

Financial Machine Learning

Homework 7

Due at 07:00 pm (Korea Standard Time) on Sunday, October 2.

Submit one file: written solutions with executable Python code

Problem 1. Text book: Hands-on Machine Learning. Submit .ipynb file.

(a) Practice all the codes in the Text book Chapter 10. And show that they work well.

Problem 2. Following the below. Try to understand how neural networks work

<https://playground.tensorflow.org/>

1. The TensorFlow Playground is a handy neural network simulator built by the TensorFlow team. In this exercise, you will train several binary classifiers in just a few clicks, and tweak the model's architecture and its hyperparameters to gain some intuition on how neural networks work and what their hyperparameters do. Take some time to explore the following:

- ① The patterns learned by a neural net. Try training the default neural network by clicking the Run button (top left). Notice how it quickly finds a good solution for the classification task. The neurons in the first hidden layer have learned simple patterns, while the neurons in the second hidden layer have learned to combine the simple patterns of the first hidden layer into more complex patterns. In general, the more layers there are, the more complex the patterns can be.
- ② Activation functions. Try replacing the tanh activation function with a ReLU activation function, and train the network again. Notice that it finds a solution even faster, but this time the boundaries are linear. This is due to the shape of the ReLU function.
- ③ The risk of local minima. Modify the network architecture to have just one hidden layer with three neurons. Train it multiple times (to reset the network weights, click the Reset button next to the Play button). Notice that the training time varies a lot, and sometimes it even gets stuck in a local minimum.
- ④ What happens when neural nets are too small. Remove one neuron to keep just two. Notice that the neural network is now incapable of finding a good solution, even if you try multiple times. The model has too few parameters and systematically underfits the training set.
- ⑤ What happens when neural nets are large enough. Set the number of neurons to eight, and train the network several times. Notice that it is now consistently fast and never gets stuck. This highlights an important finding in neural network theory: large neural networks

almost never get stuck in local minima, and even when they do these local optima are almost as good as the global optimum. However, they can still get stuck on long plateaus for a long time.

- ⑥ The risk of vanishing gradients in deep networks. Select the spiral dataset (the bottom-right dataset under “DATA”), and change the network architecture to have four hidden layers with eight neurons each. Notice that training takes much longer and often gets stuck on plateaus for long periods of time. Also notice that the neurons in the highest layers (on the right) tend to evolve faster than the neurons in the lowest layers (on the left). This problem, called the “vanishing gradients” problem, can be alleviated with better weight initialization and other techniques, better optimizers (such as AdaGrad or Adam), or Batch Normalization (discussed in Chapter 11).

Problem 3.

1. Suppose you have an MLP composed of one input layer with 10 passthrough neurons, followed by one hidden layer with 50 artificial neurons, and finally one output layer with 3 artificial neurons. All artificial neurons use the ReLU activation function.
 - What is the shape of the input matrix \mathbf{X} ?
 - What are the shapes of the hidden layer’s weight vector \mathbf{W}_h and its bias vector \mathbf{b}_h ?
 - What are the shapes of the output layer’s weight vector \mathbf{W}_o and its bias vector \mathbf{b}_o ?
 - What is the shape of the network’s output matrix \mathbf{Y} ?
 - Write the equation that computes the network’s output matrix \mathbf{Y} as a function of \mathbf{X} , \mathbf{W}_h , \mathbf{b}_h , \mathbf{W}_o , and \mathbf{b}_o .
2. What is backpropagation and how does it work? What is the difference between backpropagation and reverse-mode autodiff?
3. Can you list all the hyperparameters you can tweak in a basic MLP? If the MLP overfits the training data, how could you tweak these hyperparameters to try to solve the problem?
4. Train a deep MLP on the MNIST dataset (you can load it using `keras.datasets.mnist.load_data()`). See if you can get over 98% precision.