Logistic Regression

The question is how should we model the relationship between

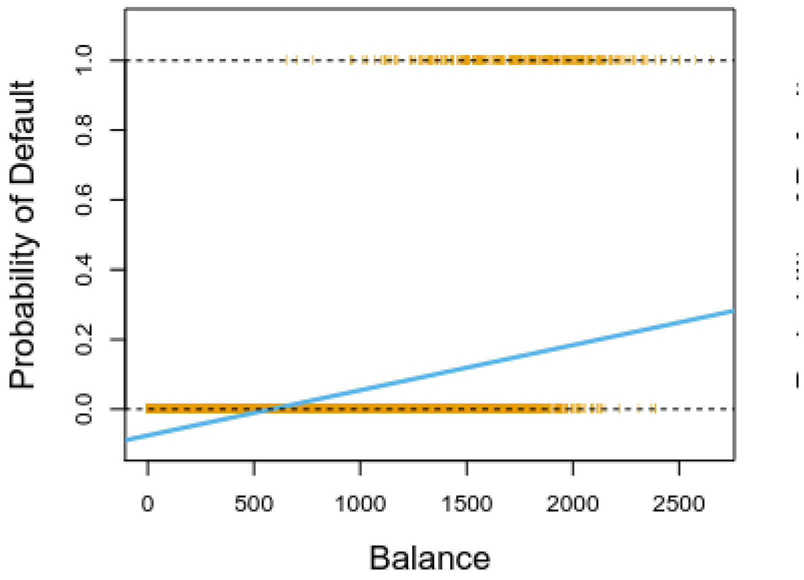
$$P(X) = \Pr(Y = 1|X)$$

- Using 1 and 0 for the Response

Using Linear Regression model to represent these probabilities

$$p(X) = \beta_0 + \beta_1 X$$

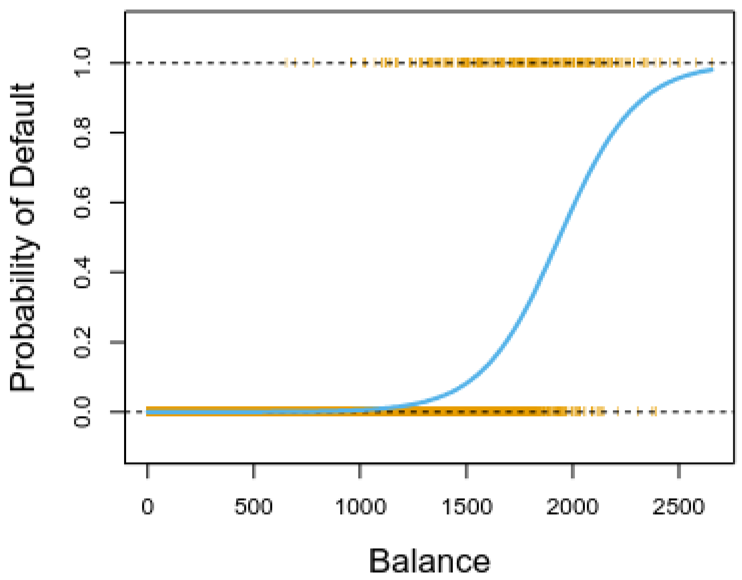
- If we fit the line to predict the **Probability**



- Notice that the `Balance` Lower than 500 our prediction for the probability is **negative**

To avoid this problem we model $p(X)$ to only fall between 1 and 0 for all values X **Logistic Function** which is a Sigmoid Function

$$p(X) = \frac{e^{\beta_0+\beta_1 X}}{1 + e^{\beta_0+\beta_1 X}}$$



- Any output of the **Logistic Function** Falls between 1 or 0

$$\frac{p(X)}{1 - p(X)} = \frac{\frac{e^{\beta_0+\beta_1 X}}{1+e^{\beta_0+\beta_1 X}}}{1 - \frac{e^{\beta_0+\beta_1 X}}{1+e^{\beta_0+\beta_1 X}}} = \frac{e^{\beta_0+\beta_1 X}}{1 + e^{\beta_0+\beta_1 X}} \times \frac{1}{\frac{e^{\beta_0+\beta_1 X}}{1+e^{\beta_0+\beta_1 X}} = \frac{1}{1+e^{\beta_0+\beta_1 X}}} = \frac{e^{\beta_0+\beta_1 X}}{1 + e^{\beta_0+\beta_1 X}} \times 1 + e^{\beta_0+\beta_1 X}$$

$$\text{odds} = \frac{p(X)}{1 - p(X)} = e^{\beta_0+\beta_1 X}$$

- the **quantity** $p(X)/[1-p(X)]$ is called the $odds$ can can only take values between 0 to ∞
- Values close to 0 indicates low probability
- Values close to ∞ indicate higher probability
- if $p(X) = 0.5$ the $\text{odds} = 1$ equal chance
- if $p(X) = 0.8$ the $\text{odds} = 4$ 4x success chances

Probabilities vs Odds

- The odds are the **ratio** of something happening *divided by* something not happening
- The probability is the **ratio** of something happening *divided by* to everything could happen

$$\text{Probability} = \frac{\text{Number of favorable outcomes}}{\text{Total number of possible outcomes}}$$

$$\text{Odds} = \frac{\text{Probability of even occurs}}{\text{Probability event does not occur}} = \frac{p}{1-p}$$

Odds in logistic regression

Taking logarithm of both sides : log odds or logit

$$\log\left(\frac{p(X)}{1-p(X)}\right) = \beta_0 + \beta_1 X$$

- the $\log$ of odds gives us a **Linear equation** which is easy to model and **interpret**
  Why we use the odds?
- **Probabilities** lives in the interval $[0, 1]$
- Linear combinations like $\beta_0 + \beta_1 X$ lives on $(-\infty, +\infty)$
- The **odds** solves that by being in $(0, +\infty)$

In the **Linear Regression** β_1 gives the average change in Y associated with one unit increase in X
In the **Logistic Regression** β_1 does not correspond directly to the change in $p(X)$, if β_1 is positive increasing one unit in X will increase the **Probability** $p(X)$ but the increase depends on the current value of $p(X)$

$$\beta_1 > 0 \rightarrow \text{One unit increase X} \rightarrow \text{Increase } p(X)$$

$$\beta_1 < 0 \rightarrow \text{One unit increase X} \rightarrow \text{Decrease } p(X)$$

- The amount "Degree" of increase in the **Probability** $p(X)$ depends on the current value of X

Estimating The Regression Coefficients