Lecture 11
Simple Linear Regression

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Midterm 2

- mean: 91.2
- median: 93.75
- std: 6.5
Meddicorp Sales

Meddicorp Company sells medical supplies to hospitals, clinics, and doctor's offices.

Meddicorp's management considers the effectiveness of a new advertising program.

Management wants to know if the advertisement in 1999 is related to sales.
Data

The company observes for 25 offices the yearly sales (in thousands) and the advertisement expenditure for the new program (in hundreds)

<table>
<thead>
<tr>
<th>SALES</th>
<th>ADV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>963.50</td>
</tr>
<tr>
<td>2</td>
<td>893.00</td>
</tr>
<tr>
<td>3</td>
<td>1057.25</td>
</tr>
<tr>
<td>4</td>
<td>1183.25</td>
</tr>
<tr>
<td>5</td>
<td>1419.50</td>
</tr>
</tbody>
</table>

............
Regression analysis

• Step 1: graphical display of data — scatter plot: sales vs. advertisement cost
• Step 2: find the relationship or association between Sales and Advertisement Cost — Regression
Regression Analysis

• The collection of statistical tools that are used to model and explore relationships between variables that are related in nondeterministic manner is called regression analysis

• Occurs frequently in engineering and science
Scatter Diagram

Many problems in engineering and science involve exploring the relationships between two or more variables.

Regression analysis is a statistical technique that is very useful for these types of problems.

Regression analysis

\[
\hat{\rho} = \frac{\sum_{i=1}^{n} (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^{n} (x_i - \bar{x})^2 \times \sum_{i=1}^{n} (y_i - \bar{y})^2}}
\]

\[-1 \leq \hat{\rho} \leq 1\]
• We observe a response or dependent variable \( (Y) \)

• With each \( (Y) \), we also observe regressors or predictors \( \{X_1, ..., X_n\} \)

• Goal: determine the mathematical relationship between response variables and regressors

\[
Y = h(X_1, ..., X_n)
\]
• Function can be non-linear
• In this class, we will focus on the case where $Y$ is a linear function of $\{X_1, \ldots, X_n\}$

\[ Y = h(X_1, \ldots, X_n) = \beta_0 + \beta_1 X_1 + \ldots + \beta_n X_n \]
Different forms of regression

• Simple linear regression
  \[ Y = \beta_0 + \beta_1 X + \varepsilon \]

• Multiple linear regression
  \[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \]

• Polynomial regression
  \[ Y = \beta_0 + \beta_1 X + \beta_2 X^2 + \varepsilon \]
Basics of regressions

Which is the RESPONSE and which is the PREDICTOR?

The response or dependent variable varies with different values of the regressor/predictor.

The predictor values are fixed: we observe the response for these fixed values

The focus is in explaining the response variable in association with one or more predictors
Simple linear regression

Our goal is to find the best line that describes a linear relationship:

Find \((\beta_0, \beta_1)\) where

\[ Y = \beta_0 + \beta_1 X + \epsilon \]

Unknown parameters:

1. \(\beta_0\)  \textit{Intercept} (where the line crosses y-axis)
2. \(\beta_1\)  \textit{Slope} of the line

Basic idea

a. Plot observations \((X,Y)\)
   b. Find best line that follows plotted points
Class activity

1. In the Meddicorp Company example, the response is:
   A. Sales       B. Advertisement Expenditure

2. In the Meddicorp Company example, the predictor is:
   A. Sales       B. Advertisement Expenditure

3. To learn about the association between sales and the advertisement expenditure we can use simple linear regression:
   A. True       B. False

4. If the association between response and predictor is positive then the slope is
   A. Positive   B. Negative   C. We cannot identify the slope sign
Simple linear regression: model

With observed data \{(X_1,Y_1),\ldots,(X_n,Y_n)\}, we model the linear relationship

\[
Y_i = \beta_0 + \beta_1 X_i + \epsilon_i, \; i = 1, \ldots, n
\]

\[E(\epsilon_i) = 0\]

\[\text{Var}(\epsilon_i) = \sigma^2\]

\{\epsilon_1, \ldots, \epsilon_n\} are independent random variables

(Later we assume \(\epsilon_i \sim \text{Normal}\))

Later, we will check these assumptions when we check “model adequacy”
Summary: simple linear regression

Based on the scatter diagram, it is probably reasonable to assume that the mean of the random variable $Y$ is related to $X$ by the following simple linear regression model:

$$Y_i = \beta_0 + \beta_1 X_i + \varepsilon_i$$

where the slope and intercept of the line are called regression coefficients.

• The case of simple linear regression considers a single regressor or predictor $x$ and a dependent or response variable $Y$. 
Estimate regression parameters

To estimate \((\beta_0, \beta_1)\), we find values that minimize squared error:

\[
\sum_{i=1}^{n} (y_i - (\beta_0 + \beta_1 x_i))^2
\]

- derivation: method of least squares
Method of least squares

\[ y_i = \beta_0 + \beta_1 x_i + \epsilon_i, \quad i = 1, 2, \ldots, n \]

To estimate \((\beta_0, \beta_1)\), we find values that minimize squared error:

\[ L = \sum_{i=1}^{n} \epsilon_i^2 = \sum_{i=1}^{n} (y_i - \beta_0 - \beta_1 x_i)^2 \]

The least squares estimators of \(\beta_0\) and \(\beta_1\), say, \(\hat{\beta}_0\) and \(\hat{\beta}_1\), must satisfy

\[
\left. \frac{\partial L}{\partial \beta_0} \right|_{\hat{\beta}_0, \hat{\beta}_1} = -2 \sum_{i=1}^{n} (y_i - \hat{\beta}_0 - \hat{\beta}_1 x_i) = 0 \\
\left. \frac{\partial L}{\partial \beta_1} \right|_{\hat{\beta}_0, \hat{\beta}_1} = -2 \sum_{i=1}^{n} (y_i - \hat{\beta}_0 - \hat{\beta}_1 x_i) x_i = 0
\]

Least square normal equations

\[
n \hat{\beta}_0 + \hat{\beta}_1 \sum_{i=1}^{n} x_i = \sum_{i=1}^{n} y_i \\
\hat{\beta}_0 \sum_{i=1}^{n} x_i + \hat{\beta}_1 \sum_{i=1}^{n} x_i^2 = \sum_{i=1}^{n} y_i x_i
\]
The least squares estimates of the intercept and slope in the simple linear regression model are:

\[
\hat{\beta}_0 = \bar{y} - \hat{\beta}_1 \bar{x}
\]

(11-7)

\[
\hat{\beta}_1 = \frac{\sum_{i=1}^{n} y_i x_i - \left( \frac{\sum_{i=1}^{n} y_i}{n} \right) \left( \frac{\sum_{i=1}^{n} x_i}{n} \right)}{\sum_{i=1}^{n} x_i^2 - \left( \frac{\sum_{i=1}^{n} x_i}{n} \right)^2}
\]

(11-8)

where \(\bar{y} = (1/n) \sum_{i=1}^{n} y_i\) and \(\bar{x} = (1/n) \sum_{i=1}^{n} x_i\).
Alternative notation

\[
S_{xx} = \sum_{i=1}^{n} (x_i - \bar{x})^2 = \sum_{i=1}^{n} x_i^2 - \frac{\left(\sum_{i=1}^{n} x_i\right)^2}{n} \quad (11-10)
\]

\[
S_{xy} = \sum_{i=1}^{n} (y_i - \bar{y})(x_i - \bar{x}) = \sum_{i=1}^{n} x_i y_i - \frac{\left(\sum_{i=1}^{n} x_i\right)\left(\sum_{i=1}^{n} y_i\right)}{n} \quad (11-11)
\]

\[
\hat{\beta}_0 = \bar{y} - \hat{\beta}_1 \bar{x}
\]

\[
\hat{\beta}_1 = \frac{S_{xy}}{S_{xx}}
\]

\[
\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i
\]

Fitted (estimated) regression model
Example: oxygen and hydrocarbon level

Table 11-1  Oxygen and Hydrocarbon Levels

<table>
<thead>
<tr>
<th>Observation Number</th>
<th>Hydrocarbon Level $x$ (%)</th>
<th>Purity $y$ (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.99</td>
<td>90.01</td>
</tr>
<tr>
<td>2</td>
<td>1.02</td>
<td>89.05</td>
</tr>
<tr>
<td>3</td>
<td>1.15</td>
<td>91.43</td>
</tr>
<tr>
<td>4</td>
<td>1.29</td>
<td>93.74</td>
</tr>
<tr>
<td>5</td>
<td>1.46</td>
<td>96.73</td>
</tr>
<tr>
<td>6</td>
<td>1.36</td>
<td>94.45</td>
</tr>
<tr>
<td>7</td>
<td>0.87</td>
<td>87.59</td>
</tr>
<tr>
<td>8</td>
<td>1.23</td>
<td>91.77</td>
</tr>
<tr>
<td>9</td>
<td>1.55</td>
<td>99.42</td>
</tr>
<tr>
<td>10</td>
<td>1.40</td>
<td>93.65</td>
</tr>
<tr>
<td>11</td>
<td>1.19</td>
<td>93.54</td>
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<tr>
<td>12</td>
<td>1.15</td>
<td>92.52</td>
</tr>
<tr>
<td>13</td>
<td>0.98</td>
<td>90.56</td>
</tr>
<tr>
<td>14</td>
<td>1.01</td>
<td>89.54</td>
</tr>
<tr>
<td>15</td>
<td>1.11</td>
<td>89.85</td>
</tr>
<tr>
<td>16</td>
<td>1.20</td>
<td>90.39</td>
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<tr>
<td>17</td>
<td>1.26</td>
<td>93.25</td>
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<tr>
<td>18</td>
<td>1.32</td>
<td>93.41</td>
</tr>
<tr>
<td>19</td>
<td>1.43</td>
<td>94.98</td>
</tr>
<tr>
<td>20</td>
<td>0.95</td>
<td>87.33</td>
</tr>
</tbody>
</table>

Question: fit a simple regression model to related purity ($y$) to hydrocarbon level ($x$)

Figure 11-1  Scatter diagram of oxygen purity versus hydrocarbon level from Table 11-1.
CHAPTER 11 SIMPLE LINEAR REGRESSION AND CORRELATION

Computer software programs are widely used in regression modeling. These programs typically carry more decimal places in the calculations. Table 11-2 shows a portion of the output from Minitab for this problem. The estimates and are highlighted. In subsequent sections we will provide explanations for the information provided in this computer output.

EXAMPLE 11-1 Oxygen Purity

We will fit a simple linear regression model to the oxygen purity data in Table 11-1. The following quantities may be computed:

\[ n = 20 \sum_{i=1}^{20} x_i = 23.92 \quad \sum_{i=1}^{20} y_i = 1,843.21 \]

\[ \bar{x} = 1.1960 \quad \bar{y} = 92.1605 \]

\[ \sum_{i=1}^{20} y_i^2 = 170,044.5321 \quad \sum_{i=1}^{20} x_i^2 = 29.2892 \]

\[ \sum_{i=1}^{20} x_i y_i = 2,214.6566 \]

\[ S_{xx} = \sum_{i=1}^{20} x_i^2 - \frac{\left( \sum_{i=1}^{20} x_i \right)^2}{20} = 29.2892 - \frac{(23.92)^2}{20} \]

\[ = 0.68088 \]

and

\[ S_{xy} = \sum_{i=1}^{20} x_i y_i - \frac{\left( \sum_{i=1}^{20} x_i \right) \left( \sum_{i=1}^{20} y_i \right)}{20} \]

\[ = 2,214.6566 - \frac{(23.92)(1,843.21)}{20} = 10.17744 \]
Therefore, the least squares estimates of the slope and intercept are

\[ \hat{\beta}_1 = \frac{S_{xy}}{S_{xx}} = \frac{10.17744}{0.68088} = 14.94748 \]

and

\[ \hat{\beta}_0 = \bar{y} - \hat{\beta}_1 \bar{x} = 92.1605 - (14.94748)1.196 = 74.28331 \]

The fitted simple linear regression model (with the coefficients reported to three decimal places) is

\[ \hat{y} = 74.283 + 14.947x \]
Interpretation of regression model

- Regression model

\[ \hat{y} = 74.283 + 14.947x \]

\[ \hat{y} = 89.23\% \text{ when the hydrocarbon level is } x = 1.00\%. \]

- This may be interpreted as an estimate of the true population mean purity when \( x = 1.00\% \).
- The estimates are subject to error
- later: we will use confidence intervals to describe the error in estimation from a regression model
Estimation of variance

- Using the fitted model, we can estimate value of the response variable for given predictor

\[
\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i
\]

- Residuals: \( r_i = y_i - \hat{y}_i \)

- Our model: \( Y_i = \beta_0 + \beta_1 X_i + \varepsilon_i, \ i = 1, \ldots, n, \ Var(\varepsilon_i) = \sigma^2 \)

- Unbiased estimator (MSE: Mean Square Error)

\[
\hat{\sigma}^2 = MSE = \frac{\sum_{i=1}^{n} r_i^2}{n-2}
\]

- oxygen and hydrocarbon level example \( \hat{\sigma}^2 = 1.18 \).
Example: Oil Well Drilling Costs

Estimating the costs of drilling oil wells is an important consideration for the oil industry.

Data: the total costs and the depths of 16 off-shore oil wells located in Philippines.

<table>
<thead>
<tr>
<th>Depth</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>5000</td>
<td>2596.8</td>
</tr>
<tr>
<td>5200</td>
<td>3328.0</td>
</tr>
<tr>
<td>6000</td>
<td>3181.1</td>
</tr>
<tr>
<td>6538</td>
<td>3198.4</td>
</tr>
<tr>
<td>7109</td>
<td>4779.9</td>
</tr>
<tr>
<td>7556</td>
<td>5905.6</td>
</tr>
<tr>
<td>8005</td>
<td>5769.2</td>
</tr>
<tr>
<td>8207</td>
<td>8089.5</td>
</tr>
<tr>
<td>8210</td>
<td>4813.1</td>
</tr>
<tr>
<td>8600</td>
<td>5618.7</td>
</tr>
<tr>
<td>9026</td>
<td>7736.0</td>
</tr>
<tr>
<td>9197</td>
<td>6788.3</td>
</tr>
<tr>
<td>9926</td>
<td>7840.8</td>
</tr>
<tr>
<td>10813</td>
<td>8882.5</td>
</tr>
<tr>
<td>13800</td>
<td>10489.5</td>
</tr>
<tr>
<td>14311</td>
<td>12506.6</td>
</tr>
</tbody>
</table>
• Step 1: graphical display of the data

• R code: `plot(Depth, Cost, xlab= "Depth", ylab = "Cost")`
Class activity

1. In this example, the response is:
   A. The drilling cost   B. The well depth

2. In this example, the dependent variable is:
   A. The drilling cost   B. The well depth

3. Is there a linear association between the drilling cost and the well depth?
   A. Yes and positive  B. Yes and negative  C. No
• Step 2: find the relationship between Depth and Cost
Results and use of regression model

1. Fit a linear regression model:
Estimates \((\hat{\beta}_0, \hat{\beta}_1)\) are \((-2277.1, 1.0033)\)

2. What does the model predict as the cost increase for an additional depth of 1000 ft?
If we increase \(X\) by 1000, we increase \(Y\) by \(1000\hat{\beta}_1 = \$1003\)

3. What cost would you predict for an oil well of 10,000 ft depth?
\(X = 10,000\) ft is in the range of the data, and estimate of the line at \(x=10,000\) is \(\hat{\beta}_0 + (10,000)\hat{\beta}_1 = -2277.1 + 10,033 = \$7753\)

4. What is the estimate of the error variance? Estimate \(\sigma^2 \approx 774,211\)

5. What could you say about the cost of an oil well of depth 20,000 ft?
\(X=20,000\) ft is much greater than all the observed values of \(X\)
We should not extrapolate the regression out that far.
Summary

• Simple linear regression

\[ Y = \beta_0 + \beta_1 X \]

• Estimate coefficients from data: method of least squares

\[
\hat{\beta}_0 = \bar{y} - \hat{\beta}_1 \bar{x}
\]

\[
\hat{\beta}_1 = \frac{S_{xy}}{S_{xx}}
\]

\[
\hat{y}_i = \hat{\beta}_0 + \hat{\beta}_1 x_i
\]

• Estimate of variance