Annand Module 03 Lab 01

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Load libraries

```
library(ISLR2)
library(MASS)

##
## Attaching package: 'MASS'

## The following object is masked from 'package:ISLR2':
##
## Boston

library(e1071)

## Warning: package 'e1071' was built under R version 4.3.2

library(class)
```

Question 13

```
weekly <- Weekly
View(weekly)</pre>
```

Part A

```
# Get names of columns in weekly dataset
names(weekly)

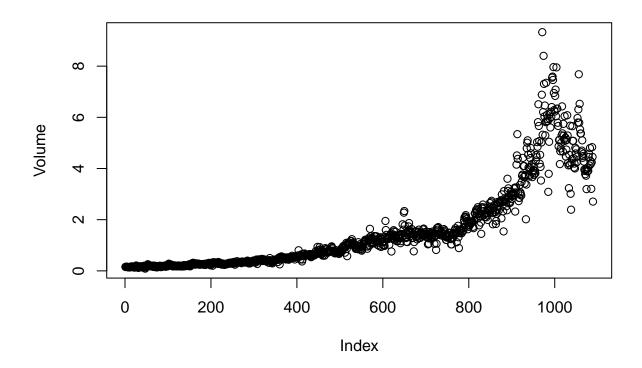
## [1] "Year" "Lag1" "Lag2" "Lag3" "Lag4" "Lag5"
## [7] "Volume" "Today" "Direction"

# get dimensions of the Weekly dataset
dim(weekly)

## [1] 1089 9
```

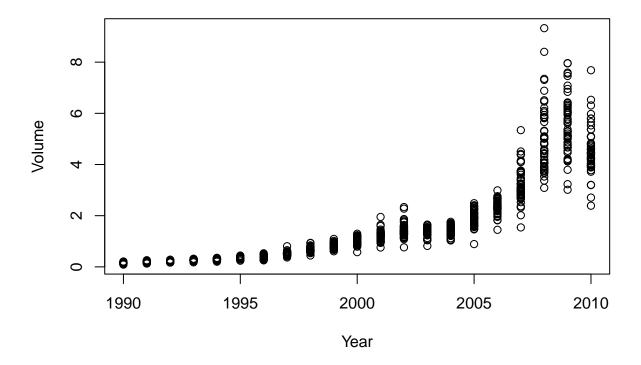
Produce summary statistics for each column summary(weekly)

```
##
        Year
                      Lag1
                                        Lag2
                                                         Lag3
##
         :1990
                 Min. :-18.1950
                                       :-18.1950
                                                     Min. :-18.1950
  Min.
                                 {\tt Min.}
   1st Qu.:1995
                 1st Qu.: -1.1540
                                  1st Qu.: -1.1540
                                                     1st Qu.: -1.1580
                 Median : 0.2410
                                  Median : 0.2410
                                                     Median : 0.2410
  Median:2000
                                   Mean : 0.1511
                                                     Mean : 0.1472
##
   Mean :2000
                 Mean : 0.1506
##
   3rd Qu.:2005
                 3rd Qu.: 1.4050
                                   3rd Qu.: 1.4090
                                                     3rd Qu.: 1.4090
##
   Max. :2010
                 Max. : 12.0260
                                   Max.
                                         : 12.0260
                                                     Max.
                                                           : 12.0260
##
        Lag4
                          Lag5
                                          Volume
                                                           Today
##
         :-18.1950
                    Min.
                          :-18.1950
                                      Min.
                                             :0.08747
                                                              :-18.1950
  Min.
                                                       Min.
  1st Qu.: -1.1580
                    1st Qu.: -1.1660
                                      1st Qu.:0.33202 1st Qu.: -1.1540
## Median : 0.2380
                   Median : 0.2340
                                      Median :1.00268
                                                       Median: 0.2410
   Mean : 0.1458
                     Mean : 0.1399
##
                                      Mean :1.57462
                                                       Mean : 0.1499
##
   3rd Qu.: 1.4090
                     3rd Qu.: 1.4050
                                       3rd Qu.:2.05373
                                                       3rd Qu.: 1.4050
## Max. : 12.0260 Max. : 12.0260
                                      Max. :9.32821
                                                       Max. : 12.0260
## Direction
##
   Down: 484
  Up :605
##
##
##
##
##
# Get correlation matrix for weekly data
weekly_cor <- cor(weekly[, -9])</pre>
View(weekly_cor)
attach(weekly)
plot(Volume)
```



```
attach(weekly)
```

```
## The following objects are masked from weekly (pos = 3):
##
## Direction, Lag1, Lag2, Lag3, Lag4, Lag5, Today, Volume, Year
plot(Year, Volume)
```



The only two variables that show a strong correlation are Volume and Year. All other variables are not strongly correlated to each other. The columns that represent the percentage returns for a given day all have the same Min and Max values. Distributions and means are very similar, as well.

Part B

```
# Create logistic regression with Direction as target and all other variables as
# predictors
glm.weekly <- glm(
   Direction ~ Lag1 + Lag2 + Lag3 + Lag4 + Lag5 + Volume,
   data = weekly, family = binomial
)
summary(glm.weekly)</pre>
```

```
##
   glm(formula = Direction ~ Lag1 + Lag2 + Lag3 + Lag4 + Lag5 +
##
##
       Volume, family = binomial, data = weekly)
##
## Coefficients:
##
               Estimate Std. Error z value Pr(>|z|)
## (Intercept) 0.26686
                            0.08593
                                      3.106
                                              0.0019 **
               -0.04127
                            0.02641
                                    -1.563
                                              0.1181
## Lag1
```

```
## Lag2
               0.05844
                          0.02686
                                    2.175
                                            0.0296 *
              -0.01606
                          0.02666 -0.602
                                            0.5469
## Lag3
## Lag4
                                            0.2937
              -0.02779
                          0.02646 - 1.050
              -0.01447
                          0.02638 -0.549
                                            0.5833
## Lag5
## Volume
              -0.02274
                          0.03690
                                   -0.616
                                            0.5377
## ---
## Signif. codes: 0 '***' 0.001 '**' 0.05 '.' 0.1 ' ' 1
##
## (Dispersion parameter for binomial family taken to be 1)
##
##
      Null deviance: 1496.2 on 1088 degrees of freedom
## Residual deviance: 1486.4 on 1082 degrees of freedom
## AIC: 1500.4
##
## Number of Fisher Scoring iterations: 4
```

Lag2 appears to be statistically significant because it has a p-value < 0.05.

Part C

```
weekly.probs <- predict(glm.weekly, type = "response")
weekly.pred <- rep("Down", 1089)
weekly.pred[weekly.probs > 0.5] = "Up"

table(weekly.pred, Direction)

## Direction
## weekly.pred Down Up
## Down 54 48
## Up 430 557

mean(weekly.pred == Direction)
```

[1] 0.5610652

The confusion matrix tells us that our logistic regression model does well at predicting when the market will go up; however, it is majorly inaccurate in predicting when the market will go down. Overall, the model correctly predicts the movement of the market 56.1% of the time.

Part D

```
# Create a set of test data from the weekly dataset that includes observations
# from 2009 to 2010.
train <- (Year < 2009)
weekly.2008 <- weekly[!train, ]
dim(weekly.2008)</pre>
```

```
## [1] 104 9
```

```
Direction.2008 <- Direction[!train]</pre>
glm.train <- glm(</pre>
  Direction ~ Lag2, data = weekly, family = binomial, subset = train)
test.probs <- predict(glm.train, weekly.2008, type = "response")</pre>
test.pred <- rep("Down", 104)
test.pred[test.probs > 0.5] <- "Up"</pre>
table(test.pred, Direction.2008)
##
            Direction.2008
## test.pred Down Up
##
        Down
                9 5
                34 56
##
        Uр
mean(test.pred == Direction.2008)
```

[1] 0.625

Using only Lag2 as a predictor, the logistic model correctly predicts the direction of the market 62.5% of the time on the test data.

Part E

```
lda.fit <- lda(Direction ~ Lag2, data = weekly, subset = train)</pre>
lda.fit
## Call:
## lda(Direction ~ Lag2, data = weekly, subset = train)
## Prior probabilities of groups:
        Down
## 0.4477157 0.5522843
##
## Group means:
##
               Lag2
## Down -0.03568254
        0.26036581
## Up
## Coefficients of linear discriminants:
##
              LD1
## Lag2 0.4414162
lda.pred <- predict(lda.fit, weekly.2008)</pre>
lda.class <- lda.pred$class</pre>
table(lda.class, Direction.2008)
##
            Direction.2008
## lda.class Down Up
        Down 9 5
              34 56
##
        Uр
```

```
mean(lda.class == Direction.2008)
## [1] 0.625
```

Linear discriminant analysis correctly predicts the direction of the market 62.5% of the time.

Part F

```
qda.fit <- qda(Direction ~ Lag2, data = weekly, subset = train)
qda.fit
## Call:
## qda(Direction ~ Lag2, data = weekly, subset = train)
## Prior probabilities of groups:
##
        Down
## 0.4477157 0.5522843
##
## Group means:
               Lag2
## Down -0.03568254
## Up
         0.26036581
qda.class <- predict(qda.fit, weekly.2008)$class
table(qda.class, Direction.2008)
##
            Direction.2008
## qda.class Down Up
       Down
##
                0 0
##
       Uр
               43 61
mean(qda.class == Direction.2008)
```

[1] 0.5865385

Quadratic discriminant analysis correctly predicts the direction of the market 58.7% of the time; however, it incorrectly predicts when the market goes down in every test case.

Part G

```
# Create matrix of predictors for train and test data and vector of responses for
# training data
train.X <- as.matrix(weekly[train, ]$Lag2)
test.X <- as.matrix(weekly.2008$Lag2)
train.Direction <- Direction[train]

set.seed(1)
knn.pred <- knn(train.X, test.X, train.Direction, k = 1)
table(knn.pred, Direction.2008)</pre>
```

```
## Direction.2008
## knn.pred Down Up
## Down 21 30
## Up 22 31

mean(knn.pred == Direction.2008)
## [1] 0.5
```

KNN when k = 1 predicts the direction of the market correctly 50% of the time.

Part H

```
nb.fit <- naiveBayes(Direction ~ Lag2, data = weekly, subset = train)</pre>
nb.fit
## Naive Bayes Classifier for Discrete Predictors
##
## naiveBayes.default(x = X, y = Y, laplace = laplace)
## A-priori probabilities:
## Y
##
        Down
                     Uр
## 0.4477157 0.5522843
##
  Conditional probabilities:
##
         Lag2
## Y
                  [,1]
                           [,2]
     Down -0.03568254 2.199504
##
           0.26036581 2.317485
nb.class <- predict(nb.fit, weekly.2008)</pre>
table(nb.class, Direction.2008)
##
           Direction.2008
## nb.class Down Up
##
       Down
               0 0
##
              43 61
       Uр
mean(nb.class == Direction.2008)
```

[1] 0.5865385

Naive Bayes correctly predicts the direction of the market 58.7% of the time; however, it incorrectly predicts when the market goes down in every test case.

Part I

```
## algorithm accuracy
## 1 Logistic 0.6250000
## 2 LDA 0.6250000
## 3 QDA 0.5865385
## 4 KNN 0.5000000
## 5 Naive Bayes 0.5865385
```

Logistic regression and LDA provide the best results.

Part J

```
# Evaluate logistic regression using Lag 1 and Lag2
glm.j <- glm(
 Direction ~ Lag1 + Lag2, data = weekly, family = binomial, subset = train)
test.probs.j <- predict(glm.train, weekly.2008, type = "response")</pre>
test.pred.j <- rep("Down", 104)</pre>
test.pred.j[test.probs.j > 0.5] <- "Up"</pre>
table(test.pred.j, Direction.2008)
              Direction.2008
## test.pred.j Down Up
##
          Down
                   9 5
##
          Uр
                  34 56
mean(test.pred.j == Direction.2008)
## [1] 0.625
```

The addition of Lag2 as a predictor in the model does not change the accuracy of the model.

```
# Evaluate logistic regression with the interaction between Lag1 and Lag2
glm.int.j<- glm(
   Direction ~ Lag1 * Lag2 * Lag3, data = weekly, family = binomial, subset = train)
test.probs.int.j <- predict(glm.train, weekly.2008, type = "response")
test.pred.int.j <- rep("Down", 104)
test.pred.int.j[test.probs.j > 0.5] <- "Up"
table(test.pred.int.j, Direction.2008)</pre>
```

```
##
                   Direction.2008
## test.pred.int.j Down Up
              Down
##
                      9 5
##
              Uр
                      34 56
mean(test.pred.int.j == Direction.2008)
## [1] 0.625
Modeling the interaction of Lag1, Lag2, and Lag3 does not change the accuracy of predictions.
# Evaluate LDA and QDA using x^2 transformation
lda.fit.j <- lda(Direction ~ I(Lag2^2), data = weekly, subset = train)</pre>
lda.fit.j
## Call:
## lda(Direction ~ I(Lag2^2), data = weekly, subset = train)
## Prior probabilities of groups:
##
        Down
## 0.4477157 0.5522843
##
## Group means:
##
        I(Lag2^2)
## Down 4.828121
         5.428657
## Up
## Coefficients of linear discriminants:
##
## I(Lag2^2) 0.06583971
lda.pred.j <- predict(lda.fit.j, weekly.2008)</pre>
lda.class.j <- lda.pred.j$class</pre>
table(lda.class.j, Direction.2008)
              Direction.2008
## lda.class.j Down Up
##
          Down
                   0 0
##
                  43 61
          Uр
mean(lda.class.j == Direction.2008)
## [1] 0.5865385
qda.fit.j <- qda(Direction ~ I(Lag2^2), data = weekly, subset = train)</pre>
qda.fit.j
## Call:
## qda(Direction ~ I(Lag2^2), data = weekly, subset = train)
```

```
##
## Prior probabilities of groups:
##
        Down
## 0.4477157 0.5522843
##
## Group means:
        I(Lag2^2)
## Down 4.828121
## Up
         5.428657
qda.class.j <- predict(qda.fit.j, weekly.2008)$class</pre>
table(qda.class.j, Direction.2008)
##
              Direction.2008
## qda.class.j Down Up
          Down
                  4 6
##
          Uр
                  39 55
mean(qda.class.j == Direction.2008)
## [1] 0.5673077
An x^2 transformation of Lag2 weakens the accuracy of the LDA and QDA model.
# KNN using k = 5 and k = 10
set.seed(4)
knn.pred.j <- knn(train.X, test.X, train.Direction, k = 5)</pre>
table(knn.pred.j, Direction.2008)
##
             Direction.2008
## knn.pred.j Down Up
         Down 16 21
                27 40
##
         Uр
mean(knn.pred.j == Direction.2008)
## [1] 0.5384615
set.seed(5)
knn.pred.j2 <- knn(train.X, test.X, train.Direction, k = 10)</pre>
table(knn.pred.j2, Direction.2008)
              Direction.2008
## knn.pred.j2 Down Up
          Down
                 17 20
                 26 41
##
          Uр
```

```
mean(knn.pred.j2 == Direction.2008)
```

[1] 0.5576923

Accuracy of KNN model increases when k=5 and increases more when k=10.

Question 16

Investigate Boston dataset

```
boston <- Boston
summary(boston)</pre>
```

```
##
                                             indus
                                                              chas
         crim
           : 0.00632
                                               : 0.46
##
   Min.
                       Min.
                              : 0.00
                                        Min.
                                                         Min.
                                                                :0.00000
   1st Qu.: 0.08205
                       1st Qu.: 0.00
                                         1st Qu.: 5.19
                                                         1st Qu.:0.00000
   Median : 0.25651
                       Median: 0.00
                                        Median: 9.69
                                                         Median :0.00000
##
          : 3.61352
                             : 11.36
                                               :11.14
                                                                :0.06917
   Mean
                       Mean
                                        Mean
                                                         Mean
   3rd Qu.: 3.67708
                       3rd Qu.: 12.50
##
                                         3rd Qu.:18.10
                                                         3rd Qu.:0.00000
                                                :27.74
##
   {\tt Max.}
           :88.97620
                       Max.
                              :100.00
                                        Max.
                                                         Max.
                                                                :1.00000
##
                                                            dis
         nox
                           rm
                                           age
##
   Min.
           :0.3850
                     Min.
                            :3.561
                                     Min.
                                            : 2.90
                                                       Min.
                                                              : 1.130
##
   1st Qu.:0.4490
                     1st Qu.:5.886
                                     1st Qu.: 45.02
                                                       1st Qu.: 2.100
##
  Median :0.5380
                     Median :6.208
                                     Median : 77.50
                                                       Median : 3.207
##
  Mean
           :0.5547
                     Mean
                            :6.285
                                     Mean
                                           : 68.57
                                                       Mean
                                                             : 3.795
##
   3rd Qu.:0.6240
                     3rd Qu.:6.623
                                     3rd Qu.: 94.08
                                                       3rd Qu.: 5.188
##
   Max.
           :0.8710
                     Max.
                            :8.780
                                     Max.
                                             :100.00
                                                       Max.
                                                              :12.127
##
                                                          black
         rad
                          tax
                                        ptratio
##
                            :187.0
   Min. : 1.000
                                     Min.
                                            :12.60
                                                      Min.
                                                             : 0.32
                     Min.
   1st Qu.: 4.000
                     1st Qu.:279.0
                                     1st Qu.:17.40
##
                                                      1st Qu.:375.38
##
   Median : 5.000
                     Median :330.0
                                                      Median :391.44
                                     Median :19.05
   Mean
          : 9.549
                     Mean
                            :408.2
                                     Mean
                                            :18.46
                                                      Mean
                                                             :356.67
                     3rd Qu.:666.0
                                     3rd Qu.:20.20
                                                      3rd Qu.:396.23
##
   3rd Qu.:24.000
##
   Max.
           :24.000
                     Max.
                            :711.0
                                     Max.
                                            :22.00
                                                      Max.
                                                             :396.90
##
       lstat
                         medv
   Min.
           : 1.73
                           : 5.00
                    Min.
                    1st Qu.:17.02
##
   1st Qu.: 6.95
## Median :11.36
                    Median :21.20
## Mean
           :12.65
                    Mean
                           :22.53
   3rd Qu.:16.95
##
                    3rd Qu.:25.00
## Max.
           :37.97
                    Max.
                           :50.00
```

```
cor_boston <- cor(boston)
View(cor_boston)</pre>
```

Create training and test data from Boston dataset

```
# Create training and test sets

smp_size <- floor(0.75 * nrow(boston))

set.seed(2)
train.ind <- sample(seq_len(nrow(boston)), replace = F, size = smp_size)

train.bos <- boston[train.ind, ]
test.bos <- boston[-train.ind, ]

mcrim.test <- as.factor(boston$mcrim[-train.ind])</pre>
```

Logistic Regression

We first create a logistic regression model using the variables most associated with crime rate as the predictors.

```
##
## Call:
## glm(formula = mcrim ~ rad + tax + lstat + indus + black + medv,
      family = binomial, data = boston, subset = train.ind)
##
## Coefficients:
##
              Estimate Std. Error z value Pr(>|z|)
## (Intercept) 3.320367
                        2.418384 1.373 0.169762
## rad
             -0.557427
                        0.123586 -4.510 6.47e-06 ***
              0.002759 0.002383 1.158 0.247019
## tax
## lstat
             0.035411 -3.978 6.95e-05 ***
             -0.140871
## indus
## black
              0.011508
                        0.005201
                                  2.213 0.026921 *
## medv
             -0.093802
                        0.025274 -3.711 0.000206 ***
## Signif. codes: 0 '*** 0.001 '** 0.01 '* 0.05 '.' 0.1 ' 1
## (Dispersion parameter for binomial family taken to be 1)
##
      Null deviance: 525.19 on 378 degrees of freedom
## Residual deviance: 252.72 on 372 degrees of freedom
## AIC: 266.72
##
## Number of Fisher Scoring iterations: 8
```

```
blog.probs <- predict(glm.boston, test.bos, type = "response")</pre>
contrasts(boston$mcrim)
        below
##
## above
## below
blog.pred <- rep("below", length(test.bos))</pre>
blog.pred[blog.probs < 0.5] <- "above"</pre>
table(blog.pred, mcrim.test)
##
          mcrim.test
## blog.pred above below
##
      above
              53
##
      below
              8
(53 + 6) / (53 + 8 + 7 + 6)
## [1] 0.7972973
Removing the least significant variable, tax, does not improve the results of the logistic regression
# Logistic regression using rad, lstat, indus, black, and medu
glm.boston2 <- glm(mcrim ~ rad + lstat + indus + black + medv,</pre>
               data = boston, family = binomial, subset = train.ind)
summary(glm.boston2)
##
## Call:
## glm(formula = mcrim ~ rad + lstat + indus + black + medv, family = binomial,
      data = boston, subset = train.ind)
##
##
## Coefficients:
             Estimate Std. Error z value Pr(>|z|)
## (Intercept) 3.916257 2.380202 1.645 0.099898 .
            ## rad
            ## lstat
## indus
             ## black
## medv
             ## ---
## Signif. codes: 0 '*** 0.001 '** 0.01 '* 0.05 '.' 0.1 ' ' 1
## (Dispersion parameter for binomial family taken to be 1)
##
      Null deviance: 525.19 on 378 degrees of freedom
## Residual deviance: 254.09 on 373 degrees of freedom
## AIC: 266.09
##
## Number of Fisher Scoring iterations: 8
```

```
blog2.probs <- predict(glm.boston2, test.bos, type = "response")
blog2.pred <- rep("below", length(test.bos))
blog2.pred[blog.probs < 0.5] <- "above"

table(blog2.pred, mcrim.test)

## mcrim.test
## blog2.pred above below
## above 53 7</pre>
```

Linear Discriminant Analysis

8

6

below

##

LDA model has slightly better accuracy than logistic regression using the same set of predictors.

```
# LDA using rad, lstat, indus, black, and medv
lda.boston <- lda(mcrim ~ rad + lstat + indus + black + medv,</pre>
                   data = boston, subset = train.ind)
lda_bos.pred <- predict(lda.boston, test.bos)</pre>
lda_bos.class <- lda_bos.pred$class</pre>
table(lda_bos.class, mcrim.test)
##
                 mcrim.test
## lda_bos.class above below
##
           above
                     46
                             4
##
           below
                     22
                            55
(46 + 55) / (46 + 55 + 22 + 4)
```

```
## [1] 0.7952756
```

lda bos2.class above below

above

below

##

##

39

29

13

46

We create an LDA model using just lstat and medv which were variables of interest when we analyzed Boston dataset in a previous homework assignment. We see the accuracy of the model gets worse.

```
(39 + 46) / (39 + 46 + 29 + 13)
## [1] 0.6692913
```

Naive Bayes

Naive Bayes returns similar results to logistic regression and LDA but is slightly worse.

[1] 0.7716535

Naive Bayes using just lstat and medv as predictors is considerably worse at predicting the test data.

```
# Naive Bayes using just lstat and medv
nb_bos2.fit <- naiveBayes(mcrim ~ lstat + medv,</pre>
                          data = boston, subset = train.ind)
nb_bos2.class <- predict(nb_bos2.fit, test.bos)</pre>
table(nb_bos2.class, mcrim.test)
##
                 mcrim.test
## nb_bos2.class above below
##
           above
                     41
                            11
##
           below
                     27
                            48
(41 + 48) / (41 + 48 + 27 + 11)
```

[1] 0.7007874

K-Nearest Neighbor

KNN yields the best results at predicting the crime rate across all classifiers tested. The best model uses rad, lstat, indus, black, and medv variables as predictors. Increasing the value of k form 1 to 3 does not affect the accuracy of the model.

```
# KNN using rad, lstat, indus, black, and medu
bos.train <- cbind(boston$rad, boston$lstat, boston$indus, boston$black, boston$medv)[train.ind,]
bos.test <- cbind(boston$rad, boston$lstat, boston$indus, boston$black, boston$medv)[-train.ind, ]
bos.mcrim <- boston$mcrim[train.ind]</pre>
set.seed(3)
knn_bos.pred <- knn(bos.train, bos.test, bos.mcrim, k = 1)</pre>
table(knn_bos.pred, mcrim.test)
##
               mcrim.test
## knn_bos.pred above below
          above
                   58
##
          below
                    10
(58 + 47) / (58 + 47 + 10 + 12)
## [1] 0.8267717
# KNN using rad, lstat, indus, black, and medv k=3
set.seed(3)
knn_bos2.pred <- knn(bos.train, bos.test, bos.mcrim, k = 3)</pre>
table(knn_bos2.pred, mcrim.test)
##
                mcrim.test
## knn_bos2.pred above below
           above
                    56
                           10
##
           below
                    12
                           49
(56 + 49) / (56 + 49 + 12 + 10)
## [1] 0.8267717
# KNN using lstat and medv
bos2.train <- cbind(boston$lstat, boston$medv)[train.ind, ]</pre>
bos2.test <- cbind(boston$lstat, boston$medv)[-train.ind, ]</pre>
set.seed(3)
knn_bos3.pred <- knn(bos2.train, bos2.test, bos.mcrim, k = 3)</pre>
table(knn_bos3.pred, mcrim.test)
##
                mcrim.test
## knn_bos3.pred above below
                    45
##
           above
                           19
##
           below
                     23
                           40
```

```
(45 + 40) / (45 + 40 + 23 + 19)
```

[1] 0.6692913