

# Economics 103 – Statistics for Economists

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Lecture 22

## Last Time

Walked through steps of hypothesis testing in a simple example.

## Today

- ▶ Relationship between hypothesis testing and CIs
- ▶ More examples of hypothesis tests

## Relationship between CI and Two-Sided Test

- ▶ There is a *very close* relationship between CIs and hypothesis tests against a two-sided alternative.
- ▶ I'll illustrate this using a generic version of the example from last class but the relationship holds *in general*.

## Relationship between CI and Two-sided Test

Suppose  $X_1, \dots, X_n \sim \text{iid } N(\mu, \sigma^2)$

Test  $H_0: \mu = \mu_0$  vs.  $H_1: \mu \neq \mu_0$  at significance level  $\alpha$

- ▶ Test Statistic:  $T_n = \sqrt{n}(\bar{X}_n - \mu_0)/S \sim t(n-1)$  under  $H_0$
- ▶ Decision Rule: Reject  $H_0$  if  $|T_n| > \text{qt}(1 - \alpha/2, \text{df} = n - 1)$

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$100 \times (1 - \alpha)\%$  CI for  $\mu$

$$\bar{X}_n \pm \text{qt}(1 - \alpha/2, \text{df} = n - 1) \frac{S}{\sqrt{n}}$$

## Relationship between CI and Two-sided Test

$$c = \text{qt}(1 - \alpha/2, \text{df} = n - 1)$$

Decision Rule: Reject  $H_0$  if

$$\left| \frac{\bar{X}_n - \mu_0}{S/\sqrt{n}} \right| > c \quad \Longleftrightarrow$$

## Relationship between CI and Two-sided Test

$$c = qt(1 - \alpha/2, df = n - 1)$$

Decision Rule: Reject  $H_0$  if

$$\left| \frac{\bar{X}_n - \mu_0}{S/\sqrt{n}} \right| > c \quad \Longleftrightarrow \quad \left( \frac{\bar{X}_n - \mu_0}{S/\sqrt{n}} > c \text{ OR } \frac{\bar{X}_n - \mu_0}{S/\sqrt{n}} < -c \right)$$

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Equivalent to: *Don't Reject  $H_0$*  provided

$$-c \leq \frac{\bar{X}_n - \mu_0}{S/\sqrt{n}} \leq c$$



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Equivalent to: *Don't Reject  $H_0$*  provided

$$-c \leq \frac{\bar{X}_n - \mu_0}{S/\sqrt{n}} \leq c$$

$$\bar{X}_n - c \times \frac{S}{\sqrt{n}} \leq \mu_0 \leq \bar{X}_n + c \times \frac{S}{\sqrt{n}}$$

## What does this mean?

Two-sided Test  $\iff$  Checking if  $\mu_0 \in \text{CI}$

A two-sided test of  $H_0: \mu = \mu_0$  against  $H_1: \mu \neq \mu_0$  at significance level  $\alpha$  is equivalent to checking whether  $\mu_0$  lies inside the corresponding  $100 \times (1 - \alpha)\%$  confidence interval for  $\mu$ .

## What does this mean?

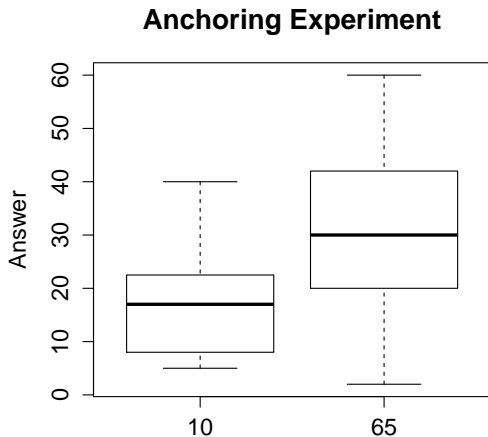
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“Inverting” Two-sided Test to get a CI

Collect all the values  $\mu_0$  such that we cannot reject  $H_0: \mu = \mu_0$  against the two-sided alternative. The result is *precisely* a  $100 \times (1 - \alpha)\%$  CI for  $\mu$ .

# The Anchoring Experiment



# The Anchoring Experiment

Shown a “random” number and then asked what proportion of UN member states are located in Africa.

“Hi” Group – Shown 65 ( $n_{Hi} = 46$ )

Sample Mean: 30.7, Sample Variance: 253

“Lo” Group – Shown 10 ( $n_{Lo} = 43$ )

Sample Mean: 17.1, Sample Variance: 86

Fairly large samples here, so we'll proceed via the CLT...

## In words, what is our null hypothesis?



- (a) There is a *positive* anchoring effect: seeing a higher random number makes people report a higher answer.
- (b) There is a *negative* anchoring effect: seeing a lower random number makes people report a lower answer.
- (c) There *is* an anchoring effect: it could be positive or negative.
- (d) There is *no* anchoring effect: people aren't influenced by seeing a random number before answering.

In symbols, what is our null hypothesis?



(a)  $\mu_{Lo} < \mu_{Hi}$

(b)  $\mu_{Lo} = \mu_{Hi}$

(c)  $\mu_{Lo} > \mu_{Hi}$

(d)  $\mu_{Lo} \neq \mu_{Hi}$

In symbols, what is our null hypothesis?



(a)  $\mu_{Lo} < \mu_{Hi}$

(b)  $\mu_{Lo} = \mu_{Hi}$

(c)  $\mu_{Lo} > \mu_{Hi}$

(d)  $\mu_{Lo} \neq \mu_{Hi}$

$\mu_{Lo} = \mu_{Hi}$  is equivalent to  $\mu_{Hi} - \mu_{Lo} = 0$ !





Under the null, what should we expect to be true about the values taken on by  $\bar{X}_{Lo}$  and  $\bar{X}_{Hi}$ ?

- (a) They should be similar in value.
- (b)  $\bar{X}_{Lo}$  should be the smaller of the two.
- (c)  $\bar{X}_{Hi}$  should be the smaller of the two.
- (d) They should be different. We don't know which will be larger.

# What is our Test Statistic?

## Sampling Distribution

$$\frac{(\bar{X}_{Hi} - \bar{X}_{Lo}) - (\mu_{Hi} - \mu_{Lo})}{\sqrt{\frac{S_{Hi}^2}{n_{Hi}} + \frac{S_{Lo}^2}{n_{Lo}}}} \approx N(0, 1)$$

## Test Statistic: Impose the Null

Under  $H_0: \mu_{Lo} = \mu_{Hi}$

$$T_n = \frac{\bar{X}_{Hi} - \bar{X}_{Lo}}{\sqrt{\frac{S_{Hi}^2}{n_{Hi}} + \frac{S_{Lo}^2}{n_{Lo}}}} \approx N(0, 1)$$

## What is our Test Statistic?

$$\bar{X}_{Hi} = 30.7, s_{Hi}^2 = 253, n_{Hi} = 46$$

$$\bar{X}_{Lo} = 17.1, s_{Lo}^2 = 86, n_{Lo} = 43$$

Under  $H_0: \mu_{Lo} = \mu_{Hi}$

$$T_n = \frac{\bar{X}_{Hi} - \bar{X}_{Lo}}{\sqrt{\frac{S_{Hi}^2}{n_{Hi}} + \frac{S_{Lo}^2}{n_{Lo}}}} \approx N(0, 1)$$

Plugging in Our Data

$$T_n = \frac{\bar{X}_{Hi} - \bar{X}_{Lo}}{\sqrt{\frac{S_{Hi}^2}{n_{Hi}} + \frac{S_{Lo}^2}{n_{Lo}}}} \approx 5$$

## Anchoring Experiment Example



Approximately what critical value should we use to test  $H_0: \mu_{Lo} = \mu_{Hi}$  against the two-sided alternative at the 5% significance level?

## Anchoring Experiment Example



Approximately what critical value should we use to test  $H_0: \mu_{Lo} = \mu_{Hi}$  against the two-sided alternative at the 5% significance level?

$\alpha$	0.10	0.05	0.01
$\text{qnorm}(1 - \alpha)$	1.28	1.64	2.33
$\text{qnorm}(1 - \alpha/2)$	1.64	1.96	2.58

... Approximately 2



Which of these commands would give us the p-value of our test of  $H_0: \mu_{Lo} = \mu$  against  $H_1: \mu_{Lo} < \mu_{Hi}$  at significance level  $\alpha$ ?

- (a) `qnorm(1 -  $\alpha$ )`
- (b) `qnorm(1 -  $\alpha/2$ )`
- (c) `1 - pnorm(5)`
- (d) `2 * (1 - pnorm(5))`

P-values for  $H_0: \mu_{Lo} = \mu_{Hi}$

We plug in the value of the test statistic that we observed: 5

Against  $H_1: \mu_{Lo} < \mu_{Hi}$

1 - pnorm(5) < 0.0000

Against  $H_1: \mu_{Lo} \neq \mu_{Hi}$

2 \* (1 - pnorm(5)) < 0.0000

If the null is true (the two population means are equal) it would be extremely unlikely to observe a test statistic as large as this!

What should we conclude?
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## Which Exam is Harder?

Student	Exam 1	Exam 2	Difference
1	57.1	60.7	3.6
$\vdots$	$\vdots$	$\vdots$	$\vdots$
71	78.6	82.9	4.3
Sample Mean:	79.6	81.4	1.8
Sample Var.	117	151	124
Sample Corr.	0.54		

Again, large sample size here so we'll use CLT.



# One-Sample Hypothesis Test Using Differences

Let  $D_i = X_i - Y_i$  be (Midterm 2 Score - Midterm 1 Score) for student  $i$

## Null Hypothesis

$H_0: \mu_1 = \mu_2$ , i.e. both exams were of the same difficulty

## Two-Sided Alternative

$H_1: \mu_1 \neq \mu_2$ , i.e. one exam was harder than the other

## One-Sided Alternative

$H_1: \mu_2 > \mu_1$ , i.e. the second exam was easier

## Decision Rules

Let  $D_i = X_i - Y_i$  be (Midterm 2 Score - Midterm 1 Score) for student  $i$

### Test Statistic

$$\frac{\bar{D}_n}{\widehat{SE}(\bar{D}_n)} = \frac{1.8}{\sqrt{124/71}} \approx 1.36$$

### Two-Sided Alternative

Reject  $H_0: \mu_1 = \mu_2$  in favor of  $H_1: \mu_1 \neq \mu_2$  if  $|\bar{D}_n|$  is sufficiently large.

### One-Sided Alternative

Reject  $H_0: \mu_1 = \mu_2$  in favor of  $H_1: \mu_2 > \mu_1$  if  $\bar{D}_n$  is sufficiently large.

Reject against *Two-sided* Alternative with  $\alpha = 0.1$ ?



$$\frac{\bar{D}_n}{\widehat{SE}(\bar{D}_n)} = \frac{1.8}{\sqrt{124/71}} \approx 1.36$$

$\alpha$	0.10	0.05	0.01
$\text{qnorm}(1 - \alpha)$	1.28	1.64	2.33
$\text{qnorm}(1 - \alpha/2)$	1.64	1.96	2.58

- (a) Reject
- (b) Fail to Reject
- (c) Not Sure

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- (a) Reject
- (b) Fail to Reject
- (c) Not Sure

## P-Values for the Test of $H_0: \mu_1 = \mu_2$

$$\frac{\bar{D}_n}{\widehat{SE}(\bar{D}_n)} = \frac{1.8}{\sqrt{124/71}} \approx 1.36$$

One-Sided  $H_1: \mu_2 > \mu_1$

$$1 - \text{pnorm}(1.36) = \text{pnorm}(-1.36) \approx 0.09$$

Two-Sided  $H_1: \mu_1 \neq \mu_2$

$$2 * (1 - \text{pnorm}(1.36)) = 2 * \text{pnorm}(-1.36) \approx 0.18$$

# Tests for Proportions

## Basic Idea

The population *can't be* normal (it's Bernoulli) so we use the CLT to get approximate sampling distributions (c.f. Lecture 18).

## But there's a small twist!

Bernoulli RV only has a *single* unknown parameter  $\implies$  we know *more* about the population under  $H_0$  in a proportions problem than in the other testing examples we've examined...

For best results, always *fully* impose the null.

# Tests for Proportions: One-Sample Example

## From Pew Polling Data

54% of a random sample of 771 registered voters correctly identified 2012 presidential candidate Mitt Romney as Pro-Life.

## Sampling Model

$X_1, \dots, X_n \sim \text{iid Bernoulli}(p)$

## Sample Statistic

Sample Proportion:  $\hat{p} = \frac{1}{n} \sum_{i=1}^n X_i$

Suppose I wanted to test  $H_0: p = 0.5$

## Tests for Proportions: One Sample Example

Under  $H_0: p = 0.5$  what is the standard error of  $\hat{p}$ ?

- (a) 1
- (b)  $\sqrt{\hat{p}(1 - \hat{p})/n}$
- (c)  $\sigma/\sqrt{n}$
- (d)  $1/(2\sqrt{n})$
- (e)  $p(1 - p)$



## Tests for Proportions: One Sample Example

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(c)  $\sigma/\sqrt{n}$

(d)  $1/(2\sqrt{n})$

(e)  $p(1 - p)$

$$p = 0.5 \implies \sqrt{0.5(1 - 0.5)/n} = 1/(2\sqrt{n})$$

*Under the null we know the SE! Don't have to estimate it!*

# One-Sample Test for a Population Proportion

## Sampling Model

$X_1, \dots, X_n \sim \text{iid Bernoulli}(p)$

## Null Hypothesis

$H_0: p = \text{Known Constant } p_0$

## Test Statistic

$$T_n = \frac{\hat{p} - p_0}{\sqrt{p_0(1 - p_0)/n}} \approx N(0, 1) \text{ under } H_0 \text{ provided } n \text{ is large}$$

## One-Sample Example $H_0: p = 0.5$

54% of a random sample of 771 registered voters knew Mitt Romney is Pro-Life.

$$\begin{aligned} T_n &= \frac{\hat{p} - p_0}{\sqrt{\frac{p_0(1 - p_0)}{n}}} = 2\sqrt{771}(0.54 - 0.5) \\ &= 0.08 \times \sqrt{771} \approx 2.2 \end{aligned}$$

### One-Sided p-value

$$1 - \text{pnorm}(2.2) \approx 0.014$$

### Two-Sided p-value

$$2 * (1 - \text{pnorm}(2.2)) \approx 0.028$$

# Tests for Proportions: Two-Sample Example

## From Pew Polling Data

53% of a random sample of 238 Democrats correctly identified Mitt Romney as Pro-Life versus 61% of 239 Republicans.

## Sampling Model

Republicans:  $X_1, \dots, X_n \sim \text{iid Bernoulli}(p)$  independent of

Democrats:  $Y_1, \dots, Y_m \sim \text{iid Bernoulli}(q)$

## Sample Statistics

Sample Proportions:  $\hat{p} = \frac{1}{n} \sum_{i=1}^n X_i, \quad \hat{q} = \frac{1}{m} \sum_{i=1}^m Y_i$

Suppose I wanted to test  $H_0: p = q$

## A More Efficient Estimator of the SE Under $H_0$

Don't Forget!

Standard Error (SE) means “std. dev. of sampling distribution” so you should know how to prove that that:

$$SE(\hat{p} - \hat{q}) = \sqrt{\frac{p(1-p)}{n} + \frac{q(1-q)}{m}}$$

Under  $H_0: p = q$

*Don't* know values of  $p$  and  $q$ : only that they are equal.

## A More Efficient Estimator of the SE Under $H_0$

### One Possible Estimate

$$\widehat{SE} = \sqrt{\frac{\widehat{p}(1 - \widehat{p})}{n} + \frac{\widehat{q}(1 - \widehat{q})}{m}}$$

### A Better Estimate Under $H_0$

$$\widehat{SE}_{Pooled} = \sqrt{\widehat{\pi}(1 - \widehat{\pi}) \left( \frac{1}{n} + \frac{1}{m} \right)} \quad \text{where} \quad \widehat{\pi} = \frac{n\widehat{p} + m\widehat{q}}{n + m}$$

### Why Pool?

If  $p = q$ , the two populations *are the same*. This means we can get a *more precise* estimate of the *common* population proportion by pooling. More data = Lower Variance  $\implies$  better estimated SE.

# Two-Sample Test for Proportions

## Sampling Model

$X_1, \dots, X_n \sim \text{iid Bernoulli}(p)$  indep. of  $Y_1, \dots, Y_m \sim \text{iid Bernoulli}(q)$

## Sample Statistics

Sample Proportions:  $\hat{p} = \frac{1}{n} \sum_{i=1}^n X_i, \quad \hat{q} = \frac{1}{m} \sum_{i=1}^m Y_i$

## Null Hypothesis

$$H_0: p = q \quad \Leftrightarrow \quad \boxed{\text{i.e. } p - q = 0}$$

## Pooled Estimator of SE under $H_0$

$$\hat{\pi} = \frac{n\hat{p} + m\hat{q}}{n + m}, \quad \widehat{SE}_{Pooled} = \sqrt{\hat{\pi}(1 - \hat{\pi})(1/n + 1/m)}$$

## Test Statistic

$$T_n = \frac{\hat{p} - \hat{q}}{\widehat{SE}_{Pooled}} \approx N(0, 1) \text{ under } H_0 \text{ provided } n \text{ and } m \text{ are large}$$

## Two-Sample Example $H_0: p = q$

53% of 238 Democrats knew Romney is Pro-Life vs. 61% of 239 Republicans

$$\hat{\pi} = \frac{n\hat{p} + m\hat{q}}{n + m} = \frac{239 \times 0.61 + 238 \times 0.53}{239 + 238} \approx 0.57$$

$$\begin{aligned}\widehat{SE}_{Pooled} &= \sqrt{\hat{\pi}(1 - \hat{\pi})(1/n + 1/m)} = \sqrt{0.57 \times 0.43(1/239 + 1/238)} \\ &\approx 0.045\end{aligned}$$

$$T_n = \frac{\hat{p} - \hat{q}}{\widehat{SE}_{Pooled}} = \frac{0.61 - 0.53}{0.045} \approx 1.78$$

### One-Sided P-Value

$$1 - \text{pnorm}(1.78) \approx 0.04$$

### Two-Sided P-Value

$$2 * (1 - \text{pnorm}(1.78)) \approx 0.08$$