

STA 235H - Multiple Regression: Overview and Statistical Adjustment

Fall 2022

McCombs School of Business, UT Austin

Today

- Quick **multiple regression** review
 - How does OLS work?
- **What can we say** using regressions?
 - Interpreting coefficients



Nothing "Ordinary" about OLS

What do you understand about regressions?

Remembering Regressions

- Linear Regression is a **very useful tool**.
 - Simple supervised learning approach.
 - Many fancy methods are generalizations or extensions of linear regression!
- It's a way to (partially) describe a **data generating process (DGP)**.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Essential Parts of a Regression

Y

Outcome Variable

Response Variable

Dependent Variable

Thing you want to explain or predict

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Outcome Variable

Response Variable

Dependent Variable

Thing you want to explain or predict

X

Explanatory Variable

Predictor Variable

Independent Variable

Thing you use to explain or predict Y

Identify the variables

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Fantasy football fanatics predict the performance of a player based on past performance, health status, and characteristics of the opposite team

Netflix uses your past viewing history, the day of the week, and the time of the day to guess which show you want to watch next

Two Purposes of Regression

Prediction

Forecast the future

Focus is on Y

Netflix trying to guess your next show

Explanation

Explain the effect of X on Y

Focus is on X

Netflix looking at the effect of time of the day on show selection

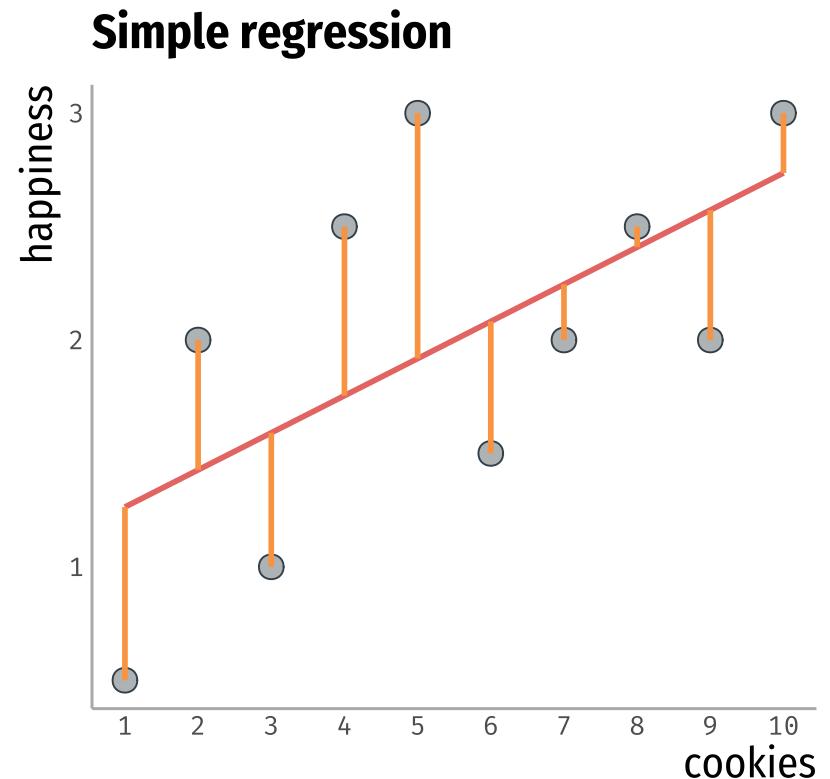
What do we want to estimate in a regression?

- When we run a regression we have an outcome Y and explanatory variables or covariates X .
- We want to estimate the β 's
- One important distinction:
 - β 's are the **population parameters** we want to estimate.
 - $\hat{\beta}$ are the **estimates** of those parameters.

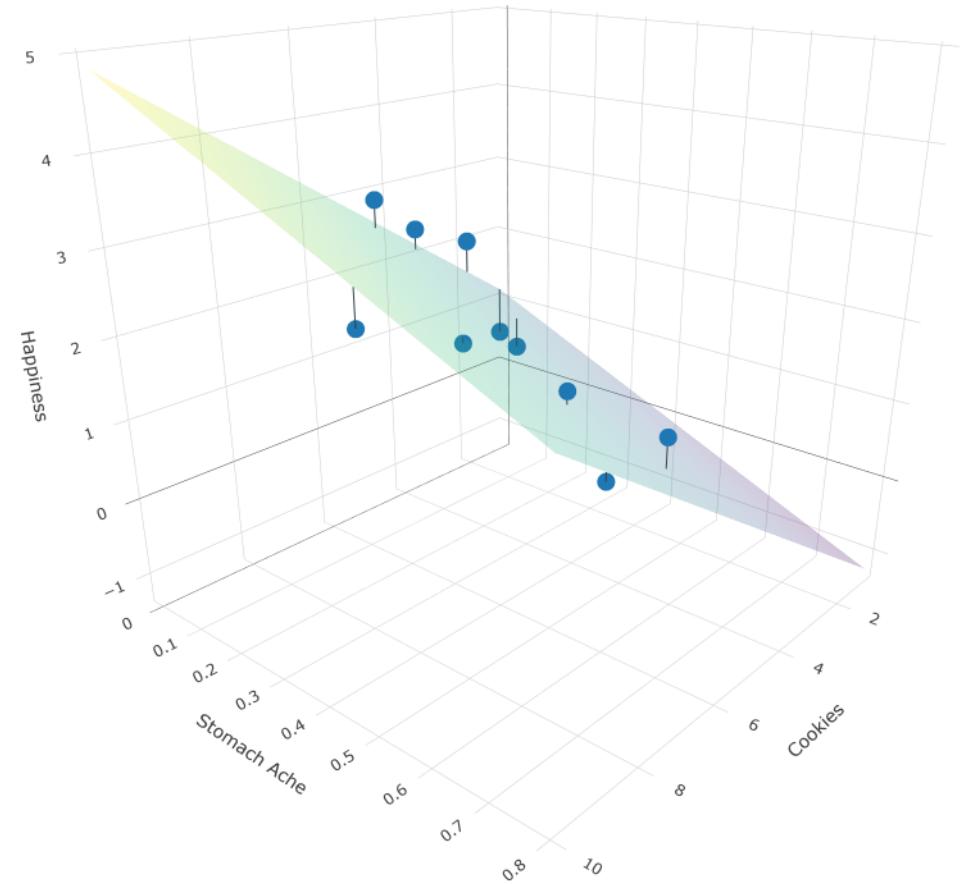
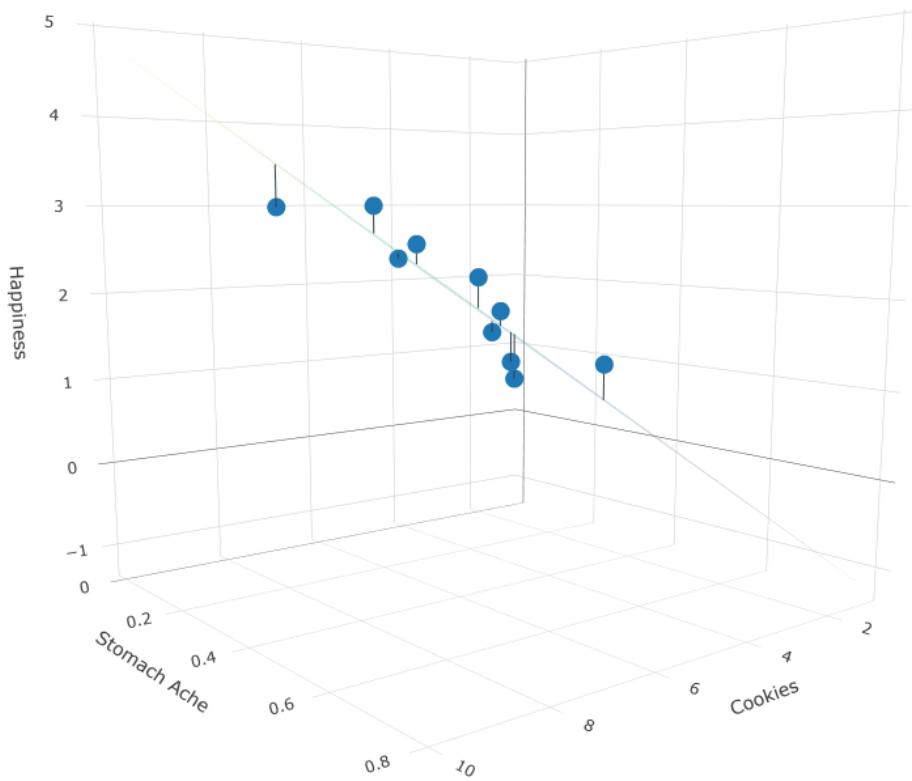
How do we estimate the coefficients in a regression ?

- Ordinary Least Squares is the most popular way.

$$\min_{\beta} \sum [Y_i - (\sum_{j=1}^p \beta_j X_{ij})]^2$$



How do we estimate the coefficients in a regression ? (cont.)

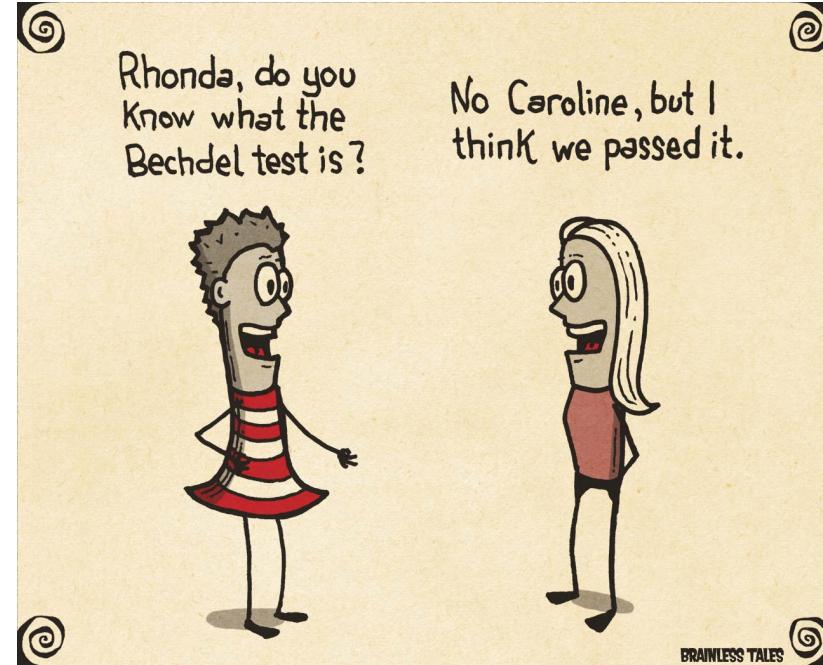


Let's get into some data

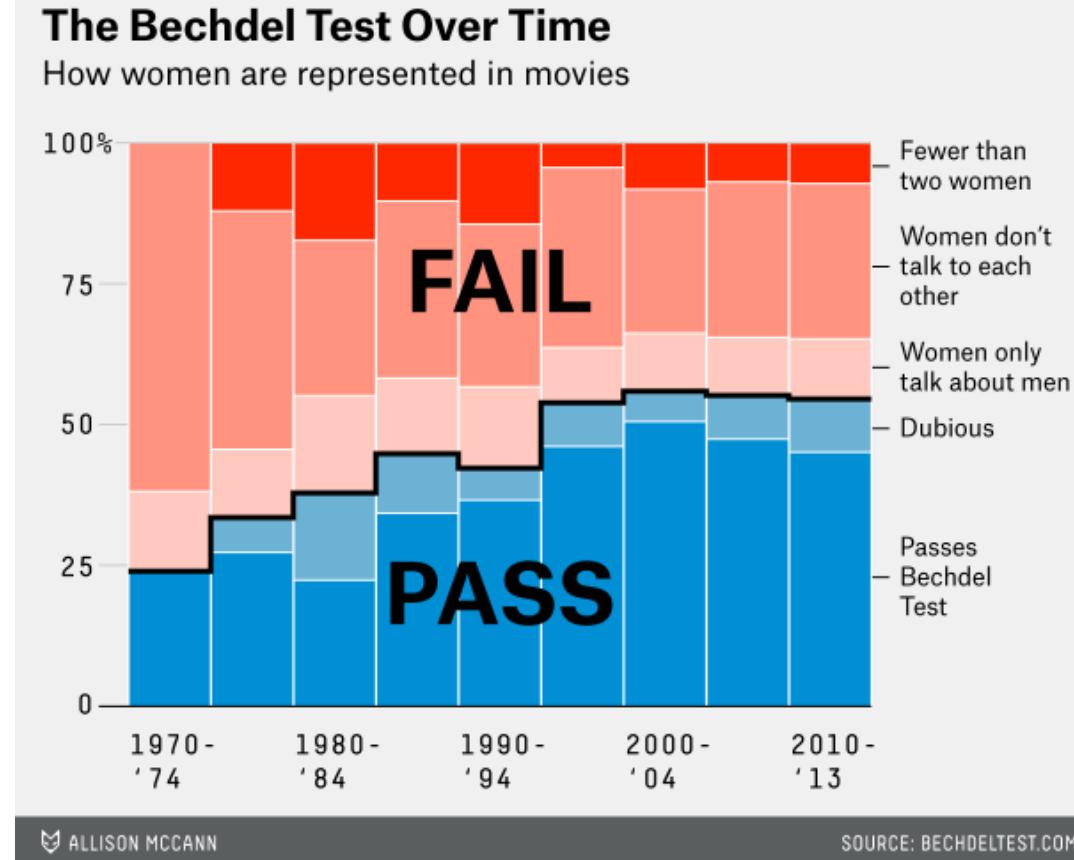
Let's introduce an example: The Bechdel Test

- **Three criteria:**

1. At least two named women
2. Who talk to each other
3. About something besides a man



Do movies pass the test?



Is it convenient for my movie to pass the Bechdel test?

- I'm a profit-maximizing investor and want to know whether it's in my best interest to switch a male for a female character.
 - What is the **simplest model** you could fit?

$$Revenue = \alpha + \beta Bechdel + \varepsilon$$

Let's analyze some models

```
summary(lm(Adj_Revenue ~ bechdel_test, data = bechdel))
```

```
##              Estimate Std. Error t value Pr(>|t|)  
## (Intercept) 76.4553   3.0641 24.9521      0  
## bechdel_test -17.8616   4.0544 -4.4055      0
```

- How do you interpret these results?

Let's analyze some models

```
summary(lm(Adj_Revenue ~ bechdel_test, data = bechdel))
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- $\hat{\beta}_0$ is the average adjusted revenue (in millions of dollars) for movies that do not pass the Bechdel test.
- On average, movies that pass the Bechdel test have an estimated adjusted revenue that is $|\hat{\beta}_1|$ millions less than a movie that doesn't pass the Bechdel test.

Negative effect of including more women?

What gives?

FiveThirtyEight

Politics Sports Science Podcasts Video

APR. 1, 2014, AT 1:52 PM

The Dollar-And-Cents Case Against Hollywood's Exclusion of Women

By [Walt Hickey](#)

Filed under [Movies](#)

Get the data on [GitHub](#)



A Walmart employee puts Lionsgate's "The Hunger Games: Catching Fire" Blu-ray Combo Pack and DVD on the rack prior to the midnight release at Walmart on March 6, 2014 in Orange, California. JEROD HARRIS / GETTY IMAGES

More variables



- Bechdel test could be capturing the effect of other variables:
 - What type of movies are the ones that pass the test?
 - What is their budget?

More variables

```
lm(Adj_Revenue ~ bechdel_test + Adj_Budget + Metascore + imdbRating, data=bechdel)
```

```
##                Estimate Std. Error t value Pr(>|t|)  
## (Intercept) -127.0710   17.0563 -7.4501  0.0000  
## bechdel_test  11.0009    4.3786  2.5124  0.0121  
## Adj_Budget     1.1192    0.0367 30.4866  0.0000  
## Metascore      7.0254    1.9058  3.6864  0.0002  
## imdbRating    15.4631    3.3914  4.5595  0.0000
```

Positive and significant!

- How do we interpret the relevant coefficient now?

Main takeaway points

- Regressions are super useful...
 - But you need to know **how** to interpret them.
- Be sure not to overstate your claims!

Next class

- Continue with **multiple regression models**:
 - Interactions and how to interpret them
- Assumptions for **OLS**



References

- Heiss, A. (2020). "Course: Program Evaluation for Public Service". *Slides for Regression and Inference*.
- Ismay, C. & A. Kim. (2021). "Statistical Inference via Data Science". Chapter 10.
- Keegan, B. (2018). "The Need for Openness in Data Journalism". *Github Repository*