

Model

$$\hat{y} = 11.9524 + 0.0029 \cdot \hat{x}, \quad \text{where} \quad \hat{y} = \ln(\text{price}) \text{ and } \hat{x} = \text{sqft_living}^{0.78}$$

Check Statistical Hypotheses of the Regression

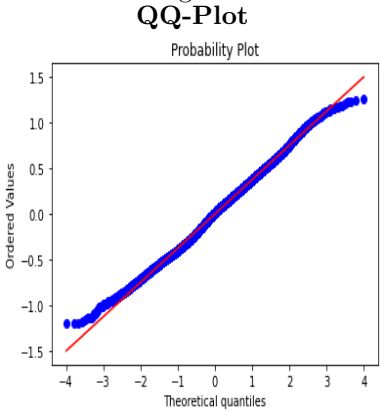
Linearity:

The Null Hypothesis: The model is linearly predicted by the feature,
The Alternative Hypothesis: The model is not linearly predicted by the feature.

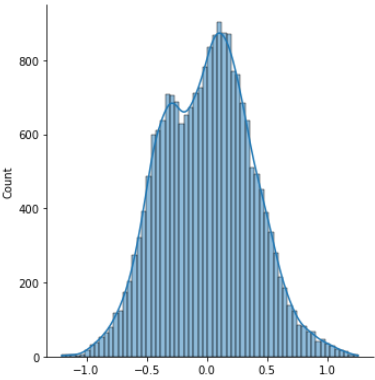
Our p-value for this model is $p = 0.877 > 0.05 = \alpha$. Thus, we don't have enough evidence to reject **The Null Hypothesis** and we conclude that our model satisfies Linearity Assumption.

Normality Assumption for Errors

To check Normality, I used the following checks:



DISTRIBUTIONS PLOT OF RESIDUALS



I will, also, use D'Agostino Test for Normality:

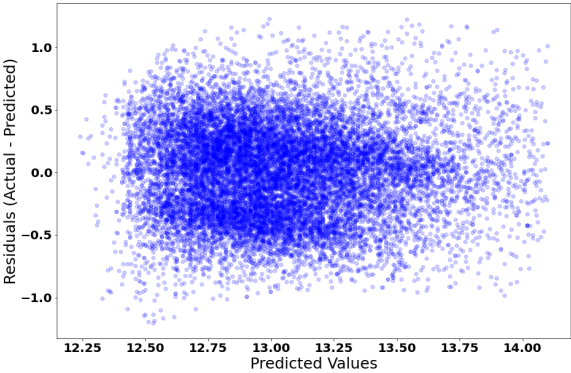
The Null Hypothesis: The Residuals are normally distributed,
The Alternative Hypothesis: The Residuals are not normally distributed.

Our p-value for this model is $p = 0.000 < 0.05 = \alpha$. Thus, we have enough evidence to reject the Null Hypothesis and conclude that D'Agostino Test tells us, that residuals are not normally distributed.

Conclusion: Based on QQ-Plot, Distributions Plot, and D'Agostino Test, I conclude that the Distribution of Errors is not far away from Normal. Also, since we have a lot of observations Normality Assumption doesn't play a critical role, since Central Limit Theorem will apply in this case.

Constant Error Variance

To check if heteroscedasticity is present in the model, I will use Residual-vs-Predicted values plot and Breusch-Pagan test. I look at at the Residual-vs-Predicted values plot first.



Now, I will use Breusch-Pagan Test:

The Null Hypothesis: Homoscedasticity is present,
The Alternative Hypothesis: Homoscedasticity is not present (i.e. heteroscedasticity exists).

Our p-value for this model is $p = 0.12609 \geq 0.05 = \alpha$. Thus, we don't have enough evidence to reject the Null Hypothesis and we conclude from Breusch-Pagan Test , that we have don't have heteroscedasticity.

Conclusion: From the Residual-vs-Predicted values plot and Breusch-Pagan Test, I conclude that we don't have Heteroscedasticity in our model.

Overall Conclusion:

I conclude that our model satisfies statistical assumptions for the regression model.