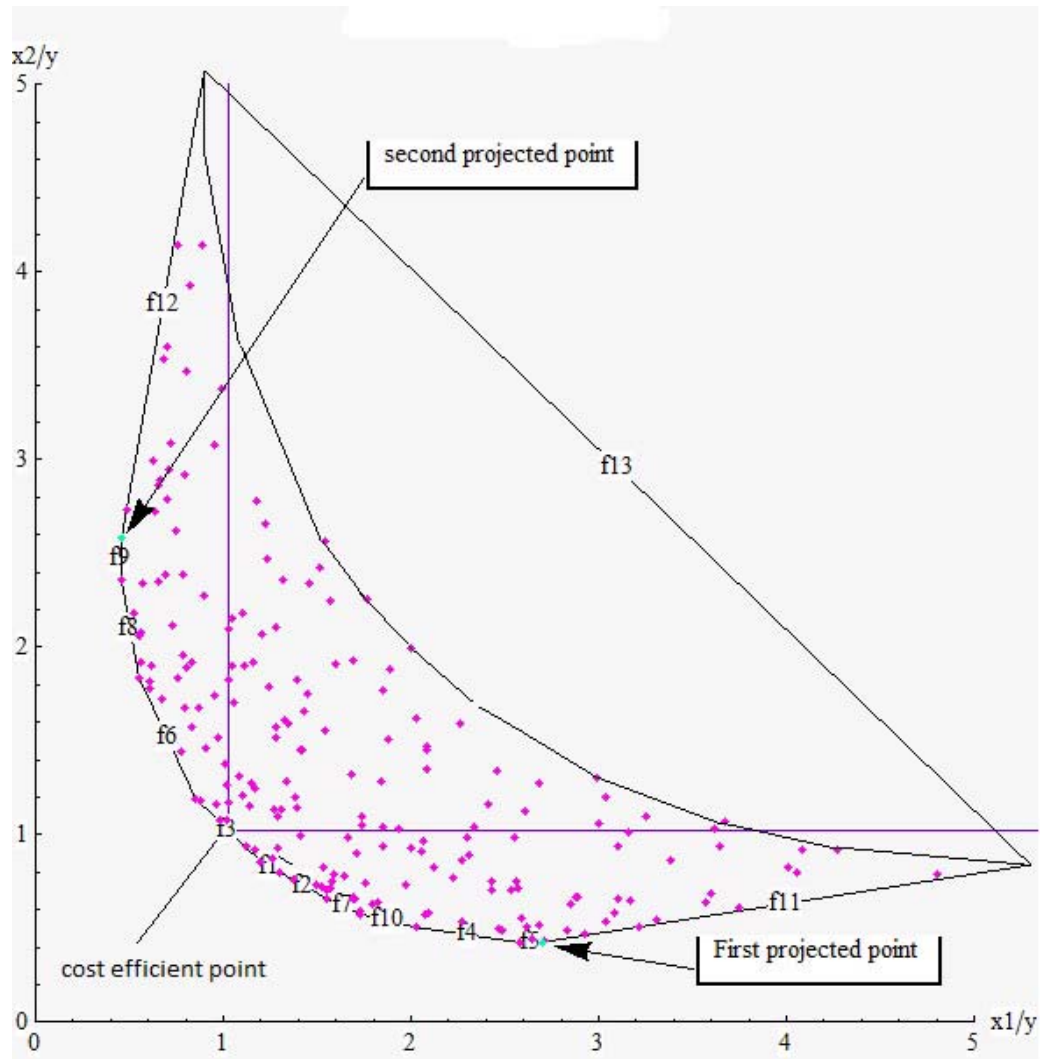
Figure 1: The bounded subset of the input set.

Hence, we maintain that data reflects a DGP as specified in (5). By using the constant returns to scale assumption, for sufficiently small α all data points can be projected onto the input set $\widetilde{\mathcal{S}}(y', \alpha)$. Denote by

$$\#\mathcal{K}(x', y') = |\{(x_k, y_k)_{k=1,...N} : x_k \in \widetilde{\mathcal{S}}(y', \alpha) : \exists \kappa \in \mathbf{R}_+, \ \kappa x_k \geq x', \ \kappa y_k \leq y'\}| \tag{10}$$

the number of data points that can be projected into the bounded cone $\mathcal{K}(x', y')$. Using an interpretation of the DGP as generating a binomial population, the sampling distribution of $\#\mathcal{K}(x', y')$ is approximately normal with mean np and variance $np(1-p)$ (see e.g. Siegel and Castellan, 1988). Unfortunately, $g_{(\omega,\eta,y)}(\omega, \eta, y')$ is typically unknown, which implies that we have to rely on an estimator of g and thereby p.

For any set $\mathcal{H}$ let $V(\mathcal{H})$ denote the *volume* of $\mathcal{H}$. To simplify the presentation of the general idea let us initially assume that the projected data are uniformly distributed over the (bounded) estimated input sets. This is a restrictive assumption, but it allows us to directly use the ratios of volumes as a simple estimator $\widehat{p}$ of p:

$$\widehat{p} = \frac{V(\mathcal{K}(x', y'))}{V(\widetilde{\mathcal{S}}(y', \alpha))}, \tag{11}$$

where we in the following ignore the trivial cases $\widehat{p} \in \{0, 1\}$.

The null hypothesis we want to test is that $\#\mathcal{K}(x', y') - np = n\hat{p} - np$, i.e. that the difference between the observed fraction of observations within the cone and the true fraction np is the same as the difference between the expected fraction of observation within the cone (based on relative volumes) and the true fraction np.

Under the (restrictive) assumption that data is uniformly distributed over the (bounded) input set $\tilde{\mathcal{S}}$ we define the following test statistic,

$$z = \frac{n(\frac{\#\mathcal{K}(x',y')}{n} - p) - n(\hat{p} - p)}{\sqrt{Var\left[\#\mathcal{K}(x', y') - n\hat{p}\right]}} = \frac{\#\mathcal{K}(x', y') - n\hat{p}}{\sqrt{Var\left[\#\mathcal{K}(x', y') - n\hat{p}\right]}} \tag{12}$$

which is approximately $N(0, 1)$ distributed. Unfortunately, $\widehat{p}$ has an unknown sampling distribution[4] but $\widehat{p}$ will converge towards p. In general we

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[4] An obvious approach to this problem would be using a resampling strategy to generate information of this sampling distribution for a particular data set. Details of such an approach is left for future research.

would not expect to see any high correlation between the sampling distributions of $\#\mathcal{K}(x', y')$ and $n\hat{p}$. Increasing the sample size will in many cases either not affect $n\hat{p}$ at all or have a rather small impact because it will either not affect the piecewise linear DEA estimator of $\widetilde{\mathcal{S}}(y', \alpha)$ at all or only make minor adjustments. This is especially true for a large sample size in low dimensional input-output spaces. For the same reason we will expect $Var\,[n\hat{p}] < Var\,[\#\mathcal{K}(x', y')]$. To summarize, we expect the sampling distribution of $\#\mathcal{K}(x', y') - n\hat{p}$ to be approximately normal with mean zero and variance equal to $\beta n\hat{p}(1 - p_o), \beta \in [1, 2]$. Hence, we propose to test the null hypothesis using the test statistic

$$z = \frac{\#\mathcal{K}(x', y') - n\hat{p}}{\sqrt{\beta n\hat{p}(1 - \hat{p})}}, \beta \in [1, 2] \tag{13}$$

Rejecting this null hypothesis in a two-tailed test indicates that the number of observations inside the cone is either too big or too small relative to the volume of the cone. Alternatively, we can formulate a one-tailed test specifically for over-representation.

Finally, it should be noted that the two volumes $V(\widetilde{\mathcal{S}})$ and $V(\mathcal{K})$ depend on the units of measurement whereas the number of observations inside the cone $\#\mathcal{K}$, as well as the total number of observations, is independent of the metrics. However, the estimator $\hat{p}$ used in the test depends only on the ratio between the volumes, as given by (11), and the ratio is scale invariant, i.e. the observed data points can be scaled with strictly positive weights without changing $\hat{p}$ (but clearly $\hat{p}$ is not affinely invariant). Hence, the validity of the test is not affected by the dependence of the units of measurements in the calculation of the volumes.

3   Discrete approximations of densities

Where the introduction of the proposed test above relied on the assumption of the observations being uniformly distributed we now, probably more realistically, relax the distributional assumption on the radial efficiency score as well as on the input mix (η). Let us simplify by considering the one output case and assuming a common distribution of the efficiency scores of some parametric form, i.e. $f_{(\bullet|\eta,y)}(\omega|\eta, 1) = \widetilde{f}(\omega)$.[5] Consider a discrete approxi-

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[5]This assumption is often used in the bootstrapping literature and is denoted a homogeneous bootstrap (see Simar and Wilson 2000, p. 64).

mation of the distribution of efficiency scores given by I intervals (slices) of the bounded support $[\theta^{\alpha}, 1]$: $\{[i_1, i_2], (i_2, i_3], \ldots, (i_I, i_{I+1}]\}$, $i_1 = \theta^{\alpha}, i_{I+1} = 1$ and probability p_i^{θ}, of belonging to the i'th slice for $i = 1, \ldots, I$. To obtain a reasonable precision of the discrete approximation we choose the intervals such that the probabilities are approximately identical. We approximate the probability $\Pr(\theta \leq i_k)$ with $\sum_{i=1}^{k-1} p_i^{\theta}, k = 2, \cdots, I+1$.

As we are now considering the case where multiple inputs are used to produce a single output, let $\widetilde{\Gamma} = \{q_i = \theta_i x_i / y_i\}_{i \in N} \subset \mathbf{R}_+^r$ be the projected data points. Let $conv(\cdot)$ be the convex hull operator, and define the k'th 'slice' of the bounded technology $\widetilde{\mathcal{S}}(1, \alpha)$ (in the following simply denoted by $\widetilde{\mathcal{S}}$) as

$$\widetilde{\mathcal{S}}_k = conv\{(i_{k+1})^{-1}\widetilde{\Gamma} \cup (i_k)^{-1}\widetilde{\Gamma}\} \setminus conv\{(i_k)^{-1}\widetilde{\Gamma}\} \tag{14}$$

Next, let us relax the assumption on the DGP regarding $f_{(\bullet|y)}(\eta|1)$ using the available (empirical) information from DEA, which has resulted in $j = 1, \ldots, F$ different facets of the estimated frontier. The empirical facets provide a natural discretization of the range of input mixes η. Let p_j^f be the probability of getting an input mix which belongs to the cone spanned by the j'th facet.

Note that the homogeneity assumption $f_{(\bullet|\eta, y)}(\omega|\eta, 1) = \widetilde{f}(\omega)$ implies that we approximate the probability $\hat{p}_{ij}$ of getting an observation in the i'th slice intersected by the cone spanned by the j'th facet with $p_i^{\theta} \times p_j^f$.

Figure 2 illustrates the discretization of the efficiency distribution with $I = 10$ and a DEA envelopment frontier with $F = 10$ facets, denoted $f_i, i = 1, \ldots, 10$. The dots represent 200 generated observations and the two dots marked by arrows are two projected inefficient observations located on unbounded exterior facets. Adding these two pseudo-observations to the data set results in a bounded subset of the input possibility set with a lower envelope consisting of points that dominate all inefficient observations among the generated data[6].

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[6]It is necessary to add these two pseudo-observations because otherwise the convex hull of the observation would not provide a lower envelope belonging to an isoquant that is consistent with strong input disposability. At first glance the backward bending envelopes in Figure 1 and 2 seem to suggest a maintained hypothesis of weak input disposability. But note that the two included pseudo-observations imply that all radial projections will reach the part of the convex envelopment that is a proper subset of the full frontier from a traditional envelopment of data based on strong disposability.
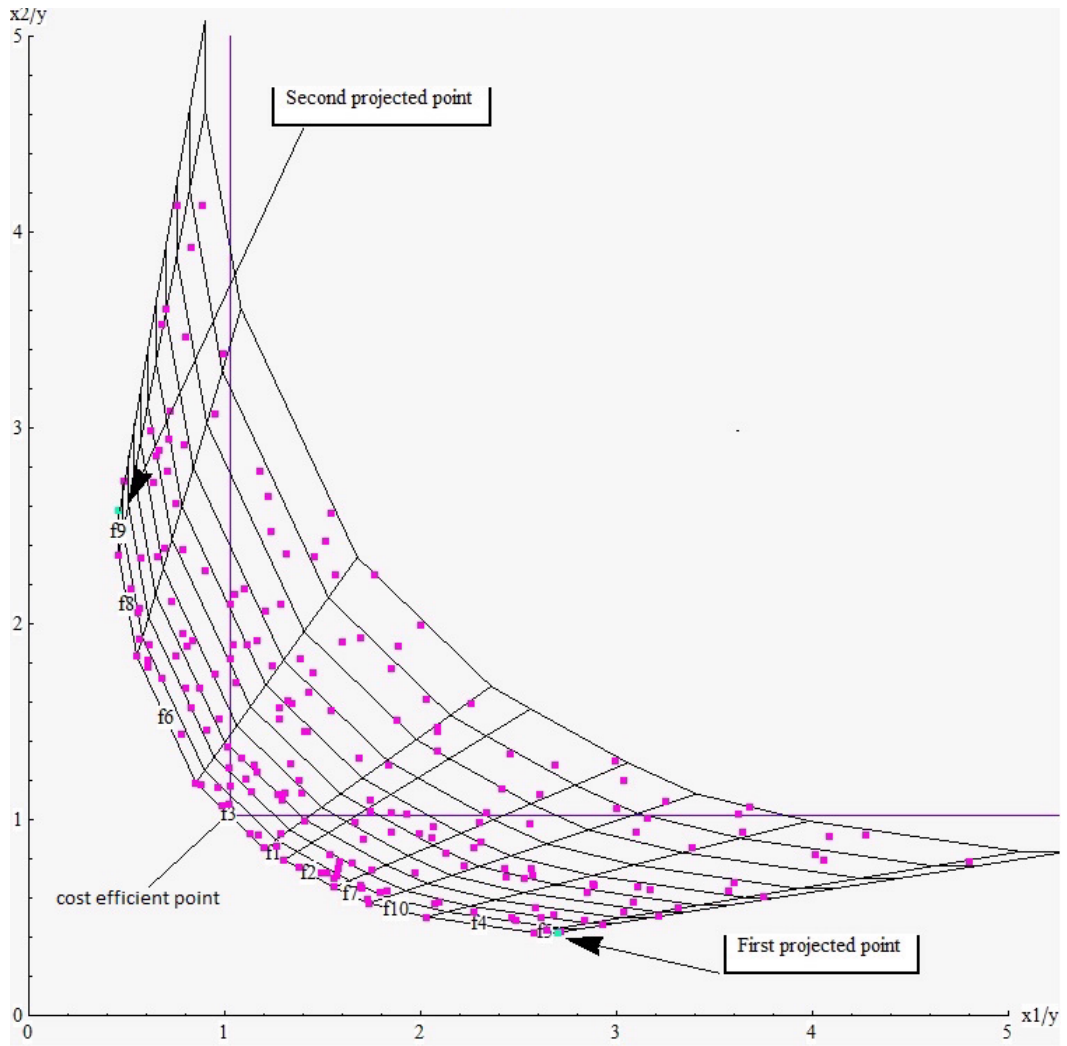
Figure 2: The discretization of the efficiency distribution

The figure illustrates the situation where we have generated 200 data points according to a two input version of the DGP from the Monte Carlo simulation described in section 5. The input mix is uniformly distributed[7] with $\eta \in [0.1, \pi/2 - 0.1]$.[8] The density of the radial efficiency score in the Monte Carlo simulation is assumed to be a uniform distribution on a support $[0.5, 1]$. 10 intervals are used in the discrete approximation. Note that a uniform distribution of the efficiency scores combined with of a uniform η does not imply that data points are distributed uniformly on some bounded subset of $\mathcal{S}^{CCR}$.

Now, consider a bounded cone $\mathcal{K}(q') \subset \widetilde{\mathcal{S}}$ with vertex $q' \in \widetilde{\Gamma}$. Let a $I \times F$ matrix be given as $m_{ij} = \left\{ \frac{V(\mathcal{K}_{ij}(q'))}{V(\widetilde{\mathcal{S}}_{ij})} \right\}$ where $\widetilde{\mathcal{S}}_{ij}$ is the i'th slice of the cone spanned by the j'th facet and $\mathcal{K}_{ij}(q') = \mathcal{K}(q') \cap \widetilde{\mathcal{S}}_{ij}$[9]. Hence, to calculate a more general estimator $\widehat{\widehat{p}}$ of the probability of getting an observation within the bounded cone $\mathcal{K}$ we use

$$
\widehat{\widehat{p}} = \begin{bmatrix} \widehat{p}_1^\theta \\ \vdots \\ \widehat{p}_I^\theta \end{bmatrix}^T \begin{bmatrix} m_{11} & \ldots & m_{1F} \\ \vdots & \ldots & \vdots \\ m_{I1} & \ldots & m_{IF} \end{bmatrix} \begin{bmatrix} \widehat{p}_1^f \\ \vdots \\ \widehat{p}_F^f \end{bmatrix} \tag{15}
$$

To formally test, in this more general setup, whether data points $\widetilde{\Gamma}$ are over-represented in the bounded cone $\mathcal{K}(q')$ we simply use this more general estimator $\widehat{\widehat{p}}$ as given in (15) instead of the $\widehat{p}$ given in (11). Note that since $\mathcal{K}_{ij}(q')$ in some cases will contain very few data points one should keep in mind that this test is only appropriate for situations where $n\hat{p}_{ij}(1 - \hat{p}_{ij})$ is not too small (Siegel and Castellan 1988 advocate that $n\hat{p}_{ij}(1 - \hat{p}_{ij}) > 9$).

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[7]Note that the use of the uniform distribution to generate data used in Figure 2 is only for illustrative purposes. The test considered here does not rely on any assumption of a uniform distribution of input mix and/or inefficiency.

[8]Note that a uniform distribution of $\eta \in [0.1, \pi/2 - 0.1]$ of course implies that projected data points on the boundary are more sparse in the specialized regions closer to the axes compared to the regions in the center with η close to $\pi/4$.

[9]It is explained in details below in Step IV in Section 4 how to use Qhull to calculate $V(\mathcal{K}_{ij}(q'))$.

4 Practical solution procedure

Consider a DEA where multiple inputs are used to produce a single output and the lower envelope of the estimated input set has F different facets. Further choose a disretization involving I different intervals of efficiency scores. To get the estimator $\widehat{\widetilde{p}}$ in (15) we need i) an estimator $\widehat{p}_j^f$ of p_j^f, ii) an estimator $\widehat{p}_i^\theta$ of p_i^θ and iii) the $I \times F$ matrix given as $\{m_{ij}\}$ for all i, j.

For a given empirical data set $N = \{(x_i, y_i), i = 1, \ldots, n\} \subset \mathbf{R}_+^{r+1}$ the tests described previously can be implemented using the following procedure:

Step I: First identify the input set $\widetilde{\mathcal{S}}$. Assuming constant returns to scale enables a projection of all observations onto the level set of $y = 1$ by transforming the observations $\{(x_i, y_i)\}_{i \in N}$ into the data points $\{x_i/y_i\}_{i \in N} \subset \mathbf{R}_+^r$ and calculating the corresponding efficiency scores $\theta_i, i \in N$.

Step II: Let $\theta^\alpha = \min_{i \in N} \theta_i$ and let $\widetilde{\Gamma} = \{\theta_i x_i/y_i\}_{i \in N}$. Define in accordance with (7) the estimated input set as the convex hull

$$\widehat{\widetilde{\mathcal{S}}} = conv\{\widetilde{\Gamma} \cup (\theta^\alpha)^{-1}\widetilde{\Gamma}\} \setminus conv\{(\theta^\alpha)^{-1}\widetilde{\Gamma}\} \tag{16}$$

Decompose $\widehat{\widetilde{\mathcal{S}}}$ into $\widehat{\widetilde{\mathcal{S}}}_{ij}, \forall i, j$ using the following procedure: For the j'th facet let $\widetilde{\Gamma}_j$ be the subset of data points in $\widetilde{\Gamma}$ belonging to facet j, i.e. $\cup_{j=1}^F \widetilde{\Gamma}_j = \widetilde{\Gamma}$. Hence, we can decompose $\widehat{\widetilde{\mathcal{S}}}$ into the following F convex subsets:

$$\begin{aligned}
\widehat{\widetilde{\mathcal{S}}} &= \cup_{j=1}^F \widehat{\widetilde{\mathcal{S}}}_j, \text{ where} \\
\widehat{\widetilde{\mathcal{S}}}_j &= conv\{\widetilde{\Gamma}_j \cup (\theta^\alpha)^{-1}\widetilde{\Gamma}_j\}
\end{aligned}$$

Finally we can decompose each $\{\widehat{\widetilde{\mathcal{S}}}_j\}_{j=1,\ldots,F}$ into the following I convex subsets:

$$\begin{aligned}
\widehat{\widetilde{\mathcal{S}}}_j &= \cup_{i=1}^I \widehat{\widetilde{\mathcal{S}}}_{ij}, \text{ where} \\
\widehat{\widetilde{\mathcal{S}}}_{ij} &= conv\{\kappa_i \widetilde{\Gamma}_j \cup \kappa_{i-1}\widetilde{\Gamma}_j\}, i = 1, \ldots, I
\end{aligned}$$

where $\kappa_i = 1 + \frac{I-i}{I}\left((\theta^\alpha)^{-1} - 1\right), i = 0, 1, \ldots, I$

Step III: Determine the volume $V(\widehat{\widetilde{\mathcal{S}}}_{ij})$ using, for instance, the Qhull software (www.qhull.org), which employs the Quickhull algorithm for convex hulls, as suggested by Barber, Dobkin and Huhdanpaa (1996).

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Step IIIa: Convex hull generation and calculation of volumes is typically difficult if facets are over-determined, i.e. if facets are generated by more data points than the dimension of the space. Hence generating the sets $\widehat{\widetilde{\mathcal{S}}}_{ij}$ from $\widetilde{\Gamma} = \{\theta_i x_i / y_i\}_{i \in N}$ where all inefficient data points are projected on to facets complicates the subsequent use of Qhull to determine facets and volumes. Hence for practical purpose we only project a subset of inefficient points to the facets. To determine which points are needed the following procedure is used:

Project all inefficient observations dominated by points on exterior facets[10] to the frontier. Inefficient observations dominated by points on interior facets are ignored since they provide no additional information[11]. Let $I_{CCR} \subset N$ be an index set of CCR-efficient DMUs. Solve a modified CCR-DEA model evaluating each of the projected data points where the objective function minimizes the sum of input slacks and the evaluated DMU is excluded from the set of potential peers. We only project DMUs having a strictly positive sum of slacks, i.e. points that can not be expressed as a convex combination of other projected points or the points in I_{CCR}. Such projected DMUs are needed to delimit a bounded representations of the relevant (unbounded) exterior facets.

Step IV: Select a point q' on the frontier in input space to be the vertex of the bounded cone $\mathcal{K}(q')$, such that the intersection with the bounded input set $\widetilde{\mathcal{S}}$ is non-empty (an obvious choice could be a cost minimizing observation). One way to calculate $V(\mathcal{K}(q'))$ would involve both identification of extreme points dominated by q' and identification of all the extreme points of the intersection between the cone $\{q | q \geq q'\}$ and the input set $\widetilde{\mathcal{S}}$ (see Muller and Preparata, 1978). However, an easier way to calculate $V(\mathcal{K}(q'))$ using QHULL is based on the so-called Minkowski-Weyl's Theorem (see Appendix A), which states

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[10]In Figure 1 and 2, f5 and f9 are part of the two exterior facets which correspond to the assumption of strong input disposability. f5 is, for example, a subset of the exterior facet spanned by the observation just to the left of the label "f5" and the first unit vector. The facets f11 and f12 are clearly not part of the efficient (neither strongly or weakly) frontier in the input space. Facets f1,f2,f3,f4,f6,f7,f8,f10 are interior facets (the normal vectors for these facets are strictly positive in both components).

[11]These projected points add no information about feasible input combinations. The estimated frontier is piecewise linear and we maintain that any input combination expressed as a convex combination of points spanning an interior facet is a feasible input combination. Hence, adding projected points located in the relative interior of the interior facets will only provide information on feasible input vectors that was already known.

that every polyhedron has both a (halfspace) H-representation and a (vertex) V-representation.

In the specific case where we use the estimator $\widehat{\widetilde{\mathcal{S}}}$, to find the volume of the intersection of the bounded cone and $\widehat{\widetilde{\mathcal{S}}}_{ij}$ we suggest the following subprocedure:

- Use QHULL to generate a H-representation of $\widehat{\widetilde{\mathcal{S}}}_{ij}$, as defined by the extreme points (cf. the set-up in Olesen and Petersen, 2003).

- Augment the H-representation of $\widehat{\widetilde{\mathcal{S}}}_{ij}$ with r halfspaces defining the bounded cone. Each of these halfspaces is characterized by having one normal vector component not equal to zero and all halfspaces contain the vertex of the cone.

- Use Qhull to calculate the volume of this H-representation of $\widehat{\widetilde{\mathcal{S}}}_{ij} \cap \mathcal{K}(q')$.

Step V: The number of data points that can be projected onto the bounded cone $\#\mathcal{K}(q')$ is determined by a simple count of data points in $\widetilde{\mathcal{S}}$ dominated by q'.

Step VI: It is now possible to establish the null hypothesis of the binomial test. The ratios between $V(\widehat{\widetilde{\mathcal{S}}}_{ij} \cap \mathcal{K}(q'))$ and $V(\widehat{\widetilde{\mathcal{S}}}_{ij})$ is an estimator of the probability of a projected data point being located within $\widehat{\widetilde{\mathcal{S}}}_{ij} \cap \mathcal{K}(q')$ if the location of the data points is determined by the relative probability weighted volumes alone. With n observations this means that we should expect $n\widehat{p}$ observations inside the bounded cone, where $\widehat{p}$ is given by (15) resulting in the test statistic z given by (13) and corresponding test probability.

It should be noted that the proposed algorithm is well defined and can be performed using a standard LP-solver combined with QHULL, which is sufficient for most data sets. The Monte Carlo studies reported below is performed using a combination of CPLEX (step I, and saving results on files) and a Mathematica code (step II-VI) reading the CPLEX results concerning scores and dominating vertices and calling a QHULL-code for getting the H-representation of each intersection with the bounded cone and each volume calculation.

5 Monte Carlo simulations, 3 inputs and one output

In this section we use Monte Carlo simulations to illustrate the performance of the proposed test statistic.

With a slight inconsistency of notation we, in the following, express an input vector $x \in R_+^r$ as $\eta_i = \arctan x_{i+1}/x_1$ for $x_i > 0$ and $\pi/2$ if $x_i = 0$ for $i = 1, \ldots r - 1$ and the modulus of the input vector is $\omega(x) = \|x\|_2 \equiv \sqrt{x^t x}$. Hence, for $r = 3$, $x_2 = (\tan \eta_1) x_1$ and $x_3 = (\tan \eta_2) x_1$. We assume that the true isoquant has the following form $x_1^{\alpha_1} x_2^{\alpha_2} x_3^{\alpha_3} = 10$, where $\alpha_1 + \alpha_2 + \alpha_3 = 1$. Hence, $x_1 = 10 (\tan \eta_1)^{-\alpha_2} (\tan \eta_2)^{-\alpha_3}$. $\omega^2 = x_1^2 + x_2^2 + x_3^2$ from which it follows that $\omega^2 = x_1^2 + x_1^2 (\tan^2 \eta_1) + x_1^2 (\tan^2 \eta_1) = x_1^2 [1 + (\tan^2 \eta_1) + (\tan^2 \eta_2)]$ or $\omega = 10 (\tan \eta_1)^{-\alpha_2} (\tan \eta_2)^{-\alpha_3} \left[\sqrt{1 + (\tan^2 \eta_1) + (\tan^2 \eta_2)} \right]$. Hence, we use a DGP where[12]

- $\tan \eta_i \equiv \frac{x_{i+1}}{x_1} \sim U \left[\tan (0.1), \tan \left(\frac{\pi}{2} - 0.1 \right) \right], i = 1, 2$

- $\theta^{-1} \sim U [1, 2]$

- $\omega = \theta^{-1} 10 (\tan \eta_1)^{-\alpha_2} (\tan \eta_2)^{-\alpha_3} \left[\sqrt{1 + (\tan^2 \eta_1) + (\tan^2 \eta_2)} \right]$

Figure 3 illustrates this DGP for one of the replications of the simulation. In $\left(\tan \eta_1 = \frac{x_2}{x_1}, \tan \eta_2 = \frac{x_3}{x_1} \right)$ space 200 observations are generated which are uniformly distributed on $\left[\tan (0.1), \tan \left(\frac{\pi}{2} - 0.1 \right) \right]^2$. 36 facets are spanning the frontier, where the last two facets (f35 and f36) are spanned by more than 3 data points (exterior facets). Below we will use the relative volumes of these 36 facets as one of the estimators of the probability of getting an input mix in the cone spanned by the j'th facet, i.e. of p_j^f.

Results from the Monte Carlo simulation are reported in Table 1-4. We have analyzed the sensitivity of the results from the simulation with regard to two and five different estimators of p_j^f and p_i^θ, respectively. $\widehat{p}_j^f(1)$ is estimated

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[12]The conversion from polar coordinates to Euclidian coordinates follows as $x_1 = \omega \sqrt{\left[1 + (\tan^2 \eta_1) + (\tan^2 \eta_2) \right]^{-1}}$, $x_2 = (\tan \eta_1) x_1$, $x_3 = (\tan \eta_2) x_1$.
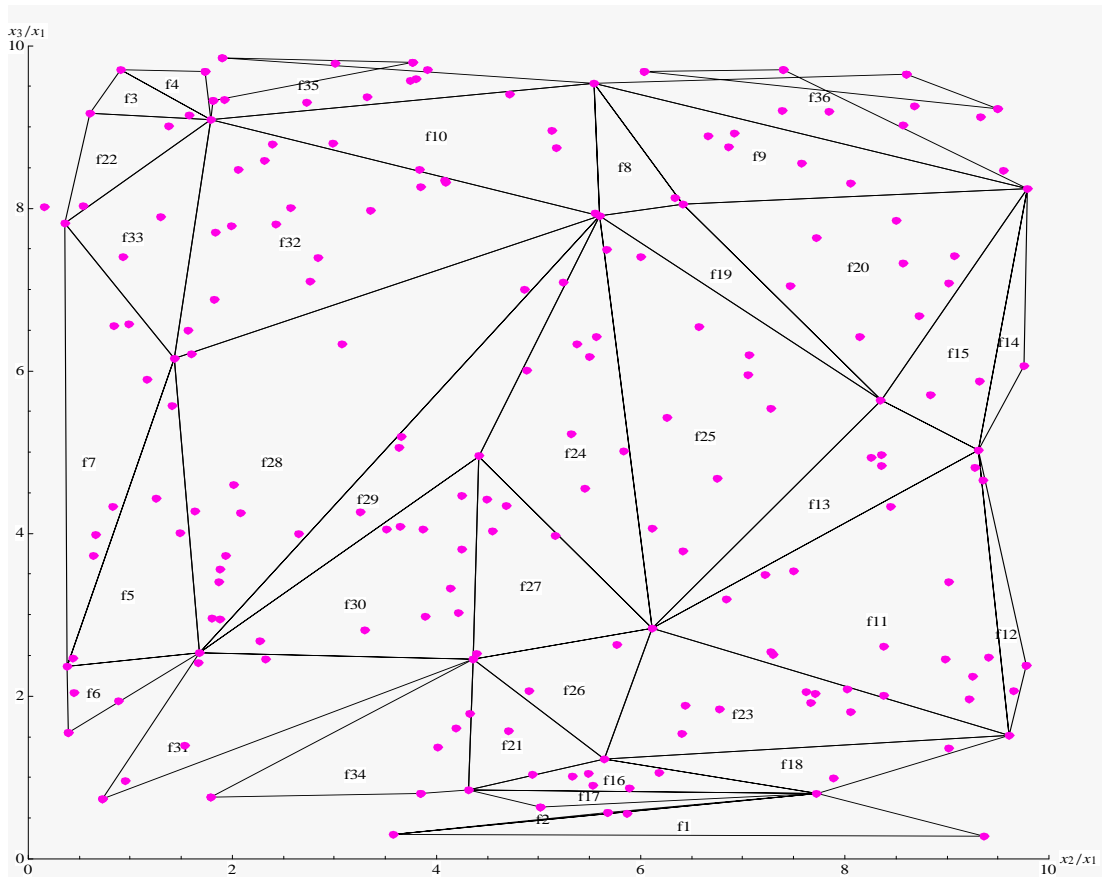
Figure 3: 200 observations generated in $(x_2/x_1) - (x_3/x_1)$ space

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as the relative number of DMUs projected to the j'th facet[13] and $\widehat{p}_j^f(2)$ is estimated as the relative volume of the j'th facet in $\frac{x_2}{x_1} - \frac{x_3}{x_1}$ space. $\widehat{p}_i^\theta(l), l = 1, 2$ are estimated as the relative number of DMUs with scores corresponding to each of the ten slices, where we for $l = 1$ disregard all scores of one and use the original scores and for $l = 2$ use a set of bias corrected scores (for bias correction, see Wilson, 2008 and Simar and Wilson, 1998). $\widehat{p}_i^\theta(l), l = 3, 4$ are estimated like $\widehat{p}_i^\theta(l), l = 1, 2$ but using a kernel estimator of the density with a Gaussian kernel and bandwidth in $\{0.1, 0.15, 0.2\}$ using the reflection method to avoid bias at the boundaries of the bounded support for θ (Silverman, 1986). Optimal bandwidth (approximately 0.15 for $l = 3$) has been estimated using cross validation (see Daraio and Simar, 2007, Ch. 4, and Silverman, 1986, Ch. 3). The score function is rather flat on the interval $[0.1, 0.2]$ for $l = 3$. Hence in the tables we have included results from more than one bandwidth in this interval. The optimal bandwidth for $l = 4$ is approximately 0.1. Finally, $\widehat{p}_i^\theta(5) = 0.1, \forall i$ reflecting the "true" generation of θ in the DGP. We use $B \in \{50, 100, 150, 164\}$ replications in this Monte Carlo simulation. For each replication and each combination of $\widehat{p}_j^f$ and $\widehat{p}_i^\theta$ we estimate the probability $\widehat{\widehat{p}}(l, k)$ in (15):

$$\widehat{\widehat{p}}(l, k) = \left[\widehat{p}_i^\theta(l)\right]^t \left[\frac{V(\mathcal{K}_{ij}(q'))}{V(\widetilde{\mathcal{S}}_{ij})}\right] \left[\widehat{p}_j^f(k)\right], k = 1, 2, l = 1, \ldots, 5$$

and the corresponding z_{lk} in (13). Since data in the simulation is generated from a DGP that does not reflect any tendency to having an over-representation of data points in the restricted cone we expect to see an empirical distribution of the values of z_{lk} closely resembling a standard N(0,1) distribution. The results from the simulations show in general that $\widehat{p}_j^f(1)$ performs rather poorly compared to $\widehat{p}_j^f(2)$ when combined with $\widehat{p}_i^\theta(5)$. Using $\widehat{p}_j^f(2)$ in combination with the true information on the score distribution of the DGP ($\widehat{p}_i^\theta(5)$) provides a test statistic z_{52} that very nicely recovers the characteristics of the DGP.

Results are presented for the accuracy of the proposed test statistic. The summary statistics and the empirical coverage accuracy of both z_{31} and z_{32}

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[13]Efficient DMUs spanning multiple facets are added with a fraction to each facet reflecting how many facets such a DMU is spanning. The estimator reflects only the generated 200 DMUs.

z_{ij}	Mean	Variance	Min	Max	Skewness
	Summary Statistics, Monte Carlo results				
z_{11}	-1.58144	0.623905	-4.23251	0.372523	-0.0990964
z_{12}	-1.75651	0.757589	-4.16705	0.993659	0.209076
z_{21}	0.304115	0.600193	-1.88618	2.84391	0.457486
z_{22}	0.154575	0.721779	-1.92377	3.16947	0.442015
$bandwidth = 0.1$					
z_{31}	0.183046	1.48998	-3.65963	3.19543	-0.235727
z_{32}	0.0255714	1.80728	-3.59005	2.9542	-0.17745
$bandwidth = 0.15$					
z_{31}	0.194465	1.30411	-3.45035	2.93507	-0.250046
z_{32}	0.0365467	1.5956	-3.31926	2.84367	-0.181991
$bandwidth = 0.2$					
z_{31}	0.197774	1.13229	-3.21822	2.66221	-0.251012
z_{32}	0.0427142	1.40117	-3.03304	2.72701	-0.174128
—					
z_{51}	0.213105	0.796296	-2.61312	2.31405	-0.228829
z_{52}	0.0566723	1.01885	-2.46096	2.43443	-0.0902907

Table 1: Summary statistics of the test statistics

$z_{l,1}$ facet probabilities estimated from relative number of projected data points

$z_{l,2}$ facet probabilities estimated from relative volume of facets

$z_{l,k}, l = 1, 2$ score interval probabilities estimated from empirical score distributions

$z_{l,k}, l = 3, 4$ score interval probabilities estimated from kernel density score distributions

$z_{5,k}$ score interval probabilities equal to 0.1

z_{ij}	0.8	0.9	0.95	0.975	0.99
z_{11}	0.349693	0.509202	0.699387	0.797546	0.91411
z_{12}	0.294479	0.429448	0.552147	0.699387	0.822086
z_{21}	0.889571	0.944785	0.969325	0.981595	0.981595
z_{22}	0.895706	0.95092	0.969325	0.97546	0.993865
$bandwidth = 0.1$					
z_{31}	0.717791	0.815951	0.90184	0.92638	0.96319
z_{32}	0.680982	0.773006	0.834356	0.907975	0.95092
$bandwidth = 0.15$					
z_{31}	0.723926	0.846626	0.91411	0.93865	0.98773
z_{32}	0.693252	0.797546	0.877301	0.92638	0.95092
$bandwidth = 0.2$					
z_{31}	0.760736	0.883436	0.92638	0.969325	0.98773
z_{32}	0.723926	0.815951	0.889571	0.932515	0.96319
—					
z_{51}	0.846626	0.920245	0.96319	0.98773	0.993865
z_{52}	0.809816	0.889571	0.932515	0.969325	1.

Simulation Monte Carlo results

Nominal levels of α

Table 2: The accuracy of the coverage of the test statistics

$z_{l,1}$ facet probabilities estimated from relative number of projected data points

$z_{l,2}$ facet probabilities estimated from relative volume of facets

$z_{l,k}, l = 1, 2$ score interval probabilities estimated from empirical score distributions

$z_{l,k}, l = 3, 4$ score interval probabilities estimated from kernel density score distributions

$z_{5,k}$ score interval probabilities equal to 0.1

z_{ij}	B	$Mean$	$Variance$	Min	Max	$Skewness$
		Summary Statistics, Monte Carlo results				

z_{ij}	B	$Mean$	$Variance$	Min	Max	$Skewness$
$bandwidth = 0.1$						
z_{32}	50	-0.0423542	1.76272	-3.22304	2.8622	0.122281
z_{32}	100	-0.112964	1.80697	-3.37765	2.9542	0.0683355
z_{32}	150	-0.004464	1.81732	-3.59005	2.9542	-0.193337
z_{32}	164	0.0255714	1.80728	-3.59005	2.9542	-0.17745
$bandwidth = 0.2$						
z_{32}	50	-0.00535393	1.32712	-2.68905	2.32881	0.0971093
z_{32}	100	-0.0768455	1.39895	-2.94285	2.61226	0.0459719
z_{32}	150	0.0211947	1.41388	-3.03304	2.61226	-0.203502
z_{32}	164	0.0427142	1.40117	-3.03304	2.72701	-0.174128
$--$						
z_{52}	50	0.0242642	0.925966	-2.01797	1.87989	0.114405
z_{52}	100	-0.048325	1.0211	-2.36023	2.23369	0.126139
z_{52}	150	0.0445987	1.03427	-2.46096	2.26337	-0.136333
z_{52}	164	0.0566723	1.01885	-2.46096	2.43443	-0.0902907

Table 3: Summary statistics of selected test statistics for varying sample sizes

Note: B represents replications of the Monte Carlo simulation

z_{ij}	B	0.8	0.9	0.95	0.975	0.99

Simulation Monte Carlo results

Nominal levels of α

z_{ij}	B	0.8	0.9	0.95	0.975	0.99
bandwidth = 0.1						
z_{32}	50	0.68	0.76	0.84	0.92	0.96
z_{32}	100	0.7	0.78	0.84	0.9	0.94
z_{32}	150	0.68	0.773333	0.833333	0.906667	0.953333
z_{32}	164	0.680982	0.773006	0.834356	0.907975	0.95092
bandwidth = 0.2						
z_{32}	50	0.74	0.82	0.9	0.96	0.98
z_{32}	100	0.75	0.82	0.88	0.93	0.96
z_{32}	150	0.726667	0.813333	0.886667	0.933333	0.966667
z_{32}	164	0.723926	0.815951	0.889571	0.932515	0.96319
− − −						
z_{52}	500	0.8	0.9	0.98	1.	1.
z_{52}	100	0.8	0.88	0.93	0.99	1.
z_{52}	150	0.806667	0.886667	0.933333	0.973333	1.
z_{52}	164	0.809816	0.889571	0.932515	0.969325	1.

Table 4: The coverage of the test statistics for varying sample sizes

Note: B represents replications of the Monte Carlo simulation

with bandwidth equal to 0.2 are behaving reasonably, partly recovering the characteristics of the DGP. Hence, these are the test statistics with the best characteristics. The results in Table 1 and 2 show that the test statistic z_{32} (based on the kernel based score distribution from the non bias-corrected scores $\widehat{p}_i^\theta(3)$ in combination with $\widehat{p}_j^f(2)$) is almost unbiased but apparently the smoothening from the kernel induces a variance above one even for a sample size above 150. Combining $\widehat{p}_i^\theta(3)$ with $\widehat{p}_j^f(1)$ for the test statistic z_{31} decreases the bias of the variance but at the expense of a somewhat positive biased mean value. Comparing z_{32} in Table 2 with z_{52} for increasing bandwidth one can observe that increasing the smoothening implies a decrease of the variance towards the expected value of one.

Table 2 presents empirical coverage accuracy of simple percentile intervals for the 10 different estimators z_{lk} from nominal standard $N(0,1)$ confidence intervals. Hence, coverages at the nominal level of $\alpha \in \{0.8, 0.9, 0.95, 0.97, 0.99\}$ show the relative numbers of the estimator z_{lk} that fall within the intervals $\left[-\Phi^{-1}\left(\frac{\alpha}{2}\right), \Phi^{-1}\left(\frac{\alpha}{2}\right)\right]$. The empirical coverage accuracy of z_{52} shows a nice recovering of the DGP, but as mentioned above this test statistic relies on the use of the true information of the distribution of the scores. Replacing this true information with the kernel based information in z_{32} with a bandwidth of 0.2 provides a coverage somewhat below the nominal value, which is to be expected because the variance is biased upwards even for a sample size above 150. Figure 4 shows the variance for z_{32} for increasing sample size and suggests that the variance is indeed biased. Hence the Monte Carlo study seems to suggest (accepting the premises in the form of the used assumption behind the DGP) that testing H_o using z_{32} we should refrain from rejecting H_o at e.g. 5 percent confidence with $|z_{32}| > 1.96$. Instead we should allow $|z_{32}|$ to be as extreme as $\Phi^{-1}(0.9875) = 2.24$. This result is in accordance with the discussion of the characteristics of the test statistic suggested in section 2.1. The estimator $\sqrt{n\widehat{p}(1-\widehat{p})}$ of the standard deviation of the test statistic z seems indeed to be downward biased as expected.

Table 3 and 4 present the summary statistics and coverage accuracy for z_{32} and z_{52} for varying sample size and bandwidth. We again see that increasing the bandwidth tends to decrease the variance of z_{32} towards one. We have also experimented with a kernel estimation of the bias corrected empirical score distribution. These results are not encouraging. The bias correction (Wilson, 2008, Simar and Wilson, 1998) apparently imply a structural over-representation of scores in the lower part $[0.5, 0.75]$ of the support compared
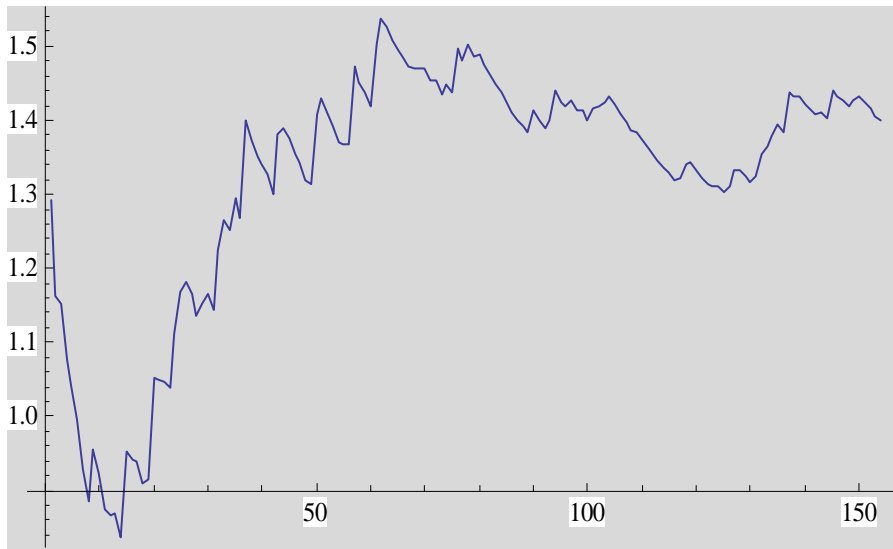
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Figure 4: Variance for z_{32} for increasing sample size.

to the upper part $[0.75, 1]$. As illustrated in table A1 and A2 in Appendix B this structural error implies that both the summary statistics and the coverage accuracy are far from being satisfactory. It is beyond the scope of this paper to analyze why the bias correction has this peculiar impact on the kernel based density estimation, and this is left for future research.

6   Final remarks

This paper has introduced the idea of testing for over-representation of data points in specific production zones. The approach was then operationalized based on discrete approximations of the densities of both the efficiency scores and the input mixes (angles). The test is non-parametric and being ratio-based it is scale (but not affinely) invariant. It relates to estimated technologies using only standard assumptions of convexity, ray unboundedness, strong disposability, and minimal extrapolation. For practical applications the assumption of ray unboundedness (constant returns to scale in production) probably seem limiting, but in fact the DEA literature is full of empirical studies where the constant returns to scale assumption seems justi-

fied, at least within a reasonable range of input-output values. Furthermore, well-established theoretical approaches, like the DEA based Malmquist index of productivity change, rely on constant returns to scale (see e.g. Wheelock and Wilson, 1999).

That the practical test procedure in this paper is presented in a multiple input-single output setting alone, is simply for notational and computational convenience. The idea can easily be generalized to the multiple output scenario, but note that the increased dimensionality increases the probabilities of getting thinly populated combinations of facets and slices (for a given sample size), which reduces the strength of the test.

Several takeaways are available from the Monte Carlo simulation. Based on different choices of both facet probabilities and of probabilities of the discrete approximation to the assumed common inefficiency distribution we have illustrated the performance of the proposed test statistic. The best estimator of the common inefficiency distribution is apparently the estimator based on a kernel density estimation from the empirical score distribution (denoted $\widehat{p}_i^\theta(3)$) which has not been bias corrected. The estimator of probabilities of input mix or rather of the discrete approximation to the (assumed) common mix distribution based on the relative volumes of the facets in $\frac{x_2}{x_1} - \frac{x_3}{x_1}$ space (that is $\widehat{p}_j^f(2)$) apparently performs slightly better than the estimator based on the relative number of DMUs projected on to each facet (that is $\widehat{p}_j^f(1)$). The combination of $\widehat{p}_j^f(1)$ and $\widehat{p}_i^\theta(3)$ provides a test statistic with the best coverage, but this test statistic has a somewhat positively biased mean value. Finally, it seems that the variance of the test statistic from the combination $\widehat{p}_i^\theta(3)$ and $\widehat{p}_j^f(2)$ is somewhat biased even for sample sizes above 150 in a three dimensional input space. This result is in accordance with the discussion of the characteristics of the test statistic suggested in section 2.1. The estimator $\sqrt{n\widehat{p}(1-\widehat{p})}$ of the standard deviation of the test statistic z seems to be downward biased as expected. Additional research is needed to analyze this performance and perhaps refine the estimator. The apparent bias of the variance of the best combination of estimators seems to suggest that we should be cautious when testing at a confidence level of e.g. 5 percent confidence, i.e. we should allow the test statistic to be slightly more extreme than $\Phi^{-1}(0.95)$ before rejecting the hypothesis, as explained above in section 5.

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Appendix A

The Minkowski-Weyl Theorem: *For a subset P of $\mathbf{R}^n$, the following statements are equivalent:*

(a) P is a polyhedron which means that there exist some fixed real matrix A and a real vector b such that $\{P = x : Ax \leq b\}$

(b) There are finite real vectors $v_1, v_2, \ldots, v_s$ and $r_1, r_2, \ldots, r_t$ in $\mathbf{R}^n$ such that

$$P = conv\,\{v_1, v_2, \ldots v_s\} + cone\,\{r_1, r_2, \ldots, r_t\}$$

Appendix B.

Summary Statistics, Monte Carlo results

z_{ij}	$Mean$	$Variance$	Min	Max	$Skewness$
$bandwidth = 0.1$					
z_{41}	1.66901	1.85947	-2.31623	4.72554	-0.128694
z_{42}	1.52079	2.17503	-2.23857	4.73	-0.0813843
$bandwidth = 0.2$					
z_{41}	0.987224	1.26812	-2.46287	3.46981	-0.170587
z_{42}	0.837708	1.53803	-2.27749	3.66136	-0.0971653

Table A1 Summary statistics of the testors (bias corrected scores)

Simulation Monte Carlo results

Nominal levels 0.8,0.9,0.95,0.975,0.99

z_{ij}	0.8	0.9	0.95	0.975	0.99
$bandwidth = 0.1$					
z_{41}	0.386503	0.496933	0.539877	0.619632	0.730061
z_{42}	0.429448	0.478528	0.570552	0.680982	0.754601
$bandwidth = 0.2$					
z_{41}	0.558282	0.699387	0.785276	0.865031	0.920245
z_{42}	0.601227	0.699387	0.785276	0.846626	0.907975

Table A2 The accuracy of the coverage of the test statistics (bias corrected scores)

Results based on bias corrected scores: