



THE UNIVERSITY OF TEXAS AT AUSTIN
McCOMBS SCHOOL OF BUSINESS

Inference for simple regression 1

Lecture 3

STA 371G

Measuring goodness-of-fit

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- The **standard error of the regression** s_e can be roughly interpreted as the standard deviation of the residuals.

Interpreting the standard error of the regression

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- The residuals are approximately Normally distributed
- The mean of the residuals is 0 (why?)
- Therefore: 95% of the residuals are roughly within $\pm 2s_e$
- In other words, 95% of the time I expect my prediction to be off by at most 5.93

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Is this “significant?”

- **Statistical significance:** Can we reject the null hypothesis that the correlation between X and Y in the *population* is zero?
- **Practical significance:** Is the relationship in our sample strong enough to be meaningful?

The overall null hypothesis for a regression model

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- $\beta_1 = 0$
- The model has no predictive power
- Predictions from this model are no better than predicting \bar{Y} for every case

Two ways to test the overall null hypothesis

- The F -test (tests $H_0 : R^2 = 0$ in the population)
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Both of these methods are equivalent; the p -values will be exactly the same!



```
> model <- lm(num.drinks ~ age)
> summary(model)
```

Call:

lm(formula = num.drinks ~ age)

Residuals:

Min	1Q	Median	3Q	Max
-4.204	-1.853	-0.853	0.810	15.160

Coefficients:

	Estimate	Std. Error	t value	Pr(> t)
(Intercept)	6.5542	0.2653	24.7	<2e-16 ***
age	-0.1688	0.0159	-10.6	<2e-16 ***

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 3 on 3600 degrees of freedom
(2902 observations deleted due to missingness)

Multiple R-squared: 0.0304, Adjusted R-squared: 0.0302

F-statistic: 113 on 1 and 3600 DF, p-value: <2e-16

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- There is a **statistically significant** relationship between the age someone starts drinking and how much they drink as an adult.
- Or: People that start drinking earlier in life consume **significantly more** alcohol when they drink as adults.
- Each additional year you wait to start drinking is associated with consuming 0.17 fewer drinks as an adult.
- Is this relationship **practically significant**?

Practical significance

- To assess **statistical significance**, we look at the p -value
- To assess **practical significance**:
 - We only consider it if we already have statistical significance (why?)
 - Look at R^2 , the standard error of the regression, and the magnitude of the coefficients
 - It's ultimately a judgement call!

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- We can use a confidence interval to give a range of plausible values for what this effect size is in the population

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Recall that the critical value for a 95% confidence interval is the cutoff value that cuts off 95% of the area in the middle of the distribution; the sampling distribution of $\hat{\beta}_1$ is a t -distribution.

```
> n <- nobs(model)
> qt(0.975, n-2)

[1] 1.960623
```

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R will also calculate confidence intervals for us:

```
> confint(model)
```

	2.5 %	97.5 %
(Intercept)	6.0339847	7.0743549
age	-0.1999713	-0.1376959

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age	-0.1999713	-0.1376959

In other words, we are 95% confident that the effect of each additional year's delay in starting to drink is between 0.14 and 0.2.

Put a confidence interval on it, part 2

We can also put a confidence interval on a prediction!

Two kinds of intervals:

Confidence	Predicting the mean value of Y for a particular X .	Among all people that start drinking at age 21, how many drinks do have on average as adults?
Prediction	Predicting Y for a single new case.	If Bob started drinking at age 21, how many drinks do we think will have as an adult?

Put a confidence interval on it, part 2

```
> predict(model, list(age=21),  
+   interval='confidence')
```

	fit	lwr	upr
1	3.008664	2.83616	3.181167

```
> predict(model, list(age=21),  
+   interval='prediction')
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	fit	lwr	upr
1	3.008664	-2.802894	8.820221



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Why is the prediction interval wider?



I USED TO THINK
CORRELATION IMPLIED
CAUSATION.



THEN I TOOK A
STATISTICS CLASS.
NOW I DON'T.



SOUNDS LIKE THE
CLASS HELPED.

WELL, MAYBE.



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Because the p -value is small, we can be highly confident that there is a relationship in the population between age of first drink and number of drinks consumed as an adult.

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- Being predisposed to drink more will cause you to start drinking sooner.
- There is a third variable that causes both early drinking and drinking more as an adult.

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We can't tell just by looking at this data set!