

1. Moment Generating Function

$$M_X(t) = E(e^{tx})$$

continuous:

$$M_X(t) = \int_{-\infty}^{\infty} e^{tx} P_X(x) dx$$

discrete:

$$M_X(t) = \sum e^{tx} P_X(x)$$

$$\frac{dM_X(t)}{dt} = E\left(\frac{de^{tx}}{dt}\right) = E(xe^{tx}) \Rightarrow M_X^{(n)}(t) = E(x^n e^{tx})$$

Properties:

- $M_X(t) = E\left(\sum_{n=0}^{\infty} \frac{x^n t^n}{n!}\right)$ according to Taylor Series
 $M_X'(t) = E(0 + x + x^2 t + \frac{x^3 t^2}{2!} + \dots) = E\left(\sum_{n=0}^{\infty} \frac{x^{n+1} t^n}{n!}\right)$
 $\Rightarrow M_X^{(k)}(t) = E\left(\sum_{n=0}^{\infty} \frac{x^{n+k} t^n}{n!}\right)$
- $M_X^{(n)}(0) = E(X^n)$
 $\Rightarrow \text{VAR}[X] = E[X^2] - E^2[X] = M_X''(0) - [M_X'(0)]^2$
- $M_X(t) = M_Y(t) \Rightarrow XY$ has same distribution
- $M_X(0) = 1$
- $M_{ax+b}(t) = M_X(at)e^{bt}$ Proof:
 $M_{ax+b}(t) = E(e^{t(ax+b)}) = E(e^{atx} e^{bt}) = E(e^{atx}) e^{bt} = M_X(at)e^{bt}$
- $M_{X+Y}(bt) = M_X(t)M_Y(t)$ (X, Y independent)

2. Gama Function

$$\Gamma(n) = \int_0^{\infty} u^{n-1} e^{-u} du = (n-1)!$$

Proof:

- $\int_0^{\infty} e^{-x} dx = -e^{-x} \Big|_0^{\infty} = 1$
- $\Gamma(n) = -\int_0^{\infty} x^{n-1} de^{-x}$
 $= -(x^{n-1} e^{-x} \Big|_0^{\infty} - \int_0^{\infty} e^{-x} (n-1)x^{n-2} dx)$
 $= 0 + \int_0^{\infty} e^{-x} (n-1)x^{n-2} dx$
 $= (n-1) \int_0^{\infty} e^{-x} x^{n-2} dx$
 $= (n-1)\Gamma(n-1)$

Use Induction to prove the formula

$$\text{Formula: } \int_0^1 x^{\alpha-1} (1-x)^{\beta-1} dx = \frac{\Gamma(\alpha)\Gamma(\beta)}{\Gamma(\alpha+\beta)}$$

3. Basic probability property

- Basic Properties**
 - $P(E) = \frac{n(E)}{n(S)}, \in [0, 1]$
 - $P(\phi) = 0$
 - $A \subseteq B, P(A) \leq P(B)$
 - $P(A \cup B) = P(A) + P(B) - P(A \cap B)$
- Conditional Probability and Bayles Theorem**
 - $P(A|B) = \frac{P(A \cap B)}{P(B)}$
 - $P(A|B) = \frac{P(B|A)P(A)}{P(B)} = \frac{P(B|A)P(A)}{P(B|A)P(A) + P(B|A')P(A')}$
- PDF and CDF**
PDF: probability distribution function $\Rightarrow P_X(x)$
CDF: cummulative distribution function $\Rightarrow F_X(x) = \phi_X(x) = N_X(x) = P(X < x)$

(d) Expectation

- $E(X) = \sum x P_X(x)$ or $\int_{-\infty}^{\infty} x P_X(x)$
- $E(c) = c$
- $E(aX) = aE(X)$
- $E(X + Y) = E(X) + E(Y)$
- $E(X) = M_X'(0)$

(e) Variance and Standard Deviation

- $\text{VAR}(X) = E(X^2) - E^2(X) = \sum [(x - E(X))]^2 P_X(x) = E[(x - \mu)^2] = \sigma^2$
- $\text{VAR}(c) = 0$
- $\text{VAR}(aX) = a^2 \text{VAR}(X)$
- $\text{VAR}(X \pm Y) = \text{VAR}(X) + \text{VAR}(Y) \pm 2\text{COV}(x, y)$,
 $\text{COV}(x, y) = E(XY) - E(X)E(Y)$

(f) z-score

$Z = \frac{x - \mu}{\sigma}$, measures the distance of x from expected value in standard units.

4. Common Discrete Distributions

(a) Binomial Distribution

DEF: n time Bernoulli trials combined. probability of success and fail is (p, 1-p). Probability of success remains the same through the trails. X is the r.v of success times.

Note as $X \sim B(n, p)$

$$P_X(x) = \binom{n}{x} p^x (1-p)^{n-x}$$

$$M_X(t) = (1 - p + pe^t)^n$$

$$E(X) = np, \text{VAR}(X) = np(1-p)$$

(b) Hyper Geometric Distribution

DEF: A sample of size n taken from a finite population of size N. The population has a subgroup of size r $\geq n$ that is of interest. x is the number of members of the subgroup taken.

Note as $X \sim H(N, n, r)$

$$P_X(x) = \frac{\binom{r}{x} \binom{N-r}{n-x}}{\binom{N}{n}}$$

$$E(X) = n \frac{r}{N}, \text{VAR}(X) = n \frac{r}{N} \left(1 - \frac{r}{N}\right) \left(\frac{N-n}{N-1}\right)$$

When $x \rightarrow \infty$, $H(N, n, r) \rightarrow B(n, \frac{r}{N})$. H samples without replacement while B samples with replacement.

(c) Poisson Process

DEF: model the number of random occurrence of some phenomenon in specific unit of space or time.

$$P_X(x) = \frac{e^{-\lambda} \lambda^x}{x!}$$

λ : average arrival in given time or space

$$E(X) = \lambda, \text{VAR}(X) = \lambda$$

Poisson simulates Binomial when n is large. usually when $\lambda = np < 10$, we use poisson as an approximation of Binomial.

(d) Geometric Distribution

DEF: number of trials to get the first success in a sequence of Bernoulli trials where p is the success probability.

- i. X is the r.v of number of total trials (x includes the first success)

$$P_X(x) = (1-p)^{x-1}p, x = 1, 2, 3 \dots$$

$$E(X) = 1/p, VAR(X) = \frac{1-p}{p^2}$$

- ii. X is the r.v of number of failed trials (x excludes the first success)

$$P_X(x) = (1-p)^x p, x = 0, 1, 2, \dots$$

$$M_X(t) = \frac{p}{1 - e^t(1-p)}$$

$$E(X) = \frac{1-p}{p}, VAR(X) = \frac{1-p}{p^2}$$

(e) Negative Binomial Distribution

DEF: X is the r.v of number of trials need to observe the r^{th} success in a sequence of Bernoulli trials where p is the success probability.

$$P_X(x) = \binom{x-1}{r-1} p^r (1-p)^{x-r}, x = r, r+1, r+2 \dots$$

$$M_X(t) = \left(\frac{p}{1 - e^t(1-p)} \right)^r$$

$$E(X) = \frac{r}{p}, VAR(X) = \frac{r(1-p)}{p^2}$$

Alternatively, X is the r.v of failures before the r^{th} success:

$$P_X(x) = \binom{x+r-1}{r-1} p^r (1-p)^x, x = 0, 1, 2 \dots$$

$$M_X(t) = \left(\frac{p}{1 - pe^t} \right)^r$$

$$E(X) = \frac{r(1-p)}{p}, VAR(X) = \frac{r(1-p)}{p^2}$$

5. Chebychev's Theorem

$$P(\mu - k\sigma \leq x \leq \mu + k\sigma) \geq 1 - \frac{1}{k^2}$$

6. Continuous Random Variable

(a) Basic Properties

1. pdf : $f_X(x) \geq 0$
2. cdf : $F_X(x) = \int_{-\infty}^{\infty} f_X(x) dx$
3. $\int_{-\infty}^{\infty} f_X(x) dx = 1$
4. $f_X(x) = \frac{d}{dx} F_X(x)$

(b) Mean, Medium and Variance

mean: $\mu = E(x) = \int_{-\infty}^{\infty} x f_X(x) dx$

medium m: solve function $\int_{-\infty}^m f_X(x) dx = \frac{1}{2}$

Variance:

$$VAR(X) = E(X^2) - E^2(X) = \int_{-\infty}^{\infty} [x - E(X)] f_X(x) dx$$

7. Common Continuous Distributions

(a) Uniform(rectangle) Distribution

$$f_X(x) = \frac{1}{b-a}, a \leq x \leq b$$

$$F_X(x) = \frac{x-a}{b-a}, a \leq x \leq b$$

$$E(X) = \frac{a+b}{2}, VAR(X) = \frac{(b-a)^2}{12}$$

(b) Exponential Distribution

$$f_X(x) = \frac{1}{\theta} e^{-\frac{x}{\theta}}, x \geq 0$$

$$F_X(x) = 1 - e^{-\frac{x}{\theta}}, x \geq 0$$

$$M_X(t) = \frac{1}{1 - \theta t}$$

$$E(X) = \theta, VAR(X) = \theta^2$$

Note as $X \sim \exp(\theta)$

In terms of λ : $\lambda = \frac{1}{\theta}$

(c) Gamma Distribution

$$f_X(x) = \frac{1}{\Gamma(n)\theta^n} x^{n-1} e^{-\frac{x}{\theta}}, x \geq 0$$

$$M_X(t) = \frac{1}{(1 - \theta t)^n}$$

$$E(X) = n\theta, VAR(X) = n\theta^2$$

Note as $X \sim \Gamma(n, \theta)$

Exponential dist. is a special case of Gamma dist where $n = 1$. Gamma Distribution can be viewed as a sum of Exponential dists.

$X \sim \Gamma(n, \theta) \Leftrightarrow X = \sum_{i=1}^n X_i, X_i \sim \exp(\theta)$

In terms of α, β : ($\alpha = n, \beta = \frac{1}{\theta}$)

$$f_X(x) = \frac{\beta^\alpha}{\Gamma(\alpha)} x^{\alpha-1} e^{-\beta x}, x \geq 0$$

$$M_X(t) = \frac{1}{(1 - \frac{t}{\beta})^\alpha}$$

$$E(X) = \frac{\alpha}{\beta}, VAR(X) = \frac{\alpha}{\beta^2}$$

(d) Normal Distribution

Standard normal distribution:

$X \sim N(0,1), \mu = 0, \sigma^2 = 1$

Normal distribution:

$$f_X(x) = \frac{1}{\sqrt{2\pi}\sigma} e^{-\frac{(x-\mu)^2}{2\sigma^2}}, x \in (-\infty, \infty)$$

$$M_X(t) = e^{\mu t + \frac{1}{2}\sigma^2 t^2}$$

$$E(x) = \mu, VAR(X) = \sigma^2$$

(e) Log-normal Distribution:

$Y = e^X, X \sim N(\mu, \sigma^2)$

$$f_Y(y) = \frac{1}{\sigma y \sqrt{2\pi}} e^{-\frac{1}{2} \left(\frac{\ln y - \mu}{\sigma} \right)^2}, y \geq 0$$

$$E(Y) = e^{\mu + \frac{\sigma^2}{2}}, VAR(Y) = e^{2\mu + \sigma^2} (e^{\sigma^2} - 1)$$

(f) Pareto Distribution:

$$f_X(x) = \frac{k}{\beta} \left(\frac{\beta}{x}\right)^{k+1}$$

$$F_X(x) = 1 - \left(\frac{\beta}{x}\right)^k, k > 2, x \geq \beta > 0$$

$$E(X) = \frac{k\beta^2}{k-1}, VAR(X) = \frac{k\beta^2}{k-2} - \left(\frac{k\beta}{k-1}\right)^2$$

Other notation: $\alpha = k, \beta = \beta$

(g) Weibull Distribution:

$$f_X(x) = k\lambda x^{k-1} e^{-\lambda k x^k}$$

$$F_X(x) = 1 - e^{-\lambda k x^k}$$

$$E(X) = \frac{\Gamma(1 + \frac{1}{k})}{\lambda^{\frac{1}{k}}}, VAR(X) = \frac{1}{\lambda^{\frac{2}{k}}} [\Gamma(1 + \frac{2}{k}) - \Gamma^2(1 + \frac{1}{k})]$$

Other notation: $k = \alpha, \lambda = \beta$

Note: $\Gamma(\frac{1}{2}) = \sqrt{\pi}$

Proof:

$$1 - F_Z(0) = \frac{1}{2}$$

$$\Rightarrow \frac{1}{\sqrt{2\pi}} \int_0^\infty e^{-\frac{1}{2}z^2} dz = \frac{1}{2}$$

$$\text{Let } u = \frac{1}{2}z^2, du = z dz, z = \sqrt{2u}$$

$$\Rightarrow \frac{1}{\sqrt{2\pi}} \int_0^\infty e^{-u} \frac{1}{\sqrt{2u}} du = \frac{1}{2}$$

$$\Rightarrow \int_0^\infty e^{-u} u^{-\frac{1}{2}} du = \sqrt{\pi}$$

$$\Gamma(\frac{1}{2}) = \sqrt{\pi}$$

(h) Beta Distribution

$$f_X(x) = \frac{\Gamma(a+b)}{\Gamma(a)\Gamma(b)} x^{a-1} (1-x)^{b-1}, x \in (0,1), a > 0, b > 0$$

$$E(X) = \frac{a}{a+b}, VAR(X) = \frac{ab}{(a+b)^2(a+b+1)}$$

(i) Chi-Square χ^2 Distribution

$$f_X(x) = \frac{1}{2^{\frac{k}{2}} \Gamma(\frac{k}{2})} x^{\frac{k}{2}-1} e^{-\frac{x}{2}}, x > 0$$

$$E(X) = k, VAR(X) = 2k$$

$$M_X(t) = \frac{1}{(1-2t)^{\frac{k}{2}}}$$

This is a special case of Gamma Dist. of $\alpha = \frac{k}{2}, \beta = 2$

$$f_{Z^2}(z) = \frac{1}{\Gamma(\frac{1}{2})2^{\frac{1}{2}}} e^{-\frac{z}{2}} z^{-\frac{1}{2}} \text{ (gamma dist of } \alpha = \frac{1}{2}, \beta = 2)$$

$$\chi^2 = \sum_{i=1}^k Z_i^2 \text{ (sum of k squared standard normal)}$$

8. Central Limit Theorem

Let $\{X_1, X_2, \dots, X_n\}$ be the independent random variable all of which have the same distribution and mean μ and standard deviation σ . If n is large $n \geq 30$, then

$$S = X_1 + X_2 + \dots + X_n$$

will be approximately normal with mean $n\mu$ and variance $n\sigma^2$. ($S \sim N(n\mu, n\sigma^2)$)

OR

$$S' = \frac{X_1 + X_2 + \dots + X_n}{n}$$

will be approximately normal with mean μ , variance $\frac{\sigma^2}{n}$. ($S \sim N(\mu, \frac{\sigma^2}{n})$)

9. Finding CDF for $Y = g(X)$

1. $g(x)$ is strictly increasing on the sample space for X
Let $h(y)$ be the inverse function of $g(x)$. $h(x)$ is also strictly increasing.

$$\begin{aligned} F_Y(y) &= P(Y \leq y) \\ &= P(Y \leq y) \\ &= P(g(X) \leq y) \\ &= P[X \leq h(y)] \\ &= F_X(h(y)) \end{aligned}$$

Find the density function by differentiating

$$\begin{aligned} f_Y(y) &= \frac{d}{dy} F_X(h(y)) \\ &= \frac{d}{dx} F_X(h(y)) \frac{dy}{dx} \\ &= \frac{d}{dx} F_X(h(y)) h'(y) \end{aligned}$$

2. $g(x)$ is strictly decreasing on the sample space for X
Let $h(y)$ be the inverse function of $g(x)$. $h(x)$ is also strictly decreasing.

$$\begin{aligned} F_Y(y) &= P(Y \leq y) \\ &= P(Y \leq y) \\ &= P(g(X) \leq y) \\ &= P[X \geq h(y)] \\ &= 1 - F_X(h(y)) \end{aligned}$$

Find the density function by differentiating

$$\begin{aligned} f_Y(y) &= \frac{d}{dy} [1 - F_X(h(y))] \\ &= -\frac{d}{dx} F_X(h(y)) \frac{dy}{dx} \\ &= -\frac{d}{dx} F_X(h(y)) h'(y) \end{aligned}$$

IN ALL:

Density function for $Y = g(X)$

Let $g(x)$ be strictly decreasing or increasing on the domain consisting of the sample space. Then:

$$f_Y(y) = \frac{d}{dx} F_X(h(y)) \cdot |h'(y)|$$

10. Multivariable Distributions

(a) Marginal Distribution

$$p_X(x) = \sum_y p(x, y), p_Y(y) = \sum_x p(x, y)$$

$$f_X(x) = \int_{-\infty}^{\infty} p(x, y) dy, f_Y(y) = \int_{-\infty}^{\infty} p(x, y) dx$$

(b) Conditional Distribution

$$P(X = x|Y = y) = \frac{p(x, y)}{p_Y(y)}, \quad P(Y = y|X = x) = \frac{p(x, y)}{p_X(x)}$$

$$f(x|Y = y) = \frac{f(x, y)}{f_Y(y)}, \quad f(y|X = x) = \frac{f(x, y)}{f_X(x)}$$

(c) Conditional Expected Value

$$E(y|X = x) = \sum_y y \cdot p(y|x), \quad E(x|Y = y) = \sum_x x \cdot p(x|y)$$

$$E(y|X = x) = \int_{-\infty}^{\infty} y \cdot f(y|x) dy, \quad E(x|Y = y) = \int_{-\infty}^{\infty} x \cdot f(x|y) dx$$

(d) Independence

$$p(x, y) = p_X(x) \cdot p_Y(y)$$

$$f(x|y) = f_X(x), \quad f(y|x) = f_Y(y)$$

$$E(X + Y) = E(X) + E(Y)$$

$$COV(X, Y) = 0$$

$$VAR(X \pm Y) = VAR(X) + VAR(Y)$$

(e) Covariance

$$COV(x, y) = E[(X - \mu_X)(Y - \mu_Y)] = E(XY) - E(X)E(Y)$$

Properties:

- i. $COV(X, Y) = COV(Y, X)$
- ii. $COV(X, X) = VAR(X)$
- iii. $COV(X, K) = 0, K$ is constant
- iv. $COV(aX, bY) = ab \cdot COV(X, Y)$
- v. $COV(X, Y + Z) = COV(X, Y) + COV(X, Z)$
- vi. If X, Y are independent, $COV(X, Y) = 0$

(f) Correlation Coefficient ρ

$$\rho = \rho_{X,Y} = \frac{COV(X, Y)}{\sigma_X \cdot \sigma_Y}, \in [-1, 1]$$

$|\rho_{X,Y}|$ close to 1 : more related

$\rho > 0$ positively related, $\rho < 0$ negatively related