

# Economics 103 – Statistics for Economists

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Lecture # 2

# Class Survey

- ▶ Collect some data to analyze later in the semester.
- ▶ None of the questions are sensitive and your name will not be linked to your responses. I will post an anonymized version of the dataset on my website.
- ▶ Participation is *strictly voluntary*: you can still earn full clicker credit for today's lecture without participating in the survey.



## Multiple Choice Entry – What is your biological sex?

- (a) Male
- (b) Female



## Numeric Entry – How Many Credits?

How many credits are you taking this semester? Please respond using your remote.



## Multiple Choice – Class Standing

What is your class standing at Penn?

- (a) Freshman
- (b) Sophomore
- (c) Junior
- (d) Senior



## Numeric Entry – How long did you sleep?

For how many hours did you sleep last night?

Please round to the nearest half hour, e.g. 7 hours 23 minutes becomes 7.5.



## Multiple Choice – What is Your Eye Color?

Please enter your eye color using your remote.

- (a) Black
- (b) Blue
- (c) Brown
- (d) Green
- (e) Gray
- (f) Green
- (g) Hazel
- (h) Other



## How Right-Handed are You?

The sheet in front of you contains a handedness inventory. Please complete it and calculate your handedness score:

$$\frac{\text{Right} - \text{Left}}{\text{Right} + \text{Left}}$$

When finished, enter your score using your remote.





## What is your Height in Inches?

Using your remote, please enter your height in inches, rounded to the nearest inch:

$$4\text{ft} = 48\text{in}$$

$$5\text{ft} = 60\text{in}$$

$$6\text{ft} = 72\text{in}$$

$$7\text{ft} = 84\text{in}$$



## What is your Hand Span (in cm)?

On the sheet in front of you is a ruler. Please use it to measure the span of your right hand in centimeters, to the nearest  $1/2$  cm.

*Hand Span: the distance from thumb to little finger  
when your fingers are spread apart*

When ready, enter your measurement using your remote.



We chose (by computer) a random number between 0 and 100.  
The number selected and assigned to you is written on the slip of paper in front of you. Please do not show your number to anyone else or look at anyone else's number.

Please enter your number now using your remote.



Call your random number  $X$ . Do you think that the **percentage** of countries, among all those in the United Nations, that are in Africa is **higher** or **lower** than  $X$ ?

(a) Higher

(b) Lower

Please answer using your remote.

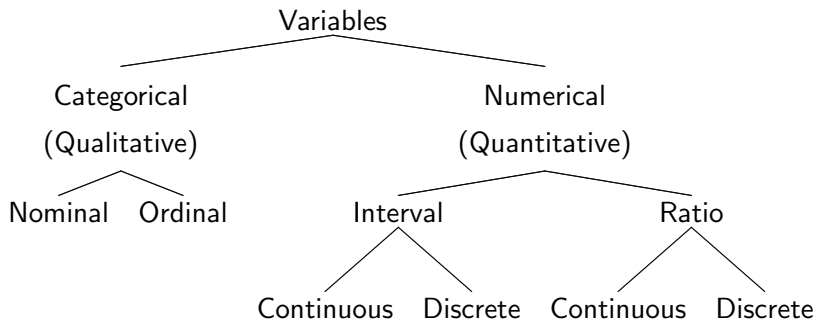


What is your best estimate of the **percentage** of countries, among all those that are in the United Nations, that are in Africa?

Please enter your answer using your remote.

# Types of Variables

# A Taxonomy of Variables



# From Weakest to Strongest

## Categorical

Qualitative, assigns each unit to category, number either meaningless or indicates order only

**Nominal** no order to the categories

**Ordinal** categories with natural order

## Numerical

Quantitative, number meaningful

**Interval** only differences meaningful, no natural zero

**Ratio** differences and ratios meaningful, natural zero



## And For Numerical Variables (interval or ratio)...

### Discrete

Takes value from discrete set of numbers, typically count data

### Continuous

Value could be any real number within some range (even though *measurements* are made with finite precision)

Note that in R, categorical variables are called *factors*



## What kind of variable is...

...Handspan?

- (a) Nominal
- (b) Ordinal
- (c) Interval
- (d) Ratio



## What kind of variable is...

...Temperature?

- (a) Nominal
- (b) Ordinal
- (c) Interval
- (d) Ratio



## What kind of variable is...

...Eye Color?

- (a) Nominal
- (b) Ordinal
- (c) Interval
- (d) Ratio



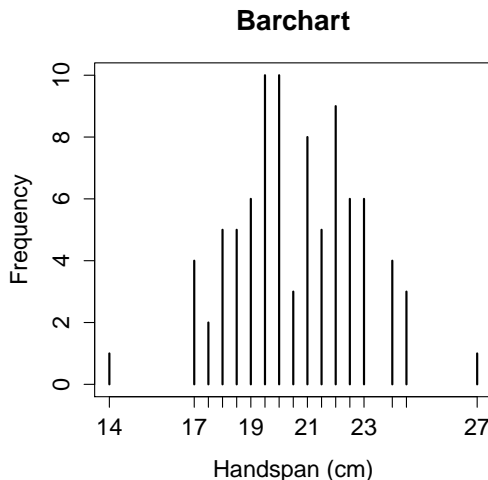
## What kind of variable?

On course evaluations you can rate your professor as follows:  
0 = Poor, 1 = Fair, 2 = Good, 3 = Very Good, 4 = Excellent.  
What kind of data is your rating?

- (a) Nominal
- (b) Ordinal
- (c) Interval
- (d) Ratio

# Handspan - Frequency and Relative Frequency

cm	Freq.	Rel. Freq.
14.0	1	0.01
17.0	4	0.05
17.5	2	0.02
18.0	5	0.06
18.5	5	0.06
19.0	6	0.07
19.5	10	0.11
20.0	10	0.11
20.5	3	0.03
21.0	8	0.09
21.5	5	0.06
22.0	9	0.10
22.5	6	0.07
23.0	6	0.07
24.0	4	0.05
24.5	3	0.03
27.0	1	0.01
<hr/> $n = 89$		1.00



## Handspan - Summarize Barchart by "Smoothing"

cm	Freq.	Rel. Freq.
14.0	1	0.01
17.0	4	0.05
17.5	2	0.02
18.0	5	0.06
18.5	5	0.06
19.0	6	0.07
19.5	10	0.11
20.0	10	0.11
20.5	3	0.03
21.0	8	0.09
21.5	5	0.06
22.0	9	0.10
22.5	6	0.07
23.0	6	0.07
24.0	4	0.05
24.5	3	0.03
27.0	1	0.01
$n = 88$		1.00

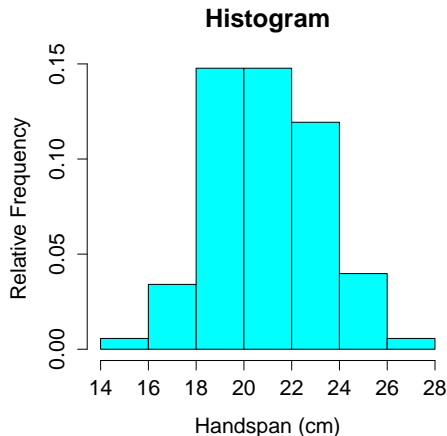
Group data into non-overlapping bins of equal width:

Bins	Freq.	Rel. Freq.
[14, 16)	1	0.01
[16, 18)	6	0.07
[18, 20)	26	0.30
[20, 22)	26	0.30
[22, 24)	21	0.24
[24, 26)	7	0.08
[26, 28)	1	0.01
$n = 88$		1.00

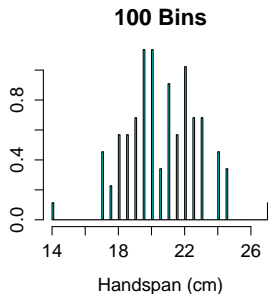
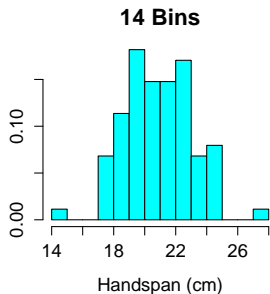
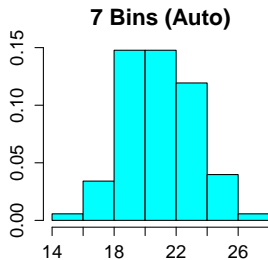
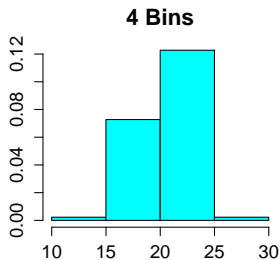


# Histogram – Density Estimate by Smoothing Barchart

Bins	Freq.	Rel. Freq.
[14, 16)	1	0.01
[16, 18)	6	0.07
[18, 20)	26	0.30
[20, 22)	26	0.30
[22, 24)	21	0.24
[24, 26)	7	0.08
[26, 28)	1	0.01
$n = 88$		1.00



## Number of Bins Controls Degree of Smoothing



# Histograms are *Really* Important

## Why Histogram?

Summarize numerical data, especially continuous (few repeats)

## Too Many Bins – Undersmoothing

No longer a summary (lose the shape of distribution)

## Too Few Bins – Oversmoothing

Miss important detail

Don't confuse with barchart!

# Summary Statistic: Numerical Summary of Sample

1. Measures of Central Tendency
  - ▶ Mean
  - ▶ Median
2. Measures of Spread
  - ▶ Variance
  - ▶ Standard Deviation
  - ▶ Range
  - ▶ Interquartile Range (IQR)
3. Measures of Symmetry
  - ▶ Skewness
4. Measures of relationship between variables
  - ▶ Covariance
  - ▶ Correlation
  - ▶ Regression

# Questions to Ask Yourself about Each Summary Statistic

1. What does it measure?
2. What are its units compared to those of the data?
3. (How) do its units change if those of the data change?
4. What are the benefits and drawbacks of this statistic?

Some of the information regarding items 2 and 3 is on the homework rather than in the slides because working it out for yourself is a good way to check your understanding.

# Measures of Central Tendency

Suppose we have a dataset with observations  $x_1, x_2, \dots, x_n$

## Sample Mean

- ▶  $\bar{x} = \frac{1}{n} \sum_{i=1}^n x_i$
- ▶ Only for numeric data
- ▶ Works best when data are symmetric and there are no outliers

## Sample Median

- ▶ Middle observation if  $n$  is odd, otherwise the mean of the two observations closest to the middle.
- ▶ Applicable to numerical or ordinal data
- ▶ Robust to outliers and skewness

# Percentage of UN Countries that are in Africa

## You Were a Subject in a Randomized Experiment!

- ▶ There were only two numbers in the bag: 10 and 65
- ▶ Randomly assigned to Low group (10) or High group (65)

## Anchoring Heuristic (Kahneman and Tversky, 1974)

Subjects' estimates of an unknown quantity are influenced by an irrelevant previously supplied starting point.

Are Penn students subject to to this cognitive bias?

## Last Semester's Class

	Mean	Median
Low ( $n = 43$ )	17.1	17
High ( $n = 46$ )	30.7	30

### Kahneman and Tversky (1974)

Low Group (shown 10) → median answer of 25

High Group (shown 65) → median answer of 45

(Kahneman shared 2002 Economics Nobel Prize with Vernon Smith.)



# What is an Outlier?

## Outlier

A very unusual observation relative to the other observations in the dataset (i.e. very small or very big).

## Mean is Sensitive to Outliers, Median Isn't

First Dataset: 1 2 3 4 5

Mean = 3, Median = 3

Second Dataset: 1 2 3 4 4990

Mean = 1000, Median = 3

When Does the Median Change?

Ranks would have to change so that 3 is no longer in the middle.

# Percentiles (aka Quantiles) – Generalization of Median

Approx.  $P\%$  of the data are at or below the  $P^{th}$  percentile.

## Percentiles (aka Quantiles)

$P^{th}$  Percentile = Value in  $(P/100) \cdot (n + 1)^{th}$  Ordered Position

## Quartiles

Q1 = 25th Percentile

Q2 = Median (i.e. 50th Percentile)

Q3 = 75th Percentile

## An Example: $n = 12$

60 63 65 67 70 72 75 75 80 82 84 85

$$\begin{aligned} Q_1 &= \text{value in the } 0.25(n+1)^{th} \text{ ordered position} \\ &= \text{value in the } 3.25^{th} \text{ ordered position} \\ &= 65 + 0.25 * (67 - 65) \\ &= 65.5 \end{aligned}$$



## Student Debt

Guess the **90th percentile** of student loan debt in the U.S. That is, guess the amount of money such that 10% college students graduate with *more* than this amount of debt and 90% graduate with less than or equal to this amount of debt.



## Student Debt

Would you guess that the median amount of student loan debt in the U.S. is above, below, or equal to the mean amount?

- (a) Median  $>$  Mean
- (b) Median  $=$  Mean
- (c) Median  $<$  Mean

Source: Avery & Turner (2012)

*Table 4*

**Borrowing Distribution after Six Years, by Degree Type and First Institution**

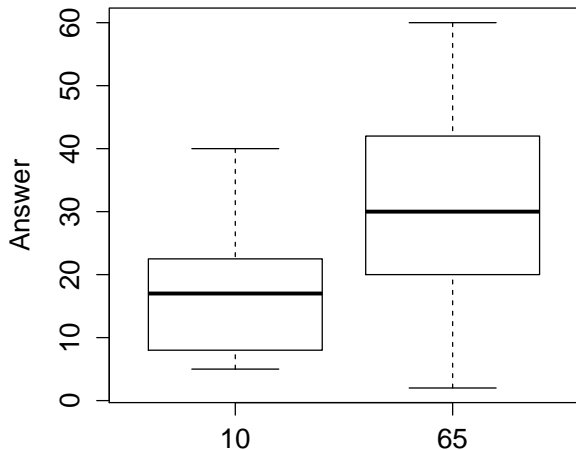
	<i>Type of institution of first enrollment</i>			
	<i>Public 4-year</i>	<i>Private nonprofit 4-year</i>	<i>Private for-profit 4-year</i>	<i>Public 2-year</i>
<i>All students beginning in 2004</i>				
% Borrowing	61%	68%	89%	41%
Percentile of borrowers				
10 <sup>th</sup>	\$0	\$0	\$0	\$0
25 <sup>th</sup>	\$0	\$0	\$6,376	\$0
50 <sup>th</sup>	\$6,000	\$11,500	\$13,961	\$0
75 <sup>th</sup>	\$19,000	\$24,750	\$28,863	\$6,625
90 <sup>th</sup>	\$30,000	\$40,000	\$45,000	\$18,000
<b>Mean</b>	<b>\$11,706</b>	<b>\$16,606</b>	<b>\$19,726</b>	<b>\$5,586</b>
<i>BA recipients</i>				
BA completion	61.5%	70.7%	14.8%	13%
% Borrowing	59%	66%	92%	69%
Percentile of borrowers				
10 <sup>th</sup>	\$0	\$0	\$12,000	\$0
25 <sup>th</sup>	\$0	\$0	\$30,000	\$0
50 <sup>th</sup>	\$7,500	\$15,500	\$45,000	\$11,971
75 <sup>th</sup>	\$20,000	\$27,000	\$50,000	\$23,265
90 <sup>th</sup>	\$32,405	\$45,000	\$100,000	\$40,000
<b>Mean</b>	<b>\$12,922</b>	<b>\$18,700</b>	<b>\$45,042</b>	<b>\$15,960</b>

*Source:* Authors' tabulations based on the Beginning Postsecondary Survey 2004:2009.

# Boxplots and the Five-Number Summary

Minimum < Q1 < Median < Q3 < Maximum

## Anchoring Experiment





# Measures of Variability/Spread

## Range

Maximum Observation - Minimum Observation

## Interquartile Range (IQR)

$$\text{IQR} = Q_3 - Q_1$$

## Variance

$$s^2 = \frac{1}{n-1} \sum_{i=1}^n (x_i - \bar{x})^2$$

## Standard Deviation

$$s = \sqrt{s^2}$$

## Variance

Essentially the average squared distance from the mean. Sensitive to both skewness and outliers.

## Standard Deviation

$\sqrt{\text{Variance}}$ , but more convenient since **same units as data**

## Range

Difference between largest and smallest observations. *Very* sensitive to outliers. Displayed in boxplot.

## Interquartile Range

Range of middle 50% of the data. Insensitive to outliers, skewness. Displayed in boxplot.