THE MULTIPLE LINEAR REGRESSION MODEL

Notation:

p predictors $x_1, x_2, \dots, x_p$

k-1 *non-constant* terms $u_1, u_2, \dots, u_{k-1}$

Each u_j is a function of $x_1, x_2, \dots, x_p$: $u_j = u_j(x_1, x_2, \dots, x_p)$

For convenience, we often set $u_0 = 1$ (constant function/term)

The Basic Multiple Linear Regression Model: Two assumptions:

1. $E(Y|\underline{x}) = \eta_0 + \eta_1 u_1 + \dots + \eta_{k-1} u_{k-1}$ (Linear Mean Function)
2. $\mathrm{Var}(Y|\underline{x}) = \sigma^2$ (Or: $\mathrm{Var}(Y|\underline{u}) = \sigma^2$) (Constant Variance)

Assumption (1) in vector notation:

$$\underline{u} = \begin{bmatrix} u_0 \\ u_1 \\ \cdot \\ \cdot \\ \cdot \\ u_{k-1} \end{bmatrix} = \begin{bmatrix} 1 \\ u_1 \\ \cdot \\ \cdot \\ \cdot \\ u_{k-1} \end{bmatrix}, \qquad \underline{\eta} = \begin{bmatrix} \eta_0 \\ \eta_1 \\ \cdot \\ \cdot \\ \cdot \\ \eta_{k-1} \end{bmatrix}$$

Then $\underline{\eta}^T = [\eta_0 \ \ \eta_1 \ \dots \ \eta_{k-1}]$ and

$$\underline{\eta}^T\underline{u} = \eta_0 + \eta_1 u_1 + \dots + \eta_{k-1} u_{k-1},$$

so (1) becomes:

(1') $E(Y|\underline{x}) = \underline{\eta}^T\underline{u}$

If we have data with i^{th} observation $x_{i1}, x_{i2}, \dots, x_{ip}, y_i$, recall

$$\underline{x}_i = \begin{bmatrix} x_{i1} \\ x_{i2} \\ \cdot \\ \cdot \\ \cdot \\ x_{ip} \end{bmatrix} = [x_{i1}, x_{i2}, \dots, x_{ip}]^T$$

Define similarly

$u_{ij} = u_j(x_{i1}, x_{i2}, \dots, x_{ip})$ = the value of the j^{th} term for the i^{th} observation, and

$$\underline{u}_i = \begin{bmatrix} u_{i0} \\ u_{i1} \\ . \\ . \\ . \\ u_{i,k-1} \end{bmatrix}$$

So in particular, the model says

$$E(Y|\underline{x}_i) = \underline{\eta}^T \underline{u}_i$$

Estimation of Parameters: Analogously to the case of simple linear regression, consider functions of the form

$$y = h_0 + h_1 u_1 + \ldots + h_{k-1} u_{k-1} = \underline{h}^T \underline{u}.$$

(The graph of such an equation is called a "hyperplane.")

The *least squares estimate* of $\underline{\eta}$ is the vector

$$\underline{\hat{\eta}} = \begin{bmatrix} \hat{\eta}_0 \\ \hat{\eta}_1 \\ \vdots \\ \hat{\eta}_{k-1} \end{bmatrix}$$

that minimizes the "objective function"

$$RSS(\underline{h}) = \sum_{i=1}^{n} (y_i - \underline{h}^T \underline{u}_i)^2$$

Recall: In simple linear regression, the solution had SXX = $\sum_{i=1}^{n} (x_i - \bar{x})^2$ in the denominator. So the formula won't work if all x_i's = $\bar{x}$. In this case, there is not a unique solution to the least squares problem. (Draw a picture in the case n = 2!)

In multiple regression: There is a unique solution $\underline{\hat{\eta}}$ *provided*:

i) k < n (the number of terms is less than the number of observations)
ii) no u_j is (as a function) a linear combination of the other u_j's

When (ii) is violated, we say there is (*strict*) *multicollinearity*.

If there is a unique solution, it is called the *ordinary least squares (OLS) estimate* of the (vector of) coefficients.