

Economics 103 – Statistics for Economists

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Lecture # 10

Discrete RVs – Part III

Definition of Conditional PMF

How does the distribution of y change with x ?

$$p_{Y|X}(y|x) = P(Y = y|X = x)$$

Which of these is the formula for $p_{Y|X}(y|x)$?



You can figure this out from what you already know about probability, using the definition $p_{Y|X}(y|x) = P(Y = y|X = x)$

- (a) $p_X(x)/p_Y(y)$
- (b) $p_{XY}(x, y)/p_X(x)$
- (c) $p_X(x)p_{XY}(x, y)$
- (d) $p_{XY}(x, y)/p_Y(y)$
- (e) $p_Y(y)/p_X(x)$

Conditional PMF from Joint and Marginal

$$p_{Y|X}(y|x) = P(Y = y|X = x) = \frac{P(Y = y \cap X = x)}{P(X = x)} = \frac{p_{XY}(x, y)}{p_X(x)}$$

Hence,

$$p_{Y|X}(y|x) = \frac{p_{XY}(x, y)}{p_X(x)}$$

and similarly,

$$p_{X|Y}(x|y) = \frac{p_{XY}(x, y)}{p_Y(y)}$$

Conditional PMF of Y given $X = 2$

		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8

$$p_{Y|X}(1|2) =$$

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$$p_{Y|X}(1|2) = \frac{p_{XY}(2,1)}{p_X(2)} =$$

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$$p_{Y|X}(1|2) = \frac{p_{XY}(2,1)}{p_X(2)} = \frac{0}{3/8} = 0$$

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What is $p_{X|Y}(1|2)$?



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$$p_{X|Y}(3|2) = \frac{p_{XY}(3,2)}{p_Y(2)} = \frac{0}{1/2} = 0$$

Independent RVs

Definition

We say that two discrete RVs are **independent** if and only if their joint pmf equals the product of their marginal pmfs:

$$p_{XY}(x, y) = p_X(x)p_Y(y)$$

for all pairs (x, y) in the support.

In Terms of Conditional PMF

From the previous slide, it follows that an equivalent definition of independence is that both conditional pmfs equal the corresponding marginal pmfs: $p_{Y|X}(y|x) = p_Y(y)$ and $p_{X|Y}(x|y) = p_X(x)$ for all (x, y) in the support.

Are X and Y Independent?



(A = YES, B = NO)

		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
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	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
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$$p_{XY}(2, 1) = 0$$

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	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
		1/4	1/2	1/4	

$$p_{XY}(2, 1) = 0$$

$$p_X(2) \times p_Y(1) =$$

Are X and Y Independent?



(A = YES, B = NO)

		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
		1/4	1/2	1/4	

$$p_{XY}(2, 1) = 0$$

$$p_X(2) \times p_Y(1) = (3/8) \times (1/4) \neq 0$$

Therefore X and Y are *not* independent.

Conditional Expectation

Intuition

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Calculating $E[Y|X = x]$

Take the mean of the conditional pmf of Y given $X = x$.

Conditional Expectation: $E[Y|X = 2]$

		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
		1/4	1/2	1/4	

We showed above that the conditional pmf of $Y|X = 2$ is:

$$p_{Y|X}(1|2) = 0 \quad p_{Y|X}(2|2) = 2/3 \quad p_{Y|X}(3|2) = 1/3$$

Hence

$$E[Y|X = 2] = 2 \times 2/3 + 3 \times 1/3 = 7/3$$

Conditional Expectation: $E[Y|X = 0]$

		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
		1/4	1/2	1/4	

The conditional pmf of $Y|X = 0$ is

$$p_{Y|X}(1|0) = 1 \quad p_{Y|X}(2|0) = 0 \quad p_{Y|X}(3|0) = 0$$

Hence $E[Y|X = 0] = 1$

Calculate $E[Y|X = 3]$

		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
		1/4	1/2	1/4	

The conditional pmf of $Y|X = 3$ is

$$p_{Y|X}(1|3) = 1 \quad p_{Y|X}(2|3) = 0 \quad p_{Y|X}(3|3) = 0$$

Hence $E[Y|X = 3] = 1$

Calculate $E[Y|X = 1]$



		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
		1/4	1/2	1/4	

Calculate $E[Y|X = 1]$



		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
		1/4	1/2	1/4	

The conditional pmf of $Y|X = 1$ is

$$p_{Y|X}(1|1) = 0 \quad p_{Y|X}(2|1) = 2/3 \quad p_{Y|X}(3|1) = 1/3$$

Hence

$$E[Y|X = 1] = 2 \times 2/3 + 3 \times 1/3 = 7/3$$

$E[Y|X]$ is a Random Variable

In this particular example we have seen that:

$$E[Y|X] = \begin{cases} 1 & X = 0 \\ 7/3 & X = 1 \\ 7/3 & X = 2 \\ 1 & X = 3 \end{cases}$$

But from above we know the marginal distribution of X :

$$P(X = 0) = 1/8 \quad P(X = 1) = 3/8$$

$$P(X = 2) = 3/8 \quad P(X = 3) = 1/8$$

$E[Y|X]$ is a Random Variable

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$$P(X = 0) = 1/8 \quad P(X = 1) = 3/8$$

$$P(X = 2) = 3/8 \quad P(X = 3) = 1/8$$

Therefore, $E[Y|X]$ is a RV that takes on the value 1 with probability 1/4 and the value 7/3 with probability 3/4.

The Law of Iterated Expectations

Since $E[Y|X]$ is a random variable, we can ask what its expectation is. It turns out that, for any RVs X and Y

$$E[E[Y|X]] = E[Y]$$

and this is called the **Law of Iterated Expectations**. I've posted a proof [HERE](#) for those who want are interested.

This will be helpful in Econ 104...

Law of Iterated Expectations for Our Example

Marginal pmf of Y

$$P(Y = 1) = 1/4$$

$$P(Y = 2) = 1/2$$

$$P(Y = 3) = 1/4$$

Law of Iterated Expectations for Our Example

Marginal pmf of Y

$$P(Y = 1) = 1/4$$

$$P(Y = 2) = 1/2$$

$$P(Y = 3) = 1/4$$

$$\begin{aligned} E[Y] &= 1 \times 1/4 + 2 \times 1/2 + 3 \times 1/4 \\ &= 2 \end{aligned}$$

Law of Iterated Expectations for Our Example

Marginal pmf of Y

$$P(Y = 1) = 1/4$$

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$E[Y|X]$

$$E[Y|X] = \begin{cases} 1 & \text{w/ prob. } 1/4 \\ 7/3 & \text{w/ prob. } 3/4 \end{cases}$$

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Law of Iterated Expectations for Our Example

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$E[Y|X]$

$$E[Y|X] = \begin{cases} 1 & \text{w/ prob. } 1/4 \\ 7/3 & \text{w/ prob. } 3/4 \end{cases}$$

$$\begin{aligned} E[E[Y|X]] &= 1 \times 1/4 + 7/3 \times 3/4 \\ &= 2 \end{aligned}$$

Expectation of Function of Two Discrete RVs

$$E[g(X, Y)] = \sum_x \sum_y g(x, y) p_{XY}(x, y)$$

Some Extremely Important Examples

Same For Continuous Random Variables

Let $\mu_X = E[X], \mu_Y = E[Y]$

Covariance

$$\sigma_{XY} = \text{Cov}(X, Y) = E[(X - \mu_X)(Y - \mu_Y)]$$

Correlation

$$\rho_{XY} = \text{Corr}(X, Y) = \frac{\sigma_{XY}}{\sigma_X \sigma_Y}$$

Shortcut Formula for Covariance

Much easier for calculating:

$$\text{Cov}(X, Y) = E[XY] - E[X]E[Y]$$

We'll talk more about this in an upcoming lecture...

Calculating $\text{Cov}(X, Y)$

		Y			
		1	2	3	
X	0	1/8	0	0	1/8
	1	0	1/4	1/8	3/8
	2	0	1/4	1/8	3/8
	3	1/8	0	0	1/8
		1/4	1/2	1/4	

$$E[X] = 3/8 + 2 \times 3/8 + 3 \times 1/8 = 3/2$$

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Calculating $\text{Cov}(X, Y)$

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$$E[X] = 3/8 + 2 \times 3/8 + 3 \times 1/8 = 3/2$$

$$E[Y] = 1/4 + 2 \times 1/2 + 3 \times 1/4 = 2$$

$$\begin{aligned} E[XY] &= 1/4 \times (2 + 4) + 1/8 \times (3 + 6 + 3) \\ &= 3 \end{aligned}$$

Calculating $\text{Cov}(X, Y)$

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X	0	1/8	0	0	1/8
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Calculating $\text{Cov}(X, Y)$

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$$\begin{aligned} \text{Cov}(X, Y) &= E[XY] - E[X]E[Y] \\ &= 3 - 3/2 \times 2 = 0 \end{aligned}$$

Calculating $\text{Cov}(X, Y)$

		Y			
		1	2	3	
X	0	1/8	0	0	1/8
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$$\begin{aligned} \text{Cov}(X, Y) &= E[XY] - E[X]E[Y] \\ &= 3 - 3/2 \times 2 = 0 \end{aligned}$$

$$\text{Corr}(X, Y) = \text{Cov}(X, Y) / [SD(X)SD(Y)] = 0$$

Hence, zero covariance (correlation)
does *not* imply independence!

However, independence *does* imply
zero covariance (correlation)

X, Y Independent $\Rightarrow \text{Cov}(X, Y) = 0$

$$\text{Cov}(X, Y) =$$

X, Y Independent $\Rightarrow \text{Cov}(X, Y) = 0$

$$\begin{aligned}\text{Cov}(X, Y) &= E[(X - \mu_X)(Y - \mu_Y)] \\ &= \end{aligned}$$

X, Y Independent $\Rightarrow \text{Cov}(X, Y) = 0$

$$\begin{aligned}\text{Cov}(X, Y) &= E[(X - \mu_X)(Y - \mu_Y)] \\ &= \sum_x \sum_y (x - \mu_X)(y - \mu_Y)p(x, y) \\ &= \end{aligned}$$

X, Y Independent $\Rightarrow \text{Cov}(X, Y) = 0$

$$\begin{aligned}\text{Cov}(X, Y) &= E[(X - \mu_X)(Y - \mu_Y)] \\&= \sum_x \sum_y (x - \mu_X)(y - \mu_Y)p(x, y) \\&= \sum_x \sum_y (x - \mu_X)(y - \mu_Y)p(x)p(y) \\&= \end{aligned}$$

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Linearity of Expectation, Again

Holds for Continuous RVs as well, but different proof.

In general, $E[g(X, Y)] \neq g(E[X], E[Y])$. The key exception is when g is a linear function:

$$E[aX + bY + c] = aE[X] + bE[Y] + c$$

where X, Y are random variables and a, b, c are constants.

Proof of Linearity of Expectation for Discrete RVs

$$\begin{aligned} E[aX + bY + c] &= \sum_x \sum_y (ax + by + c)p(x, y) \\ &= \end{aligned}$$

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$$\begin{aligned}E[aX + bY + c] &= \sum_x \sum_y (ax + by + c)p(x, y) \\&= \sum_x \sum_y [axp(x, y) + byp(x, y) + cp(x, y)] \\&= \end{aligned}$$

Proof of Linearity of Expectation for Discrete RVs

$$\begin{aligned}E[aX + bY + c] &= \sum_x \sum_y (ax + by + c)p(x, y) \\&= \sum_x \sum_y [axp(x, y) + byp(x, y) + cp(x, y)] \\&= \textcolor{red}{a} \sum_x \sum_y xp(x, y) + \textcolor{red}{b} \sum_y \sum_x yp(x, y) + \textcolor{red}{c} \sum_y \sum_x p(x, y) \\&= \end{aligned}$$

Proof of Linearity of Expectation for Discrete RVs

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Application: Shortcut Formula for Variance

By the Linearity of Expectation,

$$\text{Var}(X) = E[(X - \mu)^2] =$$

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We saw in a previous lecture that it's typically much easier to calculate variances using the shortcut formula.

Another Application: Shortcut Formula for Covariance

Similar to Shortcut for Variance: in fact $Var(X) = Cov(X, X)$

$$\begin{aligned}Cov(X, Y) &= E[(X - \mu_X)(Y - \mu_Y)] \\&= E[XY - \mu_X Y - \mu_Y X + \mu_X \mu_Y] \\&\quad \vdots \\&= E[XY] - E[X]E[Y]\end{aligned}$$

You'll fill in the details for homework...

Expected Value of Sum = Sum of Expected Values

Repeatedly applying the linearity of expectation,

$$E[X_1 + X_2 + \dots + X_n] = E[X_1] + E[X_2] + \dots + E[X_n]$$

regardless of how the RVs X_1, \dots, X_n are related to each other. In particular it **doesn't matter if they're dependent or independent.**

Independent and Identically Distributed (iid) RVs

Example

$$X_1, X_2, \dots, X_n \sim \text{iid Bernoulli}(p)$$

Independent

Joint pmf equals product of marginal pmfs (see last lecture):
Knowing the realization of one of the RVs gives no information about the others.

Identically Distributed

Each X_i is the same kind of RV, with the same values for any parameters. (Hence same pmf, cdf, mean, variance, etc.)

Binomial(n, p) Random Variable

Definition

Sum of n independent Bernoulli RVs, each with probability of “success,” i.e. 1, equal to p

Parameters

p = probability of “success,” n = # of trials

Support

$\{0, 1, 2, \dots, n\}$

Using Our New Notation

Let $X_1, X_2, \dots, X_n \sim \text{iid Bernoulli}(p)$, $Y = X_1 + X_2 + \dots + X_n$.

Then $Y \sim \text{Binomial}(n, p)$.

Which of these is the PMF of a Binomial(n, p) RV?



(a) $p(x) = p^x(1 - p)^{n-x}$

(b) $p(x) = \binom{n}{x} p^x(1 - p)^{n-x}$

(c) $p(x) = \binom{x}{n} p^x$

(d) $p(x) = \binom{n}{x} p^{n-x}(1 - p)^x$

(e) $p(x) = p^n(1 - p)^x$

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$$p(x) = \binom{n}{x} p^x(1 - p)^{n-x}$$

Expected Value of Binomial RV

Use the fact that a Binomial(n, p) RV is defined as the sum of n iid Bernoulli(p) Random Variables and the Linearity of Expectation:

$$E[Y] = E[X_1 + X_2 + \dots + X_n] =$$

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Extremely Important:

Variance of Sum \neq Sum of Variances!

Variance of a Sum

$$\text{Var}(aX + bY) = E \left[\{(aX + bY) - E[aX + bY]\}^2 \right]$$

Variance of a Sum

$$\begin{aligned} \text{Var}(aX + bY) &= E \left[\{(aX + bY) - E[aX + bY]\}^2 \right] \\ &= E \left[\{a(X - \mu_X) + b(Y - \mu_Y)\}^2 \right] \end{aligned}$$

Variance of a Sum

$$\begin{aligned} \text{Var}(aX + bY) &= E \left[\{ (aX + bY) - E[aX + bY] \}^2 \right] \\ &= E \left[\{ a(X - \mu_X) + b(Y - \mu_Y) \}^2 \right] \\ &= E \left[a^2(X - \mu_X)^2 + b^2(Y - \mu_Y)^2 + 2ab(X - \mu_X)(Y - \mu_Y) \right] \end{aligned}$$

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$$\begin{aligned}\text{Var}(aX + bY) &= E \left[\{(aX + bY) - E[aX + bY]\}^2 \right] \\&= E \left[\{a(X - \mu_X) + b(Y - \mu_Y)\}^2 \right] \\&= E \left[a^2(X - \mu_X)^2 + b^2(Y - \mu_Y)^2 + 2ab(X - \mu_X)(Y - \mu_Y) \right] \\&= a^2 E[(X - \mu_X)^2] + b^2 E[(Y - \mu_Y)^2] + 2ab E[(X - \mu_X)(Y - \mu_Y)] \\&= a^2 \text{Var}(X) + b^2 \text{Var}(Y) + 2ab \text{Cov}(X, Y)\end{aligned}$$

Since $\sigma_{XY} = \rho\sigma_X\sigma_Y$, this is sometimes written as:

$$\text{Var}(aX + bY) = a^2\sigma_X^2 + b^2\sigma_Y^2 + 2ab\rho\sigma_X\sigma_Y$$

$$\text{Independence} \Rightarrow \text{Var}(X + Y) = \text{Var}(X) + \text{Var}(Y)$$

We showed last time that if X and Y are independent,
 $\text{Cov}(X, Y) = 0$. Hence, independence implies

$$\begin{aligned}\text{Var}(X + Y) &= \text{Var}(X) + \text{Var}(Y) + 2\text{Cov}(X, Y) \\ &= \text{Var}(X) + \text{Var}(Y)\end{aligned}$$

This is also true for more than two RVs

If X_1, X_2, \dots, X_n are independent, then

$$\text{Var}(X_1 + X_2 + \dots + X_n) = \text{Var}(X_1) + \text{Var}(X_2) + \dots + \text{Var}(X_n)$$

Crucial Distinction

Expected Value

It is **always** true that

$$E[X_1 + X_2 + \dots + X_n] = E[X_1] + E[X_2] + \dots + E[X_n]$$

Variance

It is **not true in general** that

$$\text{Var}[X_1 + X_2 + \dots + X_n] = \text{Var}[X_1] + \text{Var}[X_2] + \dots + \text{Var}[X_n]$$

but it **is true** in the special case where X_1, \dots, X_n are independent.

Variance of Binomial Random Variable

Definition from Sequence of Bernoulli Trials

If $X_1, X_2, \dots, X_n \sim \text{iid Bernoulli}(p)$ then

$$Y = X_1 + X_2 + \dots + X_n \sim \text{Binomial}(n, p)$$

Using Independence

$$\begin{aligned} \text{Var}[Y] &= \text{Var}[X_1 + X_2 + \dots + X_n] \\ &= \text{Var}[X_1] + \text{Var}[X_2] + \dots + \text{Var}[X_n] \\ &= \end{aligned}$$

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