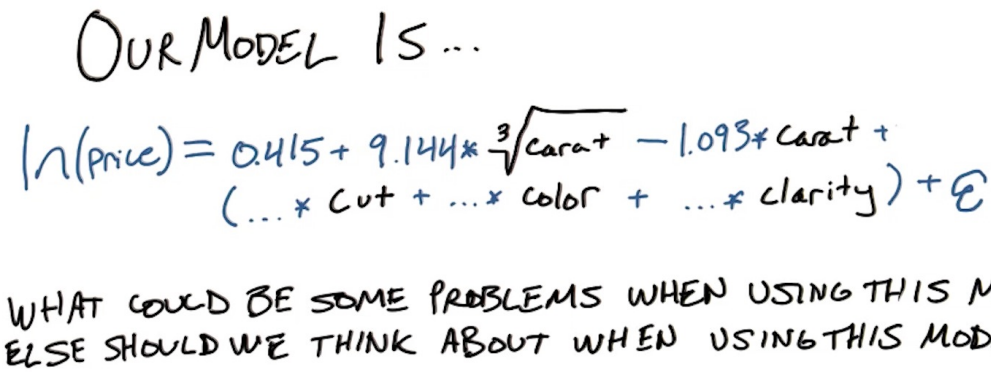
Model Problems



This model doesn't take changing prices over time into account due to asset appreciation. Also, sharp changes in demand due to market (ad campaign or boycott) or supply by closing a mine or tariff would have a drastic change to the price.

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Let's put our model in a larger context. Assuming that the data is not somehow corrupted and we are not egregiously violating some of the key assumptions of linear regression (for example, violating the **IID assumption** by having a bunch of duplicated observations in our data set), what could be some problems with this model? What else should we think about when using this model?

Take your time to answer this question, do some qualitative research about the diamond market. See the links below to get started.

Diamond Prices over the Years

Global Diamond Report

Falling Supply and Rising Demand: Couples in Shanghai take to the Ring

Interpreting Regression Coefficients in R on R Bloggers

Interpreting Regression Coefficients on the Analysis Factor blog

Fitting and Interpreting Linear Models by ŷhat

Another Explanation of Factor Coefficients in Linear Models on Stats StackExchange

Have questions? Head to the **forums** for discussion with the Udacity Community.

NEXT