BUDAPESTI UNIVERSITY OF TECHNOLOGY AND ECONOMICS

INSTITUTE OF MATHEMATICS

BACHELOR THESIS

Linear Regression through Origin

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1. Preliminaries

"A place for future inspirational quote."

– Name of the author

1.1 Introduction

In the world of regression analysis, choosing the right model is a constant challenge, balancing simplicity and accuracy. This thesis focuses on a specific aspect—linear regression through the origin (RTO) —examining its statistical properties when dealing with just one explanatory variable. Our goal is to identify situations where this approach might be more suitable than the commonly used simple linear regression. Through this study, we aim to shed light on the conditions that make regression through the origin a preferable choice, offering insights that bridge mathematical rigor with real-world applicability. Join us on this journey as we navigate the complexities of statistical modeling, striving to understand when and why regression through the origin might outperform its more conventional counterpart.

Simple Linear Regression

Before we start delving into RTO, it's best to get familiar with a more general case - Simple Linear Regression.

In Simple Linear Regression, we are given a random sample of data points $(x_1, y_1), ..., (x_n, y_n)$ from a population, and our goal is to find a linear function

$$y = \beta_1 x + \beta_o \tag{1.1}$$

That describes the relationship between two variables x and y as good as possible.

Since, sample is random, the equation (1.1) is not true in general, so we take into account the error term ε:

$$y = \beta_1 x + \beta_o + \varepsilon \tag{1.2}$$

The objective of simple linear regression is, under some conditions*, to estimate the parameters β_0 and β_1, so that they will provide best fit.

List out the conditions

Likelihood function

$$L(y_1,\ldots,y_n|\beta_0,\beta_1,\sigma) = \left(\frac{1}{2\pi\sigma^2}\right)^{n/2} \exp\left(-\frac{1}{2\sigma^2}\sum_{i=1}^{n}(y_i-(\beta_0+\beta_1 x_i))^2\right)$$

Log-likelihood function

$$l(y_1,\ldots,y_n|\beta_0,\beta_1,\sigma) = c - n\log\sigma - \frac{1}{2\sigma^2}\sum_{i=1}^{n}(y_i-(\beta_0+\beta_1 x_i))^2$$

$$\frac{\partial l}{\partial \beta_0} = \sum_{i=1}^{n}(y_i-(\beta_0+\beta_1 x_i)) = 0 \tag{1.3}$$

$$\frac{\partial l}{\partial \beta_1} = \sum_{i=1}^{n}(y_i-(\beta_0+\beta_1 x_i))x_i = 0 \tag{1.4}$$

$$\frac{\partial l}{\partial \sigma} = \frac{n}{\sigma} - \frac{1}{\sigma^3}\sum_{i=1}^{n}(y_i-(\beta_0+\beta_1 x_i))^2 = 0 \tag{1.5}$$

Let the solutions of the above equations be denoted as $\hat\beta_0$, $\hat\beta_1$, $\hat\sigma^2$ for β_0, β_1, σ^2. If $\hat y_i = \hat\beta_0 + \hat\beta_1 x_i$, then...

$$\hat\beta_0 = \bar y - \hat\beta_1 \bar x;$$
$$\hat\beta_1 = \frac{S_{xy}}{S_{xx}};$$
$$\hat\sigma^2 = \frac{1}{n}\sum_{i=1}^{n}(y_i - \hat y_i)^2 = \frac{1}{n}SSE.$$

So $\hat\beta_0, \hat\beta_1$ are Maximum Likelikelihood Estimators of the model.

Proposition 1.1.1. *Finding values of β_0, β_1 that minimize MSE is same as finding MLE of β_0, β_1*

Proof. □ todo

Proposition

$$\sum_{i=1}^{n}(y_i-\bar{y})^2=\sum_{i=1}^{n}(\hat{y}_i-\bar{y})^2+\sum_{i=1}^{n}(y_i-\hat{y}_i)^2$$

Proof. The vector $\mathbf{y}-\hat{y}$ is perpendicular to $\hat{y}-\mathbf{1}\,\bar{y}$, thus the proposition is true by the Pythagorean theorem.

Alternatively, it is enough to show that

$$\sum(\hat{y}_i-\bar{y})(y_i-\hat{y}_i)=0$$

,

since then:

$$\begin{aligned}\sum_{i=1}^{n}(y_i-\bar{y})^2&=(\sum_{i=1}^{n}(\hat{y}_i-\bar{y})+\sum_{i=1}^{n}(y_i-\hat{y}_i))^2=\\&=\sum_{i=1}^{n}(\hat{y}_i-\bar{y})^2+2\sum(\hat{y}_i-\bar{y})(y_i-\hat{y}_i)+\sum_{i=1}^{n}(y_i-\hat{y}_i)^2=\\&=\sum_{i=1}^{n}(\hat{y}_i-\bar{y})^2+\sum_{i=1}^{n}(y_i-\hat{y}_i)^2\end{aligned}$$

From 1.3 we know that $\sum(y_i=\hat{y}_i)=0$. From 1.4 we know that $\sum(y_i-\hat{y}_i)x_i=0$, $\hat{y}_i=\beta_0+\beta_1x_i\Rightarrow x_i=\frac{1}{\beta_1}(\hat{y}_i-\beta_0)\Rightarrow\sum\hat{y}_i(y_i-\hat{y}_i)=0$

Finally,

$$\sum(\hat{y}_i-\bar{y})(y_i-\hat{y}_i)=\sum\hat{y}_i(y_i-\hat{y}_i)-\bar{y}\sum(y_i-\hat{y}_i)=0$$

□

Proposition 1.4. The estimators $\hat{\beta}_0$, $\hat{\beta}_1$, $\frac{SSE}{n-2}$ are unbiased estimators of β_0, β_1, σ^2 respectively.

Proof:

1. **Unbiasedness of $\hat{\beta}_1$:**

$$\mathbb{E}[\hat{\beta}_1] = \mathbb{E}[\frac{S_{xy}}{S_{xx}}] = \mathbb{E}[\frac{\Sigma(x_i-\bar{x})(y_i-\bar{y})}{\Sigma(x_i-\bar{x})^2}] =$$

$$= \mathbb{E}[\frac{\Sigma(x_i-\bar{x})y_i}{\Sigma(x_i-\bar{x})^2}] = \frac{\Sigma(x_i-\bar{x})\mathbb{E}[y_i]}{\Sigma(x_i-\bar{x})^2} =$$

$$= \frac{\Sigma(x_i-\bar{x})(\beta_0+\beta_1 x_i)}{\Sigma(x_i-\bar{x})^2} = \frac{\Sigma(x_i\beta_0 - \bar{x}\beta_0 + \beta_1 x_i^2 - \beta_1 x_i\bar{x})}{\Sigma x_i^2 - n\bar{x}^2} =$$

$$= \frac{\cancel{n\bar{x}\beta_0} - \cancel{n\bar{x}\beta_0} + \Sigma\beta_1 x_i^2 - n\beta_1\bar{x}^2}{\Sigma x_i^2 - n\bar{x}^2} = \frac{(\Sigma x_i^2 - n\bar{x}^2)\beta_1}{\Sigma x_i^2 - n\bar{x}^2} = \beta_1$$

2. **Unbiasedness of $\hat{\beta}_0$:**

$$\mathbb{E}(\hat{\beta}_0) = \mathbb{E}(\bar{y} - \hat{\beta}_1\bar{x}) = \bar{y} - \bar{x}\mathbb{E}(\hat{\beta}_1) = \frac{1}{n}\mathbb{E}[\Sigma y_i] - \beta_1\bar{x} =$$

$$= \frac{1}{n}\mathbb{E}[\Sigma(\beta_0+\beta_1 x_i)] - \beta_1\bar{x} = \frac{1}{n}n\beta_0 + \frac{1}{n}n\beta_1\bar{x} - \bar{x}\beta_1 = \beta_0$$

3. **Unbiasedness of $\frac{SSE}{n-2}$ as an estimator of σ^2:**

$$\mathbb{E}\left(\frac{SSE}{n-2}\right) = \frac{1}{n-2}(n-2)\sigma^2 = \sigma^2$$

Proposition 1.1.2. $\mathbb{V}ar[\hat{\beta}_1] = \frac{\sigma^2}{S_{xx}}$

Proof. Assume, $Y_i \sim N(0,\sigma^2)$

$$\mathbb{V}ar[\hat{\beta}_1] = \mathbb{V}ar(\frac{1}{S_{xx}}\sum(x_i-\bar{x})Y_i) = \frac{1}{S_{xx}^2}\sum \mathbb{V}arY_i = \frac{\sigma}{S_{xx}^2}$$

□

2. Linear Regression Regression with no intercept term

2.1 Simple Linear Regression with no intercept term

In certain statistical applications, the conventional assumption of a non-zero intercept term (β_0) in a simple linear regression model may not align with the nature of the data. For example, in economics the cost of production be assumed to be zero, when there is no production, or in physics, when we are describing the relationship between force and the displacement, forced is assumede to be zero, when there is no displacement.

Likelyhood function L is:

$$\begin{aligned} L(y_1, ..., y_n|\beta, \sigma) &= \prod \frac{1}{\sqrt{2\pi\sigma^2}} \exp(-\frac{1}{2\sigma^2 (y_i - \beta x_i)^2}) \\ &= \frac{1}{(2\pi\sigma^2)^{n/2}} \exp(-\frac{1}{2\sigma^2} \sum (y_i - \beta x_i)^2) \end{aligned}$$

Log-likelihood l is:

$$l(y_1, ..., y_n|\beta, \sigma) = -\frac{n}{2} \log(2\pi\sigma^2) - \frac{1}{2\sigma^2} \sum (y_i - \beta x_i)^2$$

$$\begin{aligned}\frac{\partial l}{\partial \beta} = -\frac{1}{2\sigma^2}\sum 2(y_i - \beta x_i)(-x_i) = 0\\ \frac{1}{\sigma^2}\sum(y_i x_i - \beta x_i^2) = 0\\ \sum x_i y_i = \sum x_i^2 \beta\\ \hat{\beta} = \frac{\sum x_i y_i}{\sum x_i^2}\end{aligned}$$

Proposition 2.1.1. $\hat{\beta}$ *is unbiased*

Proof.

$$\mathbb{E}[\hat{\beta}] = \mathbb{E}[\frac{\sum x_i y_i}{\sum x_i^2}] = \sum \frac{1}{x_i^2}\mathbb{E}[\sum x_i y_i] =$$
$$= \frac{\sum x_i \mathbb{E}[y_i]}{\sum x_i^2} = \frac{\sum x_i^2 \beta}{\sum x_i^2} = \beta$$

□

Proposition 2.1.2.

$$\mathbb{V}ar[\hat{\beta}_1^0] = \frac{\sigma^2}{\sum x_i^2}$$

Proof.

$$\mathbb{V}ar[\hat{\beta}_1^0] = \mathbb{V}ar[\frac{\sum x_i y_i}{\sum x_i^2}] = \frac{1}{(\sum x_i^2)^2}\sum x_i^2 \mathbb{V}ar[Y_i] = \frac{\sigma^2}{\sum x_i^2}$$

□

Proposition 2.1.3.

$$\mathbb{V}ar[\hat{\beta}_1^0] < \mathbb{V}ar[\hat{\beta}_1]$$

Proof.

$$
\begin{aligned}
\sum x_i^2 &> \sum (x_i - \bar{x})^2 \\
\frac{1}{\sum x_i^2} &< \frac{1}{\sum (x_i - \bar{x})^2} \\
\frac{\sigma^2}{\sum x_i^2} &< \frac{\sigma^2}{\sum (x_i - \bar{x})^2} \\
\mathbb{V}ar[\hat{\beta}_1^0] &< \mathbb{V}ar[\hat{\beta}_1]
\end{aligned}
$$

□

This might suggest that $\hat{\beta}_1^0$ might be more accurate estimator than $\hat{\beta}_1$ for the slope term, but it is not completely true, since these are estimators for different models. However,

2.1.1 Relevant Literature

Refer to seminal works and research studies that have explored or utilized the simple linear regression model without an intercept term. A brief review of the literature provides additional context and allows for a synthesis of existing knowledge in this specialized domain.

2.2 Comparative Analysis

3. Applications to Linear Regression through Origin

3.1 Something to add 1

3.2 Something to add 1

4. Theoretical results

4.1 A theoretical resilt

4.2 Towards some advanced topic

5. Programming simulations

6. Summary and closing words

Bibliography

A. Program Codes