Linear Models - Assignment

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OVERVIEW

This project aims to explore the relationship between a set of variables and miles per gallon (MPG) In particular, the the project aims to answer the following two questions

- Is an automatic or manual transmission better for MPG
- Quantify the MPG difference between automatic and manual transmission

EXECUTIVE SUMMARY

The key finding of this analysis is that manual transmission on average has a better miles per gallon (mpg) than its counterpart i.e. automatic transmission.

LOADING THE DATASET

```
library(datasets)
library(stargazer)
```

```
##
## Please cite as:
```

```
##  Hlavac, Marek (2018). stargazer: Well-Formatted Regression and Summary Statistics Tables.
```

```
##  R package version 5.2.2. https://CRAN.R-project.org/package=stargazer
```

```
data(mtcars)
knitr::kable(head(mtcars),caption = "First 6 rows of the dataset")
```

Table 1: First 6 rows of the dataset

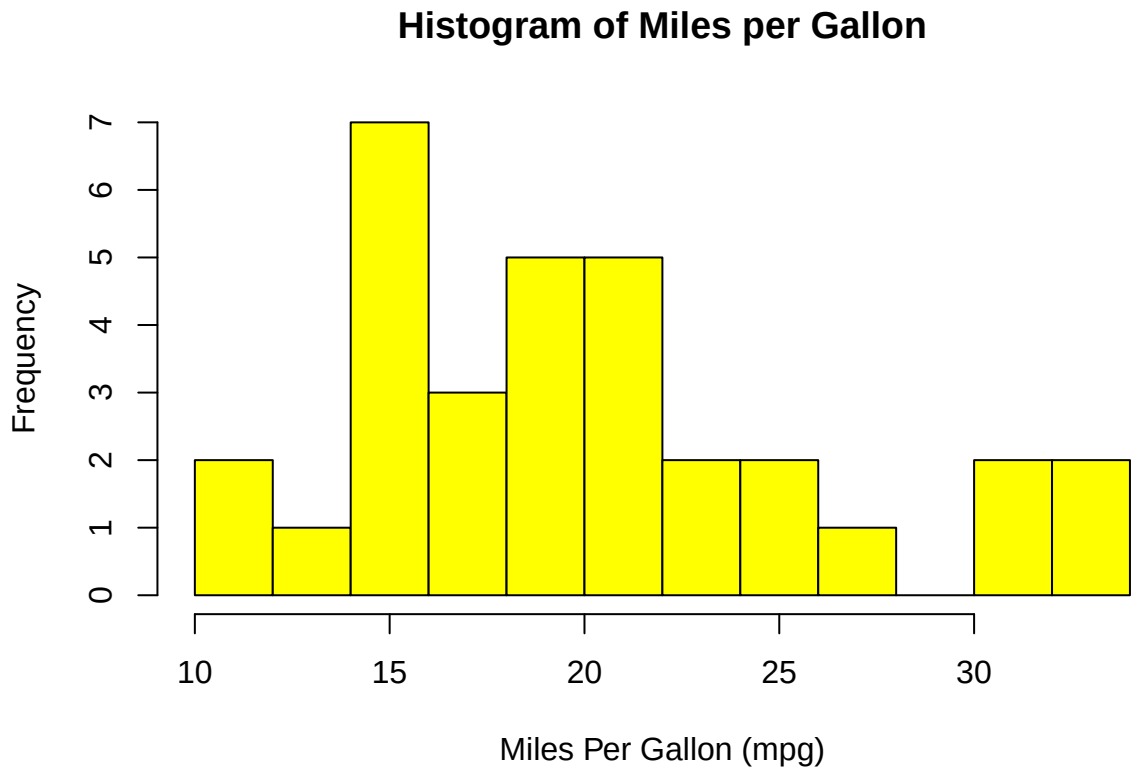
	mpg	cyl	disp	hp	drat	wt	qsec	vs	am	gear	carb
Mazda RX4	21.0	6	160	110	3.90	2.620	16.46	0	1	4	4
Mazda RX4 Wag	21.0	6	160	110	3.90	2.875	17.02	0	1	4	4
Datsun 710	22.8	4	108	93	3.85	2.320	18.61	1	1	4	1
Hornet 4 Drive	21.4	6	258	110	3.08	3.215	19.44	1	0	3	1
Hornet Sportabout	18.7	8	360	175	3.15	3.440	17.02	0	0	3	2
Valiant	18.1	6	225	105	1	2.76	3.460	20.22	1	0	3	1

```r
mtcars$cyl <- as.factor(mtcars$cyl)
mtcars$vs <- as.factor(mtcars$vs)
mtcars$am <- as.factor(mtcars$am)
str(mtcars)
```

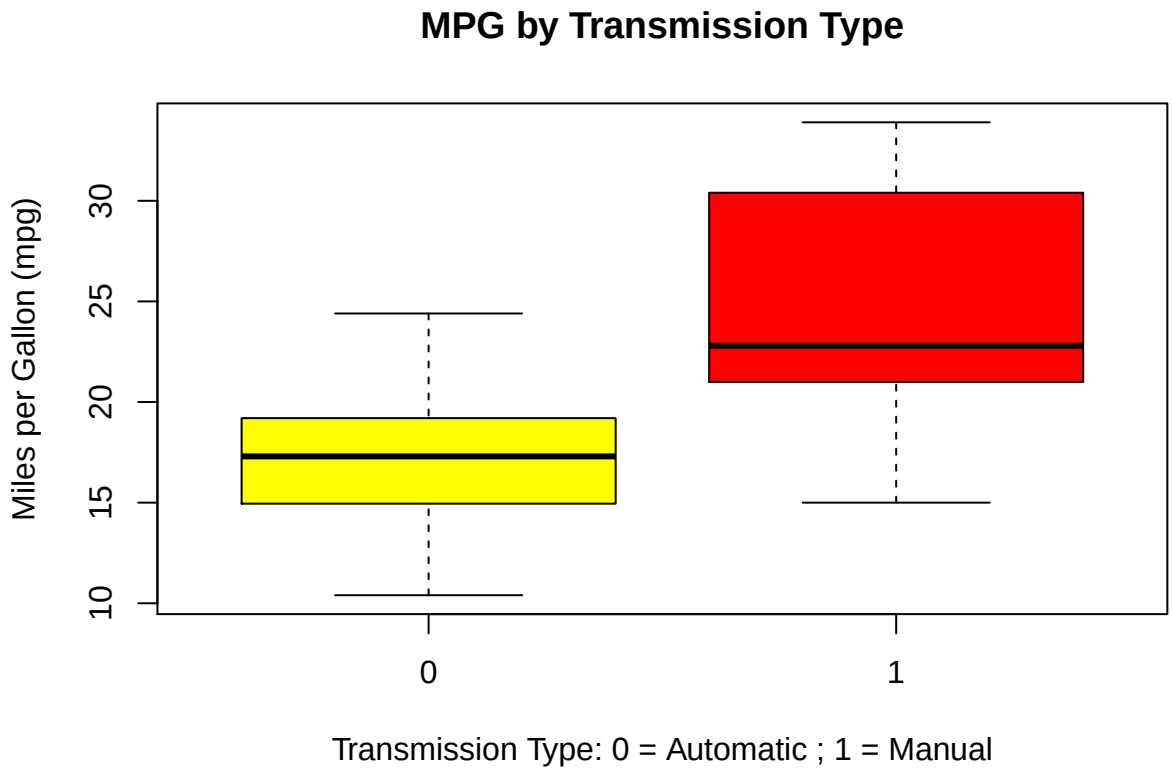
```
## 'data.frame':    32 obs. of  11 variables:
##  $ mpg : num  21 21 22.8 21.4 18.7 18.1 14.3 24.4 22.8 19.2 ...
##  $ cyl : Factor w/ 3 levels "4","6","8": 2 2 1 2 3 2 3 1 1 2 ...
##  $ disp: num  160 160 108 258 360 ...
##  $ hp  : num  110 110 93 110 175 105 245 62 95 123 ...
##  $ drat: num  3.9 3.9 3.85 3.08 3.15 2.76 3.21 3.69 3.92 3.92 ...
##  $ wt  : num  2.62 2.88 2.32 3.21 3.44 ...
##  $ qsec: num  16.5 17 18.6 19.4 17 ...
##  $ vs  : Factor w/ 2 levels "0","1": 1 1 2 2 1 2 1 2 2 2 ...
##  $ am  : Factor w/ 2 levels "0","1": 2 2 2 1 1 1 1 1 1 1 ...
##  $ gear: num  4 4 4 3 3 3 3 4 4 4 ...
##  $ carb: num  4 4 1 1 2 1 4 2 2 4 ...
```

EXPLORATORY ANALYSIS

```r
a <- mtcars$mpg
hist(a, breaks=10, col="yellow", xlab="Miles Per Gallon (mpg)",
   main="Histogram of Miles per Gallon")
```



```r
boxplot(mpg ~ am, data = mtcars,
        col = c("yellow", "red"),
        xlab = "Transmission Type: 0 = Automatic ; 1 = Manual",
        ylab = "Miles per Gallon (mpg)",
        main = "MPG by Transmission Type")
```




```r
aggregate(mpg ~ am, data = mtcars, mean)
```

```
##   am      mpg
## 1  0 17.14737
## 2  1 24.39231
```

Thus, the mean of manual transmission is 7.25 MPG higher than automatic transmission

REGRESSION MODELLING

```r
singleVariableRegressionModel <- lm(mpg ~ am, data = mtcars)
summary(singleVariableRegressionModel)
```

```
##
## Call:
## lm(formula = mpg ~ am, data = mtcars)
```

```
##
## Residuals:
##     Min      1Q  Median      3Q     Max
## -9.3923 -3.0923 -0.2974  3.2439  9.5077
##
## Coefficients:
##             Estimate Std. Error t value Pr(>|t|)
## (Intercept)   17.147      1.125  15.247 1.13e-15 ***
## am1            7.245      1.764   4.106 0.000285 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 4.902 on 30 degrees of freedom
## Multiple R-squared:  0.3598, Adjusted R-squared:  0.3385
## F-statistic: 16.86 on 1 and 30 DF,  p-value: 0.000285
```

Since Adjusted R^2 = 0.3385, thus only 33.85% of the regression variance of this model is explained.

```
multiVariableRegressionModel <- lm(mpg ~ am + wt + hp, data = mtcars)
summary(multiVariableRegressionModel)
```

```
##
## Call:
## lm(formula = mpg ~ am + wt + hp, data = mtcars)
##
## Residuals:
##     Min      1Q  Median      3Q     Max
## -3.4221 -1.7924 -0.3788  1.2249  5.5317
##
## Coefficients:
##              Estimate Std. Error t value Pr(>|t|)
## (Intercept) 34.002875   2.642659  12.867 2.82e-13 ***
## am1          2.083710   1.376420   1.514 0.141268
## wt          -2.878575   0.904971  -3.181 0.003574 **
## hp          -0.037479   0.009605  -3.902 0.000546 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 2.538 on 28 degrees of freedom
## Multiple R-squared:  0.8399, Adjusted R-squared:  0.8227
## F-statistic: 48.96 on 3 and 28 DF,  p-value: 2.908e-11
```

Compared to single variable regression model, the Adjusted R^2 = 0.823, thus approximately 82.3% of the regression variance of this model is explained.

```
anova(singleVariableRegressionModel, multiVariableRegressionModel)
```

```
## Analysis of Variance Table
##
## Model 1: mpg ~ am
## Model 2: mpg ~ am + wt + hp
##   Res.Df    RSS Df Sum of Sq      F    Pr(>F)
```

```
## 1     30 720.90
## 2     28 180.29  2    540.61 41.979 3.745e-09 ***
## ---
## Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Since the p-value is 3.745e-09, we can now reject the H0 and state that our Multivariable Model is considerably different than the Single Linear Regression Model.

```
t.test(mtcars$mpg~mtcars$am)
```

```
##
##  Welch Two Sample t-test
##
## data:  mtcars$mpg by mtcars$am
## t = -3.7671, df = 18.332, p-value = 0.001374
## alternative hypothesis: true difference in means is not equal to 0
## 95 percent confidence interval:
##  -11.280194  -3.209684
## sample estimates:
## mean in group 0 mean in group 1
##        17.14737        24.39231
```

With assumption that all other conditions remain unchanged. Since p-value = 0.001374 which is less than 0.05, we conclude that manual transmission is better than automatic transmission for MPG and reject the null hypothesis that there is no difference in MPG.