Randomization Tests under an Approximate Symmetry Assumption*

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Abstract

This paper develops a theory of randomization tests under an approximate symmetry assumption. Randomization tests provide a general means of constructing tests that control size in finite samples whenever the distribution of the observed data exhibits symmetry under the null hypothesis. Here, by exhibits symmetry we mean that the distribution remains invariant under a group of transformations. In this paper, we provide conditions under which the same construction can be used to construct tests that asymptotically control the probability of a false rejection whenever the distribution of the observed data exhibits approximate symmetry in the sense that the limiting distribution of a function of the data exhibits symmetry under the null hypothesis. An important application of this idea is in settings where the data may be grouped into a fixed number of “clusters” with a large number of observations within each cluster. In such settings, we show that the distribution of the observed data satisfies our approximate symmetry requirement under weak assumptions. In particular, our results allow for the clusters to be heterogeneous and also have dependence not only within each cluster, but also across clusters. This approach enjoys several advantages over other approaches in these settings.

KEYWORDS: Randomization tests, dependence, heterogeneity, differences-in-differences, clustered data, sign changes, symmetric distribution, weak convergence

JEL classification codes: C12, C14.

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1 Introduction

Suppose the researcher observes data $X^{(n)} \sim P_n \in P_n$, where $P_n$ is a set of distributions on a sample space $X_n$, and is interested in testing

$$H_0 : P_n \in P_n,0 \text{ versus } H_1 : P_n \in P_n \setminus P_n,0,$$

where $P_{n,0} \subset P_n$, at level $\alpha \in (0, 1)$. The index $n$ here will typically denote sample size. The classical theory of randomization tests provides a general way of constructing tests that control size in finite samples provided that the distribution of the observed data exhibits symmetry under the null hypothesis. Here, by exhibits symmetry we mean that the distribution remains invariant under a group of transformations. In this paper, we develop conditions under which the same construction can be used to construct tests that asymptotically control the probability of a false rejection provided that the distribution of the observed data exhibits approximate symmetry. More precisely, the main requirement we impose is that, for a known function $S_n$ from $X_n$ to a sample space $S$,

$$S_n(X^{(n)}) \xrightarrow{d} S$$

as $n \to \infty$ under $P_n \in P_{n,0}$, where $S$ exhibits symmetry in the sense described above. In this way, our results extend the classical theory of randomization tests. Note that in some cases $S_n$ need not be completely known; see Remark ?? below.

While they apply more generally, an important application of our results is in settings where the data may be grouped into $q$ “clusters” with a large number of observations within each cluster. A noteworthy feature of our asymptotic framework is that $q$ is fixed and does not depend on $n$. In such environments, it is often the case that the distribution of the observed data satisfies our approximate symmetry requirement under weak assumptions. In particular, it typically suffices to consider

$$S_n(X^{(n)}) = (S_{n,1}(X^{(n)}), \ldots, S_{n,q}(X^{(n)}))'$$

where $S_{n,j}(X^{(n)})$ is an appropriately recentered and rescaled estimator of the parameter of interest based on observations from the $j$th cluster. In this case, the convergence (??) often holds for $S$ that exhibits symmetry in the sense that its distribution remains invariant under the group of sign changes. Importantly, this convergence permits the clusters to be heterogeneous and also have dependence not only within each cluster, but also across clusters. We consider three specific examples of such settings in detail – time series regression, differences-in-differences, and clustered regression.

Our paper is most closely related to the procedure suggested by ?. As in our paper, they also consider settings where the data may be grouped into a fixed number of “clusters,” $q$, with a large number of observations within each cluster. In order to apply their results, they further assume that the parameter of interest is scalar and that $S_n(X^{(n)})$ defined in (??) satisfies the convergence
with $S$ satisfying additional restrictions beyond our symmetry assumption. Using a result on robustness of the $t$-test established in $\ldots$, they propose an approach that leads to a test that asymptotically controls size for certain values of $q$ and $\alpha$, but may be quite conservative in the sense that its asymptotic rejection probability under the null hypothesis may be much less than $\alpha$. This same result on the $t$-test underlies the approach put forward by $\ldots$, which therefore inherits the same qualifications. The methodology proposed in this paper enjoys several advantages over these approaches, including not requiring the parameter of interest to be scalar, being valid for any values of $q$ and $\alpha$ (thereby permitting in particular the computation of $p$-values), and being asymptotically similar in the sense of having asymptotic rejection probability under the null hypothesis equal to $\alpha$. As shown in a simulation study, this feature translates into improved power at many alternatives. See Section ?? and Section ?? in the Supplemental Material for further details.

The remainder of the paper is organized as follows. Section ?? briefly reviews the classical theory of randomization tests. Here, we pay special attention to an example involving the group of sign changes, which, as mentioned previously, underlies many of our later applications and aids comparisons with the approach suggested by $\ldots$. Our main results are developed in Section ??.

Section ?? contains the application of our results to settings where the data may be grouped into a fixed number of “clusters” with a large number of observations within each cluster, emphasizing in particular differences-in-differences and clustered regression. In Section ?? of the Supplemental Material to this paper (??) we also consider an application to time series regression. Simulation results based on the time series regression and differences-in-differences examples are presented in Section ??.

Finally, in Section ??, we use the clustered regression example to revisit the analysis of $\ldots$, who examine the impact of a cash award on exam performance for low-achievement students in Israel.

2 Review of Randomization Tests

In this section, we briefly review the classical theory of randomization tests. Further discussion can be found, for example, in Chapter 15 of $\ldots$. Since the results in this section are non-asymptotic in nature, we omit the index $n$.

Suppose the researcher observes data $X \sim P \in \mathcal{P}$, where $\mathcal{P}$ is a set of distributions on a sample space $\mathcal{X}$, and is interested in testing

$$H_0 : P \in \mathcal{P}_0 \text{ versus } H_1 : P \in \mathcal{P} \setminus \mathcal{P}_0,$$

where $\mathcal{P}_0 \subset \mathcal{P}$, at level $\alpha \in (0,1)$. Randomization tests require that the distribution of the data, $P$, exhibits symmetry whenever $P \in \mathcal{P}_0$. In order to state this requirement more formally, let $G$ be a finite group of transformations from $\mathcal{X}$ to $\mathcal{X}$ and denote by $gx$ the action of $g \in G$ on $x \in \mathcal{X}$. 

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Using this notation, the classical condition required for a randomization test is

\[ X \overset{d}{=} gX \text{ under } P \text{ for any } P \in P_0 \text{ and } g \in G . \] (4)

We now describe the construction of the randomization test. Let \( T(X) \) be a real-valued test statistic such that large values provide evidence against the null hypothesis. Let \( M = |G| \) and denote by

\[ T^{(1)}(X) \leq T^{(2)}(X) \leq \ldots \leq T^{(M)}(X) \]

the ordered values of \( \{T(gX) : g \in G\} \). Let \( k = \lceil M(1 - \alpha) \rceil \) and define

\[ M^+(X) = |\{1 \leq j \leq M : T^{(j)}(X) > T^{(k)}(X)\}| \]

\[ M^0(X) = |\{1 \leq j \leq M : T^{(j)}(X) = T^{(k)}(X)\}| . \] (5)

Using this notation, the randomization test is given by

\[ \phi(X) = \begin{cases} 1 & \text{if } T(X) > T^{(k)}(X) \\ a(X) & \text{if } T(X) = T^{(k)}(X) \\ 0 & \text{if } T(X) < T^{(k)}(X) \end{cases} , \] (6)

where

\[ a(X) = \frac{M\alpha - M^+(X)}{M^0(X)} . \]

The following theorem shows that this construction leads to a test that controls size in finite samples whenever (4) holds. In fact, the test in (4) is similar, i.e., has rejection probability exactly equal to \( \alpha \) for any \( P \in P_0 \) and \( \alpha \in (0, 1) \).

**Theorem 2.1.** Suppose \( X \sim P \in P \) and consider the problem of testing (4). Let \( G \) be a group such that (4) holds. Then, for any \( \alpha \in (0, 1) \), \( \phi(X) \) defined in (4) satisfies

\[ E_P[\phi(X)] = \alpha \text{ whenever } P \in P_0 . \] (7)

**Remark 2.1.** Let \( G^x \) denote the \( G \)-orbit of \( x \in X \), i.e., \( G^x = \{gx : g \in G\} \). The result in Theorem 2.1 exploits that, when \( G \) is such that (4) holds, the conditional distribution of \( X \) given \( X \in G^x \) is uniform on \( G^x \) whenever \( P \in P_0 \). Since the conditional distribution of \( X \) is known for all \( P \in P_0 \) (even though \( P \) itself is unknown), we can construct a test that is level \( \alpha \) conditionally, which leads to a test that is level \( \alpha \) unconditionally as well. \[ \square \]

**Remark 2.2.** In some cases, \( M \) is too large to permit computation of \( \phi(X) \) defined in (4). When this is the case, the researcher may use a stochastic approximation to \( \phi(X) \) without affecting the finite-sample validity of the test. More formally, let

\[ \hat{G} = \{g_1, \ldots, g_B\} , \] (8)

where \( g_1 = \) the identity transformation and \( g_2, \ldots, g_B \) are i.i.d. \( \text{Uniform}(G) \). Theorem 2.1 remains true if, in the construction of \( \phi(X) \), \( G \) is replaced by \( \hat{G} \). \[ \square \]
Remark 2.3. One can construct a $p$-value for the test $\phi(X)$ defined in (??) as

$$\hat{p} = \hat{p}(X) = \frac{1}{|G|} \sum_{g \in G} I\{T(gX) \geq T(X)\}. \quad (9)$$

When (??) holds, it follows that $P\{\hat{p} \leq u\} \leq u$ for all $0 \leq u \leq 1$ and $P \in P_0$. This result remains true when $M$ is large and the researcher uses a stochastic approximation, in which case $\hat{G}$ as defined in (??) replaces $G$ in (??).

Remark 2.4. The test in (??) is possibly randomized. In case one prefers not to randomize, note that the non-randomized test that rejects if $T(X) > T^{(k)}(X)$ is level $\alpha$. In our simulations, this test has rejection probability under the null hypothesis only slightly less than $\alpha$ when $M$ is not too small; see Section ?? below and Sections ?? and ?? in the Supplemental Material for additional discussion.

2.1 Symmetric Location Example

In this subsection, we provide an illustration of Theorem ???. The example not only makes concrete some of the abstract ideas presented above, but also underlies many of the applications described in Section ?? below.

Suppose $X = (X_1, \ldots, X_q) \sim P \in P$, where

$$P = \{\otimes_{j=1}^q P_{j,\mu} : P_{j,\mu} \text{ symmetric distribution on } \mathbb{R}^d \text{ about } \mu\}.$$  

In other words, $X_1, \ldots, X_q$ are independent and each $X_j$ is distributed symmetrically on $\mathbb{R}^d$ about $\mu$, i.e., $X_j - \mu \overset{d}{=} \mu - X_j$. The researcher desires to test (??) with

$$P_0 = \{\otimes_{j=1}^q P_{j,\mu} : P_{j,\mu} \text{ a symmetric distribution on } \mathbb{R}^d \text{ about } \mu \text{ with } \mu = 0\}.$$  

In this case, (??) clearly holds with the group of sign changes $G = \{-1, 1\}^q$, where the action of $g = (g_1, \ldots, g_q) \in G$ on $x = (x_1, \ldots, x_q) \in \otimes_{j=1}^q \mathbb{R}^d$ is defined by $gx = (g_1x_1, \ldots, g_qx_q)$. As a result, Theorem ?? may be applied with any choice of $T(X)$ to construct a test that satisfies (??).

2.1.1 Comparison with the $t$-test

Consider the special case of the symmetric location example in which $d = 1$ and $P_{j,\mu} = N(\mu, \sigma_j^2)$, i.e.,

$$P = \{\otimes_{j=1}^q P_{j,\mu} : P_{j,\mu} = N(\mu, \sigma_j^2) \text{ with } \mu \in \mathbb{R} \text{ and } \sigma_j^2 \geq 0\} \quad (10)$$

$$P_0 = \{\otimes_{j=1}^q P_{j,\mu} : P_{j,\mu} = N(\mu, \sigma_j^2) \text{ with } \mu = 0 \text{ and } \sigma_j^2 \geq 0\}. \quad (11)$$
For this setting, ? show that the usual two-sided $t$-test remains valid despite heterogeneity in the $\sigma_j^2$ for certain values of $\alpha$ and $q$. More formally, they show that for $\alpha \leq 8.3\%$ and $q \geq 2$ or $\alpha \leq 10\%$ and $2 \leq q \leq 14$,

$$P\{T_{|t\text{-stat}|}(X) > c_{q-1,1-\frac{\alpha}{2}}\} \leq \alpha \text{ for any } P \in P_0,$$

where $T_{|t\text{-stat}|}(X)$ is the absolute value of the usual $t$-statistic computed using the data $X$ and $c_{q-1,1-\frac{\alpha}{2}}$ is the $1 - \frac{\alpha}{2}$ quantile of the $t$-distribution with $q - 1$ degrees of freedom. ? go on to show that this result remains true even if each $P_{\beta,j}$ is allowed to be a mixture of normal distributions as well. This result was further explored by ? and ?. ? derived a related result for the two-sample problem, while ? showed that the $t$-test is “optimal” in the sense that it is the uniformly most powerful scale invariant level $\alpha$ test against the restricted class of alternatives with $\sigma_j^2 = \sigma^2$ for all $1 \leq j \leq q$. In the Appendix, we establish a similar “optimality” result for the randomization test with $T(X) = T_{|t\text{-stat}|}(X)$ and $G = \{-1,1\}^q$: we show that it is the uniformly most powerful unbiased level $\alpha$ test against the same class of alternatives.

We compare the randomization test with $T(X) = T_{|t\text{-stat}|}(X)$ and $G = \{-1,1\}^q$ with the $t$-test. We follow ? and consider the setup in (??)-(??) with $q \in \{8,16\}$ and $\sigma_j^2 = 1$ for $1 \leq j \leq \frac{q}{2}$ and $\sigma_j^2 = a^2$ for $\frac{q}{2} < j \leq q$. Figure ?? shows rejection probabilities under the null hypothesis computed using 100,000 Monte Carlo repetitions for $\alpha = 5\%$, $a$ ranging over a grid of 50 equally spaced points in $(0.1,5)$, $q = 8$ (left panel) and $q = 16$ (right panel). As we would expect from Theorem ??, the rejection probability of the randomization test equals $\alpha$ for all values of the heterogeneity parameter $a$ (up to simulation error). The rejection probability of the $t$-test, on the other hand, can be substantially below $\alpha$ when the data are heterogeneous, i.e., $a \neq 1$. Comparing the right and left panels, we see that the performance of the $t$-test improves as $q$ gets larger, but it is worth emphasizing that the results of ? do not ensure the validity of the test for $q > 14$ and $\alpha \geq 8.4\%$.

Figure ?? shows rejection probabilities computed using 100,000 Monte Carlo repetitions for $\alpha = 5\%$, $\mu \in (0,1,5)$, $q = 8$, $a = 0.1$ (left panel) and $a = 1$ (right panel). The similarity of the randomization test translates into better power for alternatives close to the null hypothesis. When $a = 0.1$, the rejection probability of the randomization test exceeds that of the $t$-test for $\mu$ less than approximately 0.7; for larger values of $\mu$, the situation is reversed, though the difference in power between the two tests is smaller. When $a = 1$, the $t$-test slightly outperforms the randomization test, reflecting the previously mentioned optimality property derived in ?. It is important to note that this does not contradict the optimality result for the randomization test established in the Appendix, as the $t$-test is not unbiased. In particular, there are alternatives $P \in P_1$ under which the $t$-test has rejection probability $< \alpha$. Moreover, the loss in power of the randomization test relative to the $t$-test even in this case is arguably negligible. These comparisons continue to hold even if the randomization test is replaced with its non-randomized version described in Remark ??.

In the context of the symmetric location example, the randomization test provides additional advantages over the $t$-test approach. First, the randomization test works for all levels of $\alpha \in (0,1)$,
Figure 1: Rejection probabilities under the null hypothesis for different values of $a$ in the symmetric location example. Randomization test (randomized and non-randomized) versus $t$-test. $q = 8$ (left panel) and $q = 16$ (right panel).

Figure 2: Rejection probabilities for $q = 8$ and different values of $\mu$ in the symmetric location example. Randomization test (randomized and non-randomized) versus $t$-test. $a = 0.1$ (left panel) and $a = 1$ (right panel).

which allows for the construction of $p$-values; see Remark ???. Second, the randomization test works for vector-valued random variables, i.e., $d > 1$, while the result in ? is restricted to scalar random variables. Third, the construction in Theorem ?? works for any choice of test statistic $T(X)$. Finally, the condition in (??) is not limited to mixtures of normal distributions and holds for any symmetric distribution. On the other hand, when $q$ is small the rejection probability of the $t$-test sometimes exceeds that of the non-randomized version of the randomization test described in Remark ??; see Figure ??.

3 Main Result

In this section, we present our theory of randomization tests under an approximate symmetry assumption. Since our results in this section are asymptotic in nature, we re-introduce the index $n$, which, as mentioned earlier, will typically be used to denote the sample size.

Suppose the researcher observes data $X^{(n)} \sim P_n \in \mathcal{P}_n$, where $\mathcal{P}_n$ is a set of distributions on a sample space $\mathcal{X}_n$, and is interested in testing

$$H_0 : P_n \in \mathcal{P}_{n,0} \text{ versus } H_1 : P_n \in \mathcal{P}_n \setminus \mathcal{P}_{n,0},$$

where $\mathcal{P}_{n,0} \subset \mathcal{P}_n$, at level $\alpha \in (0,1)$. In contrast to Section ??, we no longer require that the distribution of $X^{(n)}$ exhibits symmetry whenever $P_n \in \mathcal{P}_{n,0}$. Instead, we require that $X^{(n)}$ exhibits approximate symmetry whenever $P_n \in \mathcal{P}_{n,0}$. In order to state this requirement more formally, we require some additional notation. Recall that $S_n$ denotes a function from $\mathcal{X}_n$ to a sample space $\mathcal{S}$. For simplicity, we assume further that $\mathcal{S}$ is a subset of Euclidean space, though this could be generalized to a metric space. As before, let $T$ be a real-valued test statistic such that large values provide evidence against the null hypothesis, but we will assume that $T$ is a function from $\mathcal{S}$ to $\mathbb{R}$ as opposed to from $\mathcal{X}_n$ to $\mathbb{R}$. Finally, let $G$ be a (finite) group of transformations from $\mathcal{S}$ to $\mathcal{S}$ and denote by $g s$ the action of $g \in G$ on $s \in \mathcal{S}$. Using this notation, the following assumption is assumed to hold for certain sequences $\{P_n \in \mathcal{P}_{n,0} : n \geq 1\}:

Assumption 3.1.
\((i)\) \(S_n = S_n(X^{(n)}) \xrightarrow{d} S\) under \(P_n\).

\((ii)\) \(gS \overset{d}{=} S\) for all \(g \in G\).

\((iii)\) For any two distinct elements \(g \in G\) and \(g' \in G\),

\[\text{either } T(gs) = T(g's) \forall s \in S \text{ or } P\{T(gS) \neq T(g'S)\} = 1.\]

Assumption \((\text{??})\).\((i)-(\text{ii})\) formalizes what we mean by \(X^{(n)}\) exhibiting approximate symmetry. Assumption \((\text{??})\).\((\text{iii})\) is a condition that controls the ties among the values of \(T(gS)\) as \(g\) varies over \(G\). It requires that \(T(gS)\) and \(T(g'S)\) are distinct with probability one or deterministically equal to each other. For examples of \(S\) that often arise in applications and typical choices of \(T\), we verify Assumption \((\text{??})\).\((\text{iii})\) (see, in particular, Lemmas \((\text{??})-\text{??}\) in the Supplemental Material).

The construction of the randomization test in this setting parallels the one in Section \((\text{??})\) with \(S_n\) replacing \(X\). Let \(M = |G|\) and denote by

\[T^{(1)}(S_n) \leq T^{(2)}(S_n) \leq \cdots \leq T^{(M)}(S_n)\]

the ordered values of \(\{T(gS_n) : g \in G\}\). Let \(k = \lceil M(1 - \alpha) \rceil\) and define \(M^+(S_n)\) and \(M^0(S_n)\) as in \((\text{??})\) with \(S_n\) replacing \(X\). Using this notation, the proposed test is given by

\[\phi(S_n) = \begin{cases} 
1 & T(S_n) > T^{(k)}(S_n) \\
a(S_n) & T(S_n) = T^{(k)}(S_n) \\
0 & T(S_n) < T^{(k)}(S_n)
\end{cases}, \tag{13}\]

where

\[a(S_n) = \frac{M\alpha - M^+(S_n)}{M^0(S_n)}.\]

The following theorem shows that this construction leads to a test that is asymptotically level \(\alpha\) whenever \(\{P_n \in P_n : n \geq 1\}\) is such that Assumption \((\text{??})\) holds. In fact, the proposed test is asymptotically similar, i.e., has limiting rejection probability equal to \(\alpha\) for all such sequences.

**Theorem 3.1.** Suppose \(X^{(n)} \sim P_n \in P_n\) and consider the problem of testing \((\text{??})\). Let \(S_n : X_n \to S\), \(T : S \to \mathbb{R}\) and \(G : S \to S\) be such that \(T : S \to \mathbb{R}\) is continuous and \(g : S \to S\) is continuous for all \(g \in G\). Then, for any \(\alpha \in (0,1)\), \(\phi(S_n)\) defined in \((\text{??})\) satisfies

\[E_{P_n}[\phi(S_n)] \to \alpha \tag{14}\]

as \(n \to \infty\) whenever \(\{P_n \in P_{n,0} : n \geq 1\}\) is such that Assumption \((\text{??})\) holds.

**Remark 3.1.** Note that the limiting random variable \(S\) that appears in Assumption \((\text{??})\) may depend on the sequence \(\{P_n \in P_{n,0} : n \geq 1\}\).
Remark 3.2. The assumptions in Theorem ?? are stronger than required. The conclusion (??) holds for example, under the following weaker conditions: if T is such that T is only continuous on a set $S' \subseteq S$ such that $P\{S \in S'\} = 1$; if G is such that g is continuous on a set $S' \subseteq S$ such that $P\{S \in S'\} = 1$ for all $g \in G$; and whenever $\{P_n \in P_{n,0} : n \geq 1\}$ is such that for every subsequence $\{P_{n_k} \in P_{n_k,0} : k \geq 1\}$ there exists a further subsequence $\{P_{n_{k\ell}} \in P_{n_{k\ell},0} : \ell \geq 1\}$ for which Assumption ?? is satisfied with $P_{n_{k\ell}}$ in place of $P_n$. More generally, as noted by a referee, the assumptions we impose are sufficient to ensure that $\phi$ is continuous on a set $S' \subseteq S$ such that $P\{S \in S'\} = 1$. In establishing this, an important observation is that $\phi(s) = \phi(s')$ for any $s$ and $s'$ such that the orderings of $\{T(gs) : g \in G\}$ and $\{T(gs') : g \in G\}$ correspond to the same transformations $g(1), \ldots, g(M)$. This continuity may, of course, be established under alternative sets of assumptions. For example, in the context of a regression discontinuity setting, ? fruitfully exploit the fact that T is a rank statistic to provide an alternative set of conditions. ■

Remark 3.3. If for every sequence $\{P_n \in P_{n,0} : n \geq 1\}$ there exists a subsequence $\{P_{n_k} \in P_{n_k,0} : k \geq 1\}$ for which Assumption ?? is satisfied with $P_{n_k}$ in place of $P_n$, then the conclusion of Theorem ?? can be strengthened as follows: for any $\alpha \in (0,1)$, $\phi(S_n)$ defined in (??) satisfies

$$\sup_{P_n \in P_{n,0}} |E_{P_n}[\phi(S_n)] - \alpha| \to 0$$

as $n \to \infty$. ■

Remark 3.4. As described in Remark ??, the validity of the randomization test in finite samples is tightly related to fact that the conditional distribution of X given $X \in G^x$ is uniform on $G^x$. While this property holds for the limiting random variable $S$ in our framework, it may not hold even approximately for $S_n$ for large n. ■

Remark 3.5. Earlier work on the asymptotic behavior of randomization tests includes ?, ??, ???. The arguments in these papers involve showing that the “randomization distribution” (see, e.g., Chapter 15 of ?) settles down to a fixed distribution as $|G| \to \infty$. In our framework, $|G|$ is fixed and the “randomization distribution” will generally not settle down at all. For this reason, the analysis in these papers is not useful in our setting. ■

Remark 3.6. Comments analogous to those made in Remarks ??-?? after Theorem ?? apply to Theorem ???. In particular, Theorem ?? still holds when G is replaced by $\hat{G}$ defined in (??), asymptotically valid $p$-values can be computed using (??), and the non-randomized test that rejects if $T(S_n) > T^{(k)}(S_n)$ is also asymptotically level $\alpha$, although possibly conservative. ■

4 Applications

In this section we present two applications of Theorem ?? to settings where the data may be grouped into a fixed number of “clusters,” q, with a large number of observations within each cluster:
Remark 4.1. In the special case where convergence \((??)\) holds under weak assumptions on the sequence \(\{P_n \in \mathbb{P}_n \colon n \geq 1\}\),

\[
S_n(X^{(n)}) = \sqrt{n}((\hat{\theta}_{n,1} - \theta_0), \ldots, (\hat{\theta}_{n,q} - \theta_0)) \xrightarrow{d} N(0, \Sigma)
\]

as \(n \to \infty\), where \(\Sigma = \text{diag}\{\Sigma_1, \ldots, \Sigma_q\}\) and each \(\Sigma_j\) is of dimension \(d \times d\). In this setting, the conditions of Theorem \((??)\) hold for \(G = \{-1, 1\}^q\) and \(T(S_n) = T_{\text{Wald}}(S_n)\), where

\[
T_{\text{Wald}}(S_n) = q\bar{S}_{n,q}^{-1}\bar{S}_{n,q}^{-1}
\]

with

\[
\bar{S}_{n,q} = \frac{1}{q} \sum_{j=1}^{q} S_{n,j}S_{n,j}', \quad \bar{S}_{n,q} = \frac{1}{q} \sum_{j=1}^{q} S_{n,j}, \quad \text{and} \quad S_{n,j} = \sqrt{n}(\hat{\theta}_{n,j} - \theta_0).
\]

See Lemma \((??)\) in the Supplemental Material for details. In the special case where \(d = 1\), the conditions of Theorem \((??)\) also hold for \(T(S_n) = T_{|t\text{-stat}|}(S_n)\), where

\[
T_{|t\text{-stat}|}(S_n) = \frac{|\bar{S}_{n,q}|}{\sqrt{\frac{1}{q-1} \sum_{j=1}^{q} (S_{n,j} - \bar{S}_{n,q})^2}}.
\]

See Lemmas \((??)\) in the Supplemental Material for details. Equivalently,

\[
T_{|t\text{-stat}|}(S_n) = \frac{|\bar{\theta}_{n,q} - \theta_0|}{s_q/\sqrt{q}},
\]

with

\[
\bar{\theta}_{n,q} = \frac{1}{q} \sum_{j=1}^{q} \hat{\theta}_{n,j} \quad \text{and} \quad s_q^2 = \frac{1}{q-1} \sum_{j=1}^{q} (\hat{\theta}_{n,j} - \bar{\theta}_{n,q})^2.
\]

In each of the applications below, we will therefore simply specify \(X_j^{(n)}\) and \(\hat{\theta}_{n,j}\) and argue that the convergence \((??)\) holds under weak assumptions on the sequence \(\{P_n \in \mathbb{P}_{n,0} : n \geq 1\}\).

**Remark 4.1.** In the special case where \(d = 1\), the idea of grouping the data in this way and constructing estimators satisfying \((??)\) has been previously proposed by \(\ldots\). Using the result on the \(t\)-test described in Section \((??)\), they go on to propose a test that rejects the null hypothesis when \(T_{|t\text{-stat}|}(S_n)\) in \((??)\) exceeds the \(1 - \frac{\alpha}{2}\) quantile of a \(t\)-distribution with \(q - 1\) degrees of freedom. Further comparisons with this approach are provided in Section \((??)\) of the Supplemental Material.
Remark 4.2. The convergence (??) permits dependence within each cluster. It also permits some dependence across clusters, but, importantly, not so much that \( \Sigma \) in (??) does not have the required diagonal structure. See, for example, ? for some relevant central limit theorems. The convergence (??) further allows for heterogeneity in the distribution of the data across clusters in the sense that \( \Sigma_j \) need not be independent of \( j \) in \( \Sigma = \text{diag}\{\Sigma_1, \ldots, \Sigma_q\} \). ■

Remark 4.3. The asymptotic normality in (??) arises frequently in applications, but is not necessary for the validity of the test described above. All that is required is that the \( q \) estimators (after an appropriate re-centering and scaling) have a limiting distribution that is the product of \( q \) distributions that are symmetric about zero. This may even hold in cases where the estimators have infinite variances or are inconsistent. See Remark ?? below. ■

Remark 4.4. The test statistics in (??) and (??) are both invariant under scalar multiplication. As a result, the \( \sqrt{n} \) in the definition of \( S_n \) in (??) may be omitted or replaced with another sequence without changing the results. ■

4.1 Differences-in-Differences

Suppose

\[
Y_{j,t} = \theta D_{j,t} + \eta_j + \gamma_t + \epsilon_{j,t} \quad \text{with} \quad E[\epsilon_{j,t}] = 0 . \tag{18}
\]

Here, the observed data is given by \( X^{(n)} = \{(Y_{j,t}, D_{j,t}) : j \in J_0 \cup J_1, t \in T_0 \cup T_1\} \sim P_n \) taking values on a sample space \( \mathcal{X}_n = \prod_{j \in J_0 \cup J_1, t \in T_0 \cup T_1} \mathbb{R} \times \{0, 1\} \), where \( Y_{j,t} \) is the outcome of unit \( j \) at time \( t \), \( D_{j,t} \) is the (non-random) treatment status of unit \( j \) at time \( t \), \( T_0 \) is the set of pre-treatment time periods, \( T_1 \) is the set of post-treatment time periods, \( J_0 \) is the set of controls units, and \( J_1 \) is the set of treatment units. The scalar random variables \( \eta_j, \gamma_t \) and \( \epsilon_{j,t} \) are unobserved and \( \theta \in \Theta \subseteq \mathbb{R} \) is the parameter of interest.

As before, in order to state the null and alternative hypotheses formally, it is useful to introduce some further notation. Let \( W^{(n)} = \{ (\epsilon_{j,t}, \eta_j, \gamma_t, D_{j,t}) : j \in J_0 \cup J_1, t \in T_0 \cup T_1\} \sim Q_n \in \mathcal{Q}_n \) taking values on a sample space \( \mathcal{W}_n = \prod_{j \in J_0 \cup J_1, t \in T_0 \cup T_1} \mathbb{R} \times \mathbb{R} \times \mathbb{R} \times \{0, 1\} \) and \( A_{n,\theta} : \mathcal{W}_n \to \mathcal{X}_n \) be the mapping implied by (??). Our assumptions on \( \mathcal{Q}_n \) are discussed below. Using this notation, define

\[
P_n = \bigcup_{\theta \in \Theta} P_n(\theta) \quad \text{with} \quad P_n(\theta) = \{ Q_n A_{n,\theta}^{-1} : Q_n \in \mathcal{Q}_n \} .
\]

The null and alternative hypotheses of interest are thus given by (??) with \( P_{n,0} = P_n(\theta_0) \).

In order to apply our methodology, we must again specify \( X_j^{(n)} \) and \( \hat{\theta}_{n,j} \) and argue that the convergence (??) holds under weak assumptions on the sequence \( \{ P_n \in P_{n,0} : n \geq 1\} \). Different specifications may be appropriate for different asymptotic frameworks. We first consider an asymptotic framework similar to the one in ?, where \(|J_1| = q \) is fixed, \(|J_0| \rightarrow \infty \), and \( \min\{|T_0|, |T_1|\} \rightarrow \infty \).
with $\frac{|T_1|}{|T_0|} \to c \in (0, \infty)$. A modification for an alternative asymptotic framework in which $|J_0|$ is also fixed is discussed in Remark ?? below. For such an asymptotic framework, for each $j \in J_1$, define
\[
X_j^{(n)} = \{(Y_{k,t}, D_{k,t}) : k \in \{j\} \cup J_0, t \in T_0 \cup T_1\}
\]
and let $\hat{\theta}_{n,j}$ be the ordinary least squares estimator of $\theta$ in (??) using the data $X_j^{(n)}$, including indicator variables appropriately in order to account for $\eta_j$ and $\gamma_t$. Note that in this case the $X_j^{(n)}$ are not disjoint. We may also express $\hat{\theta}_{n,j}$ more simply as
\[
\hat{\theta}_{n,j} = \Delta_{n,j} - \frac{1}{|J_0|} \sum_{k \in J_0} \Delta_{n,k},
\]
where
\[
\Delta_{n,k} = \frac{1}{|T_1|} \sum_{t \in T_1} Y_{k,t} - \frac{1}{|T_0|} \sum_{t \in T_0} Y_{k,t}.
\]
It follows that for $\theta$ as in (??),
\[
\sqrt{|T_1|}(\hat{\theta}_{n,j} - \theta) = \sqrt{|T_1|} \left( \frac{1}{|T_1|} \sum_{t \in T_1} \epsilon_{j,t} - \frac{1}{|T_0|} \sum_{t \in T_0} \epsilon_{j,t} \right)
\]
\[
- \sqrt{|T_1|} \frac{1}{|J_0|} \sum_{k \in J_0} \left( \frac{1}{|T_1|} \sum_{t \in T_1} \epsilon_{k,t} - \frac{1}{|T_0|} \sum_{t \in T_0} \epsilon_{k,t} \right).
\]
For this choice of $X_j^{(n)}$ and $\hat{\theta}_{n,j}$, the convergence (??) (with $|T_1|$ in place of $n$) therefore holds under $\{P_n \in \mathcal{P}_{n,0} : n \geq 1\}$ with $P_n = Q_n A_n^{-1} \hat{\theta}_0$ under weak assumptions on $\{Q_n \in \mathcal{Q}_n : n \geq 1\}$. In particular, it suffices to assume that $\epsilon_j = (\epsilon_{j,t} : t \in T_0 \cup T_1)$ are independent across $j$, that for $1 \leq \ell \leq 2$
\[
\frac{1}{|J_0|^2} \sum_{k \in J_0} \left( \frac{1}{|T_1|} \sum_{t \in T_1} \sum_{s \in T_1} E[\epsilon_{k,t} \epsilon_{k,s}] \right) \to 0,
\]
and that
\[
\left( \frac{1}{\sqrt{|T_1|}} \sum_{t \in T_1} \epsilon_{j,t} : j \in J_1 \right)
\]
satisfies a central limit theorem (see, e.g., ?, Theorem B.0.1).

**Remark 4.5.** The construction described above relies on the fact that $\min\{|T_0|, |T_1|\} \to \infty$ in order to apply an appropriate central limit theorem to (??). The construction remains valid, however, even if $|T_0|$ and $|T_1|$ are small provided that
\[
\frac{1}{|T_1|} \sum_{t \in T_1} \epsilon_{j,t} \quad \text{and} \quad \frac{1}{|T_0|} \sum_{t \in T_0} \epsilon_{j,t}
\]
are independent and identically distributed. This property will hold, for example, if $|T_0| = |T_1|$ (which may be enforced by ignoring some time periods if necessary) and the distribution of $\epsilon_j$ is
of the assumptions described above. Here, the observed data is given by

\[ (Y_{i,j}, Z_{i,j}, D_{j}) : i \in I, j \in J_0 \cup J_1 \sim P_n, \]

and let \( \hat{\theta}_{n,j} \) of \( \theta \) can no longer be expressed as in (4.1), but they may still
be obtained using ordinary least squares using the \( j \)th cluster of data. Under an appropriate
modification of the assumptions to account for the \( Z_{j,t} \), the convergence (4.2) again holds under
\( \{ P_n \in P_{n,0} : n \geq 1 \} \) with \( P_n = Q_n A_n^{-1} \theta_0 \).

\[ \text{Remark 4.6.} \] The construction described above applies equally well in the case where (4.1)
includes covariates \( Z_{j,t} \). The estimators \( \hat{\theta}_{n,j} \) of \( \theta \) can no longer be expressed as in (4.1), but they may still
be obtained using ordinary least squares using the \( j \)th cluster of data. Under an appropriate
modification of the assumptions to account for the \( Z_{j,t} \), the convergence (4.2) again holds under
\( \{ P_n \in P_{n,0} : n \geq 1 \} \) with \( P_n = Q_n A_n^{-1} \theta_0 \). ■

\[ \text{Remark 4.7.} \] The requirement that \( \epsilon_j \) are independent across \( j \) can be relaxed using mixing
conditions as in 4. In order to do so, it must be the case that the \( \epsilon_j \) can be ordered linearly. ■

\[ \text{Remark 4.8.} \] The construction described above applies equally well in the case where there are
multiple observations for each unit \( j \). This situation may arise, for example, when \( j \) indexes states
and individual-level data within each state is available. ■

\[ \text{Remark 4.9.} \] The construction described above may also be used if \( T_0 \) and \( T_1 \) vary across \( j \in J_1 \). In this
case, we simply define \( X_j^{(n)} = \{ (Y_{k,t}, D_{k,t}) : k \in J_0 \cup \{ j \}, t \in T_{0,j} \cup T_{1,j} \} \).

\[ \text{Remark 4.10.} \] The requirement that \( |J_0| \rightarrow \infty \) can be relaxed by modifying our proposed test in
the following way. Suppose \( |J_0| \) is fixed and that \( |J_1| \leq |J_0| \) (if this is not the case, simply relabel
treatment and control). Denote by \( \{ J_{0,l} : 1 \leq l \leq q \} \) a partition of \( J_0 \). For each \( j \in J_1 \), define
\[ X_j^{(n)} = \{ (Y_{k,t}, D_{k,t}) : k \in \tilde{J}_{0,j} \cup \{ j \}, t \in T_0 \cup T_1 \} \]
and let \( \hat{\theta}_{n,j} \) be computed as before using the data \( X_j^{(n)} \). For this choice of \( X_j^{(n)} \) and \( \hat{\theta}_{n,j} \), the
convergence (4.2) continues to hold when \( P_n \in P_{n,0} \) for all \( n \geq 1 \) under appropriate modifications
of the assumptions described above. ■

4.2 Clustered Regression

Suppose
\[ Y_{i,j} = \theta D_j + Z_{i,j}' \gamma + \epsilon_{i,j} \quad \text{with} \ E[\epsilon_{i,j} | D_j, Z_{i,j}] = 0 . \] (22)

Here, the observed data is given by \( X^{(n)} = \{ (Y_{i,j}, Z_{i,j}, D_j) : i \in I, j \in J_0 \cup J_1 \} \sim P_n \), taking values
on a sample space \( X_n = \prod_{i \in I, j \in J_0 \cup J_1} \mathbb{R} \times \mathbb{R}^d \times \{ 0, 1 \} \), where \( Y_{i,j} \) is the outcome of unit \( i \) in area
\( j \), \( Z_{i,j} \) is a vector of covariates of unit \( i \) in area \( j \), \( D_j \) is the treatment status of area \( j \), \( I_j \) is the set
of units in area \( j \), \( J_1 \) is the set of treated areas, and \( J_0 \) is the set of untreated areas. The scalar
random variable \( \epsilon_{i,j} \) is unobserved, \( \gamma \in \Gamma \subseteq \mathbb{R}^d \) is a nuisance parameter, and \( \theta \in \Theta \subseteq \mathbb{R} \) is the
parameter of interest. The mean independence requirement is stronger than needed; indeed, all
that is required is that the \( \epsilon_{i,j} \) is uncorrelated with \( D_j \) and \( Z_{i,j} \). For simplicity, we assume below
that \( |J_0| = |J_1| = q, \) but the arguments are easily adapted to the case where \( |J_0| \neq |J_1| \).
As before, in order to state the null and alternative hypotheses formally, it is useful to introduce some further notation. Let \( W^{(n)} = \{ (\epsilon_{i,j}, D_j, Z_{i,j}) : i \in I_j, j \in J_0 \cup J_1 \} \sim Q_n \in Q_n \) taking values on a sample space \( W_n = \prod_{i \in I_j, j \in J_0 \cup J_1} \mathbb{R} \times \{ 0,1 \} \times \mathbb{R}^d \) and \( A_{n,\theta,\gamma} : W_n \to X_n \) be the mapping implied by (\ref{null}). Our assumptions on \( Q_n \) are discussed below. Using this notation, define

\[
P_n = \bigcup_{\theta, \gamma \in \Gamma} P_n(\theta, \gamma) \text{ with } P_n(\theta, \gamma) = \{ Q_n A_{n,\theta,\gamma}^{-1} : Q_n \in Q_n \},
\]

where, as before, \( A_{n,\theta,\gamma}^{-1} \) denotes the pre-image of \( A_{n,\theta,\gamma} \). The null and alternative hypotheses of interest are thus given by (\ref{null}) with

\[
P_{n,0} = \bigcup_{\gamma \in \Gamma} P_n(\theta_0, \gamma).
\]

In order to apply our methodology, we must again specify \( X_j^{(n)} \) and \( \hat{\theta}_{n,j} \) and argue that the convergence (\ref{null}) holds under weak assumptions on the sequence \( \{ P_n \in P_{n,0} : n \geq 1 \} \). Note that the clusters cannot be defined by areas themselves because \( \theta \) is not identified within a single area. Indeed, \( D_j \) is constant within a single area. We therefore define the clusters by forming pairs of treatment and control areas, i.e., by matching each area in \( J_1 \) with an area in \( J_0 \). In experimental settings, such pairs are often suggested by the way in which treatment status was determined (see, e.g., the empirical application in Section ?? of the Supplemental Material). More specifically, for each \( j \in J_1 \), let \( k(j) \in J_0 \) be the area in \( J_0 \) that is matched with \( j \). For each \( j \in J_1 \), define

\[
X_j^{(n)} = \{ (Y_{i,j}, Z_{i,l}, D_l) : i \in I_j, l \in \{ j, k(j) \} \}
\]

and let \( \hat{\theta}_{n,j} \) be the ordinary least squares estimator of \( \theta \) in (\ref{null}) using the data \( X_j^{(n)} \). For this choice of \( X_j^{(n)} \) and \( \hat{\theta}_{n,j} \), the convergence (\ref{null}) holds under \( \{ P_n \in P_{n,0} : n \geq 1 \} \) with \( P_n = Q_n A_{n,\theta_0}^{-1} \) under weak assumptions on \( \gamma \in \Gamma \) and \( \{ Q_n \in Q_n : n \geq 1 \} \). Some such conditions can be found in ?, Lemma 1.

### A Optimality of Randomization Test

Define

\[
P = \{ \otimes_{j=1}^q P_{j,\mu} : P_{j,\mu} = N(\mu, \sigma_j^2) \text{ with } \mu \geq 0 \text{ and } \sigma_j^2 \geq 0 \} \]

\[
P_0 = \{ \otimes_{j=1}^q P_{j,\mu} : P_{j,\mu} = N(\mu, \sigma_j^2) \text{ with } \mu = 0 \text{ and } \sigma_j^2 \geq 0 \}.
\]

Let \( X = (X_1, \ldots, X_q) \sim P \in P \) consider testing (\ref{null}) at level \( \alpha \in (0,1) \). Below we argue that the randomization test with \( T(X) = T_{l-stat}(X) \) and \( G = \{-1,1\}^q \) is the uniformly most powerful unbiased level \( \alpha \) test against the restricted class of of alternatives with \( \sigma_j^2 = \sigma^2 > 0 \) for all \( 1 \leq j \leq q \). A similar argument can be used to establish the corresponding two-sided result for the
randomization test with \( T(X) = T_{\mu-\text{stat}}(X) \) and \( G = \{-1, 1\}^q \) when \( P \) and \( P_0 \) according to (??)-(??). Related results have been obtained previously in ?.

Consider a test \( \tilde{\phi}(X) = \phi(X_1, \ldots, X_q) \). Since the test is unbiased, it must be the case that \( E_P[\tilde{\phi}(X)] \leq \alpha \) for all \( P \in P_0 \) and \( E_P[\tilde{\phi}(X)] \geq \alpha \) for all \( P \in P_1 \). Using the dominated convergence theorem, it is straightforward to show that the requirement of unbiasedness therefore implies that the test is similar, i.e., \( E_P[\tilde{\phi}(X)] = \alpha \) for all \( P \in P_0 \).

Next, note that \( U = (|X_1|, \ldots, |X_n|) \) is sufficient for \( P_0 \). Indeed, the distribution of \( X|U \) under any \( P \in P_0 \) is uniform over the \( 2^n \) points of the form \((\pm|X_1|, \ldots, \pm|X_n|)\). Furthermore, \( P_U^U \), the family of distributions for \( U \) under \( P \) as \( P \) varies over \( P_0 \), is complete. To see this, for \( \gamma \in \mathbb{R}^n \), define \( P_\gamma \) to be the distribution with density

\[
C(\gamma) \exp \left( -\sum_{j=1}^n \gamma_j x_j^2 \right),
\]

where \( C(\gamma) \) is an appropriate constant. By construction, \( P_\gamma \in P_0 \), so the desired result follows from Theorem 4.3.1 in ?. Therefore, by Theorem 4.3.2 in ?, we see that all similar tests have Neyman structure, i.e., \( E_P[\tilde{\phi}(X)|U = u] = \alpha \) for all \( P \in P_0 \) and all \( u \) except those in a set \( N \) such that \( \sup_{P \in P_0} P\{U \in N\} = 0 \).

To find an optimal test, we therefore maximize the power of the test under \( P = \otimes_{j=1}^q N(\mu, \sigma^2) \) where \( \mu > 0 \) and \( \sigma^2 > 0 \). Under the null, the distribution of \( X|U \) is uniform, as described above. Under this alternative, the conditional probability mass function is proportional to

\[
\prod_{1 \leq i \leq n} \exp \left( -\frac{1}{2\sigma^2} (x_i - \mu)^2 \right) = \exp \left( -\frac{1}{2\sigma^2} \left( \sum_{1 \leq i \leq n} x_i^2 - 2\mu \sum_{1 \leq i \leq n} x_i + \mu^2 \right) \right).
\]

Since \( \sum_{1 \leq i \leq n} X_i^2 \) is constant conditional on \( U = u \), the Neyman-Pearson Lemma implies that the optimal (conditional) test rejects when \( \sum_{1 \leq i \leq n} X_i > c(u) \) and rejects with probability \( \gamma(u) \) when \( \sum_{1 \leq i \leq n} X_i = c(u) \), where the constants \( c(u) \) and \( \gamma(u) \) are chosen so that the test has (conditional) rejection probability equal to \( \alpha \). Such tests are, of course, randomization tests with underlying choice of test statistic equal to \( \sum_{1 \leq i \leq n} X_i \), and this test is identical to the randomization test with underlying choice of test statistic equal to \( T_{\mu-\text{stat}}(X) \) (see Example 15.2.4 in ? for details). Denote this test by \( \phi(X) \).

It remains to show that \( \phi(X) \) is indeed unbiased. By construction, it is similar and therefore has rejection probability \( = \alpha \) for all \( P \in P_0 \). To see that the rejection probability is \( \geq \alpha \) under any \( P \in P_1 \), note that \( \phi(X) \) is weakly increasing in each of its arguments. We therefore have that \( E_P[\phi(X_1 + \mu, \ldots, X_n + \mu)] \geq \alpha \) for all \( \mu > 0 \) and any \( P \in P_0 \), from which the desired result follows.

**Remark A.1.** It is important to emphasize that this optimality result, like the one in ?, is only for a restricted class of alternatives. On the other hand, it can readily be shown that the specified
randomization test is in fact admissible whenever the set of alternatives contains this class and $\alpha$ is a multiple of $\frac{1}{2q}$. The argument hinges on the fact that the above argument using the Neyman-Pearson lemma together with Lemma ?? in the Supplemental Material guarantees that the optimal test is non-randomized for these values of $\alpha$. 

**Remark A.2.** The argument presented above in fact shows that the specified randomization test remains uniformly most powerful unbiased against the same class of alternatives even if $P_0$ is enlarged so that each $P_{j,\mu}$ is only required to be symmetric about zero. 

**B Proof of Theorem ??**

Let $\{P_n \in P_{n,0} : n \geq 1\}$ satisfying Assumption ?? be given and define $M = |G|$. By Assumption ??(i) and the Almost Sure Representation Theorem (c.f. ??, Theorem 2.19), there exists $\tilde{S}_n, \tilde{S}$, and $U \sim U(0,1)$, defined on a common probability space $(\Omega, \mathcal{A}, P)$, such that

$$\tilde{S}_n \rightarrow \tilde{S} \text{ w.p.1},$$

$$\tilde{S}_n \overset{d}{=} S_n, \quad \tilde{S} \overset{d}{=} S, \quad \text{and} \quad U \perp (\tilde{S}_n, \tilde{S}).$$

Consider the randomization test based on $\tilde{S}_n$, this is,

$$\tilde{\phi}(\tilde{S}_n, U) \equiv \begin{cases} 1 & T(\tilde{S}_n) > T^{(k)}(\tilde{S}_n) \text{ or } T(\tilde{S}_n) = T^{(k)}(\tilde{S}_n) \text{ and } U < a(\tilde{S}_n) \\ 0 & T(\tilde{S}_n) < T^{(k)}(\tilde{S}_n) \end{cases}.$$ 

Denote the randomization test based on $\tilde{S}$ by $\tilde{\phi}(\tilde{S}, U)$, where the same uniform variable $U$ is used in $\tilde{\phi}(\tilde{S}_n, U)$ and $\tilde{\phi}(\tilde{S}, U)$.

Since $\tilde{S}_n \overset{d}{=} S_n$, it follows immediately that $E_{P_n}[\phi(S_n)] = E_P[\tilde{\phi}(\tilde{S}_n, U)]$. In addition, since $\tilde{S} \overset{d}{=} S$, Assumption ??(ii) and Theorem ?? imply that $E_P[\tilde{\phi}(\tilde{S}, U)] = \alpha$. It therefore suffices to show

$$E_P[\tilde{\phi}(\tilde{S}_n, U)] \rightarrow E_P[\tilde{\phi}(\tilde{S}, U)]. \quad (23)$$

In order to show (23), let $E_n$ be the event where the orderings of $\{T(g\tilde{S}) : g \in G\}$ and $\{T(g\tilde{S}_n) : g \in G\}$ correspond to the same transformations $g_{(1)}, \ldots, g_{(M)}$. We first claim that $I\{E_n\} \rightarrow 1 \text{ w.p.1}$. To see this, note that by Assumption ??(iii) and $\tilde{S} \overset{d}{=} S$, any two $g, g' \in G$ are such that either

$$T(gs) = T(g's) \quad \forall s \in S, \quad (24)$$

or

$$T(g\tilde{S}) \neq T(g'\tilde{S}) \text{ w.p.1 under } P. \quad (25)$$

It follows that there exists a set with probability one under $P$ such that for all $\omega \in \Omega$ in this set, $\tilde{S}_n(\omega) \rightarrow \tilde{S}(\omega)$ and $T(g\tilde{S}(\omega)) \neq T(g'\tilde{S}(\omega))$ for any two $g, g' \in G$ not satisfying (23). For any $\omega$ in this set, let $g_{(1)}(\omega), \ldots, g_{(M)}(\omega)$ be the transformations such that

$$T(g_{(1)}(\omega)\tilde{S}(\omega)) \leq T(g_{(2)}(\omega)\tilde{S}(\omega)) \leq \cdots \leq T(g_{(M)}(\omega)\tilde{S}(\omega)) \quad .$$
For any two consecutive elements \( g_j(\omega) \) and \( g_{j+1}(\omega) \) with \( 1 \leq j \leq M - 1 \), there are only two possible cases: either \( T(g_j(\omega)\tilde{S}(\omega)) = T(g_{j+1}(\omega)\tilde{S}(\omega)) \) or \( T(g_j(\omega)\tilde{S}(\omega)) < T(g_{j+1}(\omega)\tilde{S}(\omega)) \).

If \( T(g_j(\omega)\tilde{S}(\omega)) = T(g_{j+1}(\omega)\tilde{S}(\omega)) \) then by (??) it follows that

\[
T(g_j(\omega)\tilde{S}_n(\omega)) = T(g_{j+1}(\omega)\tilde{S}_n(\omega)) \quad \forall n \geq 1.
\]

If \( T(g_j(\omega)\tilde{S}(\omega)) < T(g_{j+1}(\omega)\tilde{S}(\omega)) \), then

\[
T(g_j(\omega)\tilde{S}_n(\omega)) < T(g_{j+1}(\omega)\tilde{S}_n(\omega)) \quad \text{for } n \text{ sufficiently large ,}
\]
as \( \tilde{S}_n(\omega) \rightarrow \tilde{S}(\omega) \) and the continuity of \( T : \mathcal{S} \rightarrow \mathbb{R} \) and \( g : \mathcal{S} \rightarrow \mathcal{S} \) imply that \( T(g_j(\omega)\tilde{S}_n(\omega)) \rightarrow T(g_j(\omega)\tilde{S}(\omega)) \) and \( T(g_{j+1}(\omega)\tilde{S}_n(\omega)) \rightarrow T(g_{j+1}(\omega)\tilde{S}(\omega)) \). We can therefore conclude that

\[
I\{E_n\} \rightarrow 1 \quad \text{w.p.1 ,}
\]

which proves the first claim.

We now prove (??) in two steps. First, we note that

\[
E_P[\tilde{\phi}(\tilde{S}_n,U)I\{E_n\}] = E_P[\tilde{\phi}(\tilde{S},U)I\{E_n\}] .
\] (26)

This is true because, on the event \( E_n \), if the transformation \( g = g_{(m)} \) corresponds to the \( m \)th largest value of \( \{T(g\tilde{S}) : g \in \mathcal{G}\} \), then this same transformation corresponds to the \( m \)th largest value of \( \{T(g\tilde{S}_n) : g \in \mathcal{G}\} \). In other words, \( \tilde{\phi}(\tilde{S}_n,U) = \tilde{\phi}(\tilde{S},U) \) on \( E_n \). Second, since \( I\{E_n\} \rightarrow 1 \) w.p.1 it follows that \( \tilde{\phi}(\tilde{S},U)I\{E_n\} \rightarrow \tilde{\phi}(\tilde{S},U) \) w.p.1 and \( \tilde{\phi}(\tilde{S}_n,U)I\{E_n^c\} \rightarrow 0 \) w.p.1. We can therefore use (??) and invoke the dominated convergence theorem to conclude that,

\[
E_P[\tilde{\phi}(\tilde{S}_n,U)] = E_P[\tilde{\phi}(\tilde{S}_n,U)I\{E_n\}] + E_P[\tilde{\phi}(\tilde{S}_n,U)I\{E_n^c\}] \\
= E_P[\tilde{\phi}(\tilde{S},U)I\{E_n\}] + E_P[\tilde{\phi}(\tilde{S},U)I\{E_n^c\}] \\
\rightarrow E_P[\tilde{\phi}(\tilde{S},U)].
\]

This completes the proof. \( \blacksquare \)