Mallows' C_p

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We are given a data set $\{y_i, \mathbf{x}_i\}_{i=1}^n$ where $\mathbf{x}_i = (x_{i1}, ..., x_{ik})^\top$'s are $k \times 1$ vectors and y_i's are scalars. It is known that the Data Generating Process (DGP) is

$$y_i = \mu(\mathbf{x}_i) + \epsilon_i$$

where ϵ_i is a random variable with mean zero and variance σ^2. That is, for each input $\mathbf{x}_i$, an output y_i is produced with an independent and identically distributed (iid) error ϵ_i. However, μ is an unknown function and it might only utilize a subset of the k inputs. We represent the process compactly as $\mathbf{y} = \boldsymbol{\mu} + \boldsymbol{\epsilon}$ where $\mathbf{y} = (y_1, ..., y_n)^\top$, $\boldsymbol{\mu} = (\mu(\mathbf{x}_1), ..., \mu(\mathbf{x}_n))^\top$, and $\boldsymbol{\epsilon} = (\epsilon_1, ..., \epsilon_n)^\top$.

Our job is simple: predict y_i with $\mathbf{x}_i$ using a linear model. However, how do we know which of k the inputs of $\mathbf{x}_i$ should we put in our model? That is, we want to find a way to measure how the good the prediction of a specific model would be.

Let $\mathcal{A} \subseteq \{1, ..., k\}$ with $|\mathcal{A}| = p$ denote a subset of the indices of size p and let $\mathbf{X}_\mathcal{A}$ denote the corresponding data matrix $(\mathbf{x}_{1\mathcal{A}}, ..., \mathbf{x}_{n\mathcal{A}})^\top$. That is, $\mathcal{A}$ denotes the subset of the k independent variables we choose to put in our model. The standard Ordinary Least Square (OLS) estimator yields the estimator $\hat{\boldsymbol{\beta}}_\mathcal{A} = (\mathbf{X}_\mathcal{A}^\top \mathbf{X}_\mathcal{A})^{-1} \mathbf{X}_\mathcal{A}^\top \mathbf{y}$. An intuitive way of measuring prediction quality is to consider the expected sum of square errors:

$$\begin{aligned} \mathbf{E}\left[\sum_{i=1}^n (y_i - \mathbf{x}_{i\mathcal{A}}^\top \hat{\boldsymbol{\beta}}_\mathcal{A})^2\right] &= \mathbf{E}(\mathbf{y} - \mathbf{X}_\mathcal{A}\hat{\boldsymbol{\beta}}_\mathcal{A})^\top(\mathbf{y} - \mathbf{X}_\mathcal{A}\hat{\boldsymbol{\beta}}_\mathcal{A}) \\ &= n\sigma^2 - p\sigma^2 + \boldsymbol{\mu}^\top(\mathbf{I}_n - \mathbf{P}_\mathcal{A})\boldsymbol{\mu} \end{aligned} \tag{in}$$

where $\mathbf{P}_\mathcal{A} = \mathbf{X}_\mathcal{A}(\mathbf{X}_\mathcal{A}^\top \mathbf{X}_\mathcal{A})^{-1}\mathbf{X}_\mathcal{A}^\top$ and $\mathbf{I}_n$ is the $n \times n$ identity matrix. Notice the term $-p\sigma^2$. This term suggests that the prediction error decreases as p, the size of $\mathcal{A}$, increases. That is, we can keep adding inputs from the original k independent variables to the linear model and the square error will decrease! Therefore, this expected sum of squares error is not a good measure for how good the model will perform.

However, notice this this is only the case when we are doing "in-sample" prediction, i.e., evaluating sum of squares error with the data set that is used to produce the estimate $\hat{\beta}_\mathcal{A}$. We can consider calculating the prediction error with a *hypothetical out-sample data set*, that is, a data set $\{y_i^{\text{out}}, \mathbf{x}_i\}_{i=1}^n$ where

$$y_i^{\text{out}} = \mu(\mathbf{x}_i) + \epsilon_i^{\text{out}}.$$

This hypothetical data set is essentially "a set of regenerated y_i's with the same $\mathbf{x}_i$'s." Using the new data set, we can compute the "out-sample" prediction error associated with the "in-sample" estimate $\hat{\boldsymbol{\beta}}_\mathcal{A}$:

$$\begin{aligned} \mathbf{E}\left[\sum_{i=1}^n (y_i^{\text{out}} - \mathbf{x}_{i\mathcal{A}}^\top \hat{\boldsymbol{\beta}}_\mathcal{A})^2\right] &= \mathbf{E}(\mathbf{y}^{\text{out}} - \mathbf{X}_\mathcal{A}\hat{\beta})^\top(\mathbf{y}^{\text{out}} - \mathbf{X}_\mathcal{A}\hat{\boldsymbol{\beta}}_\mathcal{A}) \\ &= n\sigma^2 + p\sigma^2 + \boldsymbol{\mu}^\top(\mathbf{I}_n - \mathbf{P}_\mathcal{A})\boldsymbol{\mu}. \end{aligned} \tag{out}$$

Notice how the out-sample prediction error increases as p, number of independent variables in our model, increases. Hence, out-sample prediction error is a much better criterion for evaluating the fitness of a model.

Now the practical question: How can we calculate the "out-sample prediction error" when we only observe one data set? The trick is to approximate the out-sample prediction error with the in-sample prediction error. In fact, (in) and (out) are related by the simple equation

$$(\text{out}) = (\text{in}) + 2p\sigma^2. \tag{1}$$

The term $2p\sigma^2$ can be viewed as an error correction term to (in). We can replace σ^2 by some estimator $\hat{\sigma}^2$ to obtain an estimate of (out). And that's basically it!

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Formally, C_p is defined as follows: Suppose we have data $\{y_i, \mathbf{x}_i\}_{i=1}^n$ as before, and we pick p of the k exogenous variables from $\mathbf{x}_i$ to calculate the linear model coefficients $\boldsymbol{\beta}$, denoted by $\hat{\boldsymbol{\beta}}_{\mathcal{A}}$. The Mallows' C_p for that choice of p variables is defined by

$$C_p \coloneqq \frac{1}{n}\left(\sum_{i=1}^{n}(y_i - \mathbf{x}_{i\mathcal{A}}^\top \hat{\boldsymbol{\beta}}_{\mathcal{A}})^2 + 2p\hat{\sigma}^2\right) \tag{2}$$

It is clear that (2) is simply (1) divided by n. The C_p values for different choices of $\mathcal{A}$ tell us how the fitness of these models differ. The choice of $\mathcal{A}$ with the smallest C_p is the most preferable. #