Lecture 2: Language and NumPy basics

FIE463: Numerical methods in Macroeconomics and Finance using Python

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See GitHub repository for notebooks and data:

https://github.com/richardfoltyn/FIE463-V25

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2 Language and NumPy basics

In this unit, we start exploring the Python language, covering the following topics:

- 1. Basic syntax
- 2. Built-in data types
- 3. NumPy arrays

2.1 Basic syntax

- Everything after a # character (until the end of the line) is a comment and will be ignored.
- Variables are created using the assignment operator =.
- Variable names are case sensitive.
- Whitespace characters matter (unlike in most languages)!

- Python uses indentation (usually 4 spaces) to group statements, for example loop bodies, functions, etc.
- You don't need to add a character to terminate a line, unlike in some languages.
- You can use the print() function to inspect almost any object.

```
[1]: # First example

# create a variable named 'text' that stores the string 'Hello, world!'

text = 'Hello, world!'

# print contents of 'text'
print(text)
```

Hello, world!

In Jupyter notebooks and interactive command-line environments, we can also display a value by simply writing the variable name.

```
[2]: text
```

[2]: 'Hello, world!'

Alternatively, we don't even need to create a variable but can instead directly evaluate expressions and print the result:

```
[3]: 2*3
```

[3]: 6

This does not print anything in *proper* Python script files (ending in .py) that are run through the interpreter, though.

Calling print() is also useful if we want to display multiple expressions from a single notebook cell, as otherwise only the last value is shown:

```
[4]: text = 'Hello world!'
var = 1
text  # does NOT print contents of text
var  # prints only value of var
```

[4]: 1

```
[5]: print(text) # print text explicitly var # var is shown automatically
```

Hello world!

[5]: 1

2.2 Built-in data types

Pythons is a dynamically-typed language:

- Unlike in C or Fortran, you don't need to declare a variable or its type.
- You can inspect a variable's type using the built-in type() function, but you rarely need to do this.

We now look at the most useful built-in data types:

Basic types

• integers (int)

- floating-point numbers (float)
- boolean (bool)
- strings (str)

Containers (or collections)

- tuples (tuple)
- lists (list)
- dictionaries (dict)

2.2.1 Integers and floats

Integers and floats (floating-point numbers) are the two main built-in data types to store numerical data (we ignore complex numbers in this course). Floating-point is the standard way to represent real numbers on computers since these cannot store real numbers with arbitrary precision.

```
[6]: # Integer variables
i = 1
type(i)
```

[6]: int

```
[7]: # Floating-point variables
x = 1.0
type(x)
```

[7]: float

```
[8]: # A name can reference any data type:
# Previously, x was a float, now it's an integer!
x = 1
type(x)
```

[8]: int

It is good programming practice to specify floating-point literals using a decimal point. It makes a difference in a few cases (especially when using NumPy arrays, or Python extensions such as Numba or Cython):

```
[9]: x = 1.0 # instead of x = 1
```

A boolean (bool) is a special integer type that can only store two values, True and False. We create booleans by assigning one of these values to a variable:

```
[10]: x = True
x = False
type(x)
```

[10]: bool

Boolean values are most frequently used for conditional execution, i.e., a block of code is run only when some variable is True. We study conditional execution in the next unit.

2.2.2 Strings

The string data type stores sequences of characters:

```
[11]: # Strings need to be surrounded by single (') or double (") quotes!
institution = 'Norwegian School of Economics'
institution = "Norwegian School of Economics"
```

Strings support various operations some of which we explore in the exercises at the end of this section. For example, we can use the addition operation + to concatenate strings:

```
[12]: # Define two strings
str1 = 'Python'
str2 = 'course'

# Concatenate strings using +
str1 + ' ' + str2
```

[12]: 'Python course'

An extremely useful variant of strings are the so-called *f-strings*. These allow us to dynamically insert a variable value into a string, a feature we'll use throughout this course.

```
[13]: # Approximate value of pi
pi = 3.1415

# Use f-strings to embed the value of the variable version inside the string
s = f'Pi is approximately equal to {pi}'
s
```

[13]: 'Pi is approximately equal to 3.1415'

2.2.3 Tuples

Tuples represent an *ordered*, *immutable collection* of items which can have different data types. They are created whenever several items are separated by commas:

```
[14]: # A tuple containing a string, an integer and a float
items = 'foo', 1, 1.0
items
```

[14]: ('foo', 1, 1.0)

The parenthesis are optional, but improve readability:

```
[15]: items = ('foo', 1, 1.0) # equivalent way to create a tuple items
```

[15]: ('foo', 1, 1.0)

We use brackets [] to access an element in a tuple (or any other container object). Elements in tuples need to be accessed by their position or *index*.

```
[16]: first = items[0]  # variable first now contains 'foo' first
```

[16]: 'foo'

Python indices are 0-based, so 0 references the *first* element, 1 the second element, etc.

```
[17]: second = items[1]  # second element
second
```

[17]: 1

Tuples and any other Python collections support automatic unpacking if we want to extract multiple (or all) values at once:

```
[18]: first, second, third = items
# Print first element
first
```

[18]: 'foo'

If we are not interested in extracting all items, we can collect any remaining items using a \star as follows:

```
[19]: first, *rest = items

# Rest contains a list of all remaining items
rest
```

[19]: [1, 1.0]

Tuples are *immutable*, which means that the contents of a tuple cannot be changed. (Technically, the *references* to elements stored in the tuple cannot be changed.)

```
[20]: # This raises an error!
items = 'foo', 1, 1.0
items[0] = 123
```

```
TypeError: 'tuple' object does not support item assignment
```

2.2.4 Lists

Lists are like tuples, except that they can be modified (i.e., they are *mutable*). We create lists using brackets:

```
[21]: # Create list which contains a string, an integer and a float
lst = ['foo', 1, 1.0]
lst
```

[21]: ['foo', 1, 1.0]

Accessing list items works the same way as with tuples

```
[22]: lst[0] # print first item
```

[22]: 'foo'

Lists items can be modified:

```
[23]: lst[0] = 'bar' # first element is now 'bar'
lst
```

[23]: ['bar', 1, 1.0]

Lists are full-fledged objects that support various operations, for example

```
[24]: lst.insert(0, 'abc')  # insert element at position 0
lst.append(2.0)  # append element at the end
del lst[3]  # delete the 4th element
lst
```

```
[24]: ['abc', 'bar', 1, 2.0]
```

The built-in function len() returns the number of elements in a list (and any other container object)

```
[25]: len(lst)
```

[25]: 4

2.2.5 Dictionaries

Dictionaries are container objects that map keys to values.

- Both keys and values can be (almost any) Python objects, even though we often use strings as keys.
- Dictionaries are created using curly braces: {key1: value1, key2: value2, ...}, or by using the dict() constructor dict(key1=value1, key2=value2, ...).

For example, to create a dictionary with three items we write

```
[26]: dct = {
    'institution': 'NHH',
    'course': 'Python course',
    'year': 2025
    }
    dct
```

```
[26]: {'institution': 'NHH', 'course': 'Python course', 'year': 2025}
```

The alternative way to create dictionaries using the dict() constructor is less powerful and supports only keys that are strings. For most cases, this is sufficient:

```
[27]: # Alternative way to define the same dictionary
dct = dict(institution='NHH', course='Python course', year=2025)
dct
```

[27]: {'institution': 'NHH', 'course': 'Python course', 'year': 2025}

Specific values are accessed using the syntax dict[key]:

```
[28]: dct['institution']
```

[28]: 'NHH'

We can use the same syntax to either modify an existing key or add a new key-value pair:

```
[29]: dct['course'] = 'Introduction to Python'  # modify value of existing key
dct['city'] = 'Bergen'  # add new key-value pair
dct
```

Moreover, we can use the methods keys() and values() to get the collection of a dictionary's keys and values:

```
[30]: dct.keys()
```

```
[30]: dict_keys(['institution', 'course', 'year', 'city'])
```

```
[31]: dct.values()
```

[31]: dict_values(['NHH', 'Introduction to Python', 2025, 'Bergen'])

When we try to retrieve a key that is not in the dictionary, this will produce an error:

```
[32]: dct['country']

KeyError: 'country'
```

One way to get around this is to use the get() method which accepts a default value that will be returned whenever a key is not present:

```
[33]: dct.get('country', 'Norway') # return 'Norway' if 'country' is # not a valid key
```

[33]: 'Norway'

2.3 NumPy arrays

NumPy is a library that allows us to efficiently store and access (mainly) numerical data and apply numerical operations similar to those available in Matlab.

- NumPy is not part of the core Python project.
- Python itself has an array type, but there is really no reason to use it. Use NumPy!
- NumPy types and functions are not built-in, we must first import them to make them visible. We do this using the import statement.

The convention is to make NumPy functionality available using the np namespace:

```
[34]: # Access functionality from NumPy using the 'np' short-hand
import numpy as np
```

2.3.1 Creating arrays

Creating arrays from other Python objects

Arrays can be created from other objects such as lists and tuples by calling np.array()

```
[35]: # Create array from list [1,2,3]
arr = np.array([1, 2, 3])
arr
[35]: array([1, 2, 3])
```

```
[36]: # Create array from tuple arr = np.array((1.0, 2.0, 3.0)) arr
```

```
[36]: array([1., 2., 3.])
```

```
[37]: # Create two-dimensional array from nested list arr = np.array([[1, 2, 3], [4, 5, 6]]) arr
```

```
[37]: array([[1, 2, 3], [4, 5, 6]])
```

Array creation routines

Additionally, NumPy offers a multitude of functions to create new arrays from scratch.

```
[38]: # Create a 1-dimensional array with 10 elements, initialize values to 0.
arr = np.zeros(10)
arr
```

```
[38]: array([0., 0., 0., 0., 0., 0., 0., 0., 0., 0.])
```

```
[39]: arr1 = np.ones(5) # vector of five ones arr1
```

```
[39]: array([1., 1., 1., 1., 1.])
```

We can also create sequences of integers using the np.arange() function:

```
[40]: arr2 = np.arange(5) # vector [0,1,2,3,4] arr2
```

```
[40]: array([0, 1, 2, 3, 4])
```

np.arange() accepts initial values and increments as optional arguments. The end value is *not* included.

```
[41]: start = 2
end = 10
step = 2
arr3 = np.arange(start, end, step)
arr3
```

[41]: array([2, 4, 6, 8])

As in Matlab, there is a np.linspace() function that creates a vector of uniformly-spaced real values.

```
[42]: # Create 11 elements, equally spaced on the interval [0.0, 1.0]
arr5 = np.linspace(0.0, 1.0, 11)
arr5
```

```
[42]: array([0., 0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8, 0.9, 1.])
```

We create arrays of higher dimension by specifying the desired shape. Shapes are specified as tuple arguments; for example, the shape of an $m \times n$ matrix is (m,n).

```
[43]: mat = np.ones((2,2)) # Create 2x2 matrix of ones mat
```

```
[43]: array([[1., 1.], [1., 1.]])
```

2.3.2 Reshaping arrays

The reshape() method of an array object can be used to reshape it to some other (conformable) shape.

```
[44]: # Create vector of 4 elements and reshape it to a 2x2 matrix
mat = np.arange(4).reshape((2,2))
mat
```

```
[44]: array([[0, 1],
              [2, 3]])
```

```
[45]: # reshape back to vector of 4 elements
      vec = mat.reshape(4)
```

```
[45]: array([0, 1, 2, 3])
```

We use -1 to let NumPy automatically compute the size of *one* remaining dimension.

```
[46]: # with 2 dimensions, second dimension must have size 2
       mat = np.arange(4).reshape((2, -1))
       mat
```

```
[46]: array([[0, 1],
              [2, 3]])
```

If we want to convert an arbitrary array to a vector, we can alternatively use the flatten() method.

```
[47]: mat.flatten()
```

```
[47]: array([0, 1, 2, 3])
```

Important: the reshaped array must have the same number of elements!

```
[48]: | mat = np.arange(6).reshape((2,-1))
      mat.reshape((2,2))
                               # Cannot reshape 6 into 4 elements!
       ValueError: cannot reshape array of size 6 into shape (2,2)
```

2.3.3 Indexing

Single element indexing

To retrieve a single element, we specify the element's index on each axis ("axis" is the NumPy terminology for an array dimension).

- Remember that just like Python in general, NumPy arrays use 0-based indices.
- Unlike lists or tuples, NumPy arrays support multi-dimensional indexing.

```
[49]: import numpy as np
      mat = np.arange(6).reshape((3,2))
      mat
[49]: array([[0, 1],
             [2, 3],
             [4, 5]])
[50]: mat[0,1]
                 # returns element in row 1, column 2
[50]: 1
```

It is important to pass multi-dimensional indices as a tuple within brackets, i.e., [0,1] in the above example. We could alternatively write mat[0][1], which would give the same result:

```
[51]: mat[0][1]
                        # don't do this!
```

[51]: 1

This is substantially less efficient, though, as it first creates a sub-dimensional array mat[0], and then applies the second index to this array.

Index slices

There are numerous ways to retrieve a subset of elements from an array. The most common way is to specify a triplet of values start:stop:step called slice for some axis.

Indexing with slices can get quite intricate. Some basic rules:

- all tokens in start:stop:step are optional, with the obvious default values. We could therefore write:: to include all indices, which is the same as:
- The end value is *not* included. Writing vec[0:n] does not include element with index n!
- Any of the elements of start:stop:step can be negative.
 - If start or stop are negative, elements are counted from the end of the array: vec[:-1] retrieves the whole vector except for the last element.
 - If step is negative, the order of elements is reversed.

```
[52]: vec = np.arange(5)

# These are equivalent ways to return the WHOLE vector
vec[0:5:1]  # all three tokens present
vec[::]  # omit all tokens
vec[:]  # omit all tokens
vec[:]  # omit all tokens
vec[:5]  # end value only
vec[-5:]  # start value only, using negative index
```

[52]: array([0, 1, 2, 3, 4])

You can reverse the order like this:

```
[53]: vec[::-1]
```

[53]: array([4, 3, 2, 1, 0])

With multi-dimensional arrays, the above rules apply for each dimension.

```
[54]: # Create a 2x3 matrix
mat = np.arange(6).reshape((2,3))
mat
```

```
[54]: array([[0, 1, 2], [3, 4, 5]])
```

```
[55]: # Retrieve only the first and third columns: mat[0:2,0:3:2]
```

```
[55]: array([[0, 2], [3, 5]])
```

We can omit indices for higher-order dimensions if all elements should be included.

```
[56]: mat[1] # includes all columns of row 2; same as mat[1,:]

[56]: array([3, 4, 5])
```

We cannot omit the indices for *leading* axes, though! If an entire leading axis is to be included, we specify this using:

```
[57]: mat[:, 1] # includes all rows of column 2
[57]: array([1, 4])
```

Indexing lists and tuples

The basic indexing rules we have covered so far also apply to the built-in tuple and list types. However, list and tuple do not support advanced indexing available for NumPy arrays which we study in later units.

```
[58]: # Apply start:stop:step indexing to tuple
tpl = (1,2,3)
tpl[:3:2]
```

[58]: (1, 3)

2.3.4 Numerical data types (advanced)

We can explicitly specify the numerical data type when creating NumPy arrays.

So far we haven't done so, and then NumPy does the following:

- Functions such as zeros() and ones() default to using np.float64, a 64-bit floating-point data type (this is also called *double precision*)
- Other functions such as arange() and array() inspect the input data and return a corresponding array.
- Most array creation routines accept a dtype argument which allows you to explicitly set the data type.

Examples:

```
[59]: import numpy as np

# Floating-point arguments return array of type np.float64
arr = np.arange(1.0, 5.0, 1.0)
arr.dtype

[59]: dtype('float64')

[60]: # Integer arguments return array of type np.int64
arr = np.arange(1,5,1)
arr.dtype

[60]: dtype('int64')
```

Often we don't care about the data type too much, but keep in mind that

- Floating-point has limited precision, even for integers if these are larger than (approximately) 10^{16}
- Integer values cannot represent fractional numbers and (often) have a more limited range.

This might lead to surprising consequences:

```
[61]: # Create integer array
arr = np.ones(5, dtype=np.int64)
# Store floating-point in second element
arr[1] = 1.234
arr
```

```
[61]: array([1, 1, 1, 1, 1])
```

The array is unchanged because it's impossible to represent 1.234 as an integer value!

The take-away is to explicitly write floating-point literal values and specify a floating-point dtype argument when we want data to be interpreted as floating-point values. For example, always write 1.0 instead of 1, unless you *really* want an integer!

2.4 Optional exercises

Exercise 1: string operations

Experiment with operators applied to strings and integers:

- 1. Define two string variables using the values 'Hello' and 'World', and concatenate them using +. Modify your solution to add a space.
- 2. Define a string variable 'NHH' and multiply it by 2 using *. What happens?
- 3. Define a string variable 'Hello' and use the += assignment operator to append another string 'World'.

The += operator is one of several operators in Python that combine assignment with another operation, such as addition. In this particular case, these statements are equivalent:

```
a += b
a = a + b
```

Exercise 2: string formatting with f-strings

We frequently want to create strings that incorporate integer and floating-point data, possibly formatted in a particular way.

Python offers quite powerful formatting capabilities which can become so complex that they are called the *Format Specification Mini-Language* (see the docs). In this exercise, we explore a small but useful subset of formatting instructions.

A format specification is a string that contains one or several {}, for example:

```
[62]: version = 3.13
f'The current version of Python is {version}'
```

[62]: 'The current version of Python is 3.13'

What if we want to format the float 3.13 in a particular way? We can augment the {} to achieve that goal. For example, if the data to be formatted is of type integer, we can specify

• {:wd} where w denotes the total field width and d indicates that the data type is an integer.

To print an integer into a field that is 3 characters wide, we would thus write {:3d}.

For floats we have additional options:

- {:w.df} specifies that a float should be formatted using a field width w and d decimal digits.

 To print a float into a field of 10 characters using 5 decimal digits, we would thus specify {:10.5f}
- {:w.de} is similar, but instead uses scientific notation with exponents.

This is particularly useful for very large or very small numbers.

• {:w.dg}, where g stands for *general* format, is a superset of f and e formatting. Either fixed or exponential notation is used depending on a number's magnitude.

In all these cases the field width w is optional and can be omitted. Python then uses as many characters as are required.

Now what we have introduced the formatting language, you are asked to perform the following exercises:

- 1. Modify the above f-string so that only the first decimal digit of the Python version is printed.
- 2. Modify the above f-string, but truncate the Python version to *not* include any decimal digits. Does this work with the integer formatting specification '{:d}'?
- 3. Print π using a precision of 10 decimal digits. *Hint*: the value of π is available as

```
from math import pi
```

4. Print e^{10} , computed as exp(10.0), using exponential notation and three decimal digits. *Hint:* To use the exponential function, you need to import it using

```
from math import exp
```

Exercise 3: operations on tuples and lists

Create two lists a and b with the values 1,2,3 and 'a', 'b', 'c', respectively. Perform the following tasks and examine their results:

- 1. Concatenate the two lists using +.
- 2. Multiply the list a by the integer 2.
- 3. Append the elements ['x', 'y', 'z'] to b using the += operator. Alternatively, do this using the list method extend(). Is the list b modified in place?
- 4. Append the integer 10 to b using the += operator.
- 5. Duplicate the list a using the *= operator. Is the list a modified in place?

Repeat steps 1-5 using tuples instead of lists.

Finally, create a list and a tuple and try to add them using +. Does this work?

2.5 Solutions

Solution for exercise 1

```
[63]: # 1. string concatenation using addition
str1 = 'Hello'
str2 = 'World'

# Concatenate two strings using +
str1 + str2
```

[63]: 'HelloWorld'

Note that this does not insert a space inbetween, so we have to do this manually:

```
[64]: str1 + ' ' + str2

[64]: 'Hello World'

[65]: # 2. string multiplication by integers
    str1 = 'NHH'
    # Repeat string using multiplication!
    str1 * 2
```

```
[65]: 'NHHNHH'
```

```
[66]: # 3. Append using +=
str1 = 'Hello'
str1 += ' World' # Append ' World' to value in str1, assign result to str1
str1
```

[66]: 'Hello World'

Solution for exercise 2

```
[67]: # 1. Print Python version with only one decimal digit
version = 3.13
f'The current version of Python is {version:.1f}'
```

[67]: 'The current version of Python is 3.1'

```
[68]: # 2. Truncate all decimal digits
# To do this, we use floating-point formatting with o decimal digits.
f'The current version of Python is {version:.of}'
```

[68]: 'The current version of Python is 3'

Note that this does not work with the integer formatting specification because that one does not accept any float-valued variables:

```
[69]: f'The current version of Python is {version:d}'
```

```
ValueError: Unknown format code 'd' for object of type 'float'
```

```
[70]: # 3. Print pi using 10 decimal digits

from math import pi

f'The first 10 digits of pi: {pi:.10f}'
```

[70]: 'The first 10 digits of pi: 3.1415926536'

```
[71]: # 4. Print exp(10.0) using three decimal digits and exponential notation
from math import exp
f'exp(10.0) = {exp(10.0):.3e}'
```

[71]: 'exp(10.0) = 2.203e+04'

Solution for exercise 3

List operators

```
[72]: # Create lists
a = [1, 2, 3]
b = ['a', 'b', 'c']
```

```
[73]: # 1. Adding two lists concatenates the second list to the first # and returns a new list object a + b
```

```
[73]: [1, 2, 3, 'a', 'b', 'c']
```

```
[74]: # 2. multiplication of list and integer duplicates the list!
# (as opposed to multiplying each element by 2)
a * 2

[74]: [1, 2, 3, 1, 2, 3]
```

```
[75]: # 3. Extending a list in place using +=
# This does not return a new list but instead operates directly on b.
b += ['x', 'y', 'z']
b
```

[75]: ['a', 'b', 'c', 'x', 'y', 'z']

This is the same as using the extend() list method:

```
[76]: # Recreate original list b
b = ['a', 'b', 'c']
b.extend(['x', 'y', 'z'])
b
```

```
[76]: ['a', 'b', 'c', 'x', 'y', 'z']
```

```
[77]: # 4. Append the integer 10. Note that we cannot directly append
# the integer as such, this produces an error:
b += 10
```

```
TypeError: 'int' object is not iterable
```

Instead, we have to embed the integer in a list if we want to use +=, or alternatively, we can use the append() method.

```
[78]: # Append single integer, wrap it in a list first
b += [10]

# Alternatively, use append()
# b.append(10)
```

```
[79]: # 5. Replicating list in place using *=
a *= 2
a
```

[79]: [1, 2, 3, 1, 2, 3]

Tuple operators

```
[80]: # Create tuples
a = 1, 2, 3
b = 'a', 'b', 'c'
```

```
[81]: # 1. Adding two tuples concatenates the second tuple to the first # and returns a new tuple object a + b
```

```
[81]: (1, 2, 3, 'a', 'b', 'c')
```

```
[82]: # 2. multiplication of tuple and integer replicates the tuple! a * 2
```

```
[82]: (1, 2, 3, 1, 2, 3)
```

```
[83]: # 3. Extending tuple in place
b += ('x', 'y', 'z')
b
```

```
[83]: ('a', 'b', 'c', 'x', 'y', 'z')
```

It might be surprising that this works since a tuple is an immutable collection. However, what happens is that the original tuple is discarded and the reference a now points to a newly created tuple.

When appending a single item to a tuple, we need to embed it in a tuple just as we did for the list earlier.

```
[84]: # Append integer 10 to tuple
b += (5, )
```

Similarly, if we replicate a tuple with *= "in place" this actually returns a new tuple:

```
[85]: # 5. Replicate tuple in place using *=
a *= 2
a
```

```
[85]: (1, 2, 3, 1, 2, 3)
```

Tuple and list operators

We cannot mix tuples and lists as operands!

```
[86]: # Create list
a = [1, 2, 3]

# Create tuple
b = 'a', 'b', 'c'

# Cannot concatenate list and tuple!
a + b
```

```
TypeError: can only concatenate list (not "tuple") to list
```