

Bayesian AB Testing

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Agenda

- ① Classic
 - Assumptions
- ② Hypothesis Testing
 - Highest density interval
 - Region of Practical Equivalence
 - Custom Hypothesis
- ③ AB Testing
 - Priors
- ④ Workflow
 - Prior
 - Preparing an experiment
 - Parameter Recovery
 - Posterior Simulations
- ⑤ Supplementary
 - Parameter Recovery

p-value in H_0 , H_1 framework

"if your p-value is 0.05, that means that 5% of the time you would see a test statistic at least as extreme as the one you found if the null hypothesis was true"

- ① p-value is used in thousands of research papers
- ② p-value is extremely popular for its easy interpretation
- ③ easy to calculate confidence intervals

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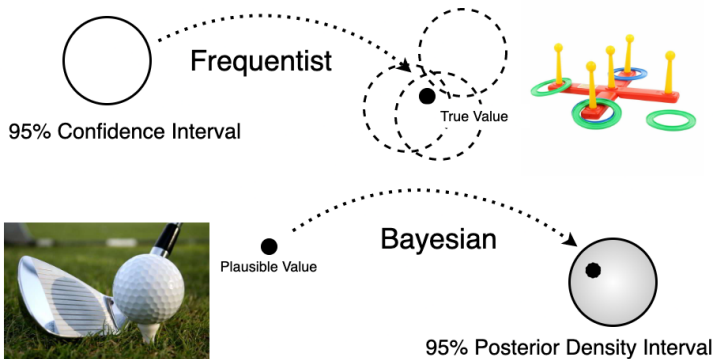
Are you sure?

Do you understand the nature of the p-value?

Disclaimer: I do not advocate against p-values, just know your tools.

Interpreting p-values

Greatest insights into p-values:



Suggested Reading

Explanation of P-values by Joe Felsenstein

Bayesian Tools

- ① Highest Density Interval
- ② Region of Practical Equivalence
- ③ Bayes Factor
- ④ Custom

Highest Density Interval

HDI The most popular way to interpret the posterior

- 1 Represents a range of most probable values
- 2 Easy to interpret and calculate
- 3 Easy to visualize

Example

- With 95% probability effect size in range $[A, B]$
- Range $[A, B]$ represents 95% of most probable effect sizes

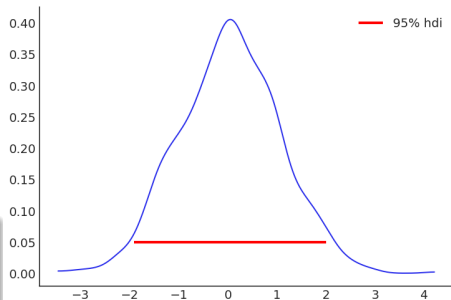


Figure: Highest Density Interval

Region of Practical Equivalence

RoPE is a common way to say if a parameter estimate is "significant".
The use case:

- 1 You do not care if the effect size is less than 0.1
- 2 Plot the region overlapping with the posterior
- 3 Decide

Example

The effect size "E" is out of the region of practical equivalence so we treat it as a significant one

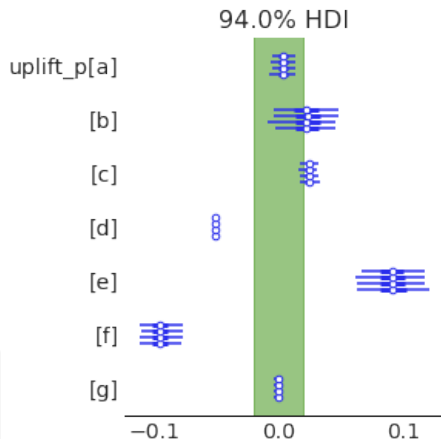


Figure: Rope Plot

Custom Queries

You can do much more!

- 1 $P(A < 0)$
- 2 $P(A > B)$
- 3 $P(A = \arg \max(A, B, C, D))$
- 4 $P(\text{profit}(X, \Theta) > \$100)$
- 5 Quantiles - $Q_{0.05}(\text{profit}(X, \Theta))$

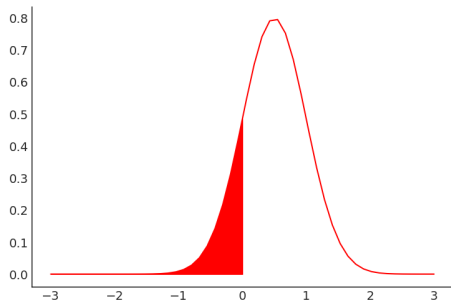


Figure: $P(A < 0)$

Takeouts

Bayesians have a Swiss Knife for Hypothesis Checking

- 1 Numerous ways to interpret results
- 2 Not a Yes/No answer
- 3 Uncertainty is obviously represented
- 4 Flexibility in analysis
- 5 Easy to implement
- 6 Easy to interpret



Figure: Bayesian Hypothesis Testing

Setting priors for Uplift

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Make it clear if the change is relative or absolute!

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- Do you expect after changes in B you have a 100% increase? Very sure No
- Do you expect after changes in B you have a 10% increase? Unlikely

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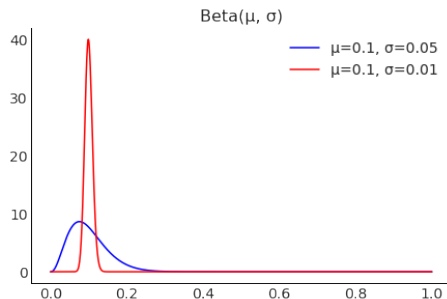
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- Do you expect after changes in B you have a 3% decrease? Maybe
- Do you expect after changes in B you have an X% decrease? Your answer

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Adding Additional Information

We can parametrize Beta distribution in a special way



$$G \in \{A, B\}$$

$$x_i^G \sim \text{Bernoulli}(p_G)$$

$$p_G \sim \text{Beta}(\alpha_G, \beta_G) \text{ s.t.}$$

$$\mathbb{E}p_G = \bar{p},$$

$$\text{Var } p_G = \bar{\sigma}^2$$

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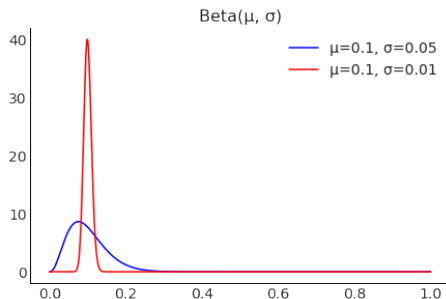
$$X \sim \text{Beta}(\alpha, \beta)$$

$$\mu = \frac{\alpha}{\alpha + \beta}$$

$$\sigma = \frac{\alpha\beta}{(\alpha + \beta)^2(\alpha + \beta + 1)}$$

$$X \sim \text{Beta}(\mu, \sigma) \Rightarrow$$

$$\Rightarrow \begin{cases} \alpha &= \mu\kappa \\ \beta &= (1 - \mu)\kappa \\ \text{where } \kappa &= \frac{\mu(1-\mu)}{\sigma^2} - 1 \end{cases}$$



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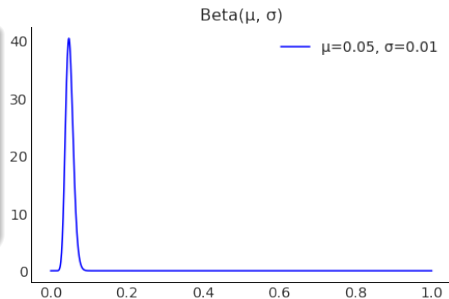
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Prior Specification

Case Study

Our historical levels of conversion are about 5% (and fixed). We expect about 1% **absolute** change ($\bar{\sigma}$) after implementing the solution. Or, similarly, 20% **relative** change ($\bar{\delta}$).



$$\bar{p} = 0.05$$

$$\bar{\sigma} = 0.01 = \bar{\delta} \cdot 0.05$$

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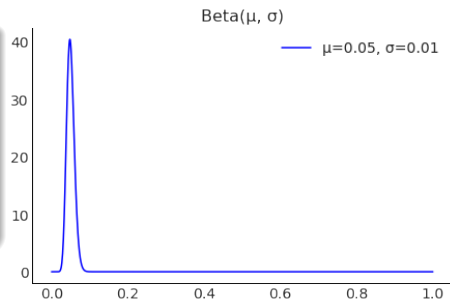
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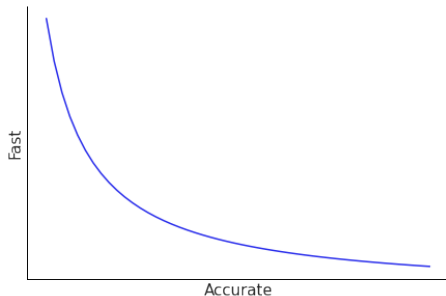


Takeout

Special Beta parametrization leads to more interpretable priors

Key questions be for you start

- How much time can be allocated for the test?
 - How accurate is the decision then?
- How accurate should be the decision?
 - How much time will be allocated for the test?

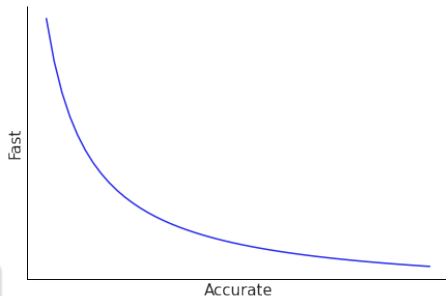


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Impossibility

You can't be fast in data collection and accurate at the same time



Parameter Recovery Study

Parameter recovery is a simulated experiment to know your model better.

- 1 Generate data from a model configuration
- 2 Pretend you do not know the true values
- 3 Run inference for your model
- 4 Compare estimated parameters and ground truth ones

Given the results

- How well can you infer the model state?
- How does data size affects the results?
- Are there unidentifiable parameters?

Suggested Reading

Chapter 4 in [Bayesian Workflow](#)

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ROC-AUC in Action

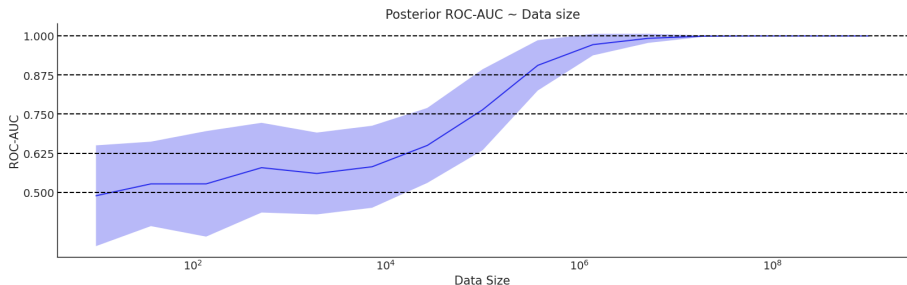


Figure: ROC-AUC increases as you get more data

Time is constraint:

- 1 Discuss maximum affordable time
- 2 Consult the plot for the expected ROC-AUC in decision

ROC-AUC is constraint:

- 1 Discuss minimum required ROC-AUC
- 2 Consult the plot for the expected data size

After the Inference

Situation: you've run the test for the beforehand specified duration.

Key questions:

- 1 Which alternative to choose?
- 2 What is the comparison criterion?
- 3 Is the criterion connected to the real life?

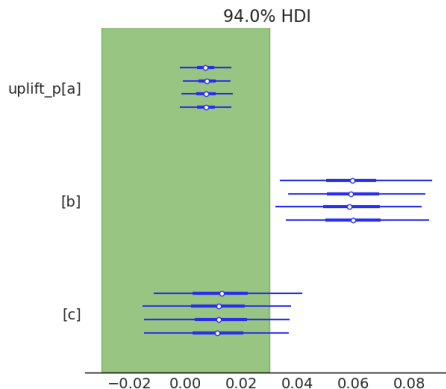


Figure: Example ROPE plot

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A better metric

A good metric is the one that is connected to expected profit.

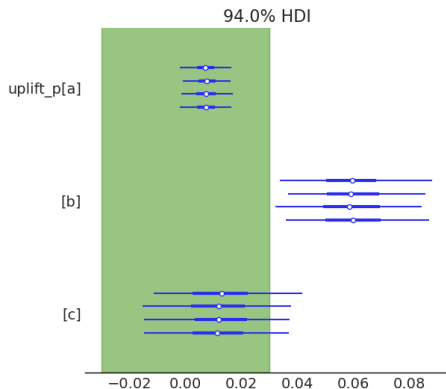


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Interpreting the Posterior

How can we calculate a better metric?

It could look like this:

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Use the posterior

We can calculate $p(\text{Monetization}_A \mid X_A)$ out of $p(p_A \mid X_A)$

Monetization Posterior

$$(\text{Per User Value}) \times (\text{Num Users}) \times \Delta p_A - (\text{Implementation Cost})$$

- Implementation cost might differ
- Per User Value might have scenarios
 - Positive
 - Negative
 - Average
- You connect the experiment with business
- Compare outcomes with uncertainty

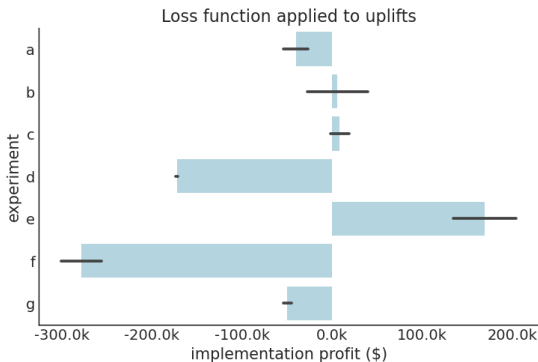


Figure: $p(\text{Monetization}_G \mid X_G)$

Takeouts

Real Life AB testing is full of challenges. Bayesian tools are still considered novel.

- 1 Framing the statistical test
 - Setting priors
 - Setting likelihood
- 2 Decision making before the test
 - Parameter recovery study
- 3 Bayesian decision making
 - Loss functions
 - Scenario testing



Supplementary

Parameter Recovery for AB testing

Given:

- Effect is significant if $|p - \bar{p}| > \bar{\sigma}$

Recall the model

$$i \in 1 \dots N$$

$$x_i \sim \text{Bernoulli}(p)$$

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Parameter Recovery for AB testing

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- $N = 0$, $N = 1000$, $N = 100000$?

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Key observation

Effect detection is a classification problem.
E.g. **negative**, neutral, **positive** effects. We can use ROC-AUC for multiclass

AB Testing as classification

Some definitions of our classification setup

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Posterior $p(p \mid X_{1:N})$

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 - "0" is $\hat{p} < \bar{p} - \bar{\sigma}$, negative
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- ③ Predictions (probabilities using the posterior):
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Run the simulation study

- ① for $\hat{p} \in \dots$, for $N \in \dots$ get $p(p \mid X_{1:N})$
- ② for $N \in \dots$ calculate ROC-AUC