**Springer Texts in Statistics**

Gareth James

Daniela Witten

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Robert Tibshirani

An Introduction to Statistical Learning

with Applications in R

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An Introduction to

Statistical Learning

with Applications in R

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To our parents:

Alison and Michael James Chiara Nappi and Edward Witten Valerie and Patrick Hastie Vera and Sami Tibshirani

and to our families:

Michael, Daniel, and Catherine Tessa, Theo, and Ari

Samantha, Timothy, and Lynda Charlie, Ryan, Julie, and Cheryl

Preface

Statistical learning refers to a set of tools for modeling and understanding complex datasets. It is a recently developed area in statistics and blends with parallel developments in computer science and, in particular, machine learning. The field encompasses many methods such as the lasso and sparse regression, classification and regression trees, and boosting and support vector machines.

With the explosion of “Big Data” problems, statistical learning has be come a very hot field in many scientific areas as well as marketing, finance, and other business disciplines. People with statistical learning skills are in high demand.

One of the first books in this area—The Elements of Statistical Learning (ESL) (Hastie, Tibshirani, and Friedman)—was published in 2001, with a second edition in 2009. ESL has become a popular text not only in statis tics but also in related fields. One of the reasons for ESL’s popularity is its relatively accessible style. But ESL is intended for individuals with ad vanced training in the mathematical sciences. An Introduction to Statistical Learning (ISL) arose from the perceived need for a broader and less tech nical treatment of these topics. In this new book, we cover many of the same topics as ESL, but we concentrate more on the applications of the methods and less on the mathematical details. We have created labs illus trating how to implement each of the statistical learning methods using the popular statistical software package R. These labs provide the reader with valuable hands-on experience.

This book is appropriate for advanced undergraduates or master’s stu dents in statistics or related quantitative fields or for individuals in other

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disciplines who wish to use statistical learning tools to analyze their data. It can be used as a textbook for a course spanning one or two semesters. We would like to thank several readers for valuable comments on prelim inary drafts of this book: Pallavi Basu, Alexandra Chouldechova, Patrick Danaher, Will Fithian, Luella Fu, Sam Gross, Max Grazier G’Sell, Court ney Paulson, Xinghao Qiao, Elisa Sheng, Noah Simon, Kean Ming Tan, and Xin Lu Tan.

It’s tough to make predictions, especially about the future. -Yogi Berra

Los Angeles, USA Gareth James Seattle, USA Daniela Witten Palo Alto, USA Trevor Hastie Palo Alto, USA Robert Tibshirani

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1

Introduction

An Overview of Statistical Learning

Statistical learning refers to a vast set of tools for understanding data. These tools can be classified as supervised or unsupervised. Broadly speaking, supervised statistical learning involves building a statistical model for pre dicting, or estimating, an output based on one or more inputs. Problems of this nature occur in fields as diverse as business, medicine, astrophysics, and public policy. With unsupervised statistical learning, there are inputs but no supervising output; nevertheless we can learn relationships and struc ture from such data. To provide an illustration of some applications of statistical learning, we briefly discuss three real-world data sets that are considered in this book.

Wage Data

In this application (which we refer to as the Wage data set throughout this book), we examine a number of factors that relate to wages for a group of males from the Atlantic region of the United States. In particular, we wish to understand the association between an employee’s age and education, as well as the calendar year, on his wage. Consider, for example, the left-hand panel of Figure 1.1, which displays wage versus age for each of the individu als in the data set. There is evidence that wage increases with age but then decreases again after approximately age 60. The blue line, which provides an estimate of the average wage for a given age, makes this trend clearer.

1

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2 1. Introduction

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2003 2006 2009 12345

Age

Year

Education Level

FIGURE 1.1. Wage data, which contains income survey information for males from the central Atlantic region of the United States. Left: wage as a function of age. On average, wage increases with age until about 60 years of age, at which point it begins to decline. Center: wage as a function of year. There is a slow but steady increase of approximately $10,000 in the average wage between 2003 and 2009. Right: Boxplots displaying wage as a function of education, with 1 indicating the lowest level (no high school diploma) and 5 the highest level (an advanced graduate degree). On average, wage increases with the level of education.

Given an employee’s age, we can use this curve to predict his wage. However, it is also clear from Figure 1.1 that there is a significant amount of vari ability associated with this average value, and so age alone is unlikely to provide an accurate prediction of a particular man’s wage.

We also have information regarding each employee’s education level and the year in which the wage was earned. The center and right-hand panels of Figure 1.1, which display wage as a function of both year and education, in dicate that both of these factors are associated with wage. Wages increase by approximately $10,000, in a roughly linear (or straight-line) fashion, between 2003 and 2009, though this rise is very slight relative to the vari ability in the data. Wages are also typically greater for individuals with higher education levels: men with the lowest education level (1) tend to have substantially lower wages than those with the highest education level (5). Clearly, the most accurate prediction of a given man’s wage will be obtained by combining his age, his education, and the year. In Chapter 3, we discuss linear regression, which can be used to predict wage from this data set. Ideally, we should predict wage in a way that accounts for the non-linear relationship between wage and age. In Chapter 7, we discuss a class of approaches for addressing this problem.

Stock Market Data

The Wage data involves predicting a continuous or quantitative output value. This is often referred to as a regression problem. However, in certain cases we may instead wish to predict a non-numerical value—that is, a categorical

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1. Introduction 3

**Three Days Previous**  6

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Down Up

Today’s Direction

FIGURE 1.2. Left: Boxplots of the previous day’s percentage change in the S&P index for the days for which the market increased or decreased, obtained from the Smarket data. Center and Right: Same as left panel, but the percentage changes for 2 and 3 days previous are shown.

or qualitative output. For example, in Chapter 4 we examine a stock mar ket data set that contains the daily movements in the Standard & Poor’s 500 (S&P) stock index over a 5-year period between 2001 and 2005. We refer to this as the Smarket data. The goal is to predict whether the index will increase or decrease on a given day using the past 5 days’ percentage changes in the index. Here the statistical learning problem does not in volve predicting a numerical value. Instead it involves predicting whether a given day’s stock market performance will fall into the Up bucket or the Down bucket. This is known as a classification problem. A model that could accurately predict the direction in which the market will move would be very useful!

The left-hand panel of Figure 1.2 displays two boxplots of the previous day’s percentage changes in the stock index: one for the 648 days for which the market increased on the subsequent day, and one for the 602 days for which the market decreased. The two plots look almost identical, suggest ing that there is no simple strategy for using yesterday’s movement in the S&P to predict today’s returns. The remaining panels, which display box plots for the percentage changes 2 and 3 days previous to today, similarly indicate little association between past and present returns. Of course, this lack of pattern is to be expected: in the presence of strong correlations be tween successive days’ returns, one could adopt a simple trading strategy to generate profits from the market. Nevertheless, in Chapter 4, we explore these data using several different statistical learning methods. Interestingly, there are hints of some weak trends in the data that suggest that, at least for this 5-year period, it is possible to correctly predict the direction of movement in the market approximately 60% of the time (Figure 1.3).

4 1. Introduction

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Today’s Direction

FIGURE 1.3. We fit a quadratic discriminant analysis model to the subset of the Smarket data corresponding to the 2001–2004 time period, and predicted the probability of a stock market decrease using the 2005 data. On average, the predicted probability of decrease is higher for the days in which the market does decrease. Based on these results, we are able to correctly predict the direction of movement in the market 60% of the time.

Gene Expression Data

The previous two applications illustrate data sets with both input and output variables. However, another important class of problems involves situations in which we only observe input variables, with no corresponding output. For example, in a marketing setting, we might have demographic information for a number of current or potential customers. We may wish to understand which types of customers are similar to each other by grouping individuals according to their observed characteristics. This is known as a clustering problem. Unlike in the previous examples, here we are not trying to predict an output variable.

We devote Chapter 10 to a discussion of statistical learning methods for problems in which no natural output variable is available. We consider the NCI60 data set, which consists of 6,830 gene expression measurements for each of 64 cancer cell lines. Instead of predicting a particular output variable, we are interested in determining whether there are groups, or clusters, among the cell lines based on their gene expression measurements. This is a difficult question to address, in part because there are thousands of gene expression measurements per cell line, making it hard to visualize the data.

The left-hand panel of Figure 1.4 addresses this problem by represent ing each of the 64 cell lines using just two numbers, Z1 and Z2. These are the first two principal components of the data, which summarize the 6, 830 expression measurements for each cell line down to two numbers or dimensions. While it is likely that this dimension reduction has resulted in

2

Z

20

0

0

−2

0

−4

0

6

−

−40 −20 0 20 40 60 Z1

2

Z

20 0

0

−2

0

−4

0

6

−

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−40 −20 0 20 40 60 Z1

FIGURE 1.4. Left: Representation of the NCI60 gene expression data set in a two-dimensional space, Z1 and Z2. Each point corresponds to one of the 64 cell lines. There appear to be four groups of cell lines, which we have represented using different colors. Right: Same as left panel except that we have represented each of the 14 different types of cancer using a different colored symbol. Cell lines corresponding to the same cancer type tend to be nearby in the two-dimensional space.

some loss of information, it is now possible to visually examine the data for evidence of clustering. Deciding on the number of clusters is often a diffi cult problem. But the left-hand panel of Figure 1.4 suggests at least four groups of cell lines, which we have represented using separate colors. We can now examine the cell lines within each cluster for similarities in their types of cancer, in order to better understand the relationship between gene expression levels and cancer.

In this particular data set, it turns out that the cell lines correspond to 14 different types of cancer. (However, this information was not used to create the left-hand panel of Figure 1.4.) The right-hand panel of Fig ure 1.4 is identical to the left-hand panel, except that the 14 cancer types are shown using distinct colored symbols. There is clear evidence that cell lines with the same cancer type tend to be located near each other in this two-dimensional representation. In addition, even though the cancer infor mation was not used to produce the left-hand panel, the clustering obtained does bear some resemblance to some of the actual cancer types observed in the right-hand panel. This provides some independent verification of the accuracy of our clustering analysis.

A Brief History of Statistical Learning

Though the term statistical learning is fairly new, many of the concepts that underlie the field were developed long ago. At the beginning of the nineteenth century, Legendre and Gauss published papers on the method

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of least squares, which implemented the earliest form of what is now known as linear regression. The approach was first successfully applied to problems in astronomy. Linear regression is used for predicting quantitative values, such as an individual’s salary. In order to predict qualitative values, such as whether a patient survives or dies, or whether the stock market increases or decreases, Fisher proposed linear discriminant analysis in 1936. In the 1940s, various authors put forth an alternative approach, logistic regression. In the early 1970s, Nelder and Wedderburn coined the term generalized linear models for an entire class of statistical learning methods that include both linear and logistic regression as special cases.

By the end of the 1970s, many more techniques for learning from data were available. However, they were almost exclusively linear methods, be cause fitting non-linear relationships was computationally infeasible at the time. By the 1980s, computing technology had finally improved sufficiently that non-linear methods were no longer computationally prohibitive. In mid 1980s Breiman, Friedman, Olshen and Stone introduced classification and regression trees, and were among the first to demonstrate the power of a detailed practical implementation of a method, including cross-validation for model selection. Hastie and Tibshirani coined the term generalized addi tive models in 1986 for a class of non-linear extensions to generalized linear models, and also provided a practical software implementation.

Since that time, inspired by the advent of machine learning and other disciplines, statistical learning has emerged as a new subfield in statistics, focused on supervised and unsupervised modeling and prediction. In recent years, progress in statistical learning has been marked by the increasing availability of powerful and relatively user-friendly software, such as the popular and freely available R system. This has the potential to continue the transformation of the field from a set of techniques used and developed by statisticians and computer scientists to an essential toolkit for a much broader community.

This Book

The Elements of Statistical Learning (ESL) by Hastie, Tibshirani, and Friedman was first published in 2001. Since that time, it has become an important reference on the fundamentals of statistical machine learning. Its success derives from its comprehensive and detailed treatment of many important topics in statistical learning, as well as the fact that (relative to many upper-level statistics textbooks) it is accessible to a wide audience. However, the greatest factor behind the success of ESL has been its topical nature. At the time of its publication, interest in the field of statistical

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learning was starting to explode. ESL provided one of the first accessible and comprehensive introductions to the topic.

Since ESL was first published, the field of statistical learning has con tinued to flourish. The field’s expansion has taken two forms. The most obvious growth has involved the development of new and improved statis tical learning approaches aimed at answering a range of scientific questions across a number of fields. However, the field of statistical learning has also expanded its audience. In the 1990s, increases in computational power generated a surge of interest in the field from non-statisticians who were eager to use cutting-edge statistical tools to analyze their data. Unfortu nately, the highly technical nature of these approaches meant that the user community remained primarily restricted to experts in statistics, computer science, and related fields with the training (and time) to understand and implement them.

In recent years, new and improved software packages have significantly eased the implementation burden for many statistical learning methods. At the same time, there has been growing recognition across a number of fields, from business to health care to genetics to the social sciences and beyond, that statistical learning is a powerful tool with important practical applications. As a result, the field has moved from one of primarily academic interest to a mainstream discipline, with an enormous potential audience. This trend will surely continue with the increasing availability of enormous quantities of data and the software to analyze it.

The purpose of An Introduction to Statistical Learning (ISL) is to facili tate the transition of statistical learning from an academic to a mainstream field. ISL is not intended to replace ESL, which is a far more comprehen sive text both in terms of the number of approaches considered and the depth to which they are explored. We consider ESL to be an important companion for professionals (with graduate degrees in statistics, machine learning, or related fields) who need to understand the technical details behind statistical learning approaches. However, the community of users of statistical learning techniques has expanded to include individuals with a wider range of interests and backgrounds. Therefore, we believe that there is now a place for a less technical and more accessible version of ESL.

In teaching these topics over the years, we have discovered that they are of interest to master’s and PhD students in fields as disparate as business administration, biology, and computer science, as well as to quantitatively oriented upper-division undergraduates. It is important for this diverse group to be able to understand the models, intuitions, and strengths and weaknesses of the various approaches. But for this audience, many of the technical details behind statistical learning methods, such as optimiza tion algorithms and theoretical properties, are not of primary interest. We believe that these students do not need a deep understanding of these aspects in order to become informed users of the various methodologies, and

8 1. Introduction

in order to contribute to their chosen fields through the use of statistical learning tools.

ISLR is based on the following four premises.

1. Many statistical learning methods are relevant and useful in a wide range of academic and non-academic disciplines, beyond just the sta tistical sciences. We believe that many contemporary statistical learn ing procedures should, and will, become as widely available and used as is currently the case for classical methods such as linear regres sion. As a result, rather than attempting to consider every possible approach (an impossible task), we have concentrated on presenting the methods that we believe are most widely applicable.

2. Statistical learning should not be viewed as a series of black boxes. No single approach will perform well in all possible applications. With out understanding all of the cogs inside the box, or the interaction between those cogs, it is impossible to select the best box. Hence, we have attempted to carefully describe the model, intuition, assump tions, and trade-offs behind each of the methods that we consider.

3. While it is important to know what job is performed by each cog, it is not necessary to have the skills to construct the machine inside the box! Thus, we have minimized discussion of technical details related to fitting procedures and theoretical properties. We assume that the reader is comfortable with basic mathematical concepts, but we do not assume a graduate degree in the mathematical sciences. For in stance, we have almost completely avoided the use of matrix algebra, and it is possible to understand the entire book without a detailed knowledge of matrices and vectors.

4. We presume that the reader is interested in applying statistical learn ing methods to real-world problems. In order to facilitate this, as well as to motivate the techniques discussed, we have devoted a section within each chapter to R computer labs. In each lab, we walk the reader through a realistic application of the methods considered in that chapter. When we have taught this material in our courses, we have allocated roughly one-third of classroom time to working through the labs, and we have found them to be extremely useful. Many of the less computationally-oriented students who were ini tially intimidated by R’s command level interface got the hang of things over the course of the quarter or semester. We have used R because it is freely available and is powerful enough to implement all of the methods discussed in the book. It also has optional packages that can be downloaded to implement literally thousands of addi tional methods. Most importantly, R is the language of choice for academic statisticians, and new approaches often become available in

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R years before they are implemented in commercial packages. How ever, the labs in ISL are self-contained, and can be skipped if the reader wishes to use a different software package or does not wish to apply the methods discussed to real-world problems.

Who Should Read This Book?

This book is intended for anyone who is interested in using modern statis tical methods for modeling and prediction from data. This group includes scientists, engineers, data analysts, or quants, but also less technical indi viduals with degrees in non-quantitative fields such as the social sciences or business. We expect that the reader will have had at least one elementary course in statistics. Background in linear regression is also useful, though not required, since we review the key concepts behind linear regression in Chapter 3. The mathematical level of this book is modest, and a detailed knowledge of matrix operations is not required. This book provides an in troduction to the statistical programming language R. Previous exposure to a programming language, such as MATLAB or Python, is useful but not required.

We have successfully taught material at this level to master’s and PhD students in business, computer science, biology, earth sciences, psychology, and many other areas of the physical and social sciences. This book could also be appropriate for advanced undergraduates who have already taken a course on linear regression. In the context of a more mathematically rigorous course in which ESL serves as the primary textbook, ISL could be used as a supplementary text for teaching computational aspects of the various approaches.

Notation and Simple Matrix Algebra

Choosing notation for a textbook is always a difficult task. For the most part we adopt the same notational conventions as ESL.

We will use n to represent the number of distinct data points, or observa tions, in our sample. We will let p denote the number of variables that are available for use in making predictions. For example, the Wage data set con sists of 12 variables for 3,000 people, so we have n = 3,000 observations and p = 12 variables (such as year, age, sex, and more). Note that throughoutthis book, we indicate variable names using colored font: Variable Name.

In some examples, p might be quite large, such as on the order of thou sands or even millions; this situation arises quite often, for example, in the analysis of modern biological data or web-based advertising data.

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In general, we will let xij represent the value of the jth variable for the ith observation, where i = 1, 2,...,n and j = 1, 2,...,p. Throughout this book, i will be used to index the samples or observations (from 1 to n) and j will be used to index the variables (from 1 to p). We let X denote a n×p matrix whose (i, j)th element is xij . That is,

X =

⎛

⎜⎜⎜⎝x11 x12 ... x1p

x21 x22 ... x2p ............ xn1 xn2 ... xnp

⎞

⎟⎟⎟⎠.

For readers who are unfamiliar with matrices, it is useful to visualize X as a spreadsheet of numbers with n rows and p columns.

At times we will be interested in the rows of X, which we write as x1, x2,...,xn. Here xiis a vector of length p, containing the p variable measurements for the ith observation. That is,

xi =

⎛

⎜⎜⎜⎝xi1

xi2...

xip

⎞

⎟⎟⎟⎠. (1.1)

(Vectors are by default represented as columns.) For example, for the Wage

data, xi

is a vector of length 12, consisting of year, age, sex, and other

values for the ith individual. At other times we will instead be interested in the columns of X, which we write as x1, x2,..., xp. Each is a vector of

length n. That is,

xj =

⎛

⎜⎜⎜⎝x1j

x2j...

xnj

⎞

⎟⎟⎟⎠.

For example, for the Wage data, x1 contains the n = 3,000 values for year. Using this notation, the matrix X can be written as

X =x1 x2 ··· xp,

or

X =

⎛

⎜⎜⎜⎝xT1

xT2...

xTn

⎞

⎟⎟⎟⎠.

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The T notation denotes the transpose of a matrix or vector. So, for example,

XT =

⎛

⎜⎜⎜⎝x11 x21 ... xn1

x12 x22 ... xn2 ......... x1p x2p ... xnp

⎞

⎟⎟⎟⎠,

while

xTi =xi1 xi2 ··· xip.

We use yi to denote the ith observation of the variable on which we wish to make predictions, such as wage. Hence, we write the set of all n observations in vector form as

y =

⎛

⎜⎜⎜⎝y1

y2...

yn

⎞

⎟⎟⎟⎠.

Then our observed data consists of {(x1, y1),(x2, y2),...,(xn, yn)}, where each xiis a vector of length p. (If p = 1, then xiis simply a scalar.) In this text, a vector of length n will always be denoted in lower case

bold; e.g.

a =

⎛

⎜⎜⎜⎝a1

a2...

an

⎞

⎟⎟⎟⎠.

However, vectors that are not of length n (such as feature vectors of length p, as in (1.1)) will be denoted in lower case normal font, e.g. a. Scalars will also be denoted in lower case normal font, e.g. a. In the rare cases in which these two uses for lower case normal font lead to ambiguity, we will clarify which use is intended. Matrices will be denoted using bold capitals, such as A. Random variables will be denoted using capital normal font, e.g. A, regardless of their dimensions.

Occasionally we will want to indicate the dimension of a particular ob ject. To indicate that an object is a scalar, we will use the notation a ∈ R. To indicate that it is a vector of length k, we will use a ∈ Rk(or a ∈ Rn if it is of length n). We will indicate that an object is a r × s matrix using A ∈ Rr×s.

We have avoided using matrix algebra whenever possible. However, in a few instances it becomes too cumbersome to avoid it entirely. In these rare instances it is important to understand the concept of multiplying two matrices. Suppose that A ∈ Rr×d and B ∈ Rd×s. Then the product

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of A and B is denoted AB. The (i, j)th element of AB is computed by multiplying each element of the ith row of A by the corresponding element of the jth column of B. That is, (AB)ij =dk=1 aikbkj . As an example,

consider

A =

Then

1 2 3 4

and B =

5 6 7 8

.

AB =

1 2 3 4

5 6 7 8

=

1 × 5+2 × 7 1 × 6+2 × 8 3 × 5+4 × 7 3 × 6+4 × 8

=

19 22 43 50

.

Note that this operation produces an r × s matrix. It is only possible to compute AB if the number of columns of A is the same as the number of rows of B.

Organization of This Book

Chapter 2 introduces the basic terminology and concepts behind statisti cal learning. This chapter also presents the K-nearest neighbor classifier, a very simple method that works surprisingly well on many problems. Chap ters 3 and 4 cover classical linear methods for regression and classification. In particular, Chapter 3 reviews linear regression, the fundamental start ing point for all regression methods. In Chapter 4 we discuss two of the most important classical classification methods, logistic regression and lin ear discriminant analysis.

A central problem in all statistical learning situations involves choosing the best method for a given application. Hence, in Chapter 5 we intro duce cross-validation and the bootstrap, which can be used to estimate the accuracy of a number of different methods in order to choose the best one.

Much of the recent research in statistical learning has concentrated on non-linear methods. However, linear methods often have advantages over their non-linear competitors in terms of interpretability and sometimes also accuracy. Hence, in Chapter 6 we consider a host of linear methods, both classical and more modern, which offer potential improvements over stan dard linear regression. These include stepwise selection, ridge regression, principal components regression, partial least squares, and the lasso.

The remaining chapters move into the world of non-linear statistical learning. We first introduce in Chapter 7 a number of non-linear methods that work well for problems with a single input variable. We then show how these methods can be used to fit non-linear additive models for which there is more than one input. In Chapter 8, we investigate tree-based methods, including bagging, boosting, and random forests. Support vector machines, a set of approaches for performing both linear and non-linear classification,

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are discussed in Chapter 9. Finally, in Chapter 10, we consider a setting in which we have input variables but no output variable. In particular, we present principal components analysis, K-means clustering, and hierarchi cal clustering.

At the end of each chapter, we present one or more R lab sections in which we systematically work through applications of the various meth ods discussed in that chapter. These labs demonstrate the strengths and weaknesses of the various approaches, and also provide a useful reference for the syntax required to implement the various methods. The reader may choose to work through the labs at his or her own pace, or the labs may be the focus of group sessions as part of a classroom environment. Within each R lab, we present the results that we obtained when we performed the lab at the time of writing this book. However, new versions of R are continuously released, and over time, the packages called in the labs will be updated. Therefore, in the future, it is possible that the results shown in the lab sections may no longer correspond precisely to the results obtained by the reader who performs the labs. As necessary, we will post updates to the labs on the book website.

We use the symbol to denote sections or exercises that contain more challenging concepts. These can be easily skipped by readers who do not wish to delve as deeply into the material, or who lack the mathematical background.

Data Sets Used in Labs and Exercises

In this textbook, we illustrate statistical learning methods using applica tions from marketing, finance, biology, and other areas. The ISLR package available on the book website contains a number of data sets that are required in order to perform the labs and exercises associated with this book. One other data set is contained in the MASS library, and yet another is part of the base R distribution. Table 1.1 contains a summary of the data sets required to perform the labs and exercises. A couple of these data sets are also available as text files on the book website, for use in Chapter 2.

Book Website

The website for this book is located at

www.StatLearning.com

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Name Description

Auto Gas mileage, horsepower, and other information for cars. Boston Housing values and other information about Boston suburbs. Caravan Information about individuals offered caravan insurance. Carseats Information about car seat sales in 400 stores.

College Demographic characteristics, tuition, and more for USA colleges. Default Customer default records for a credit card company. Hitters Records and salaries for baseball players.

Khan Gene expression measurements for four cancer types. NCI60 Gene expression measurements for 64 cancer cell lines. OJ Sales information for Citrus Hill and Minute Maid orange juice. Portfolio Past values of financial assets, for use in portfolio allocation. Smarket Daily percentage returns for S&P 500 over a 5-year period. USArrests Crime statistics per 100,000 residents in 50 states of USA. Wage Income survey data for males in central Atlantic region of USA. Weekly 1,089 weekly stock market returns for 21 years.

TABLE 1.1. A list of data sets needed to perform the labs and exercises in this textbook. All data sets are available in the ISLR library, with the exception of Boston (part of MASS) and USArrests (part of the base R distribution).

It contains a number of resources, including the R package associated with this book, and some additional data sets.

Acknowledgements

A few of the plots in this book were taken from ESL: Figures 6.7, 8.3, and 10.12. All other plots are new to this book.

2

Statistical Learning

2.1 What Is Statistical Learning?

In order to motivate our study of statistical learning, we begin with a simple example. Suppose that we are statistical consultants hired by a client to provide advice on how to improve sales of a particular product. The Advertising data set consists of the sales of that product in 200 different markets, along with advertising budgets for the product in each of those markets for three different media: TV, radio, and newspaper. The data are displayed in Figure 2.1. It is not possible for our client to directly increase sales of the product. On the other hand, they can control the advertising expenditure in each of the three media. Therefore, if we determine that there is an association between advertising and sales, then we can instruct our client to adjust advertising budgets, thereby indirectly increasing sales. In other words, our goal is to develop an accurate model that can be used to predict sales on the basis of the three media budgets.

In this setting, the advertising budgets are input variables while sales input is an output variable. The input variables are typically denoted using the variable

symbol X, with a subscript to distinguish them. So X1 might be the TV budget, X2 the radio budget, and X3 the newspaper budget. The inputs

output variable

go by different names, such as predictors, independent variables, features,predictor

or sometimes just variables. The output variable—in this case, sales—is often called the response or dependent variable, and is typically denoted using the symbol Y . Throughout this book, we will use all of these terms interchangeably.

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independent variable

feature

variable

response

dependent variable

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25

25

25

20

20

20

s

e

l

a

S

15

10

5

0 50 100 200 300 TV

s

e

l

a

S

15

10

5

0 10 20 30 40 50 Radio

s

e

l

a

S

15

10

5

0 20 40 60 80 100 Newspaper

FIGURE 2.1. The Advertising data set. The plot displays sales, in thousands of units, as a function of TV, radio, and newspaper budgets, in thousands of dollars, for 200 different markets. In each plot we show the simple least squares fit of sales to that variable, as described in Chapter 3. In other words, each blue line represents a simple model that can be used to predict sales using TV, radio, and newspaper, respectively.

More generally, suppose that we observe a quantitative response Y and p different predictors, X1, X2,...,Xp. We assume that there is some relationship between Y and X = (X1, X2,...,Xp), which can be written in the very general form

Y = f(X) + ǫ. (2.1)

Here f is some fixed but unknown function of X1,...,Xp, and ǫ is a random error term, which is independent of X and has mean zero. In this formula- error term tion, f represents the systematic information that X provides about Y .systematic

As another example, consider the left-hand panel of Figure 2.2, a plot of income versus years of education for 30 individuals in the Income data set. The plot suggests that one might be able to predict income using years of education. However, the function f that connects the input variable to the output variable is in general unknown. In this situation one must estimate f based on the observed points. Since Income is a simulated data set, f is known and is shown by the blue curve in the right-hand panel of Figure 2.2. The vertical lines represent the error terms ǫ. We note that some of the 30 observations lie above the blue curve and some lie below it; overall, the errors have approximately mean zero.

In general, the function f may involve more than one input variable. In Figure 2.3 we plot income as a function of years of education and seniority. Here f is a two-dimensional surface that must be estimated based on the observed data.

e

m

o

c

n

I

80

70

60

50

40

30

0

2

10 12 14 16 18 20 22 Years of Education

2.1 What Is Statistical Learning? 17

80

70

60

e

50

m

o

c

n

I

40

30

0

2

10 12 14 16 18 20 22

Years of Education

FIGURE 2.2. The Income data set. Left: The red dots are the observed values of income (in tens of thousands of dollars) and years of education for 30 indi viduals. Right: The blue curve represents the true underlying relationship between income and years of education, which is generally unknown (but is known in this case because the data were simulated). The black lines represent the error associated with each observation. Note that some errors are positive (if an ob servation lies above the blue curve) and some are negative (if an observation lies below the curve). Overall, these errors have approximately mean zero.

In essence, statistical learning refers to a set of approaches for estimating f. In this chapter we outline some of the key theoretical concepts that arise in estimating f, as well as tools for evaluating the estimates obtained.

2.1.1 Why Estimate f?

There are two main reasons that we may wish to estimate f: prediction and inference. We discuss each in turn.

Prediction

In many situations, a set of inputs X are readily available, but the output Y cannot be easily obtained. In this setting, since the error term averages to zero, we can predict Y using

Yˆ = ˆf(X), (2.2)

where ˆf represents our estimate for f, and Yˆ represents the resulting pre diction for Y . In this setting, ˆf is often treated as a black box, in the sense that one is not typically concerned with the exact form of ˆf, provided that it yields accurate predictions for Y .

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I

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c

o

m

e

Years of EducationSeniority

FIGURE 2.3. The plot displays income as a function of years of education and seniority in the Income data set. The blue surface represents the true un derlying relationship between income and years of education and seniority, which is known since the data are simulated. The red dots indicate the observed values of these quantities for 30 individuals.

As an example, suppose that X1,...,Xp are characteristics of a patient’s blood sample that can be easily measured in a lab, and Y is a variable encoding the patient’s risk for a severe adverse reaction to a particular drug. It is natural to seek to predict Y using X, since we can then avoid giving the drug in question to patients who are at high risk of an adverse reaction—that is, patients for whom the estimate of Y is high.

The accuracy of Yˆ as a prediction for Y depends on two quantities, which we will call the reducible error and the irreducible error. In general, reducible

ˆf will not be a perfect estimate for f, and this inaccuracy will introduce some error. This error is reducible because we can potentially improve the accuracy of ˆf by using the most appropriate statistical learning technique to estimate f. However, even if it were possible to form a perfect estimate for f, so that our estimated response took the form Yˆ = f(X), our prediction would still have some error in it! This is because Y is also a function of ǫ, which, by definition, cannot be predicted using X. Therefore, variability associated with ǫ also affects the accuracy of our predictions. This is known as the irreducible error, because no matter how well we estimate f, we cannot reduce the error introduced by ǫ.

Why is the irreducible error larger than zero? The quantity ǫ may con tain unmeasured variables that are useful in predicting Y : since we don’t measure them, f cannot use them for its prediction. The quantity ǫ may also contain unmeasurable variation. For example, the risk of an adverse reaction might vary for a given patient on a given day, depending on

error

irreducible error

2.1 What Is Statistical Learning? 19

manufacturing variation in the drug itself or the patient’s general feeling of well-being on that day.

Consider a given estimate ˆf and a set of predictors X, which yields the prediction Yˆ = ˆf(X). Assume for a moment that both ˆf and X are fixed. Then, it is easy to show that

E(Y − Yˆ )2 = E[f(X) + ǫ − ˆf(X)]2

= [f(X) − ˆf(X)]2

Reducible

+ Var(ǫ)

Irreducible

, (2.3)

where E(Y − Yˆ )2represents the average, or expected value, of the squared expected difference between the predicted and actual value of Y , and Var(ǫ) repre- value sents the variance associated with the error term ǫ.variance

The focus of this book is on techniques for estimating f with the aim of minimizing the reducible error. It is important to keep in mind that the irreducible error will always provide an upper bound on the accuracy of our prediction for Y . This bound is almost always unknown in practice.

Inference

We are often interested in understanding the way that Y is affected as X1,...,Xp change. In this situation we wish to estimate f, but our goal is not necessarily to make predictions for Y . We instead want to understand the relationship between X and Y , or more specifically, to understand how Y changes as a function of X1,...,Xp. Now ˆf cannot be treated as a black box, because we need to know its exact form. In this setting, one may be interested in answering the following questions:

• Which predictors are associated with the response? It is often the case that only a small fraction of the available predictors are substantially associated with Y . Identifying the few important predictors among a large set of possible variables can be extremely useful, depending on the application.

• What is the relationship between the response and each predictor? Some predictors may have a positive relationship with Y , in the sense that increasing the predictor is associated with increasing values of Y . Other predictors may have the opposite relationship. Depending on the complexity of f, the relationship between the response and a given predictor may also depend on the values of the other predictors.

• Can the relationship between Y and each predictor be adequately sum marized using a linear equation, or is the relationship more compli cated? Historically, most methods for estimating f have taken a linear form. In some situations, such an assumption is reasonable or even de sirable. But often the true relationship is more complicated, in which case a linear model may not provide an accurate representation of the relationship between the input and output variables.

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In this book, we will see a number of examples that fall into the prediction setting, the inference setting, or a combination of the two.

For instance, consider a company that is interested in conducting a direct-marketing campaign. The goal is to identify individuals who will respond positively to a mailing, based on observations of demographic vari ables measured on each individual. In this case, the demographic variables serve as predictors, and response to the marketing campaign (either pos itive or negative) serves as the outcome. The company is not interested in obtaining a deep understanding of the relationships between each in dividual predictor and the response; instead, the company simply wants an accurate model to predict the response using the predictors. This is an example of modeling for prediction.

In contrast, consider the Advertising data illustrated in Figure 2.1. One may be interested in answering questions such as:

– Which media contribute to sales?

– Which media generate the biggest boost in sales? or

– How much increase in sales is associated with a given increase in TV advertising?

This situation falls into the inference paradigm. Another example involves modeling the brand of a product that a customer might purchase based on variables such as price, store location, discount levels, competition price, and so forth. In this situation one might really be most interested in how each of the individual variables affects the probability of purchase. For instance, what effect will changing the price of a product have on sales? This is an example of modeling for inference.

Finally, some modeling could be conducted both for prediction and infer ence. For example, in a real estate setting, one may seek to relate values of homes to inputs such as crime rate, zoning, distance from a river, air qual ity, schools, income level of community, size of houses, and so forth. In this case one might be interested in how the individual input variables affect the prices—that is, how much extra will a house be worth if it has a view of the river? This is an inference problem. Alternatively, one may simply be interested in predicting the value of a home given its characteristics: is this house under- or over-valued? This is a prediction problem.

Depending on whether our ultimate goal is prediction, inference, or a combination of the two, different methods for estimating f may be appro priate. For example, linear models allow for relatively simple and inter- linear model pretable inference, but may not yield as accurate predictions as some other approaches. In contrast, some of the highly non-linear approaches that we discuss in the later chapters of this book can potentially provide quite accu rate predictions for Y , but this comes at the expense of a less interpretable model for which inference is more challenging.

2.1 What Is Statistical Learning? 21

2.1.2 How Do We Estimate f?

Throughout this book, we explore many linear and non-linear approaches for estimating f. However, these methods generally share certain charac teristics. We provide an overview of these shared characteristics in this section. We will always assume that we have observed a set of n different data points. For example in Figure 2.2 we observed n = 30 data points. These observations are called the training data because we will use these training data

observations to train, or teach, our method how to estimate f. Let xij represent the value of the jth predictor, or input, for observation i, where i = 1, 2,...,n and j = 1, 2,...,p. Correspondingly, let yi represent the response variable for the ith observation. Then our training data consist of {(x1, y1),(x2, y2),...,(xn, yn)} where xi = (xi1, xi2,...,xip)T.

Our goal is to apply a statistical learning method to the training data in order to estimate the unknown function f. In other words, we want to find a function ˆf such that Y ≈ ˆf(X) for any observation (X, Y ). Broadly speaking, most statistical learning methods for this task can be character ized as either parametric or non-parametric. We now briefly discuss these parametric

two types of approaches.

Parametric Methods

Parametric methods involve a two-step model-based approach.

1. First, we make an assumption about the functional form, or shape, of f. For example, one very simple assumption is that f is linear in X:

f(X) = β0 + β1X1 + β2X2 + ... + βpXp. (2.4)

This is a linear model, which will be discussed extensively in Chap ter 3. Once we have assumed that f is linear, the problem of estimat ing f is greatly simplified. Instead of having to estimate an entirely arbitrary p-dimensional function f(X), one only needs to estimate the p + 1 coefficients β0, β1,...,βp.

2. After a model has been selected, we need a procedure that uses the

non

parametric

training data to fit or train the model. In the case of the linear modelfit train (2.4), we need to estimate the parameters β0, β1,...,βp. That is, we want to find values of these parameters such that

Y ≈ β0 + β1X1 + β2X2 + ... + βpXp.

The most common approach to fitting the model (2.4) is referred to as (ordinary) least squares, which we discuss in Chapter 3. However,least squares least squares is one of many possible ways to fit the linear model. In Chapter 6, we discuss other approaches for estimating the parameters in (2.4).

The model-based approach just described is referred to as parametric; it reduces the problem of estimating f down to one of estimating a set of

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Years of EducationSeniority

FIGURE 2.4. A linear model fit by least squares to the Income data from Fig ure 2.3. The observations are shown in red, and the yellow plane indicates the least squares fit to the data.

parameters. Assuming a parametric form for f simplifies the problem of estimating f because it is generally much easier to estimate a set of pa rameters, such as β0, β1,...,βp in the linear model (2.4), than it is to fit an entirely arbitrary function f. The potential disadvantage of a paramet ric approach is that the model we choose will usually not match the true unknown form of f. If the chosen model is too far from the true f, then our estimate will be poor. We can try to address this problem by choos ing flexible models that can fit many different possible functional forms flexible

for f. But in general, fitting a more flexible model requires estimating a greater number of parameters. These more complex models can lead to a phenomenon known as overfitting the data, which essentially means they overfitting follow the errors, or noise, too closely. These issues are discussed through- noise out this book.

Figure 2.4 shows an example of the parametric approach applied to the Income data from Figure 2.3. We have fit a linear model of the form

income ≈ β0 + β1 × education + β2 × seniority.

Since we have assumed a linear relationship between the response and the two predictors, the entire fitting problem reduces to estimating β0, β1, and β2, which we do using least squares linear regression. Comparing Figure 2.3 to Figure 2.4, we can see that the linear fit given in Figure 2.4 is not quite right: the true f has some curvature that is not captured in the linear fit. However, the linear fit still appears to do a reasonable job of capturing the positive relationship between years of education and income, as well as the

2.1 What Is Statistical Learning? 23

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FIGURE 2.5. A smooth thin-plate spline fit to the Income data from Figure 2.3 is shown in yellow; the observations are displayed in red. Splines are discussed in Chapter 7.

slightly less positive relationship between seniority and income. It may be that with such a small number of observations, this is the best we can do.

Non-parametric Methods

Non-parametric methods do not make explicit assumptions about the func tional form of f. Instead they seek an estimate of f that gets as close to the data points as possible without being too rough or wiggly. Such approaches can have a major advantage over parametric approaches: by avoiding the assumption of a particular functional form for f, they have the potential to accurately fit a wider range of possible shapes for f. Any parametric approach brings with it the possibility that the functional form used to estimate f is very different from the true f, in which case the resulting model will not fit the data well. In contrast, non-parametric approaches completely avoid this danger, since essentially no assumption about the form of f is made. But non-parametric approaches do suffer from a major disadvantage: since they do not reduce the problem of estimating f to a small number of parameters, a very large number of observations (far more than is typically needed for a parametric approach) is required in order to obtain an accurate estimate for f.

An example of a non-parametric approach to fitting the Income data is shown in Figure 2.5. A thin-plate spline is used to estimate f. This ap- thin-plate proach does not impose any pre-specified model on f. It instead attempts spline to produce an estimate for f that is as close as possible to the observed data, subject to the fit—that is, the yellow surface in Figure 2.5—being

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FIGURE 2.6. A rough thin-plate spline fit to the Income data from Figure 2.3. This fit makes zero errors on the training data.

smooth. In this case, the non-parametric fit has produced a remarkably ac curate estimate of the true f shown in Figure 2.3. In order to fit a thin-plate spline, the data analyst must select a level of smoothness. Figure 2.6 shows the same thin-plate spline fit using a lower level of smoothness, allowing for a rougher fit. The resulting estimate fits the observed data perfectly! However, the spline fit shown in Figure 2.6 is far more variable than the true function f, from Figure 2.3. This is an example of overfitting the data, which we discussed previously. It is an undesirable situation because the fit obtained will not yield accurate estimates of the response on new observations that were not part of the original training data set. We dis cuss methods for choosing the correct amount of smoothness in Chapter 5. Splines are discussed in Chapter 7.

As we have seen, there are advantages and disadvantages to parametric and non-parametric methods for statistical learning. We explore both types of methods throughout this book.

2.1.3 The Trade-Off Between Prediction Accuracy and Model Interpretability

Of the many methods that we examine in this book, some are less flexible, or more restrictive, in the sense that they can produce just a relatively small range of shapes to estimate f. For example, linear regression is a relatively inflexible approach, because it can only generate linear functions such as the lines shown in Figure 2.1 or the plane shown in Figure 2.4.

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2.1 What Is Statistical Learning? 25

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Generalized Additive Models

Trees

Bagging, Boosting

Support Vector Machines

Low High Flexibility

FIGURE 2.7. A representation of the tradeoff between flexibility and inter pretability, using different statistical learning methods. In general, as the flexibil ity of a method increases, its interpretability decreases.

Other methods, such as the thin plate splines shown in Figures 2.5 and 2.6, are considerably more flexible because they can generate a much wider range of possible shapes to estimate f.

One might reasonably ask the following question: why would we ever choose to use a more restrictive method instead of a very flexible approach? There are several reasons that we might prefer a more restrictive model. If we are mainly interested in inference, then restrictive models are much more interpretable. For instance, when inference is the goal, the linear model may be a good choice since it will be quite easy to understand the relationship between Y and X1, X2,...,Xp. In contrast, very flexible approaches, such as the splines discussed in Chapter 7 and displayed in Figures 2.5 and 2.6, and the boosting methods discussed in Chapter 8, can lead to such complicated estimates of f that it is difficult to understand how any individual predictor is associated with the response.

Figure 2.7 provides an illustration of the trade-off between flexibility and interpretability for some of the methods that we cover in this book. Least squares linear regression, discussed in Chapter 3, is relatively inflexible but is quite interpretable. The lasso, discussed in Chapter 6, relies upon the lasso linear model (2.4) but uses an alternative fitting procedure for estimating

the coefficients β0, β1,...,βp. The new procedure is more restrictive in es timating the coefficients, and sets a number of them to exactly zero. Hence in this sense the lasso is a less flexible approach than linear regression. It is also more interpretable than linear regression, because in the final model the response variable will only be related to a small subset of the predictors—namely, those with nonzero coefficient estimates. Generalized

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additive models (GAMs), discussed in Chapter 7, instead extend the lin generalized

ear model (2.4) to allow for certain non-linear relationships. Consequently, GAMs are more flexible than linear regression. They are also somewhat less interpretable than linear regression, because the relationship between each predictor and the response is now modeled using a curve. Finally, fully

additive model

non-linear methods such as bagging, boosting, and support vector machines bagging boosting with non-linear kernels, discussed in Chapters 8 and 9, are highly flexible

approaches that are harder to interpret.

We have established that when inference is the goal, there are clear ad vantages to using simple and relatively inflexible statistical learning meth ods. In some settings, however, we are only interested in prediction, and the interpretability of the predictive model is simply not of interest. For instance, if we seek to develop an algorithm to predict the price of a stock, our sole requirement for the algorithm is that it predict accurately— interpretability is not a concern. In this setting, we might expect that it will be best to use the most flexible model available. Surprisingly, this is not always the case! We will often obtain more accurate predictions using a less flexible method. This phenomenon, which may seem counterintuitive at first glance, has to do with the potential for overfitting in highly flexible methods. We saw an example of overfitting in Figure 2.6. We will discuss this very important concept further in Section 2.2 and throughout this book.

2.1.4 Supervised Versus Unsupervised Learning

support vector

machine

Most statistical learning problems fall into one of two categories: supervised supervised or unsupervised. The examples that we have discussed so far in this chap unsupervised ter all fall into the supervised learning domain. For each observation of the predictor measurement(s) xi, i = 1,...,n there is an associated response measurement yi. We wish to fit a model that relates the response to the predictors, with the aim of accurately predicting the response for future observations (prediction) or better understanding the relationship between the response and the predictors (inference). Many classical statistical learn ing methods such as linear regression and logistic regression (Chapter 4), as logistic well as more modern approaches such as GAM, boosting, and support vec- regression tor machines, operate in the supervised learning domain. The vast majority of this book is devoted to this setting.

In contrast, unsupervised learning describes the somewhat more chal lenging situation in which for every observation i = 1,...,n, we observe a vector of measurements xi but no associated response yi. It is not pos sible to fit a linear regression model, since there is no response variable to predict. In this setting, we are in some sense working blind; the sit uation is referred to as unsupervised because we lack a response vari able that can supervise our analysis. What sort of statistical analysis is

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2.1 What Is Statistical Learning? 27

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FIGURE 2.8. A clustering data set involving three groups. Each group is shown using a different colored symbol. Left: The three groups are well-separated. In this setting, a clustering approach should successfully identify the three groups. Right: There is some overlap among the groups. Now the clustering task is more challenging.

possible? We can seek to understand the relationships between the variables or between the observations. One statistical learning tool that we may use in this setting is cluster analysis, or clustering. The goal of cluster analysiscluster is to ascertain, on the basis of x1,...,xn, whether the observations fall into analysis relatively distinct groups. For example, in a market segmentation study we might observe multiple characteristics (variables) for potential customers, such as zip code, family income, and shopping habits. We might believe that the customers fall into different groups, such as big spenders versus low spenders. If the information about each customer’s spending patterns were available, then a supervised analysis would be possible. However, this information is not available—that is, we do not know whether each poten tial customer is a big spender or not. In this setting, we can try to cluster the customers on the basis of the variables measured, in order to identify distinct groups of potential customers. Identifying such groups can be of interest because it might be that the groups differ with respect to some property of interest, such as spending habits.

Figure 2.8 provides a simple illustration of the clustering problem. We have plotted 150 observations with measurements on two variables, X1 and X2. Each observation corresponds to one of three distinct groups. For illustrative purposes, we have plotted the members of each group using different colors and symbols. However, in practice the group memberships are unknown, and the goal is to determine the group to which each ob servation belongs. In the left-hand panel of Figure 2.8, this is a relatively easy task because the groups are well-separated. In contrast, the right-hand panel illustrates a more challenging problem in which there is some overlap

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between the groups. A clustering method could not be expected to assign all of the overlapping points to their correct group (blue, green, or orange). In the examples shown in Figure 2.8, there are only two variables, and so one can simply visually inspect the scatterplots of the observations in order to identify clusters. However, in practice, we often encounter data sets that contain many more than two variables. In this case, we cannot easily plot the observations. For instance, if there are p variables in our data set, then p(p − 1)/2 distinct scatterplots can be made, and visual inspection is simply not a viable way to identify clusters. For this reason, automated clustering methods are important. We discuss clustering and other unsupervised learning approaches in Chapter 10.

Many problems fall naturally into the supervised or unsupervised learn ing paradigms. However, sometimes the question of whether an analysis should be considered supervised or unsupervised is less clear-cut. For in stance, suppose that we have a set of n observations. For m of the observa tions, where m<n, we have both predictor measurements and a response measurement. For the remaining n − m observations, we have predictor measurements but no response measurement. Such a scenario can arise if the predictors can be measured relatively cheaply but the corresponding responses are much more expensive to collect. We refer to this setting as a semi-supervised learning problem. In this setting, we wish to use a sta- semi

tistical learning method that can incorporate the m observations for which response measurements are available as well as the n − m observations for which they are not. Although this is an interesting topic, it is beyond the scope of this book.

2.1.5 Regression Versus Classification Problems

supervised learning

Variables can be characterized as either quantitative or qualitative (also quantitative qualitative known as categorical). Quantitative variables take on numerical values. Examples include a person’s age, height, or income, the value of a house, categorical

and the price of a stock. In contrast, qualitative variables take on val ues in one of K different classes, or categories. Examples of qualitative class variables include a person’s gender (male or female), the brand of prod uct purchased (brand A, B, or C), whether a person defaults on a debt (yes or no), or a cancer diagnosis (Acute Myelogenous Leukemia, Acute Lymphoblastic Leukemia, or No Leukemia). We tend to refer to problems with a quantitative response as regression problems, while those involv- regression ing a qualitative response are often referred to as classification problems. classification However, the distinction is not always that crisp. Least squares linear re gression (Chapter 3) is used with a quantitative response, whereas logistic regression (Chapter 4) is typically used with a qualitative (two-class, or binary) response. As such it is often used as a classification method. Butbinary since it estimates class probabilities, it can be thought of as a regression

2.2 Assessing Model Accuracy 29

method as well. Some statistical methods, such as K-nearest neighbors (Chapters 2 and 4) and boosting (Chapter 8), can be used in the case of either quantitative or qualitative responses.

We tend to select statistical learning methods on the basis of whether the response is quantitative or qualitative; i.e. we might use linear regres sion when quantitative and logistic regression when qualitative. However, whether the predictors are qualitative or quantitative is generally consid ered less important. Most of the statistical learning methods discussed in this book can be applied regardless of the predictor variable type, provided that any qualitative predictors are properly coded before the analysis is performed. This is discussed in Chapter 3.

2.2 Assessing Model Accuracy

One of the key aims of this book is to introduce the reader to a wide range of statistical learning methods that extend far beyond the standard linear regression approach. Why is it necessary to introduce so many different statistical learning approaches, rather than just a single best method? There is no free lunch in statistics: no one method dominates all others over all possible data sets. On a particular data set, one specific method may work best, but some other method may work better on a similar but different data set. Hence it is an important task to decide for any given set of data which method produces the best results. Selecting the best approach can be one of the most challenging parts of performing statistical learning in practice.

In this section, we discuss some of the most important concepts that arise in selecting a statistical learning procedure for a specific data set. As the book progresses, we will explain how the concepts presented here can be applied in practice.

2.2.1 Measuring the Quality of Fit

In order to evaluate the performance of a statistical learning method on a given data set, we need some way to measure how well its predictions actually match the observed data. That is, we need to quantify the extent to which the predicted response value for a given observation is close to the true response value for that observation. In the regression setting, the most commonly-used measure is the mean squared error (MSE), given by mean

squared

MSE =1n n i=1

(yi − ˆf(xi))2, (2.5)

error

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where ˆf(xi) is the prediction that ˆf gives for the ith observation. The MSE will be small if the predicted responses are very close to the true responses, and will be large if for some of the observations, the predicted and true responses differ substantially.

The MSE in (2.5) is computed using the training data that was used to fit the model, and so should more accurately be referred to as the training MSE. But in general, we do not really care how well the method works training on the training data. Rather, we are interested in the accuracy of the pre- MSE dictions that we obtain when we apply our method to previously unseen test data. Why is this what we care about? Suppose that we are interested test data in developing an algorithm to predict a stock’s price based on previous stock returns. We can train the method using stock returns from the past 6 months. But we don’t really care how well our method predicts last week’s stock price. We instead care about how well it will predict tomorrow’s price or next month’s price. On a similar note, suppose that we have clinical measurements (e.g. weight, blood pressure, height, age, family history of disease) for a number of patients, as well as information about whether each patient has diabetes. We can use these patients to train a statistical learn ing method to predict risk of diabetes based on clinical measurements. In practice, we want this method to accurately predict diabetes risk for future patients based on their clinical measurements. We are not very interested in whether or not the method accurately predicts diabetes risk for patients used to train the model, since we already know which of those patients have diabetes.

To state it more mathematically, suppose that we fit our statistical learn ing method on our training observations {(x1, y1),(x2, y2),...,(xn, yn)}, and we obtain the estimate ˆf. We can then compute ˆf(x1),ˆf(x2),...,ˆf(xn). If these are approximately equal to y1, y2,...,yn, then the training MSE given by (2.5) is small. However, we are really not interested in whether ˆf(xi) ≈ yi; instead, we want to know whether ˆf(x0) is approximately equal to y0, where (x0, y0) is a previously unseen test observation not used to train the statistical learning method. We want to choose the method that gives the lowest test MSE, as opposed to the lowest training MSE. In other words, test MSE

if we had a large number of test observations, we could compute Ave(y0 − ˆf(x0))2, (2.6)

the average squared prediction error for these test observations (x0, y0). We’d like to select the model for which the average of this quantity—the test MSE—is as small as possible.

How can we go about trying to select a method that minimizes the test MSE? In some settings, we may have a test data set available—that is, we may have access to a set of observations that were not used to train the statistical learning method. We can then simply evaluate (2.6) on the test observations, and select the learning method for which the test MSE is

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2.2 Assessing Model Accuracy 31  2.5

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Flexibility

FIGURE 2.9. Left: Data simulated from f, shown in black. Three estimates of f are shown: the linear regression line (orange curve), and two smoothing spline fits (blue and green curves). Right: Training MSE (grey curve), test MSE (red curve), and minimum possible test MSE over all methods (dashed line). Squares represent the training and test MSEs for the three fits shown in the left-hand panel.

smallest. But what if no test observations are available? In that case, one might imagine simply selecting a statistical learning method that minimizes the training MSE (2.5). This seems like it might be a sensible approach, since the training MSE and the test MSE appear to be closely related. Unfortunately, there is a fundamental problem with this strategy: there is no guarantee that the method with the lowest training MSE will also have the lowest test MSE. Roughly speaking, the problem is that many statistical methods specifically estimate coefficients so as to minimize the training set MSE. For these methods, the training set MSE can be quite small, but the test MSE is often much larger.

Figure 2.9 illustrates this phenomenon on a simple example. In the left hand panel of Figure 2.9, we have generated observations from (2.1) with the true f given by the black curve. The orange, blue and green curves illus trate three possible estimates for f obtained using methods with increasing levels of flexibility. The orange line is the linear regression fit, which is rela tively inflexible. The blue and green curves were produced using smoothing splines, discussed in Chapter 7, with different levels of smoothness. It is smoothing

clear that as the level of flexibility increases, the curves fit the observed spline data more closely. The green curve is the most flexible and matches the data very well; however, we observe that it fits the true f (shown in black) poorly because it is too wiggly. By adjusting the level of flexibility of the smoothing spline fit, we can produce many different fits to this data.

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We now move on to the right-hand panel of Figure 2.9. The grey curve displays the average training MSE as a function of flexibility, or more for mally the degrees of freedom, for a number of smoothing splines. The de- degrees of grees of freedom is a quantity that summarizes the flexibility of a curve; it freedom is discussed more fully in Chapter 7. The orange, blue and green squares indicate the MSEs associated with the corresponding curves in the left hand panel. A more restricted and hence smoother curve has fewer degrees of freedom than a wiggly curve—note that in Figure 2.9, linear regression is at the most restrictive end, with two degrees of freedom. The training MSE declines monotonically as flexibility increases. In this example the true f is non-linear, and so the orange linear fit is not flexible enough to estimate f well. The green curve has the lowest training MSE of all three methods, since it corresponds to the most flexible of the three curves fit in the left-hand panel.

In this example, we know the true function f, and so we can also com pute the test MSE over a very large test set, as a function of flexibility. (Of course, in general f is unknown, so this will not be possible.) The test MSE is displayed using the red curve in the right-hand panel of Figure 2.9. As with the training MSE, the test MSE initially declines as the level of flex ibility increases. However, at some point the test MSE levels off and then starts to increase again. Consequently, the orange and green curves both have high test MSE. The blue curve minimizes the test MSE, which should not be surprising given that visually it appears to estimate f the best in the left-hand panel of Figure 2.9. The horizontal dashed line indicates Var(ǫ), the irreducible error in (2.3), which corresponds to the lowest achievable test MSE among all possible methods. Hence, the smoothing spline repre sented by the blue curve is close to optimal.

In the right-hand panel of Figure 2.9, as the flexibility of the statistical learning method increases, we observe a monotone decrease in the training MSE and a U-shape in the test MSE. This is a fundamental property of statistical learning that holds regardless of the particular data set at hand and regardless of the statistical method being used. As model flexibility increases, training MSE will decrease, but the test MSE may not. When a given method yields a small training MSE but a large test MSE, we are said to be overfitting the data. This happens because our statistical learning procedure is working too hard to find patterns in the training data, and may be picking up some patterns that are just caused by random chance rather than by true properties of the unknown function f. When we overfit the training data, the test MSE will be very large because the supposed patterns that the method found in the training data simply don’t exist in the test data. Note that regardless of whether or not overfitting has occurred, we almost always expect the training MSE to be smaller than the test MSE because most statistical learning methods either directly or indirectly seek to minimize the training MSE. Overfitting refers specifically to the case in which a less flexible model would have yielded a smaller test MSE.

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2.2 Assessing Model Accuracy 33  2.5

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Flexibility

FIGURE 2.10. Details are as in Figure 2.9, using a different true f that is much closer to linear. In this setting, linear regression provides a very good fit to the data.

Figure 2.10 provides another example in which the true f is approxi mately linear. Again we observe that the training MSE decreases mono tonically as the model flexibility increases, and that there is a U-shape in the test MSE. However, because the truth is close to linear, the test MSE only decreases slightly before increasing again, so that the orange least squares fit is substantially better than the highly flexible green curve. Fi nally, Figure 2.11 displays an example in which f is highly non-linear. The training and test MSE curves still exhibit the same general patterns, but now there is a rapid decrease in both curves before the test MSE starts to increase slowly.

In practice, one can usually compute the training MSE with relative ease, but estimating test MSE is considerably more difficult because usually no test data are available. As the previous three examples illustrate, the flexibility level corresponding to the model with the minimal test MSE can vary considerably among data sets. Throughout this book, we discuss a variety of approaches that can be used in practice to estimate this minimum point. One important method is cross-validation (Chapter 5), which is a cross method for estimating test MSE using the training data. validation

2.2.2 The Bias-Variance Trade-Off

The U-shape observed in the test MSE curves (Figures 2.9–2.11) turns out to be the result of two competing properties of statistical learning methods. Though the mathematical proof is beyond the scope of this book, it is possible to show that the expected test MSE, for a given value x0, can

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2 5 10 20 Flexibility

FIGURE 2.11. Details are as in Figure 2.9, using a different f that is far from linear. In this setting, linear regression provides a very poor fit to the data.

always be decomposed into the sum of three fundamental quantities: the variance of ˆf(x0), the squared bias of ˆf(x0) and the variance of the error variance bias terms ǫ. That is,

E

y0 − ˆf(x0) 2= Var( ˆf(x0)) + [Bias( ˆf(x0))]2 + Var(ǫ). (2.7)

Here the notation E

y0 − ˆf(x0) 2defines the expected test MSE, and refers expected

to the average test MSE that we would obtain if we repeatedly estimated test MSE f using a large number of training sets, and tested each at x0. The overall

expected test MSE can be computed by averaging E possible values of x0 in the test set.

y0 − ˆf(x0) 2over all

Equation 2.7 tells us that in order to minimize the expected test error, we need to select a statistical learning method that simultaneously achieves low variance and low bias. Note that variance is inherently a nonnegative quantity, and squared bias is also nonnegative. Hence, we see that the expected test MSE can never lie below Var(ǫ), the irreducible error from (2.3).

What do we mean by the variance and bias of a statistical learning method? Variance refers to the amount by which ˆf would change if we estimated it using a different training data set. Since the training data are used to fit the statistical learning method, different training data sets will result in a different ˆf. But ideally the estimate for f should not vary too much between training sets. However, if a method has high variance then small changes in the training data can result in large changes in ˆf. In general, more flexible statistical methods have higher variance. Consider the

2.2 Assessing Model Accuracy 35

green and orange curves in Figure 2.9. The flexible green curve is following the observations very closely. It has high variance because changing any one of these data points may cause the estimate ˆf to change considerably. In contrast, the orange least squares line is relatively inflexible and has low variance, because moving any single observation will likely cause only a small shift in the position of the line.

On the other hand, bias refers to the error that is introduced by approxi mating a real-life problem, which may be extremely complicated, by a much simpler model. For example, linear regression assumes that there is a linear relationship between Y and X1, X2,...,Xp. It is unlikely that any real-life problem truly has such a simple linear relationship, and so performing lin ear regression will undoubtedly result in some bias in the estimate of f. In Figure 2.11, the true f is substantially non-linear, so no matter how many training observations we are given, it will not be possible to produce an accurate estimate using linear regression. In other words, linear regression results in high bias in this example. However, in Figure 2.10 the true f is very close to linear, and so given enough data, it should be possible for linear regression to produce an accurate estimate. Generally, more flexible methods result in less bias.

As a general rule, as we use more flexible methods, the variance will increase and the bias will decrease. The relative rate of change of these two quantities determines whether the test MSE increases or decreases. As we increase the flexibility of a class of methods, the bias tends to initially decrease faster than the variance increases. Consequently, the expected test MSE declines. However, at some point increasing flexibility has little impact on the bias but starts to significantly increase the variance. When this happens the test MSE increases. Note that we observed this pattern of decreasing test MSE followed by increasing test MSE in the right-hand panels of Figures 2.9–2.11.

The three plots in Figure 2.12 illustrate Equation 2.7 for the examples in Figures 2.9–2.11. In each case the blue solid curve represents the squared bias, for different levels of flexibility, while the orange curve corresponds to the variance. The horizontal dashed line represents Var(ǫ), the irreducible error. Finally, the red curve, corresponding to the test set MSE, is the sum of these three quantities. In all three cases, the variance increases and the bias decreases as the method’s flexibility increases. However, the flexibility level corresponding to the optimal test MSE differs considerably among the three data sets, because the squared bias and variance change at different rates in each of the data sets. In the left-hand panel of Figure 2.12, the bias initially decreases rapidly, resulting in an initial sharp decrease in the expected test MSE. On the other hand, in the center panel of Figure 2.12 the true f is close to linear, so there is only a small decrease in bias as flex ibility increases, and the test MSE only declines slightly before increasing rapidly as the variance increases. Finally, in the right-hand panel of Fig ure 2.12, as flexibility increases, there is a dramatic decline in bias because

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MSE Bias Var

FIGURE 2.12. Squared bias (blue curve), variance (orange curve), Var(ǫ) (dashed line), and test MSE (red curve) for the three data sets in Figures 2.9–2.11. The vertical dotted line indicates the flexibility level corresponding to the smallest test MSE.

the true f is very non-linear. There is also very little increase in variance as flexibility increases. Consequently, the test MSE declines substantially before experiencing a small increase as model flexibility increases.

The relationship between bias, variance, and test set MSE given in Equa tion 2.7 and displayed in Figure 2.12 is referred to as the bias-variance trade-off. Good test set performance of a statistical learning method re bias-variance quires low variance as well as low squared bias. This is referred to as a trade-off trade-off because it is easy to obtain a method with extremely low bias but high variance (for instance, by drawing a curve that passes through every single training observation) or a method with very low variance but high bias (by fitting a horizontal line to the data). The challenge lies in finding a method for which both the variance and the squared bias are low. This trade-off is one of the most important recurring themes in this book.

In a real-life situation in which f is unobserved, it is generally not pos sible to explicitly compute the test MSE, bias, or variance for a statistical learning method. Nevertheless, one should always keep the bias-variance trade-off in mind. In this book we explore methods that are extremely flexible and hence can essentially eliminate bias. However, this does not guarantee that they will outperform a much simpler method such as linear regression. To take an extreme example, suppose that the true f is linear. In this situation linear regression will have no bias, making it very hard for a more flexible method to compete. In contrast, if the true f is highly non-linear and we have an ample number of training observations, then we may do better using a highly flexible approach, as in Figure 2.11. In Chapter 5 we discuss cross-validation, which is a way to estimate the test MSE using the training data.

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2.2.3 The Classification Setting

Thus far, our discussion of model accuracy has been focused on the regres sion setting. But many of the concepts that we have encountered, such as the bias-variance trade-off, transfer over to the classification setting with only some modifications due to the fact that yiis no longer numer ical. Suppose that we seek to estimate f on the basis of training obser vations {(x1, y1),...,(xn, yn)}, where now y1,...,yn are qualitative. The most common approach for quantifying the accuracy of our estimate ˆf is the training error rate, the proportion of mistakes that are made if we applyerror rate

our estimate ˆf to the training observations:

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n

n i=1

I(yi  = ˆyi). (2.8)

Here ˆyiis the predicted class label for the ith observation using ˆf. And I(yi  = ˆyi) is an indicator variable that equals 1 if yi  = ˆyi and zero if yi = ˆyi.indicator If I(yi  = ˆyi) = 0 then the ith observation was classified correctly by our variable classification method; otherwise it was misclassified. Hence Equation 2.8 computes the fraction of incorrect classifications.

Equation 2.8 is referred to as the training error rate because it is com- training puted based on the data that was used to train our classifier. As in the error regression setting, we are most interested in the error rates that result from applying our classifier to test observations that were not used in training. The test error rate associated with a set of test observations of the form test error (x0, y0) is given by

Ave (I(y0  = ˆy0)), (2.9)

where ˆy0 is the predicted class label that results from applying the classifier to the test observation with predictor x0. A good classifier is one for which the test error (2.9) is smallest.

The Bayes Classifier

It is possible to show (though the proof is outside of the scope of this book) that the test error rate given in (2.9) is minimized, on average, by a very simple classifier that assigns each observation to the most likely class, given its predictor values. In other words, we should simply assign a test observation with predictor vector x0 to the class j for which

Pr(Y = j|X = x0) (2.10)

is largest. Note that (2.10) is a conditional probability: it is the probability conditional that Y = j, given the observed predictor vector x0. This very simple clas- probability sifier is called the Bayes classifier. In a two-class problem where there areBayes only two possible response values, say class 1 or class 2, the Bayes classifier classifier

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FIGURE 2.13. A simulated data set consisting of 100 observations in each of two groups, indicated in blue and in orange. The purple dashed line represents the Bayes decision boundary. The orange background grid indicates the region in which a test observation will be assigned to the orange class, and the blue background grid indicates the region in which a test observation will be assigned to the blue class.

corresponds to predicting class one if Pr(Y = 1|X = x0) > 0.5, and class two otherwise.

Figure 2.13 provides an example using a simulated data set in a two dimensional space consisting of predictors X1 and X2. The orange and blue circles correspond to training observations that belong to two different classes. For each value of X1 and X2, there is a different probability of the response being orange or blue. Since this is simulated data, we know how the data were generated and we can calculate the conditional probabilities for each value of X1 and X2. The orange shaded region reflects the set of points for which Pr(Y = orange|X) is greater than 50 %, while the blue shaded region indicates the set of points for which the probability is below 50 %. The purple dashed line represents the points where the probability is exactly 50 %. This is called the Bayes decision boundary. The BayesBayes

classifier’s prediction is determined by the Bayes decision boundary; an observation that falls on the orange side of the boundary will be assigned to the orange class, and similarly an observation on the blue side of the boundary will be assigned to the blue class.

The Bayes classifier produces the lowest possible test error rate, called

decision boundary

the Bayes error rate. Since the Bayes classifier will always choose the class Bayes error for which (2.10) is largest, the error rate at X = x0 will be 1−maxj Pr(Y = rate j|X = x0). In general, the overall Bayes error rate is given by

1 − E

max

jPr(Y = j|X)

, (2.11)

2.2 Assessing Model Accuracy 39

where the expectation averages the probability over all possible values of X. For our simulated data, the Bayes error rate is 0.1304. It is greater than zero, because the classes overlap in the true population so maxj Pr(Y = j|X = x0) < 1 for some values of x0. The Bayes error rate is analogous to the irreducible error, discussed earlier.

K-Nearest Neighbors

In theory we would always like to predict qualitative responses using the Bayes classifier. But for real data, we do not know the conditional distri bution of Y given X, and so computing the Bayes classifier is impossi ble. Therefore, the Bayes classifier serves as an unattainable gold standard against which to compare other methods. Many approaches attempt to estimate the conditional distribution of Y given X, and then classify a given observation to the class with highest estimated probability. One such method is the K-nearest neighbors (KNN) classifier. Given a positive in- K-nearest

teger K and a test observation x0, the KNN classifier first identifies the neighbors K points in the training data that are closest to x0, represented by N0. It then estimates the conditional probability for class j as the fraction of points in N0 whose response values equal j:

Pr(Y = j|X = x0) = 1K i∈N0

I(yi = j). (2.12)

Finally, KNN applies Bayes rule and classifies the test observation x0 to the class with the largest probability.

Figure 2.14 provides an illustrative example of the KNN approach. In the left-hand panel, we have plotted a small training data set consisting of six blue and six orange observations. Our goal is to make a prediction for the point labeled by the black cross. Suppose that we choose K = 3. Then KNN will first identify the three observations that are closest to the cross. This neighborhood is shown as a circle. It consists of two blue points and one orange point, resulting in estimated probabilities of 2/3 for the blue class and 1/3 for the orange class. Hence KNN will predict that the black cross belongs to the blue class. In the right-hand panel of Figure 2.14 we have applied the KNN approach with K = 3 at all of the possible values for X1 and X2, and have drawn in the corresponding KNN decision boundary.

Despite the fact that it is a very simple approach, KNN can often pro duce classifiers that are surprisingly close to the optimal Bayes classifier. Figure 2.15 displays the KNN decision boundary, using K = 10, when ap plied to the larger simulated data set from Figure 2.13. Notice that even though the true distribution is not known by the KNN classifier, the KNN decision boundary is very close to that of the Bayes classifier. The test error rate using KNN is 0.1363, which is close to the Bayes error rate of 0.1304.

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FIGURE 2.14. The KNN approach, using K = 3, is illustrated in a simple situation with six blue observations and six orange observations. Left: a test ob servation at which a predicted class label is desired is shown as a black cross. The three closest points to the test observation are identified, and it is predicted that the test observation belongs to the most commonly-occurring class, in this case blue. Right: The KNN decision boundary for this example is shown in black. The blue grid indicates the region in which a test observation will be assigned to the blue class, and the orange grid indicates the region in which it will be assigned to the orange class.

The choice of K has a drastic effect on the KNN classifier obtained. Figure 2.16 displays two KNN fits to the simulated data from Figure 2.13, using K = 1 and K = 100. When K = 1, the decision boundary is overly flexible and finds patterns in the data that don’t correspond to the Bayes decision boundary. This corresponds to a classifier that has low bias but very high variance. As K grows, the method becomes less flexible and produces a decision boundary that is close to linear. This corresponds to a low-variance but high-bias classifier. On this simulated data set, neither K = 1 nor K = 100 give good predictions: they have test error rates of 0.1695 and 0.1925, respectively.

Just as in the regression setting, there is not a strong relationship be tween the training error rate and the test error rate. With K = 1, the KNN training error rate is 0, but the test error rate may be quite high. In general, as we use more flexible classification methods, the training error rate will decline but the test error rate may not. In Figure 2.17, we have plotted the KNN test and training errors as a function of 1/K. As 1/K in creases, the method becomes more flexible. As in the regression setting, the training error rate consistently declines as the flexibility increases. However, the test error exhibits a characteristic U-shape, declining at first (with a minimum at approximately K = 10) before increasing again when the method becomes excessively flexible and overfits.

2.2 Assessing Model Accuracy 41 KNN: K=10

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FIGURE 2.15. The black curve indicates the KNN decision boundary on the data from Figure 2.13, using K = 10. The Bayes decision boundary is shown as a purple dashed line. The KNN and Bayes decision boundaries are very similar.

KNN: K=1 KNN: K=100

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FIGURE 2.16. A comparison of the KNN decision boundaries (solid black curves) obtained using K = 1 and K = 100 on the data from Figure 2.13. With K = 1, the decision boundary is overly flexible, while with K = 100 it is not sufficiently flexible. The Bayes decision boundary is shown as a purple dashed line.

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Training Errors

Test Errors

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FIGURE 2.17. The KNN training error rate (blue, 200 observations) and test error rate (orange, 5,000 observations) on the data from Figure 2.13, as the level of flexibility (assessed using 1/K) increases, or equivalently as the number of neighbors K decreases. The black dashed line indicates the Bayes error rate. The jumpiness of the curves is due to the small size of the training data set.

In both the regression and classification settings, choosing the correct level of flexibility is critical to the success of any statistical learning method. The bias-variance tradeoff, and the resulting U-shape in the test error, can make this a difficult task. In Chapter 5, we return to this topic and discuss various methods for estimating test error rates and thereby choosing the optimal level of flexibility for a given statistical learning method.

2.3 Lab: Introduction to R

In this lab, we will introduce some simple R commands. The best way to learn a new language is to try out the commands. R can be downloaded from

http://cran.r-project.org/

2.3.1 Basic Commands

R uses functions to perform operations. To run a function called funcname,function we type funcname(input1, input2), where the inputs (or arguments) input1argument

2.3 Lab: Introduction to R 43

and input2 tell R how to run the function. A function can have any number of inputs. For example, to create a vector of numbers, we use the function c() (for concatenate). Any numbers inside the parentheses are joined to- c() gether. The following command instructs R to join together the numbers 1, 3, 2, and 5, and to save them as a vector named x. When we type x, itvector gives us back the vector.

> x <- c(1,3,2,5)

> x

[1] 1 3 2 5

Note that the > is not part of the command; rather, it is printed by R to indicate that it is ready for another command to be entered. We can also save things using = rather than <-:

> x = c(1,6,2)

> x

[1] 1 6 2

> y = c(1,4,3)

Hitting the up arrow multiple times will display the previous commands, which can then be edited. This is useful since one often wishes to repeat a similar command. In addition, typing ?funcname will always cause R to open a new help file window with additional information about the function funcname.

We can tell R to add two sets of numbers together. It will then add the first number from x to the first number from y, and so on. However, x and y should be the same length. We can check their length using the length() length() function.

> length(x)

[1] 3

> length(y)

[1] 3

> x+y

[1] 2 10 5

The ls() function allows us to look at a list of all of the objects, suchls() as data and functions, that we have saved so far. The rm() function can be rm() used to delete any that we don’t want.

> ls()

[1] "x" "y"

> rm(x,y)

> ls()

character (0)

It’s also possible to remove all objects at once:

> rm(list=ls())

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The matrix() function can be used to create a matrix of numbers. Beforematrix() we use the matrix() function, we can learn more about it: > ?matrix

The help file reveals that the matrix() function takes a number of inputs, but for now we focus on the first three: the data (the entries in the matrix), the number of rows, and the number of columns. First, we create a simple matrix.

> x=matrix(data=c(1,2,3,4), nrow=2, ncol=2)

> x

[,1] [,2]

[1,] 1 3

[2,] 2 4

Note that we could just as well omit typing data=, nrow=, and ncol= in the matrix() command above: that is, we could just type

> x=matrix(c(1,2,3,4) ,2,2)

and this would have the same effect. However, it can sometimes be useful to specify the names of the arguments passed in, since otherwise R will assume that the function arguments are passed into the function in the same order that is given in the function’s help file. As this example illustrates, by default R creates matrices by successively filling in columns. Alternatively, the byrow=TRUE option can be used to populate the matrix in order of the rows.

> matrix (c(1,2,3,4) ,2,2,byrow=TRUE)

[,1] [,2]

[1,] 1 2

[2,] 3 4

Notice that in the above command we did not assign the matrix to a value such as x. In this case the matrix is printed to the screen but is not saved for future calculations. The sqrt() function returns the square root of eachsqrt() element of a vector or matrix. The command x^2 raises each element of x to the power 2; any powers are possible, including fractional or negative powers.

> sqrt(x)

[,1] [,2]

[1,] 1.00 1.73

[2,] 1.41 2.00

> x^2

[,1] [,2]

[1,] 1 9

[2,] 4 16

The rnorm() function generates a vector of random normal variables, rnorm() with first argument n the sample size. Each time we call this function, we will get a different answer. Here we create two correlated sets of numbers, x and y, and use the cor() function to compute the correlation between cor() them.

2.3 Lab: Introduction to R 45

> x=rnorm(50)

> y=x+rnorm(50,mean=50,sd=.1)

> cor(x,y)

[1] 0.995

By default, rnorm() creates standard normal random variables with a mean of 0 and a standard deviation of 1. However, the mean and standard devi ation can be altered using the mean and sd arguments, as illustrated above. Sometimes we want our code to reproduce the exact same set of random numbers; we can use the set.seed() function to do this. The set.seed() set.seed() function takes an (arbitrary) integer argument.

> set.seed(1303)

> rnorm(50)

[1] -1.1440 1.3421 2.1854 0.5364 0.0632 0.5022 -0.0004 ...

We use set.seed() throughout the labs whenever we perform calculations involving random quantities. In general this should allow the user to re produce our results. However, it should be noted that as new versions of R become available it is possible that some small discrepancies may form between the book and the output from R.

The mean() and var() functions can be used to compute the mean and mean() var() variance of a vector of numbers. Applying sqrt() to the output of var() will give the standard deviation. Or we can simply use the sd() function. sd() > set.seed(3)

> y=rnorm(100)

> mean(y)

[1] 0.0110

> var(y)

[1] 0.7329

> sqrt(var(y))

[1] 0.8561

> sd(y)

[1] 0.8561

2.3.2 Graphics

The plot() function is the primary way to plot data in R. For instance, plot() plot(x,y) produces a scatterplot of the numbers in x versus the numbers in y. There are many additional options that can be passed in to the plot() function. For example, passing in the argument xlab will result in a label on the x-axis. To find out more information about the plot() function, type ?plot.

> x=rnorm(100)

> y=rnorm(100)

> plot(x,y)

> plot(x,y,xlab="this is the x-axis",ylab="this is the y-axis", main="Plot of X vs Y")

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We will often want to save the output of an R plot. The command that we use to do this will depend on the file type that we would like to create. For instance, to create a pdf, we use the pdf() function, and to create a jpeg, pdf() we use the jpeg() function.jpeg() > pdf("Figure.pdf")

> plot(x,y,col="green")

> dev.off()

null device

1

The function dev.off() indicates to R that we are done creating the plot. dev.off() Alternatively, we can simply copy the plot window and paste it into an appropriate file type, such as a Word document.

The function seq() can be used to create a sequence of numbers. For seq() instance, seq(a,b) makes a vector of integers between a and b. There are many other options: for instance, seq(0,1,length=10) makes a sequence of 10 numbers that are equally spaced between 0 and 1. Typing 3:11 is a shorthand for seq(3,11) for integer arguments.

> x=seq(1,10)

> x

[1] 1 2 3 4 5 6 7 8 9 10

> x=1:10

> x

[1] 1 2 3 4 5 6 7 8 9 10

> x=seq(-pi,pi,length =50)

We will now create some more sophisticated plots. The contour() func- contour() tion produces a contour plot in order to represent three-dimensional data;contour plot it is like a topographical map. It takes three arguments:

1. A vector of the x values (the first dimension),

2. A vector of the y values (the second dimension), and

3. A matrix whose elements correspond to the z value (the third dimen sion) for each pair of (x,y) coordinates.

As with the plot() function, there are many other inputs that can be used to fine-tune the output of the contour() function. To learn more about these, take a look at the help file by typing ?contour.

> y=x

> f=outer(x,y,function (x,y)cos(y)/(1+x^2))

> contour(x,y,f)

> contour (x,y,f,nlevels =45,add=T)

> fa=(f-t(f))/2

> contour (x,y,fa,nlevels =15)

The image() function works the same way as contour(), except that itimage() produces a color-coded plot whose colors depend on the z value. This is

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known as a heatmap, and is sometimes used to plot temperature in weatherheatmap forecasts. Alternatively, persp() can be used to produce a three-dimensional persp() plot. The arguments theta and phi control the angles at which the plot is viewed.

> image(x,y,fa)

> persp(x,y,fa)

> persp(x,y,fa,theta =30)

> persp(x,y,fa,theta =30,phi =20)

> persp(x,y,fa,theta =30,phi =70)

> persp(x,y,fa,theta =30,phi =40)

2.3.3 Indexing Data

We often wish to examine part of a set of data. Suppose that our data is stored in the matrix A.

> A=matrix (1:16,4,4)

> A

[,1] [,2] [,3] [,4]

[1,] 1 5 9 13

[2,] 2 6 10 14

[3,] 3 7 11 15

[4,] 4 8 12 16

Then, typing

> A[2,3]

[1] 10

will select the element corresponding to the second row and the third col umn. The first number after the open-bracket symbol [ always refers to the row, and the second number always refers to the column. We can also select multiple rows and columns at a time, by providing vectors as the indices.

> A[c(1,3),c(2,4)]

[,1] [,2]

[1,] 5 13

[2,] 7 15

> A[1:3,2:4]

[,1] [,2] [,3]

[1,] 5 9 13

[2,] 6 10 14

[3,] 7 11 15

> A[1:2,]

[,1] [,2] [,3] [,4]

[1,] 1 5 9 13

[2,] 2 6 10 14

> A[,1:2]

[,1] [,2]

[1,] 1 5

[2,] 2 6

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[3,] 3 7

[4,] 4 8

The last two examples include either no index for the columns or no index for the rows. These indicate that R should include all columns or all rows, respectively. R treats a single row or column of a matrix as a vector.

> A[1,]

[1] 1 5 9 13

The use of a negative sign - in the index tells R to keep all rows or columns except those indicated in the index.

> A[-c(1,3) ,]

[,1] [,2] [,3] [,4]

[1,] 2 6 10 14

[2,] 4 8 12 16

> A[-c(1,3) ,-c(1,3,4)]

[1] 6 8

The dim() function outputs the number of rows followed by the number of dim() columns of a given matrix.

> dim(A)

[1] 4 4

2.3.4 Loading Data

For most analyses, the first step involves importing a data set into R. The read.table() function is one of the primary ways to do this. The help file read.table() contains details about how to use this function. We can use the function write.table() to export data. write.

Before attempting to load a data set, we must make sure that table() R knows to search for the data in the proper directory. For example on a Windows system one could select the directory using the Change dir... option under the File menu. However, the details of how to do this depend on the op erating system (e.g. Windows, Mac, Unix) that is being used, and so we do not give further details here. We begin by loading in the Auto data set. This data is part of the ISLR library (we discuss libraries in Chapter 3) but to illustrate the read.table() function we load it now from a text file. The following command will load the Auto.data file into R and store it as an object called Auto, in a format referred to as a data frame. (The text file data frame can be obtained from this book’s website.) Once the data has been loaded, the fix() function can be used to view it in a spreadsheet like window. However, the window must be closed before further R commands can be entered.

> Auto=read.table("Auto.data")

> fix(Auto)

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Note that Auto.data is simply a text file, which you could alternatively open on your computer using a standard text editor. It is often a good idea to view a data set using a text editor or other software such as Excel before loading it into R.

This particular data set has not been loaded correctly, because R has assumed that the variable names are part of the data and so has included them in the first row. The data set also includes a number of missing observations, indicated by a question mark ?. Missing values are a common occurrence in real data sets. Using the option header=T (or header=TRUE) in the read.table() function tells R that the first line of the file contains the variable names, and using the option na.strings tells R that any time it sees a particular character or set of characters (such as a question mark), it should be treated as a missing element of the data matrix.

> Auto=read.table("Auto.data",header=T,na.strings ="?")

> fix(Auto)

Excel is a common-format data storage program. An easy way to load such data into R is to save it as a csv (comma separated value) file and then use the read.csv() function to load it in.

> Auto=read.csv("Auto.csv",header=T,na.strings ="?")

> fix(Auto)

> dim(Auto)

[1] 397 9

> Auto[1:4,]

The dim() function tells us that the data has 397 observations, or rows, and dim() nine variables, or columns. There are various ways to deal with the missing data. In this case, only five of the rows contain missing observations, and so we choose to use the na.omit() function to simply remove these rows. na.omit() > Auto=na.omit(Auto)

> dim(Auto)

[1] 392 9

Once the data are loaded correctly, we can use names() to check the names() variable names.

> names(Auto)

[1] "mpg" "cylinders " " displacement" " horsepower " [5] "weight" " acceleration" " year" "origin" [9] "name"

2.3.5 Additional Graphical and Numerical Summaries We can use the plot() function to produce scatterplots of the quantitative scatterplot variables. However, simply typing the variable names will produce an error message, because R does not know to look in the Auto data set for those variables.

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> plot(cylinders , mpg)

Error in plot(cylinders , mpg) : object ’cylinders ’ not found

To refer to a variable, we must type the data set and the variable name joined with a $ symbol. Alternatively, we can use the attach() function in attach() order to tell R to make the variables in this data frame available by name.

> plot(Auto$cylinders , Auto$mpg )

> attach(Auto)

> plot(cylinders , mpg)

The cylinders variable is stored as a numeric vector, so R has treated it as quantitative. However, since there are only a small number of possible values for cylinders, one may prefer to treat it as a qualitative variable. The as.factor() function converts quantitative variables into qualitative as.factor() variables.

> cylinders =as.factor(cylinders )

If the variable plotted on the x-axis is categorial, then boxplots will boxplot automatically be produced by the plot() function. As usual, a number of options can be specified in order to customize the plots.

> plot(cylinders , mpg)

> plot(cylinders , mpg , col ="red ")

> plot(cylinders , mpg , col ="red", varwidth =T)

> plot(cylinders , mpg , col ="red", varwidth =T,horizontal =T) > plot(cylinders , mpg , col ="red", varwidth =T, xlab="cylinders ", ylab="MPG")

The hist() function can be used to plot a histogram. Note that col=2 hist() histogram has the same effect as col="red". > hist(mpg)

> hist(mpg ,col =2)

> hist(mpg ,col=2, breaks =15)

The pairs() function creates a scatterplot matrix i.e. a scatterplot for every scatterplot pair of variables for any given data set. We can also produce scatterplots matrix for just a subset of the variables.

> pairs(Auto)

> pairs(∼ mpg + displacement + horsepower + weight +

acceleration , Auto)

In conjunction with the plot() function, identify() provides a useful identify() interactive method for identifying the value for a particular variable for points on a plot. We pass in three arguments to identify(): the x-axis variable, the y-axis variable, and the variable whose values we would like to see printed for each point. Then clicking on a given point in the plot will cause R to print the value of the variable of interest. Right-clicking on the plot will exit the identify() function (control-click on a Mac). The numbers printed under the identify() function correspond to the rows for the selected points.

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> plot(horsepower ,mpg)

> identify (horsepower ,mpg ,name)

The summary() function produces a numerical summary of each variable in summary() a particular data set.

> summary(Auto)

mpg cylinders displacement

Min. : 9.00 Min. :3.000 Min. : 68.0

1st Qu.:17.00 1st Qu.:4.000 1st Qu.:105.0

Median :22.75 Median :4.000 Median :151.0

Mean :23.45 Mean :5.472 Mean :194.4

3rd Qu.:29.00 3rd Qu.:8.000 3rd Qu.:275.8

Max. :46.60 Max. :8.000 Max. :455.0

horsepower weight acceleration

Min. : 46.0 Min. :1613 Min. : 8.00

1st Qu.: 75.0 1st Qu.:2225 1st Qu.:13.78

Median : 93.5 Median :2804 Median :15.50

Mean :104.5 Mean :2978 Mean :15.54

3rd Qu.:126.0 3rd Qu.:3615 3rd Qu.:17.02

Max. :230.0 Max. :5140 Max. :24.80

year origin name

Min. :70.00 Min. :1.000 amc matador : 5

1st Qu.:73.00 1st Qu.:1.000 ford pinto : 5

Median :76.00 Median :1.000 toyota corolla : 5

Mean :75.98 Mean :1.577 amc gremlin : 4

3rd Qu.:79.00 3rd Qu.:2.000 amc hornet : 4

Max. :82.00 Max. :3.000 chevrolet chevette : 4

(Other) :365

For qualitative variables such as name, R will list the number of observations that fall in each category. We can also produce a summary of just a single variable.

> summary (mpg)

Min. 1st Qu. Median Mean 3rd Qu. Max.

9.00 17.00 22.75 23.45 29.00 46.60

Once we have finished using R, we type q() in order to shut it down, or q() quit. When exiting R, we have the option to save the current workspace soworkspace that all objects (such as data sets) that we have created in this R session will be available next time. Before exiting R, we may want to save a record of all of the commands that we typed in the most recent session; this can be accomplished using the savehistory() function. Next time we enter R,savehistory() we can load that history using the loadhistory() function.loadhistory()

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2.4 Exercises

Conceptual

1. For each of parts (a) through (d), indicate whether we would generally expect the performance of a flexible statistical learning method to be better or worse than an inflexible method. Justify your answer.

(a) The sample size n is extremely large, and the number of predic tors p is small.

(b) The number of predictors p is extremely large, and the number of observations n is small.

(c) The relationship between the predictors and response is highly non-linear.

(d) The variance of the error terms, i.e. σ2 = Var(ǫ), is extremely high.

2. Explain whether each scenario is a classification or regression prob lem, and indicate whether we are most interested in inference or pre diction. Finally, provide n and p.

(a) We collect a set of data on the top 500 firms in the US. For each firm we record profit, number of employees, industry and the CEO salary. We are interested in understanding which factors affect CEO salary.

(b) We are considering launching a new product and wish to know whether it will be a success or a failure. We collect data on 20 similar products that were previously launched. For each prod uct we have recorded whether it was a success or failure, price charged for the product, marketing budget, competition price, and ten other variables.

(c) We are interest in predicting the % change in the USD/Euro ed exchange rate in relation to the weekly changes in the world stock markets. Hence we collect weekly data for all of 2012. For each week we record the % change in the USD/Euro, the % change in the US market, the % change in the British market, and the % change in the German market.

3. We now revisit the bias-variance decomposition.

(a) Provide a sketch of typical (squared) bias, variance, training er ror, test error, and Bayes (or irreducible) error curves, on a sin gle plot, as we go from less flexible statistical learning methods towards more flexible approaches. The x-axis should represent

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the amount of flexibility in the method, and the y-axis should represent the values for each curve. There should be five curves. Make sure to label each one.

(b) Explain why each of the five curves has the shape displayed in part (a).

4. You will now think of some real-life applications for statistical learn ing.

(a) Describe three real-life applications in which classification might be useful. Describe the response, as well as the predictors. Is the goal of each application inference or prediction? Explain your answer.

(b) Describe three real-life applications in which regression might be useful. Describe the response, as well as the predictors. Is the goal of each application inference or prediction? Explain your answer.

(c) Describe three real-life applications in which cluster analysis might be useful.

5. What are the advantages and disadvantages of a very flexible (versus a less flexible) approach for regression or classification? Under what circumstances might a more flexible approach be preferred to a less flexible approach? When might a less flexible approach be preferred?

6. Describe the differences between a parametric and a non-parametric statistical learning approach. What are the advantages of a para metric approach to regression or classification (as opposed to a non parametric approach)? What are its disadvantages?

7. The table below provides a training data set containing six observa tions, three predictors, and one qualitative response variable.

Obs. X1 X2 X3 Y

1 0 3 0Red

2 2 0 0Red

3 0 1 3Red

4 0 1 2Green

5 −1 0 1 Green

6 1 1 1Red

Suppose we wish to use this data set to make a prediction for Y when X1 = X2 = X3 = 0 using K-nearest neighbors.

(a) Compute the Euclidean distance between each observation and the test point, X1 = X2 = X3 = 0.

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(b) What is our prediction with K = 1? Why?

(c) What is our prediction with K = 3? Why?

(d) If the Bayes decision boundary in this problem is highly non linear, then would we expect the best value for K to be large or small? Why?

Applied

8. This exercise relates to the College data set, which can be found in the file College.csv. It contains a number of variables for 777 different universities and colleges in the US. The variables are

• Private : Public/private indicator

• Apps : Number of applications received

• Accept : Number of applicants accepted

• Enroll : Number of new students enrolled

• Top10perc : New students from top 10 % of high school class • Top25perc : New students from top 25 % of high school class • F.Undergrad : Number of full-time undergraduates

• P.Undergrad : Number of part-time undergraduates

• Outstate : Out-of-state tuition

• Room.Board : Room and board costs

• Books : Estimated book costs

• Personal : Estimated personal spending

• PhD : Percent of faculty with Ph.D.’s

• Terminal : Percent of faculty with terminal degree

• S.F.Ratio : Student/faculty ratio

• perc.alumni : Percent of alumni who donate

• Expend : Instructional expenditure per student

• Grad.Rate : Graduation rate

Before reading the data into R, it can be viewed in Excel or a text editor.

(a) Use the read.csv() function to read the data into R. Call the loaded data college. Make sure that you have the directory set to the correct location for the data.

(b) Look at the data using the fix() function. You should notice that the first column is just the name of each university. We don’t really want R to treat this as data. However, it may be handy to have these names for later. Try the following commands:

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> rownames (college )=college [,1]

> fix(college)

You should see that there is now a row.names column with the name of each university recorded. This means that R has given each row a name corresponding to the appropriate university. R will not try to perform calculations on the row names. However, we still need to eliminate the first column in the data where the names are stored. Try

> college =college [,-1]

> fix(college)

Now you should see that the first data column is Private. Note that another column labeled row.names now appears before the Private column. However, this is not a data column but rather the name that R is giving to each row.

(c) i. Use the summary() function to produce a numerical summary of the variables in the data set.

ii. Use the pairs() function to produce a scatterplot matrix of the first ten columns or variables of the data. Recall that you can reference the first ten columns of a matrix A using A[,1:10].

iii. Use the plot() function to produce side-by-side boxplots of Outstate versus Private.

iv. Create a new qualitative variable, called Elite, by binning the Top10perc variable. We are going to divide universities into two groups based on whether or not the proportion of students coming from the top 10 % of their high school classes exceeds 50 %.

> Elite=rep("No",nrow(college ))

> Elite[college$Top10perc >50]=" Yes"

> Elite=as.factor(Elite)

> college=data.frame(college , Elite)

Use the summary() function to see how many elite univer sities there are. Now use the plot() function to produce side-by-side boxplots of Outstate versus Elite.

v. Use the hist() function to produce some histograms with differing numbers of bins for a few of the quantitative vari ables. You may find the command par(mfrow=c(2,2)) useful: it will divide the print window into four regions so that four plots can be made simultaneously. Modifying the arguments to this function will divide the screen in other ways.

vi. Continue exploring the data, and provide a brief summary of what you discover.

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9. This exercise involves the Auto data set studied in the lab. Make sure that the missing values have been removed from the data.

(a) Which of the predictors are quantitative, and which are quali tative?

(b) What is the range of each quantitative predictor? You can an swer this using the range() function. range() (c) What is the mean and standard deviation of each quantitative predictor?

(d) Now remove the 10th through 85th observations. What is the range, mean, and standard deviation of each predictor in the subset of the data that remains?

(e) Using the full data set, investigate the predictors graphically, using scatterplots or other tools of your choice. Create some plots highlighting the relationships among the predictors. Comment on your findings.

(f) Suppose that we wish to predict gas mileage (mpg) on the basis of the other variables. Do your plots suggest that any of the other variables might be useful in predicting mpg? Justify your answer.

10. This exercise involves the Boston housing data set.

(a) To begin, load in the Boston data set. The Boston data set is part of the MASS library in R.

> library(MASS)

Now the data set is contained in the object Boston.

> Boston

Read about the data set:

> ?Boston

How many rows are in this data set? How many columns? What do the rows and columns represent?

(b) Make some pairwise scatterplots of the predictors (columns) in this data set. Describe your findings.

(c) Are any of the predictors associated with per capita crime rate? If so, explain the relationship.

(d) Do any of the suburbs of Boston appear to have particularly high crime rates? Tax rates? Pupil-teacher ratios? Comment on the range of each predictor.

(e) How many of the suburbs in this data set bound the Charles river?

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(f) What is the median pupil-teacher ratio among the towns in this data set?

(g) Which suburb of Boston has lowest median value of owner occupied homes? What are the values of the other predictors for that suburb, and how do those values compare to the overall ranges for those predictors? Comment on your findings.

(h) In this data set, how many of the suburbs average more than seven rooms per dwelling? More than eight rooms per dwelling? Comment on the suburbs that average more than eight rooms per dwelling.

3

Linear Regression

This chapter is about linear regression, a very simple approach for supervised learning. In particular, linear regression is a useful tool for pre dicting a quantitative response. Linear regression has been around for a long time and is the topic of innumerable textbooks. Though it may seem somewhat dull compared to some of the more modern statistical learning approaches described in later chapters of this book, linear regression is still a useful and widely used statistical learning method. Moreover, it serves as a good jumping-off point for newer approaches: as we will see in later chapters, many fancy statistical learning approaches can be seen as gener alizations or extensions of linear regression. Consequently, the importance of having a good understanding of linear regression before studying more complex learning methods cannot be overstated. In this chapter, we review some of the key ideas underlying the linear regression model, as well as the least squares approach that is most commonly used to fit this model.

Recall the Advertising data from Chapter 2. Figure 2.1 displays sales (in thousands of units) for a particular product as a function of advertis ing budgets (in thousands of dollars) for TV, radio, and newspaper media. Suppose that in our role as statistical consultants we are asked to suggest, on the basis of this data, a marketing plan for next year that will result in high product sales. What information would be useful in order to provide such a recommendation? Here are a few important questions that we might seek to address:

1. Is there a relationship between advertising budget and sales? Our first goal should be to determine whether the data provide

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evidence of an association between advertising expenditure and sales. If the evidence is weak, then one might argue that no money should be spent on advertising!

2. How strong is the relationship between advertising budget and sales? Assuming that there is a relationship between advertising and sales, we would like to know the strength of this relationship. In other words, given a certain advertising budget, can we predict sales with a high level of accuracy? This would be a strong relationship. Or is a prediction of sales based on advertising expenditure only slightly better than a random guess? This would be a weak relationship.

3. Which media contribute to sales?

Do all three media—TV, radio, and newspaper—contribute to sales, or do just one or two of the media contribute? To answer this question, we must find a way to separate out the individual effects of each medium when we have spent money on all three media.

4. How accurately can we estimate the effect of each medium on sales? For every dollar spent on advertising in a particular medium, by what amount will sales increase? How accurately can we predict this amount of increase?

5. How accurately can we predict future sales?

For any given level of television, radio, or newspaper advertising, what is our prediction for sales, and what is the accuracy of this prediction?

6. Is the relationship linear?

If there is approximately a straight-line relationship between advertis ing expenditure in the various media and sales, then linear regression is an appropriate tool. If not, then it may still be possible to trans form the predictor or the response so that linear regression can be used.

7. Is there synergy among the advertising media?

Perhaps spending $50,000 on television advertising and $50,000 on radio advertising results in more sales than allocating $100,000 to either television or radio individually. In marketing, this is known as a synergy effect, while in statistics it is called an interaction effect. synergy

interaction

It turns out that linear regression can be used to answer each of these questions. We will first discuss all of these questions in a general context, and then return to them in this specific context in Section 3.4.

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3.1 Simple Linear Regression

Simple linear regression lives up to its name: it is a very straightforward simple linear approach for predicting a quantitative response Y on the basis of a sin- regression gle predictor variable X. It assumes that there is approximately a linear relationship between X and Y . Mathematically, we can write this linear relationship as

Y ≈ β0 + β1X. (3.1)

You might read “≈” as “is approximately modeled as”. We will sometimes describe (3.1) by saying that we are regressing Y on X (or Y onto X). For example, X may represent TV advertising and Y may represent sales. Then we can regress sales onto TV by fitting the model

sales ≈ β0 + β1 × TV.

In Equation 3.1, β0 and β1 are two unknown constants that represent the intercept and slope terms in the linear model. Together, β0 and β1 are intercept slope known as the model coefficients or parameters. Once we have used our

training data to produce estimates βˆ0 and βˆ1 for the model coefficients, we can predict future sales on the basis of a particular value of TV advertising by computing

yˆ = βˆ0 + βˆ1x, (3.2)

where ˆy indicates a prediction of Y on the basis of X = x. Here we use a hat symbol, ˆ , to denote the estimated value for an unknown parameter or coefficient, or to denote the predicted value of the response.

3.1.1 Estimating the Coefficients

In practice, β0 and β1 are unknown. So before we can use (3.1) to make predictions, we must use data to estimate the coefficients. Let

(x1, y1), (x2, y2),..., (xn, yn)

represent n observation pairs, each of which consists of a measurement of X and a measurement of Y . In the Advertising example, this data set consists of the TV advertising budget and product sales in n = 200 different markets. (Recall that the data are displayed in Figure 2.1.) Our goal is to obtain coefficient estimates βˆ0 and βˆ1 such that the linear model (3.1) fits the available data well—that is, so that yi ≈ βˆ0 + βˆ1xi for i = 1,...,n. In other words, we want to find an intercept βˆ0 and a slope βˆ1 such that the resulting line is as close as possible to the n = 200 data points. There are a number of ways of measuring closeness. However, by far the

coefficient parameter

most common approach involves minimizing the least squares criterion, least squares and we take that approach in this chapter. Alternative approaches will be considered in Chapter 6.

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20

s

e

l

a

S

15

10

5

0 50 100 150 200 250 300 TV

FIGURE 3.1. For the Advertising data, the least squares fit for the regression of sales onto TV is shown. The fit is found by minimizing the sum of squared errors. Each grey line segment represents an error, and the fit makes a compro mise by averaging their squares. In this case a linear fit captures the essence of the relationship, although it is somewhat deficient in the left of the plot.

Let ˆyi = βˆ0 + βˆ1xi be the prediction for Y based on the ith value of X. Then ei = yi −yˆi represents the ith residual—this is the difference between residual the ith observed response value and the ith response value that is predicted by our linear model. We define the residual sum of squares (RSS) as residual sum

RSS = e21 + e22 + ··· + e2n,

or equivalently as

RSS = (y1 −βˆ0−βˆ1x1)2 + (y2 −βˆ0−βˆ1x2)2 +...+ (yn−βˆ0−βˆ1xn)2. (3.3)

The least squares approach chooses βˆ0 and βˆ1 to minimize the RSS. Using some calculus, one can show that the minimizers are

of squares

βˆ1 =

n

i=1(xi − x¯)(yi − y¯)

i=1(xi − x¯)2, ~~n~~

(3.4)

βˆ0 = ¯y − βˆ1x, ¯

where ¯y ≡1nni=1 yi and ¯x ≡1nni=1 xi are the sample means. In other words, (3.4) defines the least squares coefficient estimates for simple linear regression.

Figure 3.1 displays the simple linear regression fit to the Advertising data, where βˆ0 = 7.03 and βˆ1 = 0.0475. In other words, according to

1

β

6  0.0

5

0.0

4

0.0

3

0

.

0

3 3

2.5 2.15

2.2 2.3

3  3

R

S

S

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β1

β0

56789

β0

FIGURE 3.2. Contour and three-dimensional plots of the RSS on the Advertising data, using sales as the response and TV as the predictor. The red dots correspond to the least squares estimates βˆ0 and βˆ1, given by (3.4).

this approximation, an additional $1,000 spent on TV advertising is asso ciated with selling approximately 47.5 additional units of the product. In Figure 3.2, we have computed RSS for a number of values of β0 and β1, using the advertising data with sales as the response and TV as the predic tor. In each plot, the red dot represents the pair of least squares estimates (βˆ0, βˆ1) given by (3.4). These values clearly minimize the RSS.

3.1.2 Assessing the Accuracy of the Coefficient Estimates

Recall from (2.1) that we assume that the true relationship between X and Y takes the form Y = f(X) + ǫ for some unknown function f, where ǫ is a mean-zero random error term. If f is to be approximated by a linear function, then we can write this relationship as

Y = β0 + β1X + ǫ. (3.5)

Here β0 is the intercept term—that is, the expected value of Y when X = 0, and β1 is the slope—the average increase in Y associated with a one-unit increase in X. The error term is a catch-all for what we miss with this simple model: the true relationship is probably not linear, there may be other variables that cause variation in Y , and there may be measurement error. We typically assume that the error term is independent of X.

The model given by (3.5) defines the population regression line, which population

is the best linear approximation to the true relationship between X and Y .1 The least squares regression coefficient estimates (3.4) characterize the

regression line

least squares line (3.2). The left-hand panel of Figure 3.3 displays these least squares line

1The assumption of linearity is often a useful working model. However, despite what many textbooks might tell us, we seldom believe that the true relationship is linear.

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10

5

Y

0

−5

0

1

−

−2 −1 0 1 2 X

Y

10

5

0

−5

0

1

−

−2 −1 0 1 2 X

FIGURE 3.3. A simulated data set. Left: The red line represents the true rela tionship, f(X)=2+3X, which is known as the population regression line. The blue line is the least squares line; it is the least squares estimate for f(X) based on the observed data, shown in black. Right: The population regression line is again shown in red, and the least squares line in dark blue. In light blue, ten least squares lines are shown, each computed on the basis of a separate random set of observations. Each least squares line is different, but on average, the least squares lines are quite close to the population regression line.

two lines in a simple simulated example. We created 100 random Xs, and generated 100 corresponding Y s from the model

Y =2+3X + ǫ, (3.6)

where ǫ was generated from a normal distribution with mean zero. The red line in the left-hand panel of Figure 3.3 displays the true relationship, f(X) = 2+3X, while the blue line is the least squares estimate based on the observed data. The true relationship is generally not known for real data, but the least squares line can always be computed using the coefficient estimates given in (3.4). In other words, in real applications, we have access to a set of observations from which we can compute the least squares line; however, the population regression line is unobserved. In the right-hand panel of Figure 3.3 we have generated ten different data sets from the model given by (3.6) and plotted the corresponding ten least squares lines. Notice that different data sets generated from the same true model result in slightly different least squares lines, but the unobserved population regression line does not change.

At first glance, the difference between the population regression line and the least squares line may seem subtle and confusing. We only have one data set, and so what does it mean that two different lines describe the relationship between the predictor and the response? Fundamentally, the

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concept of these two lines is a natural extension of the standard statistical approach of using information from a sample to estimate characteristics of a large population. For example, suppose that we are interested in knowing the population mean μ of some random variable Y . Unfortunately, μ is unknown, but we do have access to n observations from Y , which we can write as y1,...,yn, and which we can use to estimate μ. A reasonable estimate is ˆμ = ¯y, where ¯y = 1nni=1 yiis the sample mean. The sample mean and the population mean are different, but in general the sample mean will provide a good estimate of the population mean. In the same way, the unknown coefficients β0 and β1 in linear regression define the population regression line. We seek to estimate these unknown coefficients using βˆ0 and βˆ1 given in (3.4). These coefficient estimates define the least squares line.

The analogy between linear regression and estimation of the mean of a random variable is an apt one based on the concept of bias. If we use thebias sample mean ˆμ to estimate μ, this estimate is unbiased, in the sense that unbiased on average, we expect ˆμ to equal μ. What exactly does this mean? It means that on the basis of one particular set of observations y1,...,yn, ˆμ might overestimate μ, and on the basis of another set of observations, ˆμ might underestimate μ. But if we could average a huge number of estimates of μ obtained from a huge number of sets of observations, then this average would exactly equal μ. Hence, an unbiased estimator does not systematically over- or under-estimate the true parameter. The property of unbiasedness holds for the least squares coefficient estimates given by (3.4) as well: if we estimate β0 and β1 on the basis of a particular data set, then our estimates won’t be exactly equal to β0 and β1. But if we could average the estimates obtained over a huge number of data sets, then the average of these estimates would be spot on! In fact, we can see from the right hand panel of Figure 3.3 that the average of many least squares lines, each estimated from a separate data set, is pretty close to the true population regression line.

We continue the analogy with the estimation of the population mean μ of a random variable Y . A natural question is as follows: how accurate is the sample mean ˆμ as an estimate of μ? We have established that the average of ˆμ’s over many data sets will be very close to μ, but that a single estimate ˆμ may be a substantial underestimate or overestimate of μ. How far off will that single estimate of ˆμ be? In general, we answer this question by computing the standard error of ˆμ, written as SE(ˆμ). We have standard

the well-known formula error Var(ˆμ) = SE(ˆμ)2 =σ2n, (3.7)

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where σ is the standard deviation of each of the realizations yi of Y .2 Roughly speaking, the standard error tells us the average amount that this estimate ˆμ differs from the actual value of μ. Equation 3.7 also tells us how this deviation shrinks with n—the more observations we have, the smaller the standard error of ˆμ. In a similar vein, we can wonder how close βˆ0 and βˆ1 are to the true values β0 and β1. To compute the standard errors associated with βˆ0 and βˆ1, we use the following formulas:

SE(βˆ0)2= σ2 1n+x¯2

, SE(βˆ1)2=σ2

~~n~~

i=1(xi − x¯)2

i=1(xi − x¯)2, (3.8) ~~n~~

where σ2 = Var(ǫ). For these formulas to be strictly valid, we need to as sume that the errors ǫi for each observation are uncorrelated with common variance σ2. This is clearly not true in Figure 3.1, but the formula still turns out to be a good approximation. Notice in the formula that SE(βˆ1) is smaller when the xi are more spread out; intuitively we have more leverage to estimate a slope when this is the case. We also see that SE(βˆ0) would be the same as SE(ˆμ) if ¯x were zero (in which case βˆ0 would be equal to ¯y). In general, σ2is not known, but can be estimated from the data. The estimate of σ is known as the residual standard error, and is given by the formula residual

RSE = RSS/(n − 2). Strictly speaking, when σ2is estimated from the data we should write SE( βˆ1) to indicate that an estimate has been made, but for simplicity of notation we will drop this extra “hat”.

standard error

Standard errors can be used to compute confidence intervals. A 95 % confidence confidence interval is defined as a range of values such that with 95 % interval probability, the range will contain the true unknown value of the parameter. The range is defined in terms of lower and upper limits computed from the sample of data. For linear regression, the 95 % confidence interval for β1 approximately takes the form

βˆ1 ± 2 · SE(βˆ1). (3.9)

That is, there is approximately a 95 % chance that the interval

βˆ1 − 2 · SE(βˆ1), βˆ1 + 2 · SE(βˆ1)(3.10)

will contain the true value of β1.3 Similarly, a confidence interval for β0 approximately takes the form

βˆ0 ± 2 · SE(βˆ0). (3.11)

2This formula holds provided that the n observations are uncorrelated. 3Approximately for several reasons. Equation 3.10 relies on the assumption that the errors are Gaussian. Also, the factor of 2 in front of the SE(βˆ1) term will vary slightly depending on the number of observations n in the linear regression. To be precise, rather than the number 2, (3.10) should contain the 97.5 % quantile of a t-distribution with n−2 degrees of freedom. Details of how to compute the 95 % confidence interval precisely in R will be provided later in this chapter.

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In the case of the advertising data, the 95 % confidence interval for β0 is [6.130, 7.935] and the 95 % confidence interval for β1 is [0.042, 0.053]. Therefore, we can conclude that in the absence of any advertising, sales will, on average, fall somewhere between 6,130 and 7,940 units. Furthermore, for each $1,000 increase in television advertising, there will be an average increase in sales of between 42 and 53 units.

Standard errors can also be used to perform hypothesis tests on thehypothesis coefficients. The most common hypothesis test involves testing the null test hypothesis ofnull

H0 : There is no relationship between X and Y (3.12)

hypothesis

versus the alternative hypothesis alternative

Ha : There is some relationship between X and Y . (3.13) Mathematically, this corresponds to testing

H0 : β1 = 0

versus

Ha : β1  = 0,

since if β1 = 0 then the model (3.5) reduces to Y = β0 + ǫ, and X is not associated with Y . To test the null hypothesis, we need to determine whether βˆ1, our estimate for β1, is sufficiently far from zero that we can be confident that β1 is non-zero. How far is far enough? This of course depends on the accuracy of βˆ1—that is, it depends on SE(βˆ1). If SE(βˆ1) is small, then even relatively small values of βˆ1 may provide strong evidence that β1  = 0, and hence that there is a relationship between X and Y . In contrast, if SE(βˆ1) is large, then βˆ1 must be large in absolute value in order

hypothesis

for us to reject the null hypothesis. In practice, we compute a t-statistic,t-statistic

given by

t =βˆ1 − 0

SE(βˆ1), (3.14)

which measures the number of standard deviations that βˆ1 is away from 0. If there really is no relationship between X and Y , then we expect that (3.14) will have a t-distribution with n − 2 degrees of freedom. The t distribution has a bell shape and for values of n greater than approximately 30 it is quite similar to the normal distribution. Consequently, it is a simple matter to compute the probability of observing any number equal to |t| or larger in absolute value, assuming β1= 0. We call this probability the p-value.p-value

Roughly speaking, we interpret the p-value as follows: a small p-value indicates

that it is unlikely to observe such a substant

ial association between the pre

dictor and the response due to chance, in the absence of any real associationbetween the predictor and the response. Hence, if we see a small p-value,

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then we can infer that there is an association between the predictor and the response. We reject the null hypothesis—that is, we declare a relationship to exist between X and Y —if the p-value is small enough. Typical p-value cutoffs for rejecting the null hypothesis are 5 or 1 %. When n = 30, these correspond to t-statistics (3.14) of around 2 and 2.75, respectively.

Coefficient Std. error t-statistic p-value

Intercept 7.0325 0.4578 15.36 < 0.0001 TV 0.0475 0.0027 17.67 < 0.0001

TABLE 3.1. For the Advertising data, coefficients of the least squares model for the regression of number of units sold on TV advertising budget. An increase of $1,000 in the TV advertising budget is associated with an increase in sales by around 50 units (Recall that the sales variable is in thousands of units, and the TV variable is in thousands of dollars).

Table 3.1 provides details of the least squares model for the regression of number of units sold on TV advertising budget for the Advertising data. Notice that the coefficients for βˆ0 and βˆ1 are very large relative to their standard errors, so the t-statistics are also large; the probabilities of seeing such values if H0 is true are virtually zero. Hence we can conclude that β0  = 0 and β1  = 0.4

3.1.3 Assessing the Accuracy of the Model

Once we have rejected the null hypothesis (3.12) in favor of the alternative hypothesis (3.13), it is natural to want to quantify the extent to which the model fits the data. The quality of a linear regression fit is typically assessed using two related quantities: the residual standard error (RSE) and the R2R2

statistic.

Table 3.2 displays the RSE, the R2statistic, and the F-statistic (to be described in Section 3.2.2) for the linear regression of number of units sold on TV advertising budget.

Residual Standard Error

Recall from the model (3.5) that associated with each observation is an error term ǫ. Due to the presence of these error terms, even if we knew the true regression line (i.e. even if β0 and β1 were known), we would not be able to perfectly predict Y from X. The RSE is an estimate of the standard

4In Table 3.1, a small p-value for the intercept indicates that we can reject the null hypothesis that β0 = 0, and a small p-value for TV indicates that we can reject the null hypothesis that β1 = 0. Rejecting the latter null hypothesis allows us to conclude that there is a relationship between TV and sales. Rejecting the former allows us to conclude that in the absence of TV expenditure, sales are non-zero.