

Simple Regression Analysis

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October 7th, 2016

1 Abstract

Fall 2016 Statistics 159, Reproducible and Collaborative Statistical Data Science, homework two introduced simple regression analysis. In this report, I utilized the Advertising CSV file that was provided to reproduce the results displayed in chapter 3, *Simple Linear Regression*, of the text book, **An Introduction to Statistical Learning**.

2 Introduction

The overarching goal of this homework is for the students to get familiarized with linear regression, a simple yet powerful tool to analyze data. Even though there is multiple regression analysis, this report primarily uses simple linear regression, which only considers two variables. The report focuses on the potential relationship or regression between **Sales** and **Advertisement** in three different media outlets.

3 Data

The Advertising data that used in this report was provided through the textbook, **An Introduction to Statistical Learning** written by Gareth James, Daniela Witten, Trevor Hastie and Robert Tibshirani.

4 Methodology

Simple linear regression is a very simple approach for estimating a quantitative response Y on an independent variable X . The regression assumes that there is a linear relationship between Y and X . The regression is usually model after this simple equation.

$$Y_i \approx \beta_0 + \beta_1 X_i \tag{1}$$

4.1 Estimating the Coefficients

In this paper, we concentrated on one particular media platform, which is TV, and its relationship with **Sales**. The linear model that we perform the simple linear regression on is:

$$Sales \approx \hat{\beta}_0 + \hat{\beta}_1 TV \quad (2)$$

In order to accurately estimate $\hat{\beta}_0$ and $\hat{\beta}_1$ that fit our linear model, we needed to use the 200 samples that are given in the data. Ultimately, our goal is to find the closeness between $\hat{\beta}_0$ and $\hat{\beta}_1$ and $n = 200$ different markets. We have to find an intercept of $\hat{\beta}_0$ and a slope $\hat{\beta}_1$ such that the resulting line is as close to the $n = 200$ data points.

We used *residual sum of squares* (RSS) to estimate the least squares fit for the regression. Let $\hat{Y}_i = \hat{\beta}_0 + \hat{\beta}_1 X_i$ be the prediction of Y , and the i th residuals is $e_i = y_i - \hat{y}_i$. *Residual sum of squares* (RSS) is:

$$RSS = e_1^2 + e_2^2 + \dots + e_n^2 \quad (3)$$

Utilizing this knowledge, we found that $\hat{\beta}_0 = 7.03$ and $\hat{\beta}_1 = 0.0475$. These values translate to that with an additional of \$1000 spent on TV advertisement is associated with selling approximately 47.5 additional units of product.

4.2 Assessing the Accuracy of the Coefficients Estimates

The observed β values can be used to come up with a hypothesis test on whether or not there is a relationship between X and Y . Our null hypothesis would be that there is no relationship between the two variables and we perform a *t-test* in order to test the hypothesis:

$$t = \hat{\beta}_1 - 0 / SE(\beta_1) \quad (4)$$

The result of the above equation is the p-value. With a small p-value, typically less than 0.05, we would be able to reject our null hypothesis and conclude that there is a relationship between the two variables.

4.3 RSE

RSE or *residual standard error* estimates the standard error of the given model. The equation for it is:

$$\sqrt{1/(n-2) * \sum_{i=1}^n (y_i - \hat{y}_i)^2} \quad (5)$$

4.4 R^2

R^2 value measures how close the data are to the fitted regression line. The value of R^2 lies between zero and one. The equation of R^2 is:

$$R^2 = (TSS - RSS)/TSS \quad (6)$$

5 Results

The result that we obtain for $\hat{\beta}_0$ and $\hat{\beta}_1$ is described in the below table:

	Estimate	Std. Error	t value	P-value
(Intercept)	7.03	0.46	15.36	< 0.0001
TV	0.05	0.00	17.67	< 0.0001

Table: Information about Regression Coefficients

As one can see, the p-values are all less than 0.0001, which means that we can reject the null hypothesis, in other words, there is a relationship between X and Y .

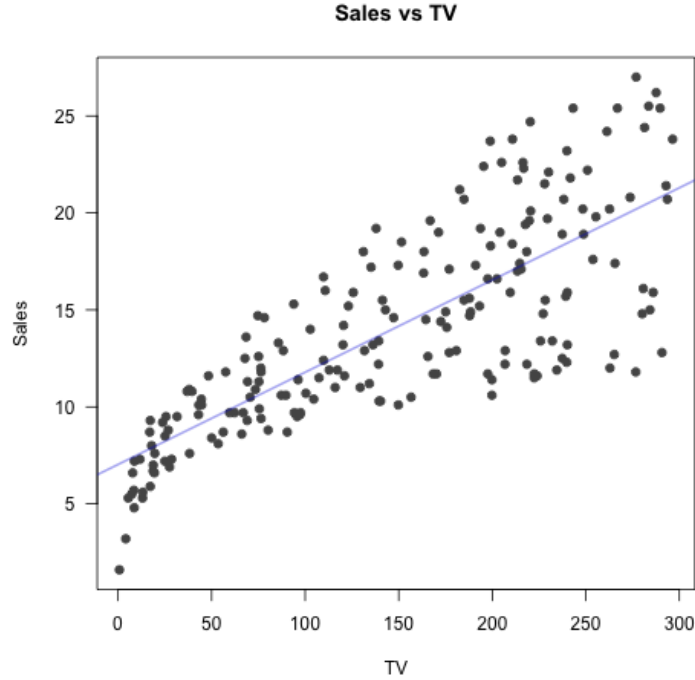
The table below describes additional information about the least squares model for the regression:

Quantity	Value
RSE	3.26
R^2	0.61
F-stat	312.14

Table: Regression Quality Indices

The RSE value is about 3.26, which means that on average actual sales in each market deviate from the true regression line by approximately 3,260 units.

Below is the scatterplot showing the relationship between **Sales** and **TV**:



As one can see the positive slope of the regression line placed in the center of the data points, which means there is a positive correlation with the two variables.

6 Conclusions

In conclusion, using simple linear regression model we found the relationship between **Sales** and **TV** advertisement. We conclude that approximately with an increase of \$1000 spending in TV advertisement is equivalent as selling approximately 47.5 units of product. With an relatively easy linear regression model, we were able to predict and estimate powerful data that are essential to successfully analyze the data. The linear regression relationship between X and Y variables is the key aspect to the paper.