



THE UNIVERSITY OF TEXAS AT AUSTIN
McCOMBS SCHOOL OF BUSINESS

Model building: selecting a model 2

Lecture 10

STA 371G

Reminders

- Draft project proposal is due tonight at 11:59 PM.
- Midterm 1 is on Wednesday during class; make sure to bring your laptop or borrow one from Media Services, and 1 page of notes. Midterm 1 covers material through Lecture 8.

Texas Suffers From A Doctor Shortage

By JONATHAN BAKER • NOV 1, 2017



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When it comes to having a high ratio of doctors to citizens, the State of Texas ranks near the bottom. In fact, [as The Dallas Morning News reports](#), 43 states have a higher proportion of primary care physicians to residents than Texas.

And West Texas suffers from a lack of doctors more than other parts of the state. There are 80 counties in Texas with five or fewer practicing doctors - many in West Texas. Thirty-five Texas counties have [no doctors at all](#).



Potential predictor variables

- **LandArea**: Area in square miles
- **PctRural**: Percentage rural land
- **MedianIncome**: Median household income
- **Population**: Population
- **PctUnder18**: Percent children
- **PctOver65**: Percent seniors
- **PctPoverty**: Percent below the poverty line
- **PctUninsured**: Percent without health insurance
- **PctSomeCollege**: Percent with some higher education
- **PctUnemployed**: Percent unemployed

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- We also want a model that is simple, so it's easy to explain to a non-expert.
- The ideal model is **parsimonious**: a good trade-off between simplicity (as few variables as possible) and a high R^2 .

General strategy

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2. Select the candidate model with a reasonable tradeoff simplicity and predictive power (high R^2).
3. Check assumptions and model diagnostics (more on this to come); apply transformations and other fixes if needed to the final model. If the problems are unfixable, select a different candidate model.

Backward stepwise regression

1. Start with a “full” model containing all of the predictors.
2. Remove the least significant (highest p -value / smallest t -statistic) predictor.
3. Re-run the model with that predictor removed.
4. Repeat steps 2-3 until all predictors are significant.

Forward stepwise regression

1. Start with a “null” model containing none of the predictors.
2. Try adding each predictor, one at a time, and pick the one that ends up being the most significant (lowest p -value / highest t -statistic) predictor.
3. Re-run the model with that predictor added.
4. Repeat steps 2-3 until no more significant predictors can be added.

Other stepwise regression possibilities

- Add (or remove) variables one at a time based on the change in R^2 , Adjusted R^2 , or AIC (another similar model fit criterion) when that variable is added (or removed).
- Run the stepwise regression in both directions, allowing addition or removal of a variable at each step.
- R's step function incorporates both of these methods.

The problem with stepwise regression

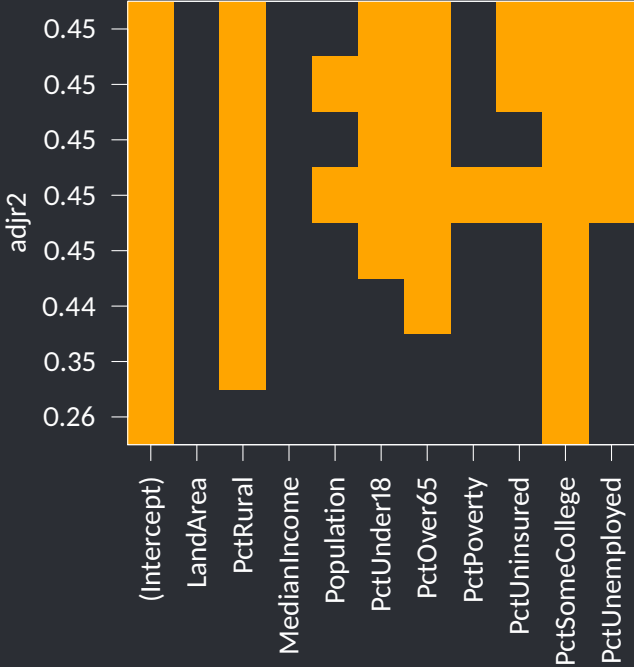
Stepwise regression will not necessarily give you the best model; by only adding or removing one variable at a time, you can get locked into a particular “path” that means you may never consider better models.

Best subsets regression

- Computers are fast! Just let R try out all of the $2^k - 1$ possible models for you.
- R will present you the model with the best Adjusted R^2 for each possible number of predictors.

Best-subsets regression

```
> library(leaps)
> plot(regsubsets(PhysiciansPer10000 ~ LandArea + PctRural
+               + MedianIncome + Population + PctUnder18
+               + PctOver65 + PctPoverty + PctUninsured
+               + PctSomeCollege + PctUnemployed,
+               data=my.counties), scale="adjr2")
```

- Best-subsets regression presents us with a candidate model for each possible number of predictors.
- The label on the y-axis show the Adjusted R^2 value for the model corresponding to the filled-in squares for that row.

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- Fine-tune the model to ensure the model meets assumptions and captures key relationships: you may need to transform predictors and/or add interactions.

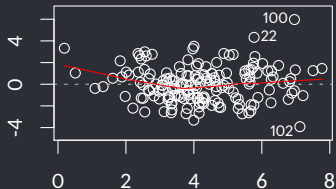
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- Find the **parsimonious** middle ground between an underspecified model and extraneous variables.
- Fine-tune the model to ensure the model meets assumptions and captures key relationships: you may need to transform predictors and/or add interactions.
- Think about logical reasons why certain predictors might be useful; don't just focus on p -values.

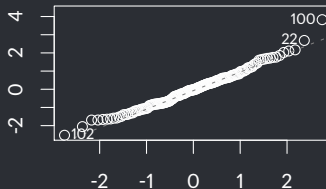
Check assumptions of the best model

```
> candidate <- lm(PhysiciansPer10000 ~ PctRural + PctOver65  
+                 + PctSomeCollege, data=my.counties)  
> plot(candidate)
```

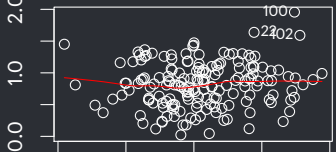
Residuals vs Fitted



Normal Q-Q



Scale-Location



Residuals vs Leverage





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- The mystery data set contains 20 predictor variables X_1 - X_{20} .

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- The mystery data set contains 20 predictor variables X_1 - X_{20} .
- Backwards stepwise regression or best subsets regression yields a data set with multiple significant predictors.

```
> parsimonious.model <- lm(Y ~ X10 + X13 + X16, data=mystery)
> summary(parsimonious.model)
```

Call:

```
lm(formula = Y ~ X10 + X13 + X16, data = mystery)
```

Residuals:

Min	1Q	Median	3Q	Max
-2.5839	-0.6636	-0.0255	0.6312	3.5081

Coefficients:

	Estimate	Std. Error	t value	Pr(> t)
(Intercept)	0.006384	0.031188	0.205	0.8379
X10	0.074640	0.030694	2.432	0.0152 *
X13	-0.065601	0.030809	-2.129	0.0335 *
X16	0.071064	0.032880	2.161	0.0309 *

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

Residual standard error: 0.9857 on 996 degrees of freedom

Multiple R-squared: 0.01434, Adjusted R-squared: 0.01137

F-statistic: 4.829 on 3 and 996 DF, p-value: 0.00242

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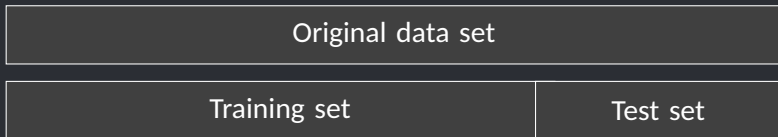
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- Doing so can result in **overfitting**: creating a model that fits the noise in the data well but won't generalize well to new data.

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- As a result, it's dangerous to build a model by just selecting the most significant from among a large list of variables.
- Doing so can result in **overfitting**: creating a model that fits the noise in the data well but won't generalize well to new data.
- In general, the R^2 of a model gives an overoptimistic view of how well it will generalize to new data.

Combatting overfitting with training and test sets



- Split the data into a **training set** and a **test set** (a typical split is 70% training set / 30% test set).
- We use the training set to build the model, and then evaluate the quality of the model on how well it predicts Y in the test set.

First, we'll take 50 random cases for the test set (about 30% of the $n = 168$ cases in the whole data set), and the rest for the training set:

```
> test.cases <- sample(1:168, 50)
> training.cases <- setdiff(1:168, test.cases)
> training.set <- my.counties[training.cases,]
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Then, we “train” the model using the cases in the **training** set, instead of the whole data set:

```
> candidate <- lm(PhysiciansPer10000 ~ PctRural + PctOver65
+                  + PctSomeCollege, data=training.set)
```

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This is somewhat lower than the R^2 from the original model (0.45), but it's a fairer estimate of how well our model will perform on unseen data.

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- Consider using a training/test set split to ensure you are not “capitalizing on chance.”
- Don't forget to check the model assumptions for your final model!