



Journal of Applied Statistics >

Volume 38, 2011 - [Issue 7](#)

2,397 | 102

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The corrected VIF (CVIF)

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Pages 1499-1507 | Received 09 Dec 2009, Accepted 24 Jun 2010, Published online: 30 Sep 2010

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Abstract

In this paper, we propose a new corrected variance inflation factor (VIF) measure to evaluate the impact of the correlation among the explanatory variables in the variance of the ordinary least squares estimators. We show that the real impact on variance can be overestimated by the traditional VIF when the explanatory variables contain no redundant information about the dependent variable and a corrected version of this multicollinearity indicator becomes necessary.

Keywords:

corrected VIF

near-multicollinearity

JEL classification :

C13

C52

Acknowledgements

We would like to express our thanks to Aris Spanos, Ewa Petkova, the editor and referees for their valuable comments and suggestions.

Notes

When k increases, assuming that n , TSS and TSS_j remain constant, R^2 also increases.

The overall coefficient of determination, when all the explanatory variables are included in the model, is bigger than the sum of the coefficients of determination resulting from individual regressions between y and each one of the explanatory variables.

Thus, we also agree that 10 times higher is a substantial increase in the estimated variance of OLS estimators.

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