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Ola Hössjer

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Postal address:

Mathematical Statistics
Dept. of Mathematics
Stockholm University
SE-106 91 Stockholm
Sweden

Internet:

<http://www.math.su.se/matstat>



On the Coefficient of Determination for Mixed Regression Models

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Abstract

For mixed regression models, we define a variance decomposition including three terms, explained individual variance, unexplained individual variance and noise variance. In contrast to traditional variance decomposition, it is thus the *unexplained*, not the explained, variance that is split. It gives rise to a coefficient of individual determination, CID, defined as the estimated fraction of explained individual variance. We argue that in many applications CID is more natural than R^2 , since it excludes noise variance (which can never be explained) and thus has one as a natural upper bound.

A general theory for coefficients determination is presented, including various choices of regression models, weight functions and parameter estimates. In particular we focus on models where CID is computable, such as univariate mixed Poisson and logistic regression models, as well as multivariate mixed linear regression models. Large sample properties and confidence intervals are derived and finally, the theory is exemplified using Poisson regression on a Swedish motor traffic insurance data set.

KEY WORDS: Coefficient of determination, explained variance, individual variance, mixed regression models, noise variance, variance decomposition,

1 Introduction

The coefficient of variation, R^2 , is a well known quantity in univariate multiple linear regression, quantifying the proportion of variation of the response variables Y_i explained by the non-intercept covariates. Writing $E(Y_i|x_i) = m_i = \beta x_i^T$, where x_i is the $1 \times p$ vector of covariates for Individual i and β the $1 \times p$ vector of regression coefficients,

$$R^2 = \frac{\sum_{i=1}^n (\hat{m}_i - \hat{m})^2}{\sum_{i=1}^n (Y_i - \hat{m})^2}, \quad (1)$$

where $\hat{m}_i = \hat{\beta} x_i^T$, $\hat{\beta}$ is the least square estimate of β and $\hat{m} = \sum_i Y_i/n = \sum_i \hat{m}_i/n$.

The purpose of this paper is to define coefficients of variation for univariate mixed regression models including possible nonlinearities and heteroscedasticity. The main idea is to decompose the variance of *untransformed* data into three parts; variance explained by the covariates, individual variance not explained by the covariates due to random effects and remaining noise variance. This differs from the usual approach where the *explained* variance is divided into various components, whereas we split the *unexplained* variance. As a result, we get two different coefficients of determination. The first one, R^2 , is the estimated proportion of variance explained by the covariates, in agreement with (1). The second one, the coefficient of individual determination (CID), is the estimated proportion of *individual* variance explained by the covariates. We argue that in many applications, CID is more natural, with one as a natural upper bound when all individual variation is explained.

Our main focus is a class of univariate regression models for which noise variance is a deterministic function of the regression parameters and covariates. This class includes Poisson regression and binomial regression with overdispersion, as well as linear regression with known noise variance. In these cases, both R^2 and CID can be computed. On the other hand, CID is not computable for linear regression with unknown noise variance. The reason is that unexplained individual variance and noise variance cannot be separated. This is in contrast to multivariate linear regression, where CID is computable even with unknown noise variance, by using the correlation structure of the residuals form a (weighted) least squares fit.

There are alternatives to decomposing untransformed variance, such as i) computing R^2 as the proportion of explained variance for transformed data and ii) defining R^2 generally within a likelihood framework.

The transformation approach i) has several advantages. For models without random components, one may use a variance stabilizing transformation and

estimate parameters by least squares, see for instance Cochran (1940) and Carroll and Ruppert (1988). When random effects are included, as in the generalized linear mixed model (Breslow and Clayton, 1993), one may approximate transformed data by a linear mixed model, see for instance Lee and Chaubey (1996). The likelihood approach ii) is appealing because of its general interpretation of $1 - R^2$ as the proportion of unexplained variation, see Maddala (1983), Cox and Snell (1989, pp. 208-209), Maggee (1990) and Nagelkerke (1991).

On the other hand, in many cases, the untransformed response variable is the quantity of major interest to the experimenter. It may represent a count of accidents, a proportion of successful experiments or an economic cost. Then a coefficient of determination based on untransformed data is more useful than i-ii).

The paper is organized as follows: In Section 2-3 we define the class of regression models and coefficients of variations. Weighting of observations is considered in Section 4 and parameter estimation in Section 5. In Section 6 we give several examples of models and in Section 7 we consider multivariate extensions. Large sample properties of R^2 and CID are derived in Section 8 and a Swedish car accident data set is analyzed in Section 9. Section 10 contains a discussion and, finally, proofs and technical results are collected in the appendix.

2 Variance Decomposition of the Response Variable

Consider a collection $(x_1, t_1, Y_1), \dots, (x_n, t_n, Y_n)$ of observations, with a scalar response variable, Y_i , a $1 \times p$ vector of explanatory variables, x_i , and a known constant for the i^{th} individual or cell, t_i . We assume that $\{Y_i\}$ are conditionally independent given $\{x_i\}$ and $\{t_i\}$ with a mean function

$$m(\beta x^T, t) = E(Y|x, t) \quad (2)$$

depending on a $1 \times p$ vector of unknown regression parameters β .

We will focus on mixed regression models, containing a hidden liability L such that, $E(Y|L, x, t) = M(\eta, t)$, with $\eta = \beta x^T$. Integrating out L we get $E(M(\eta, t)) = m(\eta, t)$ and

$$\begin{aligned} v(\eta, \xi, t) &= \text{Var}(Y|x, t) \\ &= E(\text{Var}(Y|L, x, t)) + \text{Var}(M(\eta, t)) \\ &=: v_1(\eta, t) + v_2(\eta, \xi, t). \end{aligned} \quad (3)$$

In (3), ξ is an unknown scalar variance parameter such that $\xi = 0$ implies a deterministic liability, i.e. $v_2(\eta, 0, t) = 0$. In this case, $\text{Var}(Y|x, t) = v_1(\beta x^T, t)$, which is assumed to be a known function of the regression parameters. This crucial property makes v_1 identifiable, since β can be estimated from data.

Let $w(\eta, \xi, t)$ be a given weight function. Consider an individual $I \in \{1, \dots, n\}$ drawn at random from the sample with probabilities

$$P(I = i) = w_i / \sum_j w_j,$$

where $w_i = w(\eta_i, \xi, t_i)$ and $\eta_i = \beta x_i^T$. The drawn individual has mean response

$$m = E(Y_I | \{x_i, t_i\}_{i=1}^n) = \sum_i w_i m_i / \sum_i w_i, \quad (4)$$

where $m_i = m(\eta_i, t_i)$, and variance $\sigma^2 = \text{Var}(Y_I | \{x_i, t_i\}_{i=1}^n)$. The variance can be decomposed into three terms,

$$\begin{aligned} \sigma^2 &= \sum_i w_i E((Y_i - m)^2 | x_i, t_i) / \sum_i w_i \\ &= (\sum_i w_i (m_i - m)^2 + \sum_i w_i (v_i - v_{1i}) + \sum_i w_i v_{1i}) / \sum_i w_i \\ &=: \sigma_1^2 + \sigma_2^2 + \sigma_3^2, \end{aligned} \quad (5)$$

where $v_i = v(\eta_i, \xi, t_i)$ and $v_{1i} = v_1(\eta_i, t_i)$. The first term, σ_1^2 , is the variance component explained by the covariates x , the second term, σ_2^2 , the variance of the liability, and the third term, σ_3^2 , the remaining variance. We interpret σ_2^2 as variance due to unobserved individual characteristics, whereas σ_3^2 represents noise variance. Their sum, $\sigma_{\text{unexp}}^2 = \sigma_2^2 + \sigma_3^2$, is the variance not explained by the covariates.

To quantify how large proportion of the variance that is explained by the covariates, we use either

$$\rho = \sigma_1^2 / \sigma^2 \quad (6)$$

or

$$\rho_{\text{ind}} = \sigma_1^2 / \sigma_{\text{ind}}^2, \quad (7)$$

where $\sigma_{\text{ind}}^2 = \sigma_1^2 + \sigma_2^2$ is the total variance due to individual variation. Hence, ρ gives the fraction of the *total* variance, whereas ρ_{ind} gives the fraction of the *individual* variance explained by the covariates. For this reason, ρ_{ind} is often more interesting, with 1 as a natural upper bound corresponding to all individual variation being explained by $\{x_i\}$ and $\{t_i\}$. On the other hand $0 \leq \rho \leq 1 - \sigma_3^2 / \sigma^2$, since the noise variance component σ_3^2 cannot be explained by the covariates.

3 Coefficients of Determination

With parameter estimates $\hat{\theta} = (\hat{\beta}, \hat{\xi})$, we let $\hat{w}_i = w(\hat{\eta}_i, \hat{\xi}, t_i)$, $\hat{\eta}_i = x_i \hat{\beta}^T$, $\hat{m}_i = m(\hat{\eta}_i, t_i)$, $\hat{v}_i = v(\hat{\eta}_i, \hat{\xi}, t_i)$ and $\hat{v}_{1i} = v_i(\hat{\eta}_i, t_i)$. The the mean response of a randomly picked individual is estimated by

$$\hat{m} = \sum_i \hat{w}_i \hat{m}_i / \sum_i \hat{w}_i$$

and the estimated variance decomposition is

$$\hat{\sigma}^2 = \hat{\sigma}_1^2 + \hat{\sigma}_2^2 + \hat{\sigma}_3^2, \quad (8)$$

where $\hat{\sigma}_1^2 = \sum_i \hat{w}_i (\hat{m}_i - \hat{m})^2 / \sum_i \hat{w}_i$ and $\hat{\sigma}_3^2 = \sum_i \hat{w}_i \hat{v}_{1i} / \sum_i \hat{w}_i$. There are at least two ways of defining $\hat{\sigma}_2^2$, either

$$\hat{\sigma}_2^2 = \hat{\sigma}_{\text{unexp}}^2 - \hat{\sigma}_3^2 = \sum_i \hat{w}_i (Y_i - \hat{m}_i)^2 / \sum_i \hat{w}_i - \hat{\sigma}_3^2 \quad (9)$$

or

$$\hat{\sigma}_2^2 = \sum_i \hat{w}_i (\hat{v}_i - \hat{v}_{1i}) / \sum_i \hat{w}_i. \quad (10)$$

Whereas (10) requires specification of a correct variance function v_2 , (9) only uses estimates of β , not ξ (as long as \hat{w}_i does not involve $\hat{\xi}$). For this reason, we will use (9) in the sequel. In either case, $\hat{\sigma}^2$ need not equal $\sum_i \hat{w}_i (Y_i - \hat{m})^2 / \sum_i \hat{w}_i$.

Replacing the theoretical variance components by their estimates in (6) and (7), we get two versions of the coefficient of determination,

$$R^2 = \hat{\rho} = \frac{\hat{\sigma}_1^2}{\hat{\sigma}^2} = \frac{\sum_i \hat{w}_i (\hat{m}_i - \hat{m})^2}{\sum_i \hat{w}_i ((\hat{m}_i - \hat{m})^2 + (Y_i - \hat{m}_i)^2)} \quad (11)$$

and

$$\text{CID} = \hat{\rho}_{\text{ind}} = \frac{\hat{\sigma}_1^2}{\hat{\sigma}_{\text{ind}}^2} = \frac{\sum_i \hat{w}_i (\hat{m}_i - \hat{m})^2}{\sum_i \hat{w}_i ((\hat{m}_i - \hat{m})^2 + (Y_i - \hat{m}_i)^2 - \hat{v}_{1i})}. \quad (12)$$

In order to compute CID, we utilize that all v_{1i} are functions of no other unknown quantities than β , which is estimable, so that all \hat{v}_{1i} can be computed. This is not always guaranteed, as is the case for univariate linear regression (see Example 3 of Section 6).

4 Choice of Weight Functions

The weight function w may be chosen in several ways. Some important special cases are:

- i) **Uniform weights.** Let $w(\eta, \xi, t) \equiv 1$, so that $w_i = \hat{w}_i = 1$. In this case each individual contributes an equal amount to the variance decomposition.
- ii) **Inverse variance.** If $w(\eta, \xi, t) = v(\eta, \xi, t)^{-1}$, each individual contributes an amount inversely proportional to its variance. Then the estimated unexplained variation

$$\hat{\sigma}_{\text{unexp}}^2 = \hat{\sigma}_2^2 + \hat{\sigma}_3^2 = \sum_i \frac{(Y_i - \hat{m}_i)^2}{n\hat{v}_i},$$

equals Pearson's unscaled χ^2 statistic (McCullagh and Nelder, 1989) apart from the term n of the denominator. For linear regression (see Example 3 below), R^2 based on inverse variance weighting is equivalent to the coefficient of determination for generalized least squares (Buse, 1973,1979).

- iii) **Inverse non-dispersed variance.** A simplified form of inverse variance weighting, $w(\eta, \xi, t) = v_1(\eta, t)^{-1}$, employs the variance function of the non-dispersed model $\xi = 0$. Then \hat{w}_i does not involve $\hat{\xi}$, and no explicit model of overdispersion is needed to define R^2 and CID.
- iv) **Deterministic weights.** If the weight function $w(\eta, \xi, t) = a(t)$ is a known function, we need not estimate the weights, i.e. $\hat{w}_i = w_i$. A typical case is when the nondispersed variance factorizes as $v_1(\eta, t) = b(\eta)/a(t)$. The deterministic weight function is then a simplified form of iii), obtained by dropping the term $b(\eta)$. Typical choices are models for Poisson rates and binomial proportions (see Section 6), with $a(t) = t$.

5 Examples of Parameter Estimates

Regarding choice of parameter estimates, we mention three possibilities:

- i) **Weighted nonlinear least squares.** In case the weights w_i do not depend on unknown parameters, we may first estimate β by

$$\hat{\beta} = \arg \min_{\beta} \sum_i w_i (Y_i - m(\beta x_i^T, t_i))^2. \quad (13)$$

and then ξ from the residuals $Y_i - \hat{m}_i$ by solving

$$\sum_i w_i v(\hat{\eta}_i, \hat{\xi}, t_i) = \sum_i w_i (Y_i - \hat{m}_i)^2. \quad (14)$$

ii) Maximum likelihood. Let $f(y|\eta, \xi, t)$ denote the density of Y given η , ξ and t and estimate all parameters simultaneously from

$$(\hat{\beta}, \hat{\xi}) = \arg \max_{\beta, \xi} l(\beta, \xi),$$

where $l(\beta, \xi) = \sum_i \log f(Y_i | \beta x_i^T, \xi, t_i)$ is the log likelihood function. A simplified version is to estimate the regression parameters by ML from the deterministic liability model,

$$\hat{\beta} = \arg \max_{\beta} l(\beta, 0), \quad (15)$$

and then estimate ξ separately from the residuals, using e.g. (14). Even though (15) uses a misspecified model when $\xi \neq 0$, $\hat{\beta}$ is still consistent as long as the estimating equation is unbiased at the true parameter value, see e.g. White (1982) and Cox (1983).

iii) Extended quasi-likelihood. Estimate θ by solving the $p+1$ estimating equations $U_{\beta}(\hat{\theta}) = 0$ and $U_{\xi}(\hat{\theta}) = 0$ simultaneously, where

$$U_{\beta}(\theta) = \sum_i x_i m'_i \frac{Y_i - m_i}{v_i}, \quad (16)$$

$m'_i = \partial m(\eta_i, t_i) / \partial \eta_i$ and

$$U_{\xi}(\theta) = \sum_i \left(\frac{(Y_i - m_i)^2}{v_i} - 1 \right).$$

This is an extension of the quasi likelihood estimate $U_{\beta}(\hat{\beta}, \xi) = 0$ of β , defined for fixed ξ , see Wedderburn (1974), McCullagh (1983) and Moore (1986). A simplified version of extended QL is to estimate β separately from the deterministic liability model, replacing v_i by v_{1i} in (16) and then estimating ξ .

Of i)-iii), the maximum likelihood estimates are the most efficient but in general also most sensitive to model misspecification. The quasi-likelihood estimate of β often coincides with the ML-estimate when $\xi = 0$.

6 Examples of Models

Example 1 (Overdispersed Poisson regression.) Assume that a certain characteristic (car accidents, disease incidences, ...) occurs according to a Poisson process with individual specific rate $L = \Lambda$. If this process is observed during t time units, the observed rate of incidences is

$$Y|\Lambda, t \in \text{Po}(\Lambda t)/t. \quad (17)$$

The log link corresponds to a mean rate parameter $E(\Lambda|x) = \lambda(x) = \exp(\eta)$, where $\eta = \beta x^T$. We assume $\text{Var}(\Lambda|x) = \xi \lambda(x)^a$ for some (known) constant $a > 0$, so that

$$\begin{aligned} m(\eta, t) &= \exp(\eta) \\ v(\eta, \xi, t) &= \exp(\eta)t^{-1} + \xi \exp(a\eta). \end{aligned} \quad (18)$$

Parameter estimates and data analysis for this model has been carried out by several authors, e.g. Pocock et al. (1981), Hinde (1982), Breslow (1984), Lawless (1987) and references therein. An important special case of (17) is when Λ has a gamma distribution. Then, the mixed Poisson distribution of $tY|x, t$ is negative binomial. The choice $a = 2$ in (18) is appealing since ξ is the squared coefficient of variation of $\Lambda|x$ for all x . Alternatively, $a = 1$ is frequently used in connection with generalized linear models. \square

Example 2 (Overdispersed logistic regression.) Let Y represent the relative number of successes in t trials with an individual specific success probability $L = \Pi$, i.e.

$$Y|\Pi, t \in \text{Bin}(t, \Pi)/t.$$

Using a logistic link function, $E(\Pi|x) = \pi(x) = 1/(1 + \exp(-\eta))$. If the variance function of Π satisfies $\text{Var}(\Pi|x) = \xi \pi(x)(1 - \pi(x))$ we get

$$\begin{aligned} m(\eta, t) &= 1/(1 + \exp(-\eta)), \\ v(\eta, \xi, t) &= t^{-1}(1 + \xi(t - 1)) \exp(-\eta)/(1 + \exp(-\eta))^2. \end{aligned}$$

Parameter estimation for this model has been considered, for instance, by Williams (1982). An important special case, the beta-binomial model, occurs when Π has a beta distribution, see e.g. Williams (1975) and Crowder (1978). A review of analysis methods for data with extra-binomial variation is provided by Haseman and Kupper (1979). \square

Example 3 (Univariate linear regression.) Consider a homoscedastic linear model

$$Y = \beta x^T + \delta + \varepsilon, \quad (19)$$

with $L = \delta$, an individual specific zero mean random variable, and ε , an independent zero mean noise term. Put $\xi = \text{Var}(\delta)$ and $\tau = \text{Var}(\varepsilon)$. If τ is a known constant, (19) is a special case of (2)-(3) with $t \equiv 1$ and

$$\begin{aligned} m(\beta x^T) &= \beta x^T, \\ v_1 &= \tau, \\ v_2(\xi) &= \xi. \end{aligned}$$

In the more realistic case of unknown τ , the parameter vector is

$$\theta = (\beta, \tau, \xi). \quad (20)$$

Since the random terms δ and ε in (19) cannot be separated, we cannot estimate $\sigma_2^2 = \tau$ and $\sigma_3^2 = \xi$ from data, only $\sigma_{\text{unexp}}^2 = \tau + \xi$. Hence the last two variance components of (5) are not estimable and only R^2 , not CID, is computable.

When weighted least squares (13) with known weights ($\hat{w}_i = w_i$) are used,

$$\begin{aligned} \hat{m} &= \sum_i w_i Y_i / \sum_i w_i, \\ \hat{\sigma}^2 &= \hat{\sigma}_1^2 + \hat{\sigma}_{\text{unexp}}^2 = \sum_i w_i (Y_i - \hat{m}_i)^2 / \sum_i w_i, \end{aligned}$$

by well known orthogonality properties of WLS. In particular, for uniform weights, R^2 agrees with (1). \square

7 Multivariate Response Variables

Consider the multivariate extension of (19) where Y is a $1 \times q$ vector for some $q > 1$. Then $L = \delta$ is a $1 \times q$ vector of individual effects, ε a $1 \times q$ vector of error terms, β a $1 \times p$ vector, and x a $q \times p$ matrix. This yields

$$\begin{aligned} E(Y|x) &= \beta x^T =: m, \\ \text{Cov}(Y|x, t) &= \xi C(t) + \tau I_q = V(t, \xi, \tau), \end{aligned} \quad (21)$$

where ξ is the variance of the random effects components, τ the variance of the error components, $C(t) = \text{Corr}(\delta|t)$ the correlation matrix of the random effects, and I_q the identity matrix of order q .

For instance, Y may represent q repeated measurements registered from an individual. Since the individual effect is the same for all q measurements, $C = 1_q^T 1_q$, where $1_q = (1, \dots, 1)$ is a $1 \times q$ vector of ones. Another example is genetics, where Y contains measurements of a certain quantity for all members of a family of size q . In this case t represents family structure and δ includes the genetic effects of the family members, so that $C(t)_{kl}$, the $(k, l)^{\text{th}}$ component of $C(t)$, depends on the genetic relationship between individuals k and l . Another possibility is that δ is a shared environmental factor. For instance, $C(t)_{kl}$ might be 1 or 0 depending on whether k and l share the same household or not. See Lynch and Walsh (1998) for more details.

Consider a sample of n cells, let $C_i = C(t_i)$ and $W_i = W(\beta x_i^T, \tau, \xi, t_i)$ be a symmetric and positive definite weight matrix. Then we may generalize (4)-(5) to

$$\begin{aligned} m &= \sum_i m_i W_i 1_q^T / \sum_i 1_q W_i 1_q^T, \\ \sigma_1^2 &= (m_i - m) W_i (m_i - m)^T / \sum_i \text{tr}(W_i) \\ \sigma_2^2 &= \xi \sum_i \text{tr}(C_i W_i) / \sum_i \text{tr}(W_i) \\ \sigma_3^2 &= \tau \sum_i \text{tr}(I_q W_i) / \sum_i \text{tr}(W_i) = \tau, \end{aligned}$$

and then define ρ and ρ_{ind} through (6) and (7). Typical choices of W_i are uniform weighting ($W_i = I_q$) and inverse variance weighting ($W_i = V_i^{-1}$), where $V_i = V(t_i, \xi, \tau)$. For simplicity of exposition, we assume that W_i is known. When W_i is diagonal, we notice that $\sigma_2^2 = \xi$, since C_i has ones along the diagonal.

We estimate the regression parameters by weighted least squares

$$\hat{\beta} = \arg \min_{\beta} \sum_i (Y_i - \beta x_i^T) W_i (Y_i - \beta x_i^T)^T.$$

and put $\hat{m}_i = \hat{\beta} x_i^T$. The most important difference between the multivariate and univariate cases is that both τ and ξ can be estimated, using the covariance structure of data, see Searle et al. (1992) for details. This makes not only $R^2 = \hat{\sigma}_1^2 / \hat{\sigma}^2$ well defined, but also $\text{CID} = \hat{\sigma}_1^2 / \hat{\sigma}_{\text{unexp}}^2$, with

$$\begin{aligned} \hat{m} &= \sum_i \hat{m}_i W_i 1_q^T / \sum_i 1_q W_i 1_q^T, \\ \hat{\sigma}_1^2 &= (\hat{m}_i - \hat{m}) W_i (\hat{m}_i - \hat{m})^T / \sum_i \text{tr}(W_i) \\ \hat{\sigma}_2^2 &= \hat{\xi} \sum_i \text{tr}(C_i W_i) / \sum_i \text{tr}(W_i) \\ \hat{\sigma}_3^2 &= \hat{\tau}. \end{aligned}$$

With inverse variance weighting, R^2 agrees with Buse's (1973,1979) generalized least squares extension of (1). In the psychology literature, R^2 has been considered for general weight matrices by Jöreskog and Sörbom (1981) and Tanaka and Huba (1989).

8 Large Sample Properties

In this section, we consider large sample properties of R^2 and CID when $q = 1$. We assume that the estimate of β admits an asymptotically linear expansion

$$\hat{\beta} = \beta + \frac{1}{n} \sum_i \text{IF}(Z_i) + o_p(n^{-1/2}), \quad (22)$$

with $Z_i = (x_i, t_i, Y_i)$ and $\text{IF}(z) = \text{IF}(z; \theta)$ the vector valued $(1 \times p)$ influence function of $\hat{\beta}$, satisfying $E(\text{IF}(s, Y)) = 0$ and $E|\text{IF}(s, Y)|^2 < \infty$ for all $s = (x, t)$. See Hampel (1974) and Hampel et al. (1986) for more details.

Let $s_i = (x_i, t_i)$ be the i^{th} design point. We assume that the empirical distribution of $\{s_i\}$ converges weakly,

$$P_n = \frac{1}{n} \sum_i \delta_{s_i} \xrightarrow{\mathcal{L}} P, \quad (23)$$

to some limiting measure P as $n \rightarrow \infty$, where δ_s is a point mass at s .

We will assume that $w(\eta, t)$ is not a function of ξ . Given $s = (x, t)$, let $m(s) = m(\beta x^T, t)$, $v(s) = v(\beta x^T, \xi, t)$, $v_1(s) = v_1(\beta x^T, t)$ and $w(s) = w(\beta x^T, t)$. We further assume that

$$\begin{aligned} w := \sum_i w_i/n &\rightarrow \bar{w} := \int w(s) dP(s), \\ m &\rightarrow \bar{m} := \int m(s) dP(s)/\bar{w}, \\ \sigma_1^2 &\rightarrow \bar{\sigma}_1^2 := \int w(s)(m(s) - \bar{m})^2 dP(s)/\bar{w}, \\ \sigma_2^2 &\rightarrow \bar{\sigma}_2^2 := \int w(s)(v(s) - v_1(s)) dP(s)/\bar{w}, \\ \sigma_3^2 &\rightarrow \bar{\sigma}_3^2 := \int w(s)v_1(s) dP(s)/\bar{w} \end{aligned} \quad (24)$$

as $n \rightarrow \infty$. This gives the population coefficients of determination

$$\begin{aligned} \bar{\rho} &= \bar{\sigma}_1^2/\bar{\sigma}^2, \\ \bar{\rho}_{\text{ind}} &= \bar{\sigma}_1^2/\bar{\sigma}_{\text{ind}}^2, \end{aligned}$$

where $\bar{\sigma}^2 = \bar{\sigma}_1^2 + \bar{\sigma}_2^2 + \bar{\sigma}_3^2$ and $\bar{\sigma}_{\text{ind}}^2 = \bar{\sigma}_1^2 + \bar{\sigma}_2^2$. One option is to analyze the asymptotic distribution of R^2 and CID, viewed as estimators of $\bar{\rho}^2$ and $\bar{\rho}_{\text{ind}}^2$. However, we think it is more relevant, given the sample at hand, to view R^2 and CID as estimators of ρ and ρ_{ind} . Therefore, asymptotic normality of R^2 and CID are stated as follows:

Theorem 1 *Assume that $m(\eta, t)$, $v_1(\eta, t)$ and $w(\eta, t)$ are differentiable functions of η , that $\hat{\beta}$ admits an asymptotic expansion (22), and that the sequence*

of design points $\{s_i\}$ is such that (23), (24) and (A.10) in the appendix hold, and that the Lindeberg Condition is satisfied in (A.12). Then

$$\sqrt{n}(R^2 - \rho) \xrightarrow{\mathcal{L}} N(0, \sigma_R^2) \quad (25)$$

and

$$\sqrt{n}(CID - \rho_{ind}) \xrightarrow{\mathcal{L}} N(0, \sigma_{CID}^2) \quad (26)$$

as $n \rightarrow \infty$, where the asymptotic variances σ_R^2 and σ_{CID}^2 are defined in the proof of Theorem 1 in the appendix. \square

Based on Theorem 1, we also compute standard errors. See the appendix for details.

9 An Overdispersed Poisson Example

We illustrate the theory with a car accident data set from If P&C Insurance Company, using the overdispersed Poisson model of Example 1. We give a brief description of the data set here. More details can be found in Hössjer et al. (2006) and Järnmalm (2006). Car accidents are reported for a total of $n = 439\,283$ individuals having a uninterrupted 3 year period between January 1, 2002 and December 31, 2005. We measure time in units of three year intervals. Hence $t_i \equiv 1$, although we allow for general time durations in the theoretical computations below. As rating factors we use previous number of years of insurance at the company (4), geographic zone (19), age of car (6), premium class, defined by the type of car (10), annual driving distance (5) and sex/age (26). The number of classes within each rating factor are given in brackets. Each rating factor contains a reference class with a regression coefficient of zero (not included in β). All other classes have a separate regression coefficient β_r , with $x_{ir} = 1$ if Individual i belongs to the given class and $x_{ir} = 0$ otherwise. Including intercept (β_1 , $x_{i1} \equiv 1$), the total number of regression coefficients is

$$p = 1 + \sum_{j=1}^6 (k_j - 1) = 65,$$

where k_j is the number of classes within the j^{th} rating factor.

The regression parameters are estimated using ML from a generalized linear model without dispersion variance, (15). A histogram of all estimated claim frequencies \hat{m}_i is displayed in Figure 1. They range from 0.01-0.20 although $0.045 \leq \hat{m}_i \leq 0.075$ for more than 50 % of all individuals. The

estimated coefficients of determination are computed using a deterministic weight function $w_i = t_i$ of the kind described in Part iv) of Section 4. This yields

$$\begin{aligned} R^2 &= 0.0053, \\ \text{CID} &= 0.1120. \end{aligned}$$

Hence only 0.5 % of the total variance is explained by the covariates, and R^2 is much smaller than CID, since the individual unexplained variance $\hat{\sigma}_2^2$ is only 4 % of the noise variance $\hat{\sigma}_3^2$. The reason for this is that time durations in motor traffic insurance are very short in relation to claim frequencies m_i . The relative amount of overdispersion is thus small, but yet highly significant (see Hössjer et al., 2006).

Even without noise variance, only 11 % of the total individual variation is explained by the covariates. Three possible reasons for the low CID are 1) model error in capturing the true relation $x \rightarrow m(x)$ between the *given covariates* and the claim frequency, 2) missing covariates from the *given rating factors* (the rating factors have too few classes, missing interactions) or 3) missing rating factors, such as individual driving characteristics or road conditions. Of these, the latter is probably the most significant one.

In order to compute standard errors we need to specify the constant a of the variance function in (18). An initial data analysis in Hössjer et al. (2006) gives $a = 1.3$, although the assumed a affects standard errors very marginally (due to the small amount of overdispersion). Given a , ξ is estimated using (14), which for our variance function becomes

$$\hat{\xi} = \sum_i t_i \left((Y_i - \hat{m}_i)^2 - \hat{m}_i/t_i \right) / \sum_i t_i \hat{m}_i^a = 0.0979. \quad (27)$$

The standard error of R^2 and CID are computed from (A.14)-(A.15), with $\hat{h}(Z_i)$ as in (A.24) and the standard error of $\hat{\xi}$ from (A.29). This yields the 95 % Wald confidence intervals

$$\begin{aligned} I_\rho &= (0.0049, 0.0058) \\ I_{\rho_{\text{ind}}} &= (0.0967, 0.1274) \\ I_\xi &= (0.0849, 0.1108). \end{aligned}$$

We notice that ρ_{ind} has a much wider confidence interval than ρ . This is due to the fact that unexplained individual variance is much more difficult to estimate than total unexplained variance in this data set, which has a small amount of overdispersion.

10 Discussion

In this paper we have defined a new coefficient of determination, CID, which quantifies the proportion of individual variation in data explained by the covariates within a general univariate mixed effects regression model. We also derived large sample properties, discussed multivariate extensions and analyzed a car accident data set.

The method relies on decomposing the variance of each observation Y_i into two terms, representing unexplained individual and noise variance. In general, individual unexplained variance are due to individual covariates not included in the model or inadequate modeling with the given covariates. The noise variance, on the other hand, has components of measurement error and other sources of non-individual variation. However, the decomposition is partly context dependent, since the interpretation of 'individual source of variation' might vary and depend on the population from which the individual is drawn. We have primarily focused on univariate regression models for which the noise variance v_{1i} of Y_i is a function of the regression parameters and the individual unexplained variance v_{2i} of Y_i contains an extra liability parameter ξ . This makes ρ_{ind} well defined and identifiable, so that CID is computable.

Several extensions of the work are possible. For instance, when p/n is non-negligible, R^2 typically has an upward bias and should be adjusted for reduced degrees of freedom. For uniform weights, one possibility, which generalizes the adjusted R^2 in linear regression (Fisher, 1924), is

$$R^2 = 1 - \frac{(n/(n-p))\hat{\sigma}_{\text{unexp}}^2}{(n/(n-1))\hat{\sigma}^2}.$$

The analogous adjustment of CID would be

$$\text{CID} = 1 - \frac{(n/(n-p))\hat{\sigma}_2^2}{(n/(n-1))\hat{\sigma}_{\text{ind}}^2}.$$

We have defined R^2 and CID using (9) rather than (10). In this way, both coefficients of determination depend on $\hat{\beta}$, but not $\hat{\xi}$. This is appropriate, since only $\hat{\beta}$ is robust towards misspecification of the variance function for a wide range of regression models. The standard errors of R^2 and CID, on the other hand, depend on both $\hat{\beta}$ and $\hat{\xi}$. When the amount of overdispersion is large, it is of interest to use robust estimates of the variance functions in order to obtain robust standard errors. See for instance Liang and Zeger (1986), Breslow (1990) and Moore and Tsiatis (1991) for more discussion on this subject.

For confidence intervals, we have used asymptotic normality of R^2 and CID. An alternative is to apply the normal approximation to a nearly variance stabilizing transformation of R^2 , such as $R^2/(1 - R^2)$, see e.g. Muirhead (1995). The same approach could also be used for CID. Another possibility would be to use bootstrap.

Unconditional versions of the variance decomposition (5) and its estimated counterpart (8) are obtained if m and \hat{m} are replaced by

$$\begin{aligned} m_{\text{uncond}} &= E(Y_I|t_1, \dots, t_n) = \sum_i w_i E(Y_i|t_i) / \sum_i w_i, \\ \hat{m}_{\text{uncond}} &= \sum_i \hat{w}_i Y_i / \sum_i \hat{w}_i. \end{aligned}$$

A conceptual advantage of this approach is that the resulting variance σ_{uncond}^2 as well as its estimate $\hat{\sigma}_{\text{uncond}}^2$ are both independent of the chosen model, i.e. the set of included covariates. On the other hand, a random model for the covariates x_i is implicitly required.

The two unexplained variance components, σ_2^2 and σ_3^2 , are unaffected by removing conditioning on $\{x_i\}$, whereas the explained variance component σ_1^2 is changed to

$$\sigma_{1,\text{uncond}}^2 = \sigma_1^2 + (m_{\text{uncond}} - m)^2.$$

Similarly, for the estimated variance decomposition, only the explained variance component is changed from $\hat{\sigma}_1^2$ to

$$\hat{\sigma}_{1,\text{uncond}}^2 = \hat{\sigma}_1^2 + (\hat{m}_{\text{uncond}} - \hat{m})^2.$$

In practice, there is a very small difference between the two estimated variance decompositions. In fact, they often agree, i.e. $\hat{m} = \hat{m}_{\text{uncond}}$. This happens, for instance, for univariate linear regression and weighted least squares estimation of β (although σ_2^2 and σ_3^2 cannot be separated) and Poisson regression when $w_i = t_i = 1$ and β is estimated by non-dispersed ML (15).

Appendix

Proof of Theorem 1. We start by defining the asymptotic variances in (25)-(26) as

$$\sigma_R^2 = G \Sigma G^T$$

and

$$\sigma_{\text{CID}}^2 = G_{\text{ind}} \Sigma G_{\text{ind}}^T,$$

where

$$\begin{aligned} G &= \bar{\sigma}^{-2}(1 - \bar{\rho}, -\bar{\rho}, 0), \\ G_{\text{ind}} &= \bar{\sigma}_{\text{ind}}^{-2}(1 - \bar{\rho}_{\text{ind}}, -\bar{\rho}_{\text{ind}}, \bar{\rho}_{\text{ind}}), \end{aligned} \tag{A.1}$$

$$\Sigma = \int E(h(s, Y)^T h(s, Y)) dP(s), \quad (\text{A.2})$$

$$h(z) = \text{IF}(z)D + \Delta(z) \quad (\text{A.3})$$

$z = (s, y) = (x, t, y)$, $\Delta(z) = (0, w(s)((y - m(s))^2 - v(s))/\bar{w}, 0)$ and D is the $p \times 3$ matrix defined in (A.11) below.

It is convenient to start the proof by introducing $S(\beta) = (S_1(\beta), S_2(\beta), S_3(\beta))$, where

$$\begin{aligned} S_1(\beta) &= \sum_i w_i (m_i - m)^2, \\ S_2(\beta) &= \sum_i w_i (Y_i - m_i)^2, \\ S_3(\beta) &= \sum_i w_i v_{1i}. \end{aligned} \quad (\text{A.4})$$

Moreover, let $\hat{S} = (S_1(\hat{\beta}), S_2(\hat{\beta}), S_3(\hat{\beta}))$ and $S = (S_1(\beta), \sum_i w_i v_i, S_3(\beta))$. Then

$$\begin{aligned} \rho &= g(S), \\ \rho_{\text{ind}} &= g_{\text{ind}}(S) \end{aligned} \quad (\text{A.5})$$

and

$$\begin{aligned} R^2 &= g(\hat{S}), \\ \text{CID} &= g_{\text{ind}}(\hat{S}), \end{aligned} \quad (\text{A.6})$$

where $g(S_1, S_2, S_3) = S_1/(S_1 + S_2)$ and $g_{\text{ind}}(S_1, S_2, S_3) = S_1/(S_1 + S_2 - S_3)$. To find the asymptotic distributions of R^2 and CID, we will Taylor expand g and g_{ind} around S . To this end, we first derive asymptotic approximations of $g'(S)$ and $g'_{\text{ind}}(S)$. It follows from (24) that

$$S/(n\bar{w}) \xrightarrow{p} \bar{S} = (\bar{\sigma}_1^2, \bar{\sigma}_2^2 + \bar{\sigma}_3^2, \bar{\sigma}_3^2) \quad (\text{A.7})$$

as $n \rightarrow \infty$. This implies, by differentiating g and g_{ind} ,

$$\begin{aligned} ng'(S) &\xrightarrow{p} G/\bar{w}, \\ ng'_{\text{ind}}(S) &\xrightarrow{p} G_{\text{ind}}/\bar{w}, \end{aligned} \quad (\text{A.8})$$

with G and G_{ind} as in (A.1). Combining (A.5), (A.6) and (A.8), a Taylor expansion of g and g_{ind} around S yields

$$\begin{aligned} R^2 &= \rho + (\hat{S} - S)G^T/(\bar{w}n) + o_p(n^{-1/2}), \\ \text{CID} &= \rho_{\text{ind}} + (\hat{S} - S)G_{\text{ind}}^T/(\bar{w}n) + o_p(n^{-1/2}). \end{aligned} \quad (\text{A.9})$$

To finalize the proof, we will derive the asymptotic distribution of $(\hat{S} - S)/\bar{w}$. To this end, define the $p \times 3$ matrix $S' = S'(\beta) = \partial S(\beta)/\partial \beta$ with transposed columns S'_i given by

$$\begin{aligned} S'_1 &= 2 \sum_i x_i m'_i w_i (m_i - m) + \sum_i x_i w'_i (m_i - m)^2, \\ S'_2 &= -2 \sum_i x_i m'_i w_i (Y_i - m_i) + \sum_i x_i w'_i (Y_i - m_i)^2, \\ S'_3 &= \sum_i x_i (w_i v'_{1i} + w'_i v_{1i}), \end{aligned}$$

where $w'_i = \partial w(\eta_i, t_i)/\partial \eta_i$ and $v'_{1i} = \partial v_1(\eta_i, t_i)/\partial \eta_i$. We assume that the appropriate uniform integrability conditions hold so that

$$S' / (\bar{w}n) \xrightarrow{p} D \quad (\text{A.10})$$

as $n \rightarrow \infty$, where $D = (D_1^T, D_2^T, D_3^T)$ is a $p \times 3$ matrix, with

$$\begin{aligned} \bar{w}D_1 &= 2 \int x m'(s) w(s) (m(s) - \bar{m}) dP(s) \\ &\quad + \int x w'(s) (m(s) - \bar{m})^2 dP(s), \\ \bar{w}D_2 &= \int x w'(s) v(s) dP(s), \\ \bar{w}D_3 &= \int x (w(s) v'_1(s) + w'(s) v_1(s)) dP(s), \end{aligned} \quad (\text{A.11})$$

$s = (x, t)$, $m'(s) = \partial m(\eta, t)/\partial \eta|_{\eta=\beta x^T}$, $v'_1(s) = \partial v_1(\eta, t)/\partial \eta|_{\eta=\beta x^T}$ and $w'(s) = \partial w(\eta, t)/\partial \eta|_{\eta=\beta x^T}$.

A Taylor expansion of $S(\cdot)$ around β gives

$$\begin{aligned} \hat{S} &= S + (\hat{\beta} - \beta) S' + (S(\beta) - S) + o_p(n^{1/2}) \\ &= S + n\bar{w}(\hat{\beta} - \beta) D + \bar{w} \sum_i \Delta(Z_i) + o_p(n^{1/2}), \\ &= S + \bar{w} \sum_i h(Z_i) + o_p(n^{1/2}) \end{aligned} \quad (\text{A.12})$$

where $\Delta(Z_i) = (0, w_i((Y_i - m_i)^2 - v_i)/\bar{w}, 0)$. In the last step of (A.12) we used (22) and (A.3). By assumption, the sequence of design measures, P_n , is such that the Lindeberg Condition is satisfied in the last line of (A.12). Hence, the Central Limit Theorem implies

$$(\hat{S} - S)/(\bar{w}\sqrt{n}) \xrightarrow{\mathcal{L}} N(0, \Sigma) \quad (\text{A.13})$$

as $n \rightarrow \infty$. The theorem follows by combining (A.13) with (A.9). \square

Standard Errors of R^2 and CID We use Theorem 1 to define the squared standard errors

$$\begin{aligned} d^2 &:= n^{-1} \hat{G} \hat{\Sigma} \hat{G}^T, \\ d_{\text{ind}}^2 &:= n^{-1} \hat{G}_{\text{ind}} \hat{\Sigma} \hat{G}_{\text{ind}}^T, \end{aligned} \quad (\text{A.14})$$

of R^2 and CID, with

$$\begin{aligned} \hat{G} &= \hat{\sigma}^{-2} (1 - R^2, -R^2, 0), \\ \hat{G}_{\text{ind}} &= \hat{\sigma}_{\text{ind}}^{-2} (1 - \text{CID}, -\text{CID}, \text{CID}), \\ \hat{\Sigma} &= \sum_i \hat{h}(Z_i)^T \hat{h}(Z_i) / n. \end{aligned} \quad (\text{A.15})$$

Here $\hat{h}(Z_i) = \widehat{\text{IF}}(Z_i) \hat{D} + \hat{\Delta}(Z_i)$ is an estimate of $h(Z_i)$, $\hat{w} = \sum_i \hat{w}_i / n$, $\hat{\Delta}(Z_i) = (0, \hat{w}_i((Y_i - \hat{m}_i)^2 - \hat{v}_i)/\hat{w}, 0)$, and $\hat{D} = (\hat{D}_1^T, \hat{D}_2^T, \hat{D}_3^T) = S'(\hat{\beta}) / \sum_i \hat{w}_i$, i.e.

$$\begin{aligned} \hat{D}_1 &= (2 \sum_i x_i \hat{m}'_i \hat{w}_i (\hat{m}_i - \hat{m}) + \sum_i x_i \hat{w}'_i (\hat{m}_i - \hat{m})^2) / \sum_i \hat{w}_i, \\ \hat{D}_2 &= (-2 \sum_i x_i \hat{m}'_i \hat{w}_i (Y_i - \hat{m}_i) + \sum_i x_i \hat{w}'_i (Y_i - \hat{m}_i)^2) / \sum_i \hat{w}_i, \\ \hat{D}_3 &= \sum_i x_i (\hat{w}_i \hat{v}'_{1i} + \hat{w}'_i \hat{v}_{1i}) / \sum_i \hat{w}_i, \end{aligned} \quad (\text{A.16})$$

where $\hat{m}'_i = \partial m(\hat{\eta}_i, t_i)/\partial \hat{\eta}_i$, $\hat{v}'_{1i} = \partial v_1(\hat{\eta}_i, t_i)/\partial \hat{\eta}_i$ and $\hat{w}'_i = \partial w(\hat{\eta}_i, t_i)/\partial \hat{\eta}_i$.

It remains to compute the estimated influence function $\widehat{\text{IF}}$, usually referred to as the sensitivity function. Assume first that β is estimated separately from ξ , using p estimating equations

$$\sum_i \psi(Z_i; \hat{\beta}) = 0, \quad (\text{A.17})$$

given some $1 \times p$ -valued function ψ . This includes nonlinear least squares, with $\psi(z; \beta) = xm'(\eta, t)(Y - m(\eta, t))$ and $m'(\eta, t) = \partial m(\eta, t)/\partial \eta$. Other examples are ML-estimators (15), with $\psi(z; \beta) = x \partial \log f(y|\eta, 0, t)/\partial \eta$ and QL-estimators $U_\beta(\hat{\beta}, 0) = 0$, with $\psi(z; \beta) = xm'(\eta, t)(y - m(\eta, t))/v(\eta, 0, t)$.

The influence function for estimators (A.17) is given by

$$\text{IF}(z) = -\psi(z; \beta)B^{-1}$$

where the $p \times p$ matrix $B = \int E(\psi'(s, Y; \beta))dP(s)$ and $\psi'(z; \beta) = \partial \psi(z; \beta)/\partial \beta$, see Hampel et al. (1986). The sensitivity function is

$$\widehat{\text{IF}}(z) = -\psi(z; \hat{\beta})\hat{B}^{-1} \quad (\text{A.18})$$

where $\hat{B} = \sum_i \psi'(Z_i; \hat{\beta})/n$.

When β and ξ are estimated simultaneously from $p + 1$ estimating equations

$$\sum_i \psi(Z_i, \hat{\theta}) = 0,$$

the influence function for $\hat{\beta}$ is

$$\text{IF}(z) = -\left(\psi(z; \theta)B^{-1}\right)_{1:p},$$

where $B = \int E(\psi'(s, Y; \theta))dP(s)$ is a $(p + 1) \times (p + 1)$ matrix, $\psi'(z; \theta) = \partial \psi(z; \theta)/\partial \theta$ and $a_{1:p}$ contains the first p components of the row vector a . To compute the sensitivity function $\widehat{\text{IF}}$, we proceed analogously as in (A.18).

Standard errors of R^2 and CID for Poisson model with non-dispersed ML-estimates. In order to compute d^2 and d_{ind}^2 in (A.14), we need an explicit expression for $\hat{h}(Z_i)$ in (A.15). The probability distribution for the non-dispersed Poisson model is

$$f(y|\eta, 0, t) = e^{-te^\eta} (te^\eta)^{ty} / (ty)!. \quad (\text{A.19})$$

Taking the logarithm of (A.19), putting $\eta = \beta x^T$ and differentiating twice with respect to β , we obtain

$$\begin{aligned}\psi(z; \beta) &= tx(y - m(\eta)), \\ \psi'(x; \beta) &= -tx^T xm(\eta).\end{aligned}\tag{A.20}$$

Since $m(\eta) = e^\eta$ and $v(\eta, 0) = e^\eta/t$, we find that $\hat{m}_i = \hat{m}'_i = \exp(x_i \hat{\beta}^T)$ and $\hat{v}'_{1i} = \exp(x_i \hat{\beta}^T)/t_i$, and from (A.20) we obtain $\hat{B} = -\sum_i t_i x_i^T x_i \hat{m}_i/n$.

With weights $w_i = \hat{w}_i = t_i$, the transposed columns of \hat{D} are

$$\begin{aligned}\hat{D}_1 &= 2 \sum_i t_i x_i \hat{m}_i (\hat{m}_i - \hat{m}) / \sum_i t_i, \\ \hat{D}_2 &= -2 \sum_i t_i x_i \hat{m}_i (Y_i - \hat{m}_i) / \sum_i t_i, \\ \hat{D}_3 &= \sum_i x_i \hat{m}_i / \sum_i t_i,\end{aligned}\tag{A.21}$$

and $\hat{\Delta}(Z_i) = (0, t_i((Y_i - \hat{m}_i)^2 - \hat{v}_i)/t, 0)$, where $\hat{v}_i = \hat{m}_i/t_i + \hat{\xi} \hat{m}_i^a$ and $t = \sum_i t_i/n$. Putting things together we find that

$$\hat{h}(Z_i) = \left(a_i(Y_i - \hat{m}_i), b_i(Y_i - \hat{m}_i) + \frac{t_i}{t}((Y_i - \hat{m}_i)^2 - \hat{v}_i), c_i(Y_i - \hat{m}_i) \right),\tag{A.22}$$

where

$$\begin{aligned}a_i &= -t_i x_i \hat{B}^{-1} \hat{D}_1^T \stackrel{t_i \equiv 1}{=} -x_i \hat{B}^{-1} \hat{D}_1^T, \\ b_i &= -t_i x_i \hat{B}^{-1} \hat{D}_2^T \stackrel{t_i \equiv 1}{=} -x_i \hat{B}^{-1} \hat{D}_2^T, \\ c_i &= -t_i x_i \hat{B}^{-1} \hat{D}_3^T \stackrel{t_i \equiv 1}{=} -x_i \hat{B}^{-1} \hat{D}_3^T = 1.\end{aligned}\tag{A.23}$$

where the last identity follows since the model includes intercept ($x_{i1} \equiv 1$). We can simplify further by letting $b_i = 0$ (using the fact that $\hat{D}_2 \approx 0$). Consequently, when $t_i \equiv 1$, we put

$$\hat{h}(Z_i) = \left(a_i(Y_i - \hat{m}_i), (Y_i - \hat{m}_i)^2 - \hat{v}_i, Y_i - \hat{m}_i \right),\tag{A.24}$$

which is inserted into (A.14)-(A.15) to yield the standard errors of R^2 and CID. \square

Asymptotic normality and standard error for $\hat{\xi}$ in (27). We use a procedure analogous to the proof of Theorem 1. Basically we need to redefine the functions $S(\cdot)$ and $g(\cdot)$. We redefine the first component of $S(\beta) = (S_1(\beta), S_2(\beta), S_3(\beta))$ in (A.4), choose weights $w_i = t_i$ and variance function $v_{1i} = m_i/t_i$. This yields

$$\begin{aligned}S_1(\beta) &= \sum_i t_i m_i^a, \\ S_2(\beta) &= \sum_i t_i (Y_i - m_i)^2, \\ S_3(\beta) &= \sum_i m_i.\end{aligned}$$

With $\hat{S} = S(\hat{\beta})$ and $S = (S_1(\beta), \sum_i t_i v_i, S_3(\beta))$, we find that

$$\begin{aligned}\xi &= g(S), \\ \hat{\xi} &= g(\hat{S}),\end{aligned}$$

if $g(S_1, S_2, S_3) = (S_2 - S_3)/S_1$. The Taylor expansion analogous to (A.9) is

$$\hat{\xi} = \xi + (\hat{S} - S)G^T/(\bar{t}n) + o_p(n^{-1/2}),$$

with $\bar{t} = \int t dP(s)$ and

$$G = \bar{t}(-\xi, 1, -1) / \int t m^a(x) dP(s). \quad (\text{A.25})$$

Expansion (A.12) still holds for the redefined \hat{S} and S , with $\bar{w} = \bar{t}$, $D = (D_1^T, D_2^T, D_3^T)$,

$$\begin{aligned}\bar{t}D_1 &= a \int t x m'(x) m(x)^{a-1} dP(s) = a \int t x m^a(x) dP(s), \\ D_2 &= (0, \dots, 0), \\ \bar{t}D_3 &= \int t x m'(x) dP(s) = \int t x m(x) dP(s)\end{aligned} \quad (\text{A.26})$$

and

$$h(z) = \text{IF}(z)D + (0, t((y - m(x))^2 - v(x)) / \bar{t}, 0). \quad (\text{A.27})$$

Altogether, we obtain

$$\sqrt{n}(\hat{\xi} - \xi) \xrightarrow{\mathcal{L}} N(0, G\Sigma G^T)$$

as $n \rightarrow \infty$, with G and Σ as in (A.25) and (A.2), using (A.27) and (A.26) in the definition of Σ .

The squared standard error of $\hat{\xi}$ is then

$$d_{\hat{\xi}}^2 = n^{-1} \hat{G} \hat{\Sigma} \hat{G}^T, \quad (\text{A.28})$$

with $\hat{G} = (-\hat{\xi}, 1, -1) \sum_i t_i / \sum_i t_i \hat{m}_i^a$, $\hat{\Sigma}$ as defined in (A.15), $\hat{h}(Z_i)$ as in (A.22) and a_i , b_i and c_i as in (A.23). In (A.23), \hat{D}_2 and \hat{D}_3 are given by (A.21), whereas

$$\hat{D}_1 = a \sum_i t_i x_i \hat{m}_i^a / \sum_i t_i.$$

Substantial simplification is possible when $a = 1$ and $t_i = 1$. Then the first and third components of S , \hat{S} , D and \hat{D} are equal, and $a_i = c_i = 1$ (since intercept is included in the model). Moreover, we put $b_i = 0$ (since $\hat{D}_2 \approx 0$) and use $\sum_i t_i (Y_i - \hat{m}_i) = 0$ (which follows from the likelihood equations). Altogether, this implies

$$\begin{aligned}d_{\hat{\xi}}^2 &= (\sum_i Y_i)^{-2} ((\hat{\xi} + 1)^2 \sum_i (Y_i - \hat{m}_i)^2 \\ &\quad - 2(\hat{\xi} + 1) \sum_i ((Y_i - \hat{m}_i)^3 - \hat{v}_i (Y_i - \hat{m}_i)) \\ &\quad + \sum_i ((Y_i - \hat{m}_i)^2 - \hat{v}_i)^2).\end{aligned} \quad (\text{A.29})$$

□

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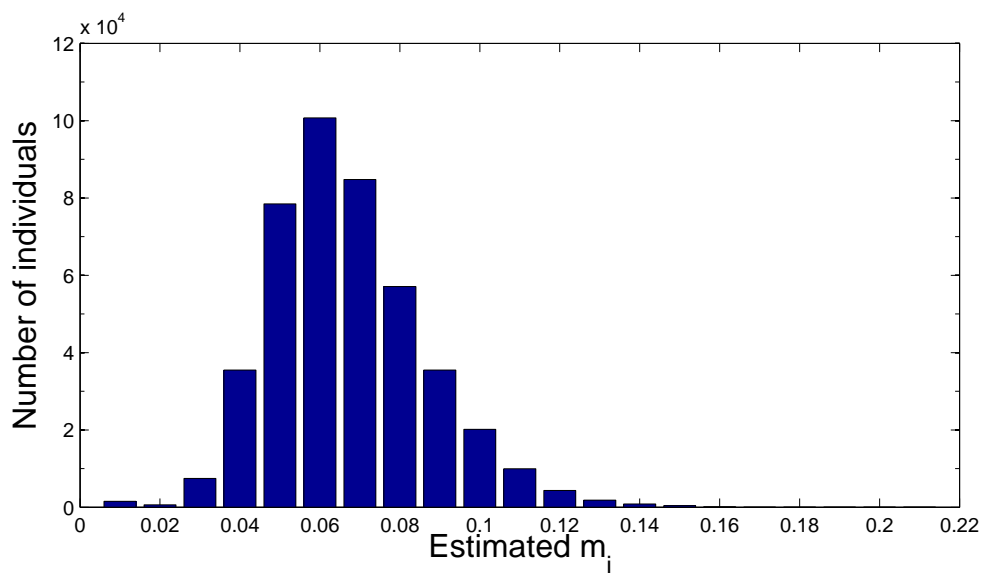


Figure 1: Histogram of all $\hat{m}_i, i = 1, \dots, n$ for the car accident data set.