

Transformations

READING:

1.4

EXERCISES:

CH.1: 27, 29ABC, 31, 32ABC

ASSIGNED:

HW 4

PRODUCER:

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Reasons for Data Transformations

- Can Be Done on Response Y or Predictor X
- Reasons for Data Transformations
 - Address **Non-Linear** Patterns
 - Stabilize Variance (Homoscedasticity)
 - Make Residuals More “Normally Distributed”
 - Minimize Effect of Outliers
- Focus is on **Non-Linear** Transformations

Most Common Types

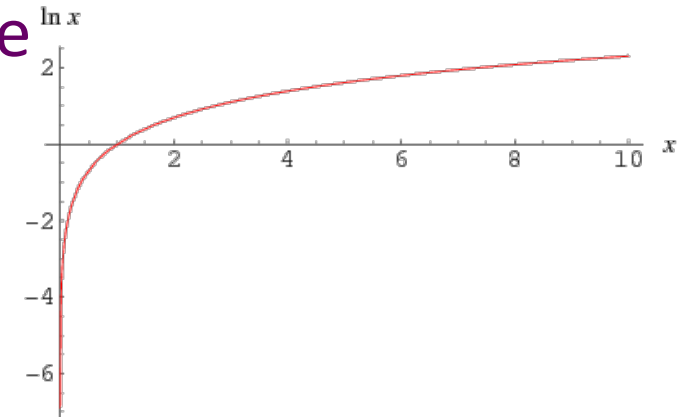
- Logarithmic: $Y' = \log(Y)$
- Power Function $Y' = Y^k$ where $k \in \mathbb{R}$
 - Square Root (Special Case when $k=1/2$)
 - Reciprocal (Special Case when $k=-1$)
- Exponentiation: $Y' = k^Y$
 - Exponential Growth $Y' = e^Y$ where $e = 2.71828$ (*Constant*)

Choosing Transformations

- **Monotonicity:** Always increasing or decreasing
- **Easily Solvable for Y:** Need to Get Predictions For Y
- **Stronger Linear Pattern:** Look at Scatterplots
- **Better Residuals:** Look at Plots of Residuals
- **Box-Cox Transformation:** Helpful Method Not in Text

Log Transformation

- Log Scales Seen in Science (Loudness, Earthquake, Acidity)
- Helpful With Converting Multiplicative to Additive
 - Rule: $\log(ab) = \log(a) + \log(b)$
- Helpful With Converting Scales
 - Income is Always Positive (Linear Regression Appropriate?)
- Default in Statistics: Natural Log (Base e)



Log Transformation

- Signs a Log Transformation Might Be Useful (For Y or X)
 - Variables are Highly Right Skewed
 - Values Range Over 2 or More Orders of Magnitude (Need Reference Value: Common is 10^k)
 - Scatterplot Shows Logarithmic Growth
 - Plot of Residuals Show “Fanning Out” or “Megaphone”
 - Multiplicative or Proportional Relationships are Reasonable
- Easily Solvable: $Y' = \log(Y)$ and $Y' = \beta_0 + \beta_1 X + \epsilon$
$$\hat{Y} = \exp(\hat{\beta}_0 + \hat{\beta}_1 X) = e^{(\hat{\beta}_0 + \hat{\beta}_1 X)} = e^{\hat{Y}'}$$

Thank You

Make Reasonable Decisions

