

Effects of Influential Outliers in Local Polynomial Techniques (Smoothing Techniques)

Edith U. Umeh*, Chinyere I. Ojukwu

Department of Statistics, Nnamdi Azikiwe University, Awka, Nigeria

Abstract This paper which discusses effects of influential outliers in local polynomial techniques (Kernel and Spline) aimed at determining the robust outliers where more than two independent variables are included in the model and to determine the best type of technique to be used for outlier treatment and its influence on the model performance. During the analysis, kernel and spline methods were applied on the Gross Domestic Product (GDP) of Nigeria, for the period of twelve years (1981 to 2012) from National Bureau of Statistics (NBS) using SPSS and Minitab to check whether outliers can be smoothed out during smoothing which was proved otherwise. Thus, three methods of outlier detection and elimination in local polynomial techniques namely Leverages, Mahalanobis distance and DFFITS were used to detect the influential outliers before smoothing. Seven outliers were detected from Mahalanobis distance with five high leverage cases and three influential outliers from DFFITS method. This inferential outliers affect the regression equation thereby deteriorate the model performance. It is therefore recommended that researchers carrying out research on smoothing techniques should detect and eliminate influential outliers before smoothing; hence the relevance of the effect of influential outliers in local polynomial techniques cannot be undermined.

Keywords Kernel smoother, Spline smoothing, Outlier, Leverage, Mahalanobis distance, Dffits

1. Introduction

1.1. Background of the Study

Smoothing by local fitting is actually an old idea that is deeply buried in the methodology of time series, where data measured at equally spaced points in time were smoothed by local fitting of polynomial methods into more general case of regression analysis, Fan and Gijbels (1996). In statistics, polynomial regression is a form of linear regression in which the relationship between the independent variable x and the dependent variable y is modelled as an n th degree polynomial. It fits a non-linear relationship between the value of x and the corresponding conditional mean of y , denoted by $E(y/x)$. The regression function $E(y/x)$ is linear in the unknown parameters that are estimated from the data; for this reason, polynomial regression is considered to be special case of multiple linear regression. Nonetheless, it may be convenient not to force data into models but just to attempt to moderate frantic data by using a classic and straight-forward statistical approach known as data smoothing. There are several ways to achieve data smoothing, especially through

statistical techniques: among these approaches based on regression analysis are kernel method, local regression, spline methods and orthogonal series.

Kernel Regression is a non-parametric technique in statistics used to estimate the conditional expectation of a random variable. The idea of kernel regression is putting a set of identical weighted function called a kernel function to each observational data point. The kernel estimate is sometimes called the *Nadaraya-Watson estimate*; More discussion of this and other weaknesses of the kernel smoothers can be found in Hastie and loader (1993). Local regression is an approach to fitting curves and surfaces to data in which a smooth function may be well approximated by a low degree polynomial in the neighbourhood of point (Loader, 2012). To use local regression in practice, we must choose the bandwidth, the parametric family and the fitting criterion. Local regression has many strengths including correction of boundary bias in kernel regression. Singly, none of these provides a strong reason to favour local regression over other smoothing methods such as smoothing spline and orthogonal series. Smoothing spline is another popular and established nonparametric regression, which is based on spline as a natural, coherent and modern approach to outliers on the optimization of a penalized least square criterion whose solution is a piecewise polynomial or spline function. This approach employs fitting a spline with knots at every data point, so it could potentially fit perfectly into data, but the function parameters are estimated by minimizing the

* Corresponding author:

eu.umeh@unizik.edu.ng (Edith U. Umeh)

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usual sum of square criterion (Garcia, 2010). Orthogonal series methods represent the data with respect to a series of frequency terms of orthogonal basis functions, such as Sines and Cosines. Only the low frequency terms are retained. Efromovich (1999) provides a detailed discussion of this approach to smoothing. A limitation of orthogonal series approaches is that they are more difficult to apply when the x_i are not equally spaced and there is no relationship between the explanatory variables and the responding variables. Each of the smoothing methods discussed above has one or more "smoothing parameter" that controls the amount of smoothing being performed.

In all these smoothing methods none of them has considered outlier detection and treatment. The common practice is to treat outliers at the beginning of the analysis and then proceed with no additional thought given to the outliers. They see outliers as extreme observations, the points that lie far beyond the scatter of the remaining residuals in a residual plot. i.e. observations which are well separated from the remainder of the data. These outlying observations may involve large residuals and often have dramatic effects on the fitted regression function. Ruppert and Wand (1994) studied bias and variance; their result cover arbitrary degree local polynomial and multidimensional fits for bias and the term depending on the weight function varies according to the degree of local polynomial, generally increases as the degree of the polynomials increases for variance. They also discuss the local linear estimator, nobody has previously developed an improved estimator using the information of outliers. Cleveland and Devlin (1988) researched on the degree of freedom under the different methods and found out that the degree of freedom provides a mechanism by which different smoothers, with different smoothing parameter, can be compared. They simply choose smoothing parameters producing the same number of degrees of freedom; in all these, no attention has been given to improve estimators using the information of outliers. Thus the need for this paper which used Leverages, Mahalanobis distance and DFFITS methods of outlier detection/elimination on kernel and Spline smoothing techniques to check whether it will have effects on the model performance. Gross Domestic Product (GDP) of Nigeria from 1981 to 2012 was used for the analysis.

2. Methods

2.1. Kernel Smoother (KS)

The basic idea of kernel smoothing is to estimate the density function at a point x using neighbouring observations. A usual choice for the kernel weight w is a function that satisfies

$$\int_{-\infty}^{\infty} w(x) dx = 1 \quad (1)$$

With joint pdf

$$f(x, y) = \frac{1}{nh_x h_y} \sum_{i=1}^n w\left(\frac{x-X_i}{h_x}\right) w\left(\frac{y-Y_i}{h_y}\right) \quad (2)$$

The estimate of $\hat{f}(x, y)$ is called the kernel density estimator.

Nadaraya Watson estimator of the conditional moment is

$$\mu(x) = \sum_{i=1}^n w\left(\frac{x-X_i}{h}\right) y_i \quad (3)$$

Where h is the bandwidth which determines the degree of smoothness and w is symmetric kernel function.

2.2. Smoothing Spline

Hardle, (1991) researched on a seemingly very different set of smoothing techniques called the smoothing spline. An entirely different approach to smoothing is through optimization of a penalized least square criterion, thus

$$PLS(\lambda) = \sum_{i=1}^n (y_i - \mu(x_i))^2 + \lambda \int \mu''(x)^2 dx. \quad (4)$$

Where λ is a smoothing parameter which plays the same role as the bandwidth in kernel smoothing.

The first term in equation (4) which is $PLS(\lambda)$ is a residual sum of squares.

The second term $\sum_{i=1}^n (y_i - \mu(x_i))^2$ is a roughness penalty, which is large when the integrated second derivation of the regression function $\mu''(x)$ is large; that is, when $\mu(x)$ is "rough" (with rapidly changing slope).

2.3. Leverages (H_{ii})

The leverage score for the i^{th} data unit is defined as

$$h_{ii} = [H]_{ii}, \quad (5)$$

which is the i^{th} diagonal element of the projection matrix

$$H = X(X^T X)^{-1} X^T, \quad (6)$$

where X is the design matrix

$$h_{ii} = \frac{\partial \hat{y}_i}{\partial y_i}, \quad 0 \leq h_{ii} \leq 1. \quad (7)$$

where \hat{y}_i and y_i are the fitted and measured observations respectively.

The diagonal elements h_{ii} have some useful properties.

$$0 \leq h_{ii} \leq 1 \text{ and } \sum_{i=1}^n h_{ii} = p \quad (8)$$

where P is the number of regression parameters in the regression function including the intercept term. The diagonal elements h_{ii} in the hat matrix is called the leverage (in terms of the x values) of the i^{th} observation.

2.4. Mahalanobis Distance

Let X be an $n \times p$ matrix representing a random sample of size n from a p - dimensional population. Mahalanobis distance (MD_i) of the i^{th} observation defined as

$$MD_i = \sqrt{(x_i - \mu)^T \Sigma^{-1} (x_i - \mu)} \text{ for } i = 1, 2, \dots, n \quad (9)$$

is the Mahalanobis distance of point x to μ . (Mahalanobis, 1936).

A decision criterion can be chosen since the MD_i (Mahalanobis distance) follows a χ^2 distance with p degrees of freedom.

E.g. $\chi^2_{1-\alpha, p-1}$, $p =$ degree of freedom will be minus one if the independent variables is more than 2 at $\alpha = 5\%$ significance level.

MD_i measures the distance of each data point from the centre of mass of the data point based on covariance and variances of each variables. The cut-off points is usually taken at the 97.5th percentile of χ^2 distribution. Any observation with MD_i values greater than the cut-off point, may give an indication of outlyingness.

Rousseeuw and Leroy (1987) suggested a cut-off point for RMD_i (Robust Mahalanobis distance) as $\chi^2_{p-1, 0.975} = \chi^2_{11, 0.975}$.

This is the same cut-off point as MD_i , where any value greater than the cut-off point may be declared as outliers. This cut-off value comes from the assumption that the p -dimensional variables follow a multivariate normal distribution.

2.5. Difference in Fits (DFFITS)

Studentization is achieved by dividing the estimated standard deviation of the fit at that point.

$$DFFITS = \frac{\hat{y}_i - \hat{y}_i(i)}{\sqrt{MSE(i)h_i}} \quad (10)$$

Where $\hat{y}_i - \hat{y}_i(i)$ is the prediction for point i with and without point i included in the regression, $MSE(i)$ is the Mean standard error estimated without the point in question and h_i is the leverage for the point and is calculated by deleting the i th observation.

Large values of $|DFFITS|$ indicate influential observations. A general cut-off to consider is 2, a size adjusted cut-off recommended by Belsley, kuh, and welsch (1980) is $2\sqrt{p/n}$ where n is the number of observations used to fit the model and p is the number of parameters in the model.

3. Results

Table 1. Table Showing the Leverages, Mahalanobis Distance and DFFITS of the Nigerian GDP Data from 1981-2012

Cases	Years	leverages (H_{ii})	Mahalanobis (MD_i)	DFFITS
1	1981	0.736630	4.30200	-0.396
2	1982	0.917976	3.63280	3.888
3	1983	0.313978	2.40517	-0.058
4	1984	0.459482	3.35160	-0.122
5	1985	0.424997	3.39024	0.018
6	1986	0.570382	3.67432	0.683
7	1987	0.254913	2.52743	0.042
8	1988	0.522837	3.89346	-0.028
9	1989	0.185544	2.14143	0.132
10	1990	0.217847	1.99301	0.164
11	1991	0.174952	1.86770	0.139
12	1992	0.121098	1.64924	0.143
13	1993	0.133006	1.39200	0.135
14	1994	0.113301	1.44478	-754.425

15	1995	0.188758	1.69865	0.144
16	1996	0.155584	1.85641	0.211
17	1997	0.124846	1.68688	0.134
18	1998	0.174016	1.60699	0.183
19	1990	0.124273	1.65186	0.166
20	2000	0.160186	1.94706	0.202
21	2001	0.295673	2.40836	0.083
22	2002	0.786742		-0.322
23	2003	0.524903	3.70087	-0.176
24	2004	0.520750	3.88247	-0.225
25	2005	0.311772	2.92996	-0.081
26	2006	0.650035	4.30043	0.549
27	2007	0.476281	3.66704	-0.588
28	2008	0.468579	3.60572	0.131
29	2009	0.786714	4.80311	1.392
30	2010	0.523245	3.77905	-0.026
31	2011	0.835640	4.96871	-0.695
32	2012	0.745061	4.66753	0.169

Table 2. Table Showing the Deleted Cases of High Influential Outliers

DATA	ACTUAL FIT	SMOOTHED	RESIDUAL SS
Case 14 deleted	545.06	484.53	-266.052
Case 2 deleted	510.04	521.99	21.377
Cases 29 deleted	1449.78	1144.51	21.976

4. Discussion

From Table 1 above seven outliers (cases 1, 8, 24, 26, 29, 31, 32) have Mahalanobis distance of 4.30, 3.89, 3.88, 4.80, 4.97 and 4.67 representing years 1981, 1988, 2004, 2006, 2009, 2011, 2012 respectively. They are the only items exceeding the critical value of $\chi^2_{p-1, 0.975} = \chi^2_{11, 0.975} = 3.82$ from the chi-square distribution table.

A leverages $> 2(p/n) = 0.75$ and very isolated is an outlier but may or may not actually be influential because leverages only take into account the extremeness of the X values. Four high leverages (cases 2, 22, 29, 32) with points 0.92, 0.79, 0.79, 0.75 representing years 1982, 2002, 2009, 2012 respectively have high leverages above the critical value of $2(p/n)$.

$|DFFITS|$ indicated cases 2, 14, and 29 as influential outliers with points 3.89, 754.425 and 1.39 respectively which is greater than the critical value of $|DFFITS| > 2\sqrt{p/n} = 1.225$.

From Table 2 above, it is clear that case 14 is very influential, but cases 2 and 29 are not relatively influential to case 14 though their values are larger than the reference values. Case 14 is also very influential on the kernel smooth and spline smooth. If we remove case 14, the kernel smooth and spline smooth reduces from 545.06 to 484.53 and the form of the fitted curve changes from almost linear to cubic.

Therefore, in the existence of influential outlier from the results of the analysis, the mahalanobis distance produces

multiple outliers that may not be influential which may lead to invalid inferential statements and inaccurate predictions. In this situation DFFITS estimator is recommended because it gives more efficient estimates of influential points. This is the reason why it is important to identify influential outliers as they are responsible for the misleading inferences about the fitting of the regression model. By correctly detecting those observations, may help statistical methods to analyze their data. The overall results from Table 1 indicate that mahalanobis distance is not efficient enough because it suffers from masking effects while DFFITS tend to swamp few low leverage points. Nevertheless, the swamping rate of mahalanobis distance is less than the DFFITS. The numerical examples signify that the DFFITS offers a substantial improvement over the other existing methods. The DFFITS successfully identifies high influential points with the lowest rate of swamping.

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