Linear Regression, continued

Lecture 6
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Kate Cowles
374 SH, 335-0727
kcowles@stat.uiowa.edu

Another example: Men’s winning times in the Boston Marathon, 1959-80

\[ y = 1221.05 - 0.5505x \]

What does this equation tell us?

Prediction using an estimated regression line

Example: What is the predicted PCH for a country with PCGDP = $20,000?

\[ \hat{y} = -465.7 + 0.0968(20000) \]
\[ = 2401.70 \]

What is the predicted winning time for the Boston marathon in 1965?
How well does the regression line predict the response variable?

- The coefficient of determination or $R^2$
  - When there is only 1 explanatory variable, $R^2 = r^2$ — the square of the correlation coefficient $r$ between the response variable and the explanatory variable
  - the proportion of the variability among the observed values of the response variable that is explained by the linear regression
- Example: in the OECD health care expenditures data, $R^2 = 0.764$
  - 76.4% of the variability in per capita health care expenditures is explained by PCGDP

Residuals

- A residual is the difference between an observed value and a predicted value of the response variable.
  $$r_i = y_i - \hat{y}_i$$
- There is a residual for each data point.
- The residual for the $i$th observation will be positive if the observed value lies above the estimated regression line.
- The mean of the residuals from a least-squares fit is always 0

Example: the OECD health care expenditures data

- The predicted score for the US, for which $x_1 = 30,514$ dollars is
  $$\hat{y}_1 = -465.7 + 0.0968(30514) = 2488$$
- The actual value of PCH for the US is $3898$.
- The residual for the US is positive because the data point lies above the regression line.
  $$r_i = 3898 - 2488 = 1410$$

Notation

Recall:

- $y_i$ is the observed value of the response variable for subject $i$
- $\hat{y}_i$ is the value predicted by the regression line for subject $i$
  $$\hat{y}_i = a + bx_i$$
Residual plots

- A residual plot is a scatterplot of the regression residuals against the predicted values of the response variable.
- Residual plots help
  - assess fit of a regression line
  - look for violations of the assumptions of linear regression and for problematic data points

Things to watch for in a residual plot

- a random scatter of points
  - This is what you want to see.
- A curved pattern
  - indicates that the relationship between the response variable and the explanatory variable is not linear
  - violation of an assumption
- increasing or decreasing spread around the zero line
  - indicates violation of the assumption that $\sigma$ is the same in all the subpopulations

Idealized patterns in residual plots

- individual points with large residuals
  - outliers in the vertical direction
  - these points are not well described by the regression equation
- individual points that are extreme in the horizontal direction (unusual values of explanatory variable)
  - These may be influential observations.
Outliers and influential observations

- **Outlier**: an observation that lies outside the overall pattern of the other observations.
- **Influential observation**: an observation is influential for a statistical calculation if removing it would markedly change the result of the calculation. Points that are outliers in the $x$ direction (have unusual values of the explanatory variable) are often influential in computing the least-squares regression line.

- In the OECD data, the US and Luxembourg are both outliers.
- The US is influential.
  - With the US included in the analysis, $R^2 = 0.764$. If the US is deleted, $R^2$ increases to 0.846.
Facts about least-squares regression

- Keep straight which is the response variable and which is the explanatory variable. If they are switched, a different regression line results.
- The correlation coefficient $r$ and the slope $b$ of the regression line are closely related.
  - They always have the same sign (both positive, or both negative, or both zero).
  - The slope of the regression line is
    $$ b = r \frac{s_y}{s_x} $$
    This means that a change of one standard deviation in $x$ corresponds to a change of $r$ standard deviations in $y$.
- How large or small the slope is does not indicate how strong the relationship between the response variable and the explanatory variable is.

- The least-squares regression line always passes through the point $(\bar{x}, \bar{y})$.
- The square of the correlation coefficient, $r^2$, is the fraction of the variation in the values of $y$ that is explained by the least-squares regression line.
  - How much better are we able to predict $y$ because we know $x$?

- The magnitude of the slope depends on the units in which we measure both variables.
  - Example: If we measured the winning times in the Boston marathon in hours instead of minutes, the slope would be -0.0092 instead of -0.55, but the relationship between winning time and year of race would be the same!
  - The correlation coefficient $r$ is needed to quantify the strength of the relationship.
- But the correlation coefficient is not enough to enable us to predict the value of a response variable if we know the value of an explanatory variable.
  - For prediction, we need the regression equation.

Caveats about regression and correlation

- It usually doesn’t make sense to try to use the regression equation to predict for values of the explanatory variable outside the range of observed data.
- Correlations based on averaged data are usually too large to be applicable to individuals.
  - Example: Correlation between national female literacy rates and national infant mortality rates in countries in Latin America
- Lurking variables
  - one or more variables that have an important effect on the relationship among variables under study but that are not considered in the study