

Chapter 2.4 Exercise Solutions

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Conceptual

Question 1a.

A flexible statistical learning method would be **worse** if the sample size n is extremely large, and the number of predictors p is small because a flexible method requires more variables (parameters) to reduce the errors.

Question 1b.

A flexible statistical learning method would be **better** if the number of predictors p is extremely large, and the number of observations n is small because it would provide a better fit.

Question 1c.

A flexible statistical learning method would be **better** if the predictors and response is highly non-linear because the flexible method would provide a better fit of the observations.

Question 1d.

A flexible statistical learning method would be **worse** if the variance of the error terms, i.e. $\sigma^2 = \text{Var}(\varepsilon)$, is extremely high because it would overfit the model and provide an inaccurate reading for the analyst.

Question 2a.

This scenario is a regression problem and we are most interested in inference. We are trying to determine the relationship between the dependent and independent variables/predictors.

$n = 500$ firms in the U.S.

$p =$ profit, number of employees, industry, and the CEO salary

Question 2b.

This scenario is a classification problem and we are most interested in prediction. We are trying to determine whether or not the product will be a *success* or *failure*.

$n = 20$ similar products that were previously launched

$p =$ success or failure, price charged, marketing budget, competition price, and ten other variables

Question 2c.

This scenario is a regression problem and we are most interested in prediction. We are trying to determine the relationship between the dependent (% change in the USD/Euro exchange rate) and independent variables.

$n =$ Weekly data for all of 2012

$p =$ % change each week in USD/Euro, the % change in the US market, the % change in the British market, and the % change in the German market

Question 4a.

Classification

- To find how many dogs vs. cats are in animal shelters in the United States
- To find which Japanese vehicle brand is purchased more often – Honda or Toyota
- To find which college major is most popular

Regression

- Find relationship between stock prices and bond rates
- Find relationship between life expectancy and income
- Find relationship between engine cylinders and miles per gallon

Cluster

- Find ethnicities within a city
- Find the gender demographic of a university
- Find the income demographic of a town

Question 5

The advantage of a very flexible (verses a less flexible) approach for regression or classification is that it provides a better level when conducting prediction modeling. The disadvantage is that level of interpretability suffers and it is not always accurate because it tends to overfit the model.

Question 6

A parametric approach is that allows the analyst to estimate using a set of parameters (ex. $\beta_0, \beta_1, \beta_2, \dots, \beta_p$). A non-parametric approach attempts to estimate by getting as close as possible to fitting the data. An advantage of a parametric approach is that it makes estimating easier because the analyst doesn't have to fit the data the f , function of used to estimate the population, Y .

$$Y = f(X) + \epsilon$$

A disadvantage of a parametric approach is that it might not allow the analyst to pick the right model to obtain the true value of f .

Question 7a.

In the dataset provided we are to make a prediction for Y when $X_1 = X_2 = X_3 = 0$ using K -nearest neighbors.

To find the Euclidean distance in two-dimensions when $X = 0$ we subtract each observation point by zero.

Observation 1:

$$(0 - 0) = 0, (3 - 0) = 3, (0 - 0) = 0$$

We then square each of the differences to find the absolute value:

$$(0)^2 = 0, (3)^2 = 9, (0)^2 = 0$$

We then find the sum of the squares: $0 + 9 + 0 = 9$

Finally, we take the square root of the sum: $\sqrt{9} = \textcircled{3}$

Observation 2: 2

Observation 3: 3.16

Observation 4: 2.23

Observation 5: 1.41

Observation 6: 1.73