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Chapter 5: Large Random Samples

Mariona Segú

Assistant Professor
Thema, CY Cergy Paris Université

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1. Introduction: What Statistics Does

- **Statistics** aims to draw conclusions about a population using information from a sample.

- An **experiment** is a process that generates data —that is, a sample.

- A **sample** is a set of observed values of one or more random variables, obtained from one or several repetitions of the experiment.

- To make valid **inferences** about the population, we need to know how likely it is to observe a given sample.

- This, in turn, requires understanding the **probability distributions of the random variables** that generated the data.

1. Introduction: Probability and Approximations

- In practice, knowing the exact probability distribution is often difficult:
  - The calculations may be complex.
  - The number of variables involved may be large.

- When we have **large random samples**, we can use powerful **approximation results** to simplify inference:
  - Law of Large Numbers
  - Central Limit Theorem

- These approximations make statistical inference feasible, even when exact probability functions are unknown.

1. Introduction

Proportion of Heads

If you flip a fair coin, you know that the probability of heads is $\frac{1}{2}$. However, in a small number of flips, the observed proportion of heads will rarely be exactly $\frac{1}{2}$. For instance, if you flip the coin 10 times, it is unlikely to get exactly 5 heads; and if you flip it 100 times, it is even less likely to get exactly 50. We can compute

these probabilities using the binomial distribution with parameters n and $p = \frac{1}{2}$. If X denotes the number of heads in 10 independent flips, then:

$$P(X = 5) = \binom{10}{5} \left(\frac{1}{2}\right)^5 \left(1 - \frac{1}{2}\right)^5 = 0.2461.$$

1. Introduction

> **Proportion of Heads**
>
> If Y is the number of heads in 100 independent flips, we have
>
> $$Pr(Y = 50) = \binom{100}{50} \left(\frac{1}{2}\right)^{50} \left(1 - \frac{1}{2}\right)^{50}$$
> $$= 0.0796.$$
>
> Even though the probability of exactly $\frac{n}{2}$ heads in n flips is quite small, especially for large n, you still expect the proportion of heads to be close to $\frac{1}{2}$ if n is large.

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Proportion of Heads

For example, if $n = 10$, the proportion of heads is $\frac{X}{10}$. In this case, the probability that the proportion is within 0.1 of $\frac{1}{2}$ is

$$P\left(0.4 \leq \frac{X}{10} \leq 0.6\right) = P(4 \leq X \leq 6)$$

$$= \sum_{i=4}^{6} \binom{10}{i} \left(\frac{1}{2}\right)^i \left(1 - \frac{1}{2}\right)^{10-i}$$

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Proportion of Heads

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$$= \sum_{i=4}^{6} \binom{10}{i} \left(\frac{1}{2}\right)^i \left(1 - \frac{1}{2}\right)^{10-i}$$

$$= B(10, 0.5, x = 6) - B(10, 0.5, x = 3) = 0.828 - 0.172 = 0.6563$$

For $n = 100$, the **probability that the sample proportion is within 0.1 of** $\frac{1}{2}$ increases to approximately **0.965**.

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1. Introduction

Queuing Time

Consider a queue serving customers, where the waiting time of the i-th customer is a random variable X_i. Suppose $X_1, X_2, \ldots$ are i.i.d. random variables following a uniform distribution on the interval $[0, 1]$. The mean waiting time is therefore 0.5.

Intuitively, the average waiting time over many customers should be close to this mean. However, for any finite sample size $n > 1$, the exact distribution of the sample average $\overline{X}$ is quite complicated. It is generally difficult to compute precisely the probability that the sample average is close to 0.5 when n is large.

So, even when each X_i has a simple uniform distribution, finding the exact distribution of $\bar{X}_n$ quickly becomes computationally cumbersome.

1. Introduction

In these cases, when sample is large we will be able to use:

- The **law of large numbers**: to show that the average of a large sample of i.i.d. random variables should be close to their mean.

- The **central limit theorem:** to approximate the probability distribution function of large random samples.

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A Random Variable vs. An Observation

Definition

A **random variable (RV)** is a rule that assigns a numerical value to each possible outcome of a random experiment. It is a *mathematical object*.

- It represents uncertainty: it represents the outcome of a random process *before* we actually observe it.

- It has a **probability distribution** describing how likely each outcome is.

Definition

An **observation** (or **realization**) is the actual value taken by a random variable once the experiment has been performed.

- It is the **observed outcome** of a random variable.

- It is a fixed number, not random.

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2. The Law of Large Numbers

- The average of a random sample of i.i.d. random variables is called the **sample mean**.

- The sample mean provides a summary of the sample, just as the **expected value** summarizes the information contained in a probability distribution of a random variable.

- In this section, we explore the connection between the sample mean and the expected value of the underlying random variables that make up the sample.

2. The Law of Large Numbers

- The **Law of Large Numbers (LLN)** states that:
    "*If an experiment is repeated independently many times and the results are averaged, the average will be close to the expected value.*"

- There are two main versions of the LLN:
    - The *Weak Law of Large Numbers (WLLN)*
    - The *Strong Law of Large Numbers (SLLN)*

- The distinction between the two is mostly theoretical —both express the idea that sample averages converge to expected values as the sample size grows.

- In what follows, we focus on the **Weak Law of Large Numbers**.

- But before that, let us define the *sample mean*.

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2. The Law of Large Numbers

Definition. For i.i.d. random variables $X_1, X_2, \ldots, X_n$, the **sample mean**, denoted by $\overline{X}$, is defined as

$$\overline{X} = \frac{X_1 + X_2 + \cdots + X_n}{n}.$$

Since each X_i is a random variable, the sample mean $\overline{X}$ is also a random variable. In particular, its expected value is:

$$
\begin{aligned}
E[\overline{X}] &= \frac{E[X_1] + E[X_2] + \cdots + E[X_n]}{n} \\
&= \frac{nE[X]}{n} \qquad\qquad \text{(since } E[X_i] = E[X] \text{ for all } i) \\
&= E[X].
\end{aligned}
$$

Note: All random variables $X_1, \ldots, X_n$ are drawn from the same probability distribution and share the same expected value.

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2. The Law of Large Numbers

Let us now look at the **variance** of the sample mean $\overline{X}$.

Recall that for any random variable X,

$$\text{Var}(X) = E\left[(X - E[X])^2\right].$$

Before we compute the variance of $\overline{X}$, let us first review how variance behaves under scaling. Specifically, we will find the variance of aX, where a is a constant.

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2. The Law of Large Numbers

To find how variance behaves when a random variable is multiplied by a constant a:

$$\begin{aligned}
\mathrm{Var}(aX) &= E\left[(aX - E[aX])^2\right] \\
&= E\left[(aX - aE[X])^2\right] \\
&= E\left[a^2(X - E[X])^2\right] \\
&= a^2 E\left[(X - E[X])^2\right] \\
&= a^2 \mathrm{Var}(X).
\end{aligned}$$

Conclusion: Multiplying a random variable by a constant a scales its variance by a^2.

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2. The Law of Large Numbers

The variance of the sample mean $\overline{X}$ is given by:

$$\mathrm{Var}(\overline{X}) = \mathrm{Var}\left(\frac{X_1 + X_2 + \cdots + X_n}{n}\right)$$

$$\mathrm{Var}(\overline{X}) = \frac{\mathrm{Var}(X_1 + X_2 + \cdots + X_n)}{n^2} \qquad \text{(since } \mathrm{Var}(aX) = a^2\mathrm{Var}(X$$

$$= \frac{\mathrm{Var}(X_1) + \mathrm{Var}(X_2) + \cdots + \mathrm{Var}(X_n)}{n^2}$$

(independent X_i: covariances are zero)

$$= \frac{n\,\mathrm{Var}(X)}{n^2} \qquad \text{(since all } X_i \text{ have the same}$$

$$= \frac{\mathrm{Var}(X)}{n}.$$

Note: The variance of the sample mean decreases with the sample size —as n grows, $\overline{X}$ becomes less variable and concentrates around $E[X]$.

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2. The Law of Large Numbers

Let us now state and prove the **Weak Law of Large Numbers (WLLN)**.

Theorem (WLLN). Let $X_1, X_2, \ldots, X_n$ be i.i.d. random variables with finite expected value $E[X_i] = \mu < \infty$. Then, for any $\epsilon > 0$,

$$\lim_{n \to \infty} P(|\overline{X} - \mu| \geq \epsilon) = 0.$$

Interpretation: As the sample size n increases, the probability that the sample mean $\overline{X}$ deviates from the population mean μ by more than ϵ approaches zero.

In other words, the sample mean converges in probability to the expected value.

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2. The Law of Large Numbers
Proof of the Weak Law of Large Numbers

To prove the WLLN, we will use two key results:

- *Markov's Inequality*
- *Chebyshev's Inequality*

Markov's Inequality. Let X be a random variable that takes only nonnegative values. Then, for any $a > 0$,

$$P(X \geq a) \leq \frac{E[X]}{a}.$$

Interpretation: Markov's inequality bounds the probability that a nonnegative random variable exceeds a multiple of its mean. For example:

$$P(X \geq 2E[X]) \leq \frac{1}{2}, \quad P(X \geq kE[X]) \leq \frac{1}{k}.$$

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2. The Law of Large Numbers

Markov Example

Suppose the average grade on an upcoming Probability exam is $E[X] = 12$. What is the maximum possible proportion of students who can score at least 15?

$$P(X \geq 15) \leq \frac{E[X]}{15} = \frac{12}{15} = \frac{4}{5}.$$

So, at most 80% of students could possibly score this high. However, to achieve this average, we would need a very extreme distribution:

$\frac{4}{5}$ of the class scoring exactly 15, and $\frac{1}{5}$ scoring 0.

This illustrates how Markov's bound can be very loose in realistic cases.

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2. The Law of Large Numbers

Markov Example 2

Consider a random variable X that takes the value 0 with probability $\frac{24}{25}$ and the value 5 with probability $\frac{1}{25}$.

$$E[X] = \frac{24}{25} \cdot 0 + \frac{1}{25} \cdot 5 = \frac{1}{5}.$$

Let's use Markov's inequality to find an upper bound on the probability that $X \geq 5$:

$$P(X \geq 5) \leq \frac{E[X]}{5} = \frac{1/5}{5} = \frac{1}{25}.$$

But this is exactly the true probability that $X = 5$! *In this case, Markov's inequality is exact —we say it is* **tight**.

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2. The Law of Large Numbers

From Markov to Tchebysheff: Let $Y = (X - E[X])^2$. Then $E[Y] = \text{Var}(X)$. By Markov's inequality, we have:

$$P(Y \geq a^2) \leq \frac{E[Y]}{a^2} = \frac{\text{Var}(X)}{a^2}.$$

Notice that the event $Y = (X - E[X])^2 \geq a^2$ is equivalent to $|X - E[X]| \geq a$. Hence, we obtain:

$$P(|X - E[X]| \geq a) \leq \frac{\text{Var}(X)}{a^2}.$$

This result is known as 'Tchebysheff's inequality'.

2. The Law of Large Numbers

Tchebysheff's inequality:

$$P(|X - E[X]| \geq a) \leq \frac{\text{Var}(X)}{a^2}.$$

Tchebysheff's inequality provides a bound on the probability that a random variable deviates from its expected value. If we set $a = k\sigma$, where σ is the standard deviation, then:

$$P(|X - \mu| \geq k\sigma) \leq \frac{\text{Var}(X)}{k^2\sigma^2} = \frac{1}{k^2}.$$

Example: At least 75% of the probability mass lies within 2σ of the mean, and at least 89% within 3σ. ▸ 'Ch2'

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2. The Law of Large Numbers

Proof of the Weak Law of Large Numbers (WLLN). Apply Tchebysheff's inequality to the sample mean $\overline{X}$, using $a = \epsilon$:

$$P(|\overline{X} - \mu| \geq \epsilon) \leq \frac{\text{Var}(\overline{X})}{\epsilon^2}.$$

Since $\text{Var}(\overline{X}) = \frac{\text{Var}(X)}{n}$, we obtain:

$$P(|\overline{X} - \mu| \geq \epsilon) \leq \frac{\text{Var}(X)}{n\epsilon^2},$$

which clearly goes to zero as $n \to \infty$. **Conclusion:**

$$\lim_{n \to \infty} P(|\overline{X} - \mu| \geq \epsilon) = 0.$$

In words: as the sample size increases, the sample mean becomes arbitrarily close to the population mean.

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3. The Central Limit Theorem

Many phenomena observed in the real world can be described reasonably well by a normal probability distribution. In such cases, it is often assumed that the observable random variables in a random sample $X_1, X_2, \ldots, X_n$ are independent and identically distributed, each following a **normal distribution**. We have seen that the sample mean

$$\overline{X} = \frac{1}{n} \sum_{i=1}^{n} X_i$$

has expectation $E[\overline{X}] = \mu$ and variance $\mathrm{Var}(\overline{X}) = \frac{\mathrm{Var}(X)}{n}$. Next, let us

determine the **distribution** of $\overline{X}$.

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3. The Central Limit Theorem

If $X_1, X_2, \ldots, X_n$ are drawn from a normal distribution with mean μ and variance σ^2, then their sample mean

$$\overline{X} = \frac{1}{n} \sum_{i=1}^{n} X_i$$

is also normally distributed, with

$$E[\overline{X}] = \mu, \qquad \mathrm{Var}(\overline{X}) = \frac{\sigma^2}{n}.$$

This property holds for *any* sample size n: when the underlying distribution is normal, the mean of the sample is itself normal.

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3. The Central Limit Theorem

We can standardize the sample mean to express it in standard normal units:

$$Z = \frac{\overline{X} - \mu_{\overline{X}}}{\sigma_{\overline{X}}} = \frac{\overline{X} - \mu}{\sigma/\sqrt{n}} = \sqrt{n}\,\frac{\overline{X} - \mu}{\sigma}.$$

The random variable Z follows a **standard normal distribution**.

Interpretation: when sampling from a normal population, we can measure how far the sample mean deviates from the population mean in units of its standard deviation.

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3. The Central Limit Theorem

Bottling Machine Example

A bottling machine fills bottles with an average of μ cl of liquid. The amount dispensed per bottle follows a normal distribution with standard deviation $\sigma = 1$ cl.

A random sample of $n = 9$ filled bottles is selected from the production line. What is the probability that the sample mean will be within 0.3 cl of the true mean μ?

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3. The Central Limit Theorem

Bottling Machine Example (continued)

Let $X_1, X_2, \ldots, X_9$ denote the amounts filled in each bottle. Since each $X_i \sim \mathcal{N}(\mu, \sigma^2)$ with $\sigma = 1$, we know that the sample mean

$$\overline{X} = \frac{1}{9} \sum_{i=1}^{9} X_i$$

is also normally distributed, with

$$E[\overline{X}] = \mu, \quad \text{Var}(\overline{X}) = \frac{\sigma^2}{n} = \frac{1}{9}.$$

We are interested in:

$$P(|\overline{X} - \mu| \leq 0.3) = P[-0.3 \leq (\overline{X} - \mu) \leq 0.3].$$

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3. The Central Limit Theorem

Bottling Machine Example (continued)

Standardizing with

$$Z = \frac{\overline{X} - \mu}{\sigma/\sqrt{n}},$$

we obtain:

$$P(|\overline{X} - \mu| \le 0.3) = P\left(\frac{-0.3}{1/\sqrt{9}} \le Z \le \frac{0.3}{1/\sqrt{9}}\right)$$
$$= P(-0.9 \le Z \le 0.9).$$

From the standard normal table:

$$P(-0.9 \le Z \le 0.9) = 1 - 2P(Z > 0.9) = 1 - 2(0.1841) = 0.6318.$$

Interpretation: There is about a 63% chance that the sample mean falls within 0.3 cl of the true mean.

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3. The Central Limit Theorem

Bottling Machine Example

How many observations should be included in the sample if we want the sample mean $\overline{X}$ to be within 0.3 cl of the true mean μ with probability 0.95?

We want

$$P(|\overline{X} - \mu| \le 0.3) = P[-0.3 \le (\overline{X} - \mu) \le 0.3] = 0.95.$$

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3. The Central Limit Theorem

Bottling Machine Example (continued)

$$P(|\overline{X} - \mu| \le 0.3) = P[-0.3 \le (\overline{X} - \mu) \le 0.3] = 0.95.$$

Dividing by the standard deviation of the sample mean, $\sigma_{\overline{X}} = \frac{\sigma}{\sqrt{n}}$ (with $\sigma = 1$), we obtain:

$$P\left(-0.3\sqrt{n} \le Z \le 0.3\sqrt{n}\right) = 0.95,$$

where Z follows a standard normal distribution. We know that

$$P(-z_0 \le Z \le z_0) = 0.95 \quad \Rightarrow \quad z_0 = 1.96.$$

Therefore, $\quad 0.3\sqrt{n} = 1.96 \quad \Rightarrow \quad n = \left(\frac{1.96}{0.3}\right)^2 = 42.68.$

Hence, $n \approx 43$ observations are required.

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3. The Central Limit Theorem

- When we sample from a normal population, the sample mean $\overline{X}$ follows a normal sampling distribution.

- But what happens if the underlying variables X_i are *not* normally distributed?

- Fortunately, even in that case, the distribution of $\overline{X}$ becomes approximately normal as the sample size n increases.

- This remarkable result is known as the **Central Limit Theorem (CLT)**.

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3. The Central Limit Theorem

The Central Limit Theorem. Let $X_1, X_2, \ldots, X_n$ be independent and identically distributed random variables with $E[X_i] = \mu$ and $\mathrm{Var}(X_i) = \sigma^2 < \infty$. Define the standardized sample mean as:

$$Z_n = \sqrt{n}\,\frac{\overline{X} - \mu}{\sigma}, \qquad \text{where} \quad \overline{X} = \frac{1}{n}\sum_{i=1}^{n} X_i.$$

Then, as $n \to \infty$, the distribution of Z_n converges to the standard normal distribution:

$$\lim_{n \to \infty} P(Z_n \leq x) = \Phi(x) \quad \text{for all } x \in \mathbb{R},$$

where $\Phi(x)$ is the cumulative distribution function (CDF) of the standard normal variable.

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3. The Central Limit Theorem

Test Scores Example

Achievement test scores of all high school seniors in a state have a mean of $\mu = 60$ and a variance of $\sigma^2 = 64$. A random sample of $n = 100$

students from one large high school has a mean score of $\overline{X} = 58$. Is

there evidence to suggest that this high school is performing below the state average? *Compute the probability that the sample mean is at most 58 when $n = 100$.*

3. The Central Limit Theorem

Test Scores Example

Let $\overline{X}$ denote the sample mean of $n = 100$ test scores from a population with $\mu = 60$ and $\sigma^2 = 64$ (so $\sigma = 8$). We want to approximate: $P(\overline{X} \leq 58)$. Since

$$Z = \frac{\overline{X} - \mu}{\sigma/\sqrt{n}}$$

is approximately standard normal, we have:

$$P(\overline{X} \leq 58) = P\left(Z \leq \frac{58 - 60}{8/\sqrt{100}}\right) = P(Z \leq -2.5).$$

From the standard normal table, $P(Z \leq -2.5) = 0.0062$.

Interpretation: The probability is very small, providing strong evidence that this high school's average score is below the state average.

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The End

Tchebysheff's Theorem

- In certain scenarios, empirical rule may not provide useful approximations.
- Tchebysheff's theorem offers a lower bound for the probability of Y being within an interval $\mu \pm k\sigma$.
- **Tchebysheff's theorem**

$$P(|Y - \mu| < k\sigma) \geq 1 - \frac{1}{k^2}$$

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

- The theorem:
  - Is valid for any probability distribution.
  - Provides conservative estimates.
  - Doesn't contradict empirical rule (verify!).

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