

The background of the slide is a collage of blue-toned financial and technological imagery. It includes a central robot figure, various line and bar charts, a world map, a globe, and currency symbols like the dollar sign and the Phi symbol. The overall theme is AI and finance.

MGMT 675

AI-ASSISTED FINANCIAL ANALYSIS



RICE | BUSINESS

Jones Graduate School of Business

CLASSIFICATION

CATEGORICAL TARGET VARIABLES

- Binary (off/on, yes/no, ...)
- Multiclass
- Same sets of models: linear, trees, neural nets, ...

BINARY EXAMPLES

- Random forest
- Gradient boosting
- Linear (logistic regression)

BINARY DATA

- Upload irrelevant_features.xlsx to Julius
- Ask Julius to read it
- Tell Julius that y2 is the target variable and x1 through x50 are the features
- y2 is a “high-low” version of $y1 = x1 + \text{noise}$.

RANDOM FOREST

- Ask Julius to do a train-test split and train a random forest on the training data.
- Ask Julius to produce a confusion matrix for the training data and a confusion matrix for the test data.
- Ask Julius to produce a ROC curve for the test data and to explain it.

LINEAR MODEL (LOGISTIC REGRESSION)

- For binary variables but can be extended
- Transform binary variable to 0 and 1 dummy variable
- Choose parameters α, β_i to maximize fit of

$$\frac{1}{1 + e^{-\alpha - \beta_1 x_1 - \dots - \beta_n x_n}}$$

to the dummy variable.

- Can do shrinkage

TO BE CONTINUED