Lab4_CaseyMicheline_MamrothAndrew_ArunimaKayath_Draf

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Introduction

The purpose of this analysis is to review a set crime data in support of understanding determinants of crime and generating policy recommendations for local governments for this political campaign. This analysis is based on a set of county-level data from North Carolina from 1987. However, this data set is not inclusive of all North Carolina counties.

In our first stage, an exploratory data analysis was undertaken in order to better understand the data set, the variables, anomolies, and any variable transformations that may need to be done to provide a robust set of models. We also examined the relationships between variables from a variety of perspectives to support model building. Our second stage consisted of building and analyzing a set of linear models to determine the right mix of significant explanatory variables, to identify best fit models, and to test all CLM assumptions. We use a backwards approach to model construction, meaning we first build a model that includes all the data we are given then remove the data with the least explanatory power.

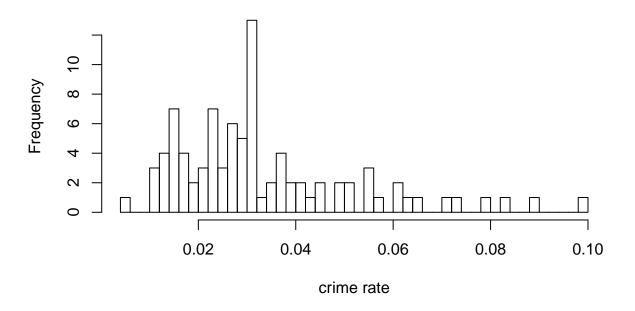
Following that, we then explain why the information for the variables removed is already incorporated into the model and thus why it is excluded from the final model. We address bias, omitted variables, parsimony, and discussion of causality here. We conclude this paper with high-level set of recommendations and related notes.

Exploratory Analysis

A thorough exploratory analysis of the crimes data set was to better understand the data set, the variables, anomolies, and any variable transformations that may need to be done to provide a robust set of models. Outlier data was reviewed for significance and possible patterns. We also examined the relationships between variables from a variety of perspectives to support model building. Histograms were run on all variables to understand their distributions. A select set for our key variables (crmrte, prbarr, prbconv, polpc, pctmin80) is provided here.

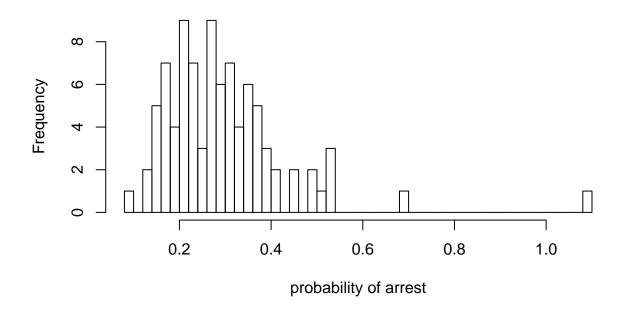
hist(crime\$crmrte, breaks = 50, xlab = "crime rate", ylab = "Frequency", main = "Crime Rate Hist")

Crime Rate Hist



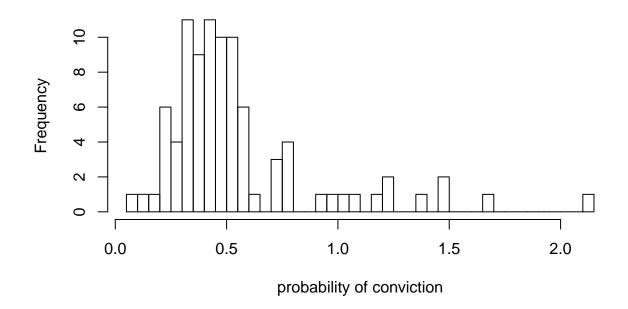
hist(crime\$prbarr, breaks = 50, xlab = "probability of arrest", ylab = "Frequency", main = "Probability

Probability of Arrest Hist



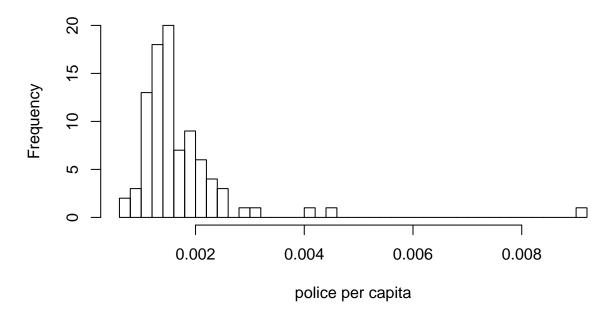
hist(crime\$prbconv, breaks = 50, xlab = "probability of conviction", ylab = "Frequency", main = "Probab

Probability of Conviction Hist



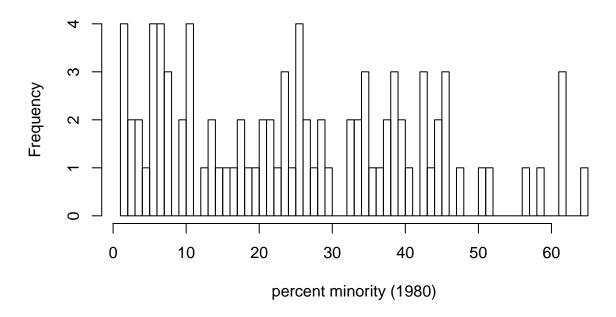
hist(crime\$polpc, breaks = 50, xlab = "police per capita", ylab = "Frequency", main = "Police Per Capit

Police Per Capita Hist

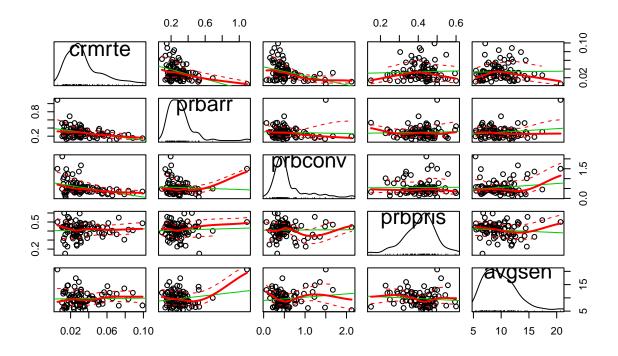


hist(crime\$pctmin80, breaks = 50, xlab = "percent minority (1980)", ylab = "Frequency", main = "Percent

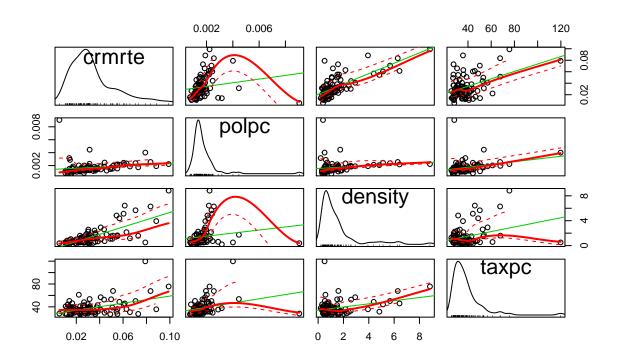
Percent Minority Hist

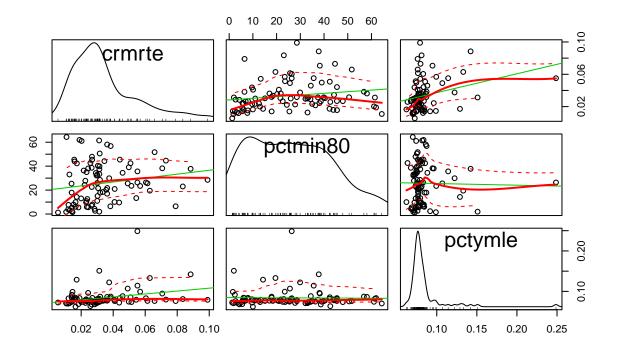


Scatterplot matrices were developed for several variables to get an initial understanding of variable relationships.

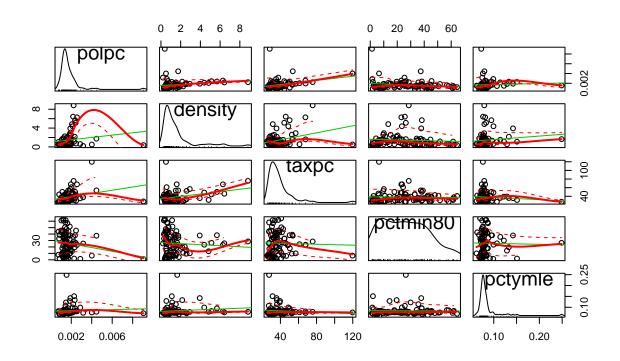


scatterplotMatrix(~crmrte + polpc + density + taxpc, data=crime)





scatterplotMatrix(~polpc + density + taxpc + pctmin80 + pctymle, data=crime)



Finally, we added to this by analyzing bivariate and multivariate relationships between a number of variables and combinations of variables. We looked at the R squared values, adjusted R squared values, p values, and correlation values for significance. Several of these are included below.

```
plot(crime$polpc, crime$crmrte)
model3 <- lm(crmrte~polpc, data = crime)
model3</pre>
```

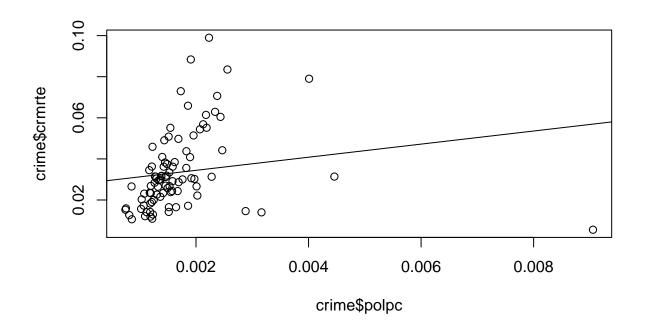
Call:

lm(formula = crmrte ~ polpc, data = crime)

Coefficients:

(Intercept) polpc 0.02806 3.18839

abline(model3)



summary(model3)

Call:

lm(formula = crmrte ~ polpc, data = crime)

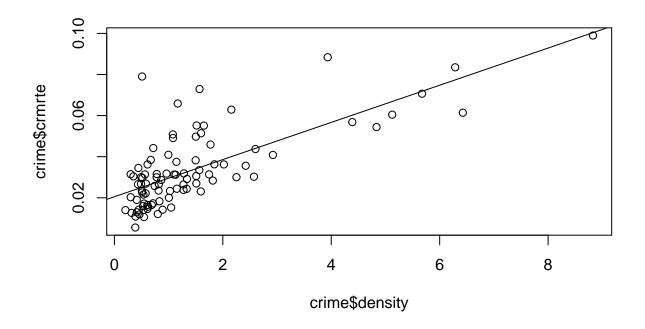
Residuals:

Min 1Q Median 3Q Max -0.051400 -0.011799 -0.003837 0.006455 0.063787

Coefficients:

Estimate Std. Error t value Pr(>|t|)
(Intercept) 0.02806 0.00395 7.105 2.99e-10 ***

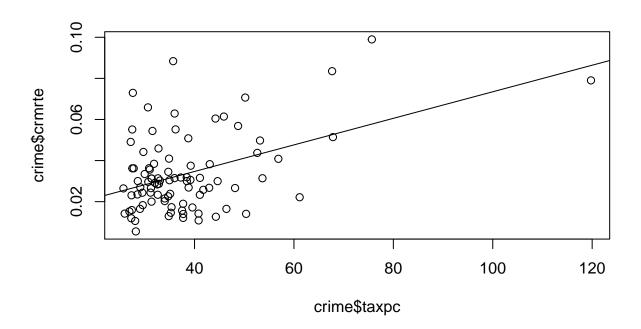
```
3.18839
                        2.00318
                                  1.592
polpc
                                           0.115
Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
Residual standard error: 0.01873 on 88 degrees of freedom
Multiple R-squared: 0.02798, Adjusted R-squared: 0.01694
F-statistic: 2.533 on 1 and 88 DF, p-value: 0.115
cor(crime$crmrte, crime$polpc, use="pairwise.complete.obs")
[1] 0.1672816
plot(crime$density, crime$crmrte)
model4 <- lm(crmrte~density, data = crime)</pre>
model4
Call:
lm(formula = crmrte ~ density, data = crime)
Coefficients:
(Intercept)
                 density
   0.020503
                0.009046
abline(model4)
```



summary(model4)

Call:
lm(formula = crmrte ~ density, data = crime)

```
Residuals:
     Min 1Q Median 3Q
                                            Max
-0.018459 -0.009471 -0.002741 0.004902 0.053887
Coefficients:
            Estimate Std. Error t value Pr(>|t|)
(Intercept) 0.0205027 0.0018954 10.817 < 2e-16 ***
        0.0090458 0.0009087 9.955 4.45e-16 ***
density
Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
Residual standard error: 0.01303 on 88 degrees of freedom
Multiple R-squared: 0.5297, Adjusted R-squared: 0.5243
F-statistic: 99.1 on 1 and 88 DF, p-value: 4.45e-16
cor(crime$crmrte, crime$density, use="pairwise.complete.obs")
[1] 0.7277783
plot(crime$taxpc, crime$crmrte)
model5 <- lm(crmrte~taxpc, data = crime)</pre>
model5
Call:
lm(formula = crmrte ~ taxpc, data = crime)
Coefficients:
(Intercept)
                taxpc
 0.0088444 0.0006464
abline(model5)
```



summary(model5)

```
Call:
lm(formula = crmrte ~ taxpc, data = crime)
Residuals:
      Min
                 1Q
                       Median
                                     ЗQ
                                             Max
-0.027343 -0.010886 -0.002133 0.006679 0.056466
Coefficients:
             Estimate Std. Error t value Pr(>|t|)
(Intercept) 0.0088444 0.0055339
                                  1.598
                                           0.114
            0.0006464 0.0001372
                                  4.710 9.18e-06 ***
taxpc
Signif. codes: 0 '***' 0.001 '**' 0.05 '.' 0.1 ' ' 1
Residual standard error: 0.01697 on 88 degrees of freedom
Multiple R-squared: 0.2013,
                               Adjusted R-squared: 0.1923
F-statistic: 22.19 on 1 and 88 DF, p-value: 9.181e-06
cor(crime$crmrte, crime$taxpc, use="pairwise.complete.obs")
[1] 0.4487151
plot(crime$pctmin80, crime$crmrte)
model6 <- lm(crmrte~pctmin80, data = crime)</pre>
model6
```

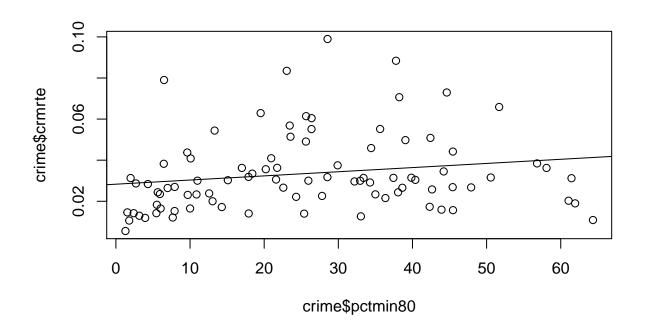
Call:

```
lm(formula = crmrte ~ pctmin80, data = crime)
```

Coefficients:

(Intercept) pctmin80 0.028316 0.000202

abline(model6)



summary(model6)

```
Call:
```

lm(formula = crmrte ~ pctmin80, data = crime)

Residuals:

Min 1Q Median 3Q Max -0.030444 -0.011928 -0.004692 0.007969 0.064884

Coefficients:

Estimate Std. Error t value Pr(>|t|)
(Intercept) 0.0283161 0.0035861 7.896 7.55e-12 ***
pctmin80 0.0002020 0.0001166 1.733 0.0866 .

Signif. codes: 0 '*** 0.001 '** 0.01 '* 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.01868 on 88 degrees of freedom Multiple R-squared: 0.033, Adjusted R-squared: 0.02201 F-statistic: 3.003 on 1 and 88 DF, p-value: 0.08662

cor(crime\$crmrte, crime\$pctmin80, use="pairwise.complete.obs")

```
model21 <- lm(crmrte~polpc + density + taxpc, data = crime)</pre>
summary(model21)
Call:
lm(formula = crmrte ~ polpc + density + taxpc, data = crime)
Residuals:
     Min
                1Q
                     Median
                                   3Q
-0.016453 -0.007955 -0.002938 0.003917 0.042047
Coefficients:
             Estimate Std. Error t value Pr(>|t|)
(Intercept) 0.0087751 0.0042403
                                  2.069 0.04150 *
polpc
           -0.1086169 1.3896572 -0.078 0.93788
            0.0080949 0.0009183 8.816 1.17e-13 ***
density
taxpc
            0.0003480 0.0001094
                                 3.181 0.00204 **
Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
Residual standard error: 0.01243 on 86 degrees of freedom
Multiple R-squared: 0.5814, Adjusted R-squared: 0.5668
F-statistic: 39.82 on 3 and 86 DF, p-value: 3.122e-16
model22 <- lm(crmrte~polpc + density, data = crime)</pre>
summary(model22)
lm(formula = crmrte ~ polpc + density, data = crime)
Residuals:
                     Median
     Min
                1Q
                                   3Q
                                            Max
-0.025716 -0.009161 -0.002382 0.004857 0.051552
Coefficients:
            Estimate Std. Error t value Pr(>|t|)
(Intercept) 0.0189880 0.0029109 6.523 4.38e-09 ***
polpc
           0.9731434 1.4162336 0.687
                                         0.494
           density
Signif. codes: 0 '***' 0.001 '**' 0.05 '.' 0.1 ' ' 1
Residual standard error: 0.01307 on 87 degrees of freedom
Multiple R-squared: 0.5322,
                             Adjusted R-squared: 0.5214
F-statistic: 49.49 on 2 and 87 DF, p-value: 4.442e-15
model29 <- lm(crmrte~pctmin80 + pctymle + density, data = crime)</pre>
summary(model29)
```

[1] 0.1816506

Call:

lm(formula = crmrte ~ pctmin80 + pctymle + density, data = crime)

```
Residuals:
```

Min 1Q Median 3Q Max -0.021145 -0.006220 -0.001704 0.003676 0.060281

Coefficients:

Estimate Std. Error t value Pr(>|t|)
(Intercept) -5.920e-04 5.072e-03 -0.117 0.90735
pctmin80 2.665e-04 7.314e-05 3.643 0.00046 ***
pctymle 1.709e-01 5.318e-02 3.213 0.00185 **
density 8.966e-03 8.228e-04 10.897 < 2e-16 ***

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.01169 on 86 degrees of freedom Multiple R-squared: 0.6301, Adjusted R-squared: 0.6172

F-statistic: 48.83 on 3 and 86 DF, p-value: < 2.2e-16

model31 <- lm(crmrte~pctmin80 + density, data = crime)
summary(model31)</pre>

Call:

lm(formula = crmrte ~ pctmin80 + density, data = crime)

Residuals:

Min 1Q Median 3Q Max -0.023115 -0.007062 -0.002932 0.003894 0.059163

Coefficients:

Estimate Std. Error t value Pr(>|t|)
(Intercept) 1.340e-02 2.737e-03 4.896 4.47e-06 ***
pctmin80 2.639e-04 7.695e-05 3.430 0.000926 ***
density 9.266e-03 8.601e-04 10.773 < 2e-16 ***
--Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.0123 on 87 degrees of freedom Multiple R-squared: 0.5857, Adjusted R-squared: 0.5762

F-statistic: 61.49 on 2 and 87 DF, $\,$ p-value: < 2.2e-16

Building a Model

To build the model, we use a backwards approach. We first build a model that includes all the data we are given then remove the data with the least explanatory power. Following that, we then explain why the information for the variables removed is already incorporated into the model and thus why it is excluded from the final model.

```
model 1<-lm(crime$crmrte~crime$prbarr+crime$prbconv+crime$prbpris</pre>
                   +crime$avgsen+crime$polpc+crime$density+crime$taxpc
                   +crime$west+crime$central+crime$urban+crime$pctmin80
                   +crime$wcon+crime$wtuc+crime$wtrd+crime$wfir+crime$wser
                   +crime$wmfg+crime$wfed+crime$wsta+crime$wloc+crime$mix
                   +crime$pctymle)
summary(model_1)
Call:
lm(formula = crime$crmrte ~ crime$prbarr + crime$prbconv + crime$prbpris +
    crime$avgsen + crime$polpc + crime$density + crime$taxpc +
    crime$west + crime$central + crime$urban + crime$pctmin80 +
    crime$wcon + crime$wtuc + crime$wtrd + crime$wfir + crime$wser +
    crime$wmfg + crime$wfed + crime$wsta + crime$wloc + crime$mix +
    crime$pctymle)
Residuals:
                          Median
       Min
                   1Q
                                         3Q
                                                   Max
-0.0168836 -0.0039309 -0.0004161 0.0046227
                                            0.0228050
Coefficients:
                Estimate Std. Error t value Pr(>|t|)
(Intercept)
                1.333e-02 1.972e-02
                                      0.676 0.501164
crime$prbarr
               -5.135e-02 9.919e-03 -5.177 2.24e-06 ***
crime$prbconv
              -1.854e-02 3.770e-03 -4.917 5.97e-06 ***
crime$prbpris
               4.159e-03 1.209e-02 0.344 0.731917
crime$avgsen
               -3.958e-04 4.241e-04 -0.933 0.354003
crime$polpc
               6.918e+00 1.546e+00
                                      4.476 3.03e-05 ***
crime$density
               5.156e-03 1.400e-03
                                      3.682 0.000464 ***
crime$taxpc
               1.676e-04 9.530e-05
                                      1.759 0.083168 .
crime$west
               -2.416e-03 4.190e-03 -0.577 0.566193
crime$central -4.163e-03 2.869e-03
                                     -1.451 0.151468
crime$urban
               5.814e-04 6.382e-03
                                     0.091 0.927681
crime$pctmin80 3.277e-04 9.886e-05
                                      3.315 0.001484 **
crime$wcon
               2.406e-05 2.794e-05
                                      0.861 0.392189
crime$wtuc
               5.257e-06 1.511e-05
                                      0.348 0.729007
crime$wtrd
               2.896e-05 4.641e-05
                                      0.624 0.534745
crime$wfir
              -3.482e-05 2.749e-05
                                     -1.267 0.209657
               -1.887e-06 5.678e-06
crime$wser
                                     -0.332 0.740741
crime$wmfg
              -8.792e-06 1.435e-05 -0.613 0.542111
crime$wfed
               2.981e-05 2.562e-05
                                      1.164 0.248655
              -2.326e-05 2.597e-05 -0.895 0.373764
crime$wsta
crime$wloc
               1.337e-05 4.897e-05
                                      0.273 0.785627
crime$mix
               -1.936e-02 1.472e-02 -1.315 0.192895
crime$pctymle
              1.035e-01 4.522e-02
                                      2.288 0.025298 *
```

```
Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.008317 on 67 degrees of freedom

Multiple R-squared: 0.854, Adjusted R-squared: 0.8061
```

F-statistic: 17.81 on 22 and 67 DF, p-value: < 2.2e-16

From here we trim the variables with the least explanatory power, but also it should be noted that some variables simply have very little correlation with our dependant variable crime rate, such as average sentence and probability of prison.

[1] 0.7929876

```
dat_1<-data.frame(crime$crmrte,crime$avgsen,crime$prbpris)
cor(dat_1)</pre>
```

```
crime.crmrte crime.avgsen crime.prbpris

crime.crmrte 1.00000000 0.01979653 0.04799540

crime.avgsen 0.01979653 1.00000000 -0.09468083

crime.prbpris 0.04799540 -0.09468083 1.00000000
```

[NOTE: this doesn't quite make sense. There are only 3 variables directly above. Do you mean the model_2 data?] From here, we see that these 5 variables contain almost all of the information of the other variables. Now that we have a model, we need to understand why these 5 variables cover all of the information we need for the model.

Density seems to be the strongest predictor of crime rate in the data. We include it first but it should be noted that if the urban flag is used in lew of density the model loses very little explanatory power because the two are highly correlated so little information is added by including it, and since density is more highly correlated with our dependant variable we choose to use it over the urban flag.

[1] 0.7302545

```
dat1<-data.frame(crime$crmrte,crime$density,crime$urban)
cor(dat1)</pre>
```

```
crime.crmrte crime.density crime.urban

crime.crmrte 1.0000000 0.7277783 0.6150631

crime.density 0.7277783 1.0000000 0.8206825

crime.urban 0.6150631 0.8206825 1.0000000
```

Next we turn to wages. Even alone they seem to have little predictive power. It may be that case that what we really want to measure is not wages but unemployment as it may be that case that even if one doesn't have much money, they are at least employed and therefore will commit less crimes.

```
summary(lm(crime$crmrte~crime$wcon+crime$wtuc+crime$wtrd+crime$wfir
+crime$wser+crime$wmfg+crime$wfed+crime$wsta+crime$wloc))
```

Call:

Residuals:

Min 1Q Median 3Q Max -0.035348 -0.009720 -0.003703 0.006302 0.052214

Coefficients:

Estimate Std. Error t value Pr(>|t|)
(Intercept) -6.898e-02 2.390e-02 -2.887 0.00501 **
crime\$wcon 6.737e-05 4.800e-05 1.404 0.16431
crime\$wtuc -8.665e-07 2.747e-05 -0.032 0.97492
crime\$wtrd 1.245e-04 8.289e-05 1.501 0.13718
crime\$wfir -6.460e-05 5.016e-05 -1.288 0.20150
crime\$wser -5.261e-06 8.428e-06 -0.624 0.53424
crime\$wmfg 3.333e-05 2.573e-05 1.295 0.19889
crime\$wfed 7.975e-05 4.379e-05 1.821 0.07230 .
crime\$wsta 8.239e-05 4.497e-05 1.832 0.07062 .
crime\$wloc 1.162e-05 8.493e-05 0.137 0.89156

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.01636 on 80 degrees of freedom Multiple R-squared: 0.3253, Adjusted R-squared: 0.2494 F-statistic: 4.285 on 9 and 80 DF, p-value: 0.0001451

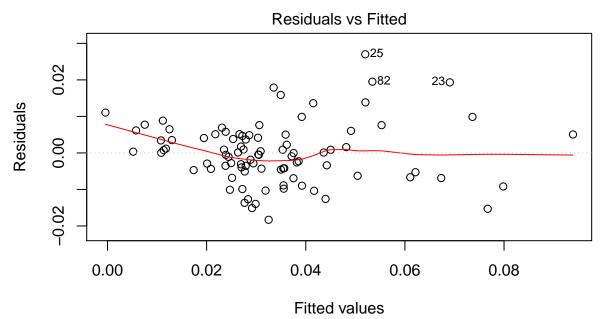
Verify Assumptions

Here we verify the the six assumptions of our model:

- 1) Linearity of the Parameters
- 2) Random Sampling
- 3) No Perfect Multicollinearity
- 4) Zero Conditional Mean
- 5) Homoskedasticity
- 6) Normality of Residuals

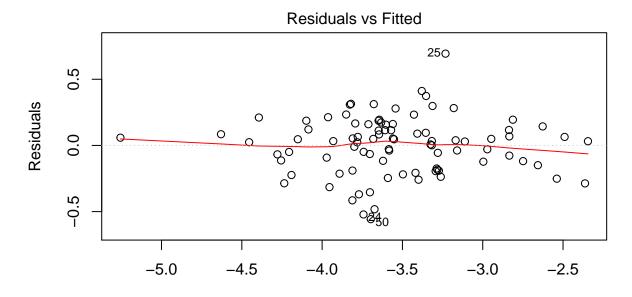
First we check for linearity by looking at the Residuals vs Fitted plot.

plot(model_2, which=1)

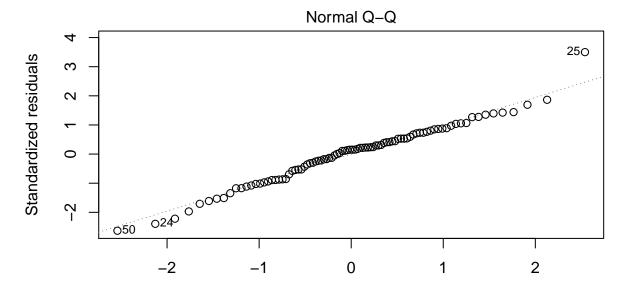


Im(crime\$crmrte ~ crime\$density + crime\$prbarr + crime\$prbconv + crime\$polp ...

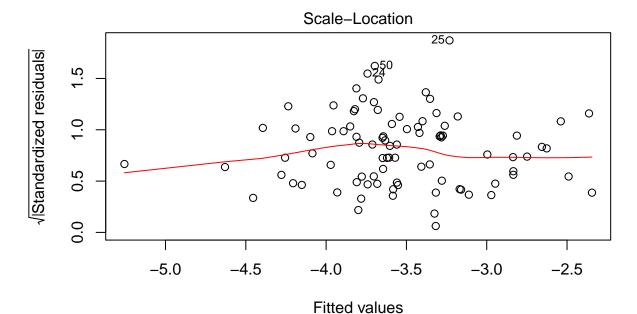
Here we see evidence of nonlinear relationship at the lower end of the range of our dependant variable. We address this by looking at the log-log relationship with respect to crimerte, density, and polpc, our variables that show the strongest evidence of skew.



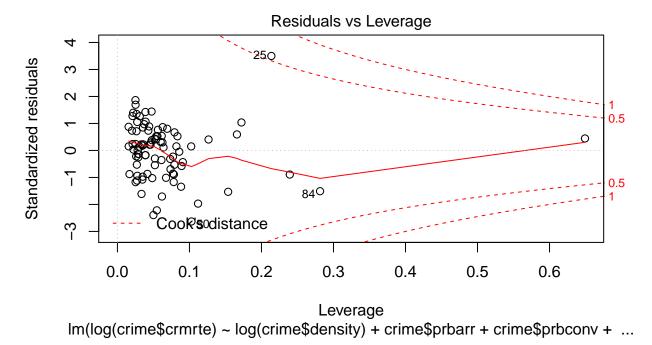
Fitted values Im(log(crime\$crmrte) ~ log(crime\$density) + crime\$prbarr + crime\$prbconv + ...



 $\label{log-cont} Theoretical Quantiles $$ Im(log(crime\$crmrte) \sim log(crime\$density) + crime\$prbarr + crime\$prbconv + \dots $$$



Im(log(crime\$crmrte) ~ log(crime\$density) + crime\$prbarr + crime\$prbconv + ...



This plot is very strong evidence that the log-log transform takes care of the linearity assumption and the zero conditional mean assumption. Additionally, the normal QQ plot fits extremely well so we can safely assume we have normality of our residuals.

```
Variables VIF
1 log.crime.density. 1.578154
2 log.crime.polpc. 1.303623
3 crime.prbarr 1.420060
4 crime.prbconv 1.109106
5 crime.pctmin80 1.043042
```

To check for multicollinearity we use the measured variance inflation factors shown above. These values are sufficiently low for each of our independant variables so there is very little evidence of multicollinearity.

For the assumption of a random sample, we have to assume that the person gathering the data for the model took proper precautions to gather a truly random sample. We could gather a second sample and compare the distributions of the two samples and see how similar they are, but this would likely be costly and time consuming. For the purposes of this study, we assume that the person gathering the information used due diligence to gather a sample would truly is representative of the larger population of counties that the candidate intends to represent.

Referring back to the Residuals vs Fitted plot, we see strong evidence of f heteroskedasticity and will use robust standard errors when assessing our model from here.

```
coeftest(model_3, vcov=vcovHC)
```

t test of coefficients:

Conclusions

The strongest variables showing correlation with crimerate are: population density, probability of arrest, probability of conviction, police per capita and percent minority. There are a few observations wrt these variables that are key to consider before we make policy decisions.

- a. In order to make policy changes based on these decisons, we would need an idea of causality, not just correlations. However, it is hard to interpret causality here since several key variables that could affect crime rate are missing here e.g unemployment rate, poverty rate. So it would be very helpful to get data on these variables for doing analysis on causality
- b. With current data, we can make an attempt to apply judgement to the relationships that show up as significant to then make policy choices. In this context:
- 1. while population density and percent minority are significant varibles, there is very little we can do from a policy point of view to change these. However, it is important to include these variables in the model to be able to see the effect of the other variables net of these.
- 2. Both probability of arrest and probability of conviction show significant negative correlation with crime rate. It suggests that the higher the likelihood of being arrested and convicted for a crime, the lesser the likelihood of a crime. ie arrest and conviction are significant deterrants to crime. Hence policy changes that lead to an increase in catching the criminals would be good to reduce crime.
- 3. Interestingly, average sentence, and probability of prison sentence did not show up as significant, even though they are not very correlated with the other two variables that show the adverse consequence of crime for the criminal ie probability of arrest, and probability of conviction. This suggests that whether the criminal is caught and convicted is more important than the magnitude or nature of the sentence if convicted. So policy should focus on law enforcement initiatives that lead to greater success in arrest and conviction.
- 4. Police per capita has a positive correlation with crime rate. Clearly, increasing police cannot lead to increase in crime rate. This may be a case where increase in crime rate leads to increasing the size of the police force ie the causality is the other way. Since we want to increase the probability of arrest and conviction, one way to do that is to increase the police force, not reduce it. In fact, we can see a significant positive correlation of police per cap with probability of arrest. Note that it is possible that the desired outcomes can also be achieved by focusing the existing police force on arresting criminals vs other activities like traffic etc.

stargazer(model_3, type="text", se=list(se.model))

	Dependent variable:
	crmrte)
density)	0.292*** (0.064)
prbarr	-1.679*** (0.285)
prbconv	-0.612*** (0.103)
polpc)	0.455*** (0.130)

pctmin80	0.013*** (0.002)
Constant	-0.106 (0.962)
Observations	90
R2	0.843
Adjusted R2	0.834
Residual Std. Error	0.223 (df = 84)
F Statistic	90.516*** (df = 5; 84)
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Note:	*p<0.1; **p<0.05; ***p<0.01