

Lecture 1

Changes and Percentages

1 Introduction

Data is ever-present. Every second, a bunch of 30'000 GB of data is released and collected across the world. Newspapers, TV shows, radio podcasts are delivering and commenting data. Economics, sociology and others social sciences are primarily based on data. Data is numbers, facts, figures, information, evidence and details. The goal of this course is to give you the toolbox for reading, understanding, analysing and mastering data. To do so, we go through some of the basic concepts of statistics. Quantitative Tools is about descriptive statistic with a pinch of financial calculus and a favour of applied arithmetic.

What are Statistics ? Statistics are the practice or science of collecting and analysing numerical data in large quantities, especially for the purpose of inferring proportions in a whole from those in a representative sample.

The fairy tale of Statistics - a quick history of Statistics

Statistics are born with the will of collecting taxes and drafting. The first recorded uses of Statistics are census, dating back from 3000 BC, in Mesopotamia and Ancient Egypt. China empire, 2000 BC, also used Statistics for farming conversion tables and census. During the Roman Empire, Statistics became more prevalent as the *censor*, a Roman magistrate in charge of the Census - a register of the citizens and of their property, was very influential. The use of Statistics declined somewhat during Middle Age. However, one can note the census made under Charlemagne reign and the fire census made in France in 1328 (*State of fire of 1328*) by Philippe VI, which counted 61,098 fires (the measure of households at the times) in Paris. In 1526, the French economist Jean Bodin published *La République*, a book in which he pointed out the benefits of counts for policy-making. Hermann Conring, a German intellectual, was the first to lecture on Statistics in a course named *Noticia rerum publicarum*. During the XVII century, the use of Statistics expanded in England where William Petty devised techniques for land surveying and developed the concept of "political arithmetic" : "*the art of reasoning by figures, upon things relating to government*".

Statistics changed radically with the development of probabilities as done by Pascal works (1623-1662), Fermat (1601-1665), Huygens (1629-1695) and Bernoulli (1655-1705). In particular, Gauss (1777-1855) legacy (Gaussian distribution, Gaussian-Markov law) is a cornerstone for the use of advanced mathematics tools in statistics use.

The XXth century is characterised by the rise of mathematical statistics with the work made by Pearson (1857-1936), and Russians Markov (1856-1922) and Tchebychev (1821-1894) after whom is named a famous inequality used for the proof of the Law of large numbers¹.

Today, Statistics are widely used for both analyzing data (descriptive statistics) and forecasting (inductive statistics).

2 Preliminary vocabulary of Statistics

Like any other sciences, Statistics has its own vocabulary. Here is the short-list of some of the most widely used words and their definitions.

¹The law of large numbers states that the sample average converges in probability towards the expected value, in other words that as a sample size grows, its mean will get closer and closer to the average of the whole population

- **Population** : The entire set of items from which the analysed data can be selected. Items from a population share at least one property in common.
- **Sample** : A subset of a population that is obtained through some process, possibly random selection or selection based on a certain set of criteria, for the purposes of investigating the properties of the underlying parent population.
- **Variable** : A quantity that varies and take different values. For example, the income of inhabitants of a given country is a variable. A variable can be either **qualitative** (also named categorical) - if the population is the students of a class, a qualitative variable is for instance the hair color - or **quantitative** (also named numeric), the height for example. If the variable is quantitative, it can be either **discrete** (example: the number of children per family) or **continuous** (example: the height). A quantitative variable can be discretize by putting its values in intervals.

Example 2.1. Qualitative vs Quantative Variables

Table 1: Example of a qualitative and a quantitative variable

| | Hair Color | Height (cm) |
|--------|--------------|-------------|
| Alice | dark-haired | 174 |
| Bob | blond-haired | 180 |
| Craig | dark-haired | 176 |
| Dave | red-haired | 164 |
| Eve | light-auburn | 186 |
| Franck | light-brown | 173 |

Table 2: Discretization of height

| | Height (by intervals) |
|--------|-----------------------|
| Alice | 165-175cm |
| Bob | 175-185cm |
| Craig | 175-185cm |
| Dave | <165cm |
| Eve | >185cm |
| Franck | 165-175cm |

- **Frequency** : The number of times that a particular value occurs as an observation (in an experiment). Frequencies are usually graphically represented in histograms (for quantitative data) or bar plot (for qualitative data).

Example 2.2. The number of M&Ms in a standard 100g bag

| | Frequencies of candies per bag (approx.) |
|--------|--|
| Blue | 10 |
| Brown | 7 |
| Green | 10 |
| Orange | 11 |
| Red | 8 |
| Yellow | 8 |

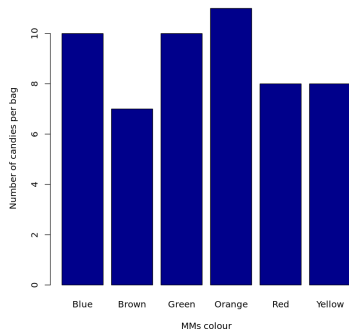


Figure 1: Bar plot of MMs per bag

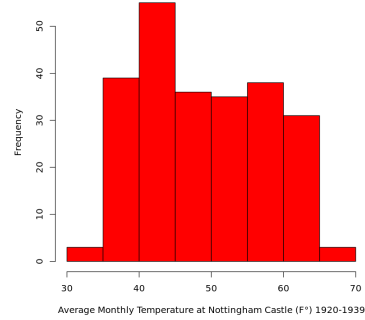


Figure 2: Average Monthly Temperatures at Nottingham, 1920–1939

- **Relative Frequency:** Relative frequency is another term for proportion; it is the value calculated by dividing the number of times an event occurs by the total number of events. The relative frequency is usually represented in percentages.

Example 2.3. The number of M&Ms in a standard 100g bag

| Relative frequency of candies per bag (approx.) | | |
|---|------|-----|
| Blue | 0.19 | 19% |
| Brown | 0.12 | 12% |
| Green | 0.19 | 19% |
| Orange | 0.2 | 20% |
| Red | 0.15 | 15% |
| Yellow | 0.15 | 15% |

3 Absolute and relative changes, Percentages

In this section, we analyze two different measures of the changes of a variable : absolute and relative changes.

3.1 Definitions

3.1.1 Absolute change

The absolute change of a variable is the difference between its new value and its old value. For instance, if Alice's income was \$40,000 in 2014 and is \$45'000 in 2015. The absolute change of Alice's income is :

$$\$45,000 - \$40,000 = \$5,000$$

Usually, we the greek letter Δ (delta) is used to denote the absolute change. So, if Alice's income is denoted by letter W , the absolute change of Alice's income between 2015 and 2014 is :

$$\Delta W = W_{2015} - W_{2014}$$

The absolute change of a variable should not be mistaken with the *absolute difference* which is the absolute value of the difference of two numbers (more info here : [absolute difference - Wikipedia](#)).

3.1.2 Relative change

The relative change of a variable express the absolute change relatively to the past value of the variable. The relative change of Alice's income between 2014 and 2015 is :

$$\frac{\$45,000 - \$40,000}{\$40,000} = 0.125$$

Formally written :

$$\text{Relative change of } X = \frac{\Delta X}{X}$$

So for Alice's income :

$$\frac{\Delta W}{W} = \frac{W_{2015} - W_{2014}}{W_{2014}}$$

The relative change is more useful than the absolute change when it comes to comparison : if the price of a brand new Tesla car goes from \$87,500 to \$87,501 and the price of the cream cheese bagel down the street goes from \$2 to \$3, the absolute change is exactly the same in both cases but the comparison does not make a lot of sense. In contrast, the relative change of the Tesla's price is 0.00001 while cream cheese bagel's is 0.5 (that's 43,750 times less).

The relative change is equivalent to the absolute change stated in the *variable unit*. For example, one could say that the price of the bagel has increased by 0.5 'bagel price'.

Relative change is usually stated in percentages. Thus, one would rather say that's the price of the bagel has increased by 50% (and the price of the Tesla by 0.001%).

3.1.3 Percentages

An old and widespread convention is to express *ratio* or *relative* change as a fraction of 100.

For example, 344 women out of 470 on board Titanic HMS survived the sinking ; so 73% of the women survived :

$$\frac{344}{470} * 100 = 73\%$$

In percentages, relative change becomes :

$$Relative\ change\ of\ X = \frac{\Delta X}{X} * 100 = \frac{X_{final} - X_{initial}}{X_{initial}} * 100$$

3.2 Operations on percentages

3.2.1 Multiplying factor

When doing calculus on percentages to describe relatives changes, it's better to use the multiplying factor. For a relative change of $x\%$, **multiplying factor** is equal to

$$1 + \frac{x}{100}$$

Example 3.1. Bob's income between 2013 and 2015

If Bob's income has increased by 25% in 2014 and decreased by 20% in 2015, how has changed Bob income between 2013 and 2015 ?

Imagine Bob was paid \$100 in 2013. As his income increased by 25%, he was then paid in 2014 :

$$\$100 + \frac{25}{100} * \$100 = \$125$$

And as his income decreased by 20% in 2015, his income is in 2015 :

$$\$125 - \frac{20}{100} * \$125 = \$100$$

So Bob is exactly making the same amount of money in 2015 as he was in 2013.

Using the multiplying factor:

Bob's income was multiplied by 1.25 in 2014. In 2015, Bob's income was multiplied by :

$$1 + \frac{-20}{100} = 0.80$$

So, Bob's income between 2013 and 2015 was multiplied by $1.25 * 0.8 = 1$

Hike and drop : no symmetry : A hike of $x\%$, succeeded by a drop of $x\%$ is not a return to the initial value.

Indeed :

$$y * (1 + x) * (1 - x) = y * (1 - x + x - x^2) = y * (1 - x^2) \neq y$$

Example 3.2. The books of Mr. Swann

Charles Swann, a book collector, has 10,000 books. After a walk to Combray Flea Market, he increased his collection by 15%. But unfortunately, a fire destroyed 15% of his collection the following night.

Does Mr. Swann have more or less books after the fire than he did before his walk to Combray Flea Market ?
Less.

Recall that Mr. Swann had 10,000 books before his walk to the flea market. After his purchases, Mr. Swann has :

$$10,000 * (1 + \frac{15}{100}) = 1.15 * 10,000 = 11,500$$

And after the fire which destroyed 15% of its collection :

$$11,500 * N * (1 - \frac{15}{100}) = 1.15 * 0.85 * 11,500 = 9775$$

At the end, Mr. Swann has only 9775 books left.

Successive changes are independent of their order of application : An increase by $a\%$ followed by a increase of $b\%$ is the same as an increase by $b\%$ followed by an increase of $a\%$.

Aggregate change of successive changes : An increase by $a\%$ followed by a increase of $b\%$ is equal to an increase of :

$$y * (1 + \frac{a}{100}) * (1 + \frac{b}{100}) = y * (1 + \frac{a}{100} + \frac{b}{100} + \frac{ab}{100 * 100})$$

Example 3.3. The factory of Mr. Wonka

The annual output of the factory of Mr. Wonka is 1 million kilograms of chocolate. Thanks to a groundbreaking process, the output of the factory increase by 10% the first year and by 15% the second year. In two years, the ouput of Mr. Wonka has increased by 26.5% (and not 30%):

$$(1 + \frac{10}{100}) * (1 + \frac{15}{100}) = 1 + \frac{26.5}{100}$$

Average growth rate : Using the example of Mr. Wonka's factory, what was the average growth rate of the ouput during the last two years ?

$$\sqrt{(1 + \frac{10}{100}) * (1 + \frac{15}{100})} = \sqrt{1 + \frac{26.5}{100}} \approx 1.12$$

So the average growth rate of the output is around 12%.

More formally :

If a variable increase by $a\%$, then $b\%$, and then $c\%$, then the average growth rate is :

$$\text{Average growth rate} = \left((1 + \frac{a}{100}) * (1 + \frac{b}{100}) * (1 + \frac{c}{100}) \right)^{\frac{1}{3}}$$