M 384G/374G

WEIGHTED LEAST SQUARES

Model assumptions:

1. $E(Y|\underline{x}_i) = \underline{\eta}^T\underline{u}_i$ (linear mean function -- as for ordinary least squares)
2. $Var(Y|\underline{x}_i) = \sigma^2/w_i$, where the w_i's are known, positive constants (called *weights*) (Different from OLS!)

Observe:

- w_i is inversely proportional to $Var(Y|\underline{x}_i)$. This is sometimes helpful in getting suitable w_i's.
- the w_i's aren't unique – we could multiply all of them by a constant c, and divide σ by $\sqrt{c}$ to get an equivalent model.

For WLS, the *error* is defined as

$e_i = \sqrt{w_i}\,[\,Y|\underline{x}_i - \underline{\eta}^T\underline{u}_i]$ (Different from OLS!)

Then (exercise)

$E(e_i) = 0$

$Var(e_i) = \sigma^2$

Reformulating (1) in terms of errors:

1': $Y|\underline{x}_i = \underline{\eta}^T\underline{u}_i + e_i/\sqrt{w_i}$

<u>Note</u>: WLS is not a universal remedy for non-constant variance, since weights are needed. But it is useful in many types of situations, e.g.,

A. If $Y|\underline{x}_i$ is the <u>sum</u> of m_i independent observations, each with variance σ^2, then
$Var(Y|\underline{x}_i)$ = _________, so we could take w_i = ___________.

B. If $Y|\underline{x}_i$ is the <u>average</u> of m_i independent observations, each with variance σ^2, then
$Var(Y|\underline{x}_i)$ = _________, so we could take w_i = ___________.

C. Sometimes visual or other evidence suggests a pattern of how $Var(Y|\underline{x}_i)$ depends on x_i. For example, if it looks like $\sqrt{Var(Y \mid x_i)}$ is a linear function of x_i [Sketch a picture of this!], then we can fit a line to the data points (x_i, s_i), where s_i = sample mean of observations with x value x_i. If we get
$\hat{s}_i = \hat{\gamma}_0 + \hat{\gamma}_1 x_i$, try w_i = __________.

D. Sometimes theoretical considerations may suggest a choice of weights. (e.g., theoretical considerations might suggest that the conditional distributions are Poisson, which implies that their variances are equal to their means. This would suggest taking w_i = ______________.)

E. Weighted least squares is also useful for other purposes – e.g., in calculating the lowess estimate, lines are fit so that points at the ends of the range count less than points at the middle of the range.

A WLS model may be fit by least squares: Find $\underline{\hat{\eta}}$ to minimize the "weighted residual sum of squares"

$$RSS(\underline{h}) = \sum w_i (y_i - \underline{h}^T \underline{u}_i)^2$$

$\underline{\hat{\eta}}$ is called the "WLS estimate" of the coefficients.

Comments:

a. If all $w_i = 1$, we get ______________________________.
b. The larger w_i is, the more the i^{th} observation "counts" (and the ___________er the variance at x_i – think of the geese example.)
c. $RSS(\underline{h}) = \sum [\sqrt{w_i}\, y_i - \underline{h}^T(\sqrt{w_i}\, \underline{u}_i)]^2$, so we could get $\underline{\hat{\eta}}$ by using OLS to regress the $\sqrt{w_i}\, y_i$'s on the $\sqrt{w_i}\, \underline{u}_i$'s, *but*, we would need to fit *without* an intercept, since the first component of $\sqrt{w_i}\, \underline{u}_i$ is. However, most software will fit a WLS if given the weights.

Example: Coin data.