

Statistics and Data Analysis

Unit 04 – Lecture 05: Multicollinearity

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<https://github.com/tali7c/Statistics-and-Data-Analysis>

Overview
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What and Why
o

Detection
o

Exercises
oooooo

Demo
oo

Summary
oo

Quick Links

Overview

What and Why

Detection

Exercises

Demo

Summary

Agenda

1 Overview

2 What and Why

3 Detection

4 Exercises

5 Demo

6 Summary

Learning Outcomes

- Define multicollinearity (high correlation among predictors)

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- Explain why it harms interpretation (unstable coefficients)

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- Recognize symptoms (large SEs, unstable signs)

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- Define multicollinearity (high correlation among predictors)
- Explain why it harms interpretation (unstable coefficients)
- Recognize symptoms (large SEs, unstable signs)
- List common fixes (drop/combine/regularize)

What and Why: Key Points

- Predictors overlap in information

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- Coefficients become unstable

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- Predictors overlap in information
- Coefficients become unstable
- Prediction may still be OK but interpretation suffers

Detection: Key Points

- Correlation matrix/heatmap (screening)

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- VIF (next)

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- VIF (next)
- Condition number (advanced)

Exercise 1: Identify

If $\text{corr}(x_1, x_2) = 0.98$, what risk do you expect?

Solution 1

- High multicollinearity; unstable coefficients.

Exercise 2: Fix

Name one fix for multicollinearity.

Solution 2

- Drop one feature, combine features, or use ridge/PCA.

Exercise 3: Prediction vs interpretation

Can multicollinearity still allow good prediction?

Solution 3

- Yes, but individual coefficients are unreliable.

Mini Demo (Python)

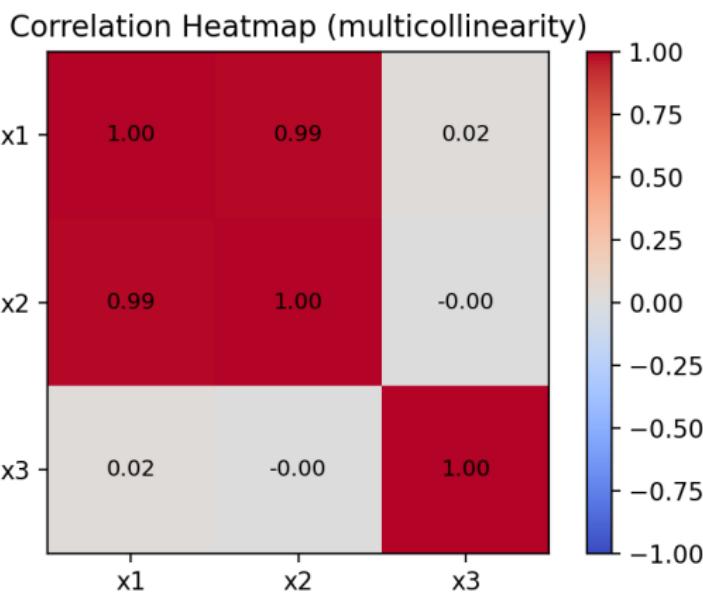
Run from the lecture folder:

```
python demo/demo.py
```

Outputs:

- images/demo.png
- data/results.txt

Demo Output (Example)



Summary

- Key definitions and the main formula.

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- How to interpret results in context.

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- Key definitions and the main formula.
- How to interpret results in context.
- How the demo connects to the theory.

Exit Question

What does multicollinearity break first: prediction or interpretation (and why)?