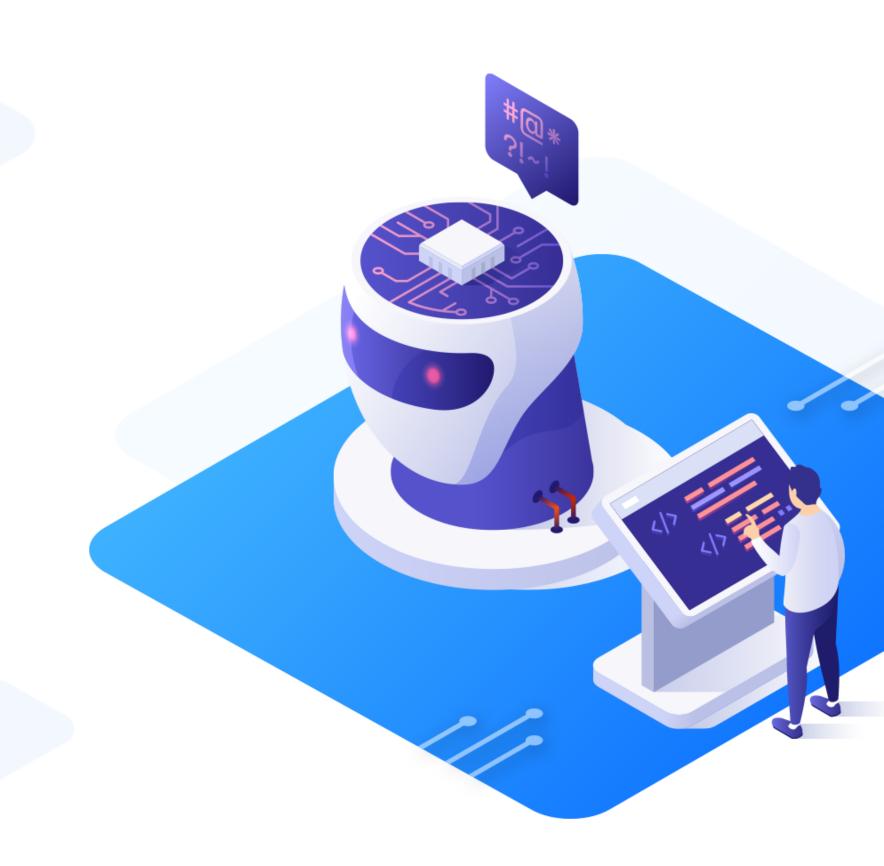
**Machine Learning** 



**Regression and Its Application** 



# **Learning Objectives**

By the end of this lesson, you will be able to:

- Analyze the different types of regression models
- Examine linear regression and prepare data for linear regression
- Discover linearity between variables and plot a correlation map
- Analyze the train and test a linear regression model



# **Learning Objectives**

By the end of this lesson, you will be able to:

- Implement a logistic regression model and calculate its outcome and accuracy
- Implement polynomial, ridge, and lasso regression models



#### **Business Scenario**

A retail company aims to enhance its holiday season sales forecasting by utilizing machine learning techniques. It has historical sales data from previous years and plans to use regression analysis to create a model that estimates sales for each day of the Christmas season, taking into account factors such as promotions, time of year, and special events.

The company also plans to utilize multiple regression models, such as a ridge, polynomial, and linear regression, to identify the most accurate forecasting model. The model's assumptions will be validated by looking for missing values, outliers, and multicollinearity.

Accurately forecasting sales will enable the company to plan appropriate marketing campaigns, optimize inventory levels, prepare for the holiday rush by ensuring adequate staffing, identify sales trends, and refine sales strategies.



What Is Regression?

# **Discussion: Regression**



- What is regression, and what are the different types?
- How does ridge and lasso regression control the overfitting problem?

#### Regression

Regression is a supervised machine-learning technique that is used to predict a continuous value based on a set of input variables.



It establishes a relationship between a dependent variable (x) and an independent variable (y).

It is the easiest and one of the most widely used machine learning algorithms.

# **Regression Analysis**

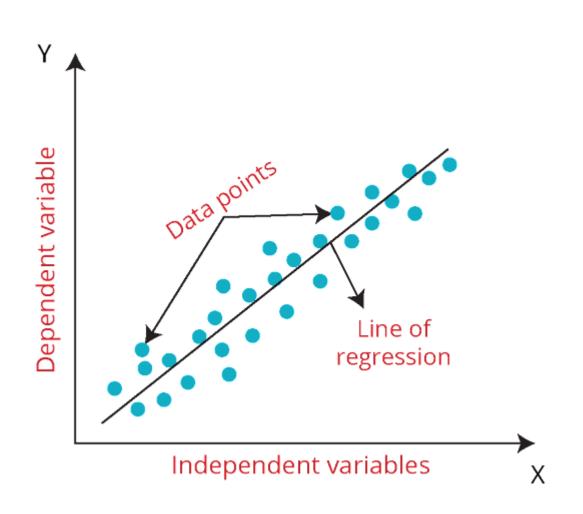
In regression analysis, the dependent variable is the variable being predicted or explained, while the independent variables are the predictors or explanatory variables.

It predicts continuous or real values, such as:



# **Regression Algorithms**

A regression algorithm plots a best-fit line or a curve between the data.



#### **Application of Regression: Oil and Gas Industry**

Various types of data are collected in the oil and gas industry from the surface and the subsurface to understand the production and sale processes.

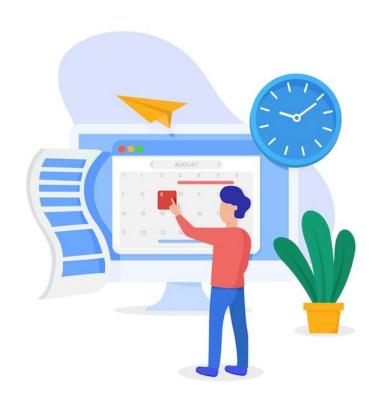


Linear and nonlinear regression models are used to forecast global oil production.

Regression analysis was used to influence factors on the future economy of crude oil.

#### **Application of Regression: Predicting Events**

Identifying the impact of marketing campaigns

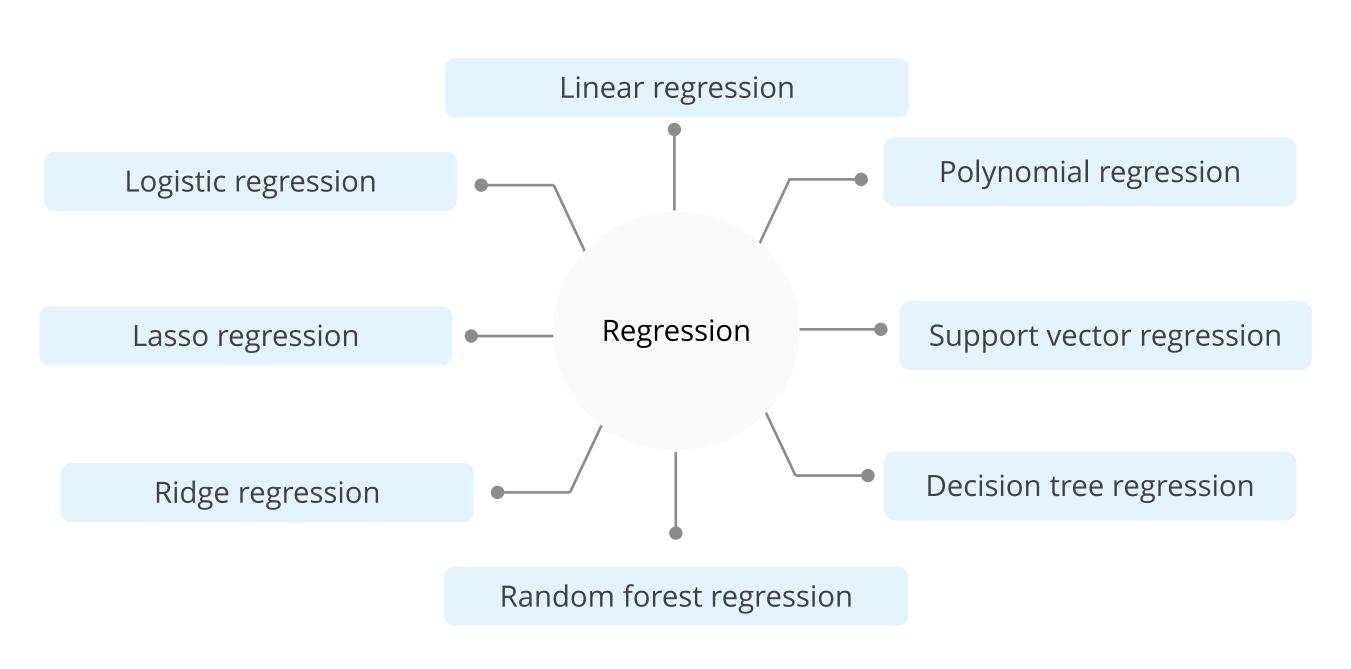


#### Example

Regression analysis can be used to optimize the budget for an advertising campaign by analyzing the relationship between the budget and the outcome. This information can be used to ensure that the campaign is getting the most value for money. **Regression Types** 

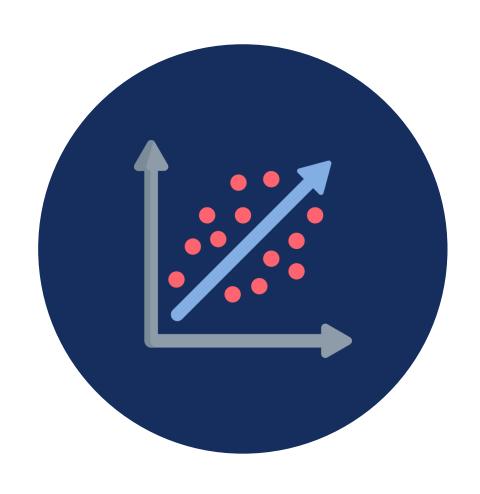
# **Types of Regression**

Here are the most common types of regressions that are used in machine learning:



# **Linear Regression**

Linear regression is a popular modeling technique.



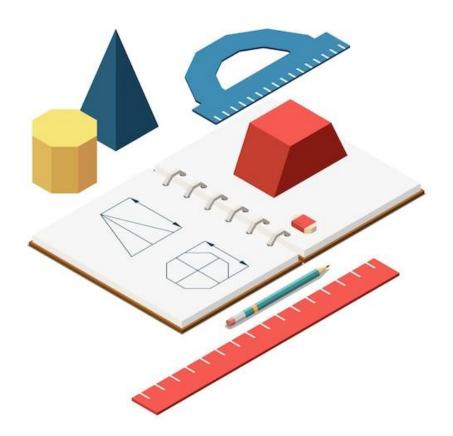
It is used to predict a continuous dependent variable based on an independent variable.

It uses the least square criterion for estimation.

It can be applied only if there is a linear relationship between the variables.

# **Polynomial Regression**

Polynomial regression is a subset of linear regression that includes polynomial terms.



The relationship between an independent variable (x) and a dependent variable (y) is modeled as an nth degree polynomial.

#### **Support Vector Regression**

Support Vector Regression (SVR) is a supervised learning algorithm that extends support vector machines to regression problems.



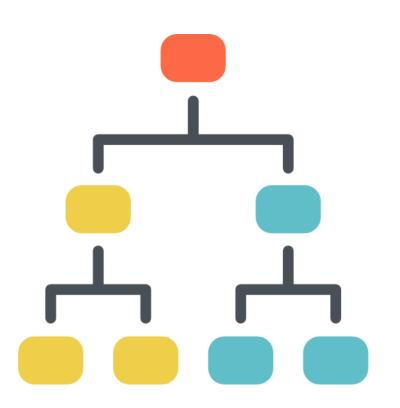
Supervised learning algorithms use a subset of the data called support vectors to find a hyperplane that separates the data into two or more classes.



It can be used for both regression and classification problems.

# **Decision Tree Regression**

It is a commonly used supervised learning approach and it builds a tree-like structure.



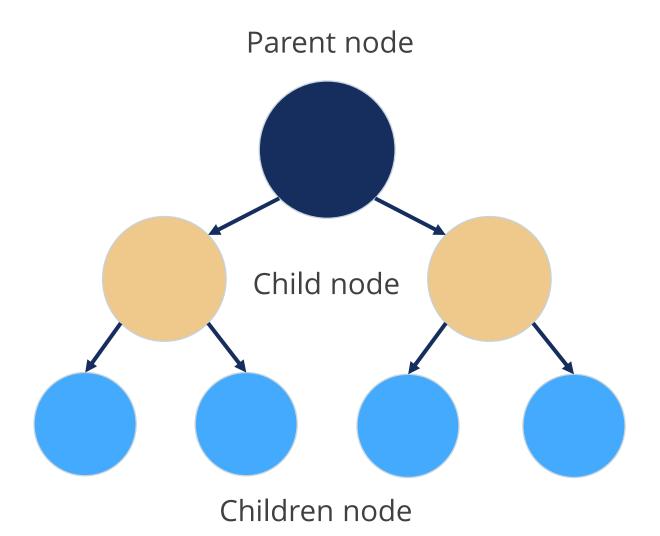
Internal nodes represent the test for an attribute.

Branches represent the test results.

Leaf nodes represent the final result or decision.

It can be used for both classification and regression problems.

## **Decision Tree Regression**



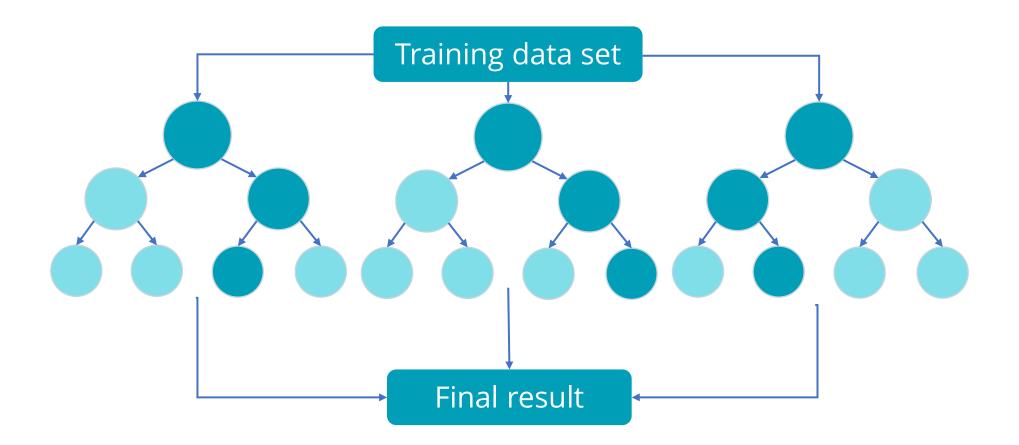
It starts from a root node (parent node) of a data set.

It then splits into left and right nodes (or subsets of the dataset), which are called child nodes.

These child nodes are further divided into children's nodes and become the parent node of these children's nodes.

#### **Random Forest Regression**

It is a form of linear regression algorithm that performs both regularization and variable selection.

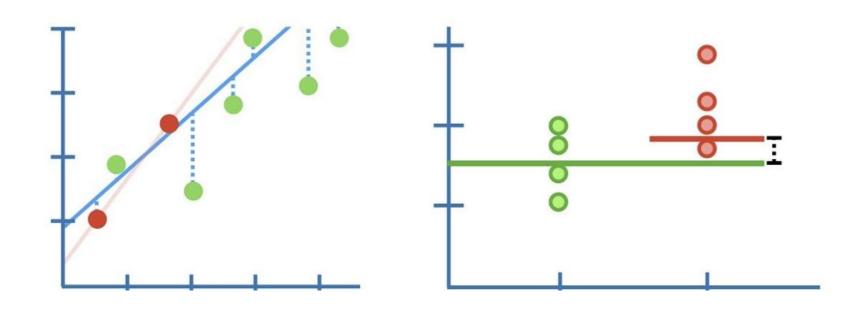


This method combines multiple decision trees to predict the final output.

The aggregated decision trees run in parallel and do not interact with each other.

## **Ridge Regression**

Ridge regression is a regularization technique used in linear regression to prevent overfitting of the model. It is used when dealing with multicollinear data.



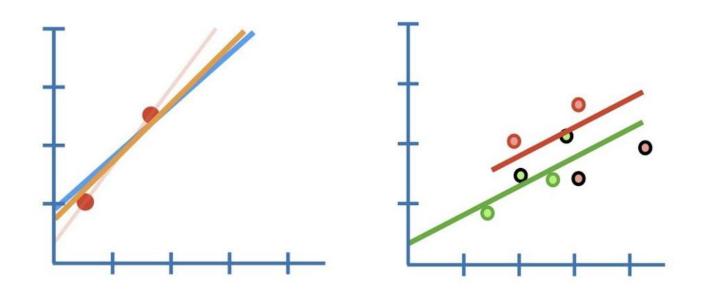
Least squares are unbiased, and variances are large.

The predicted values will be far away from the actual values.

It adds a regularization term to the loss function that penalizes large coefficients in the model and encourages the model to have smaller coefficients. It results in a simpler and more generalized model.

## **Lasso Regression**

It is also a form of linear regression.



It is an acronym for Least Absolute Shrinkage and Selection Operator.

It uses shrinkage and performs variable selection or feature selection.



#### **Discussion: Regression**

- What is regression, and what are the different types? **Answer:** Regression is a supervised machine-learning technique that is used to predict a continuous value based on a set of input variables. The most common types of regression are linear regression, logistic regression, lasso regression, ridge regression, random forest regression, polynomial regression, support vector regression, and decision tree regression.
- How does ridge and lasso regression control the overfitting problem?

**Answer:** Ridge regression controls overfitting by adding a penalty term to the loss function, which shrinks the coefficients toward zero. Lasso regression further mitigates overfitting by not only shrinking coefficients but also performing feature selection by setting some coefficients exactly to zero.

**Linear Regression** 

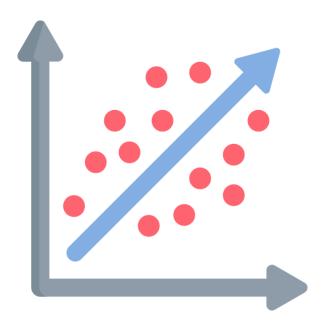
# **Discussion: Linear Regression**



- What is linear regression?
- How does multicollinearity impact regression analysis?

#### **Linear Regression**

In this the dependent variable is continuous and the independent variables can be either continuous or discrete.

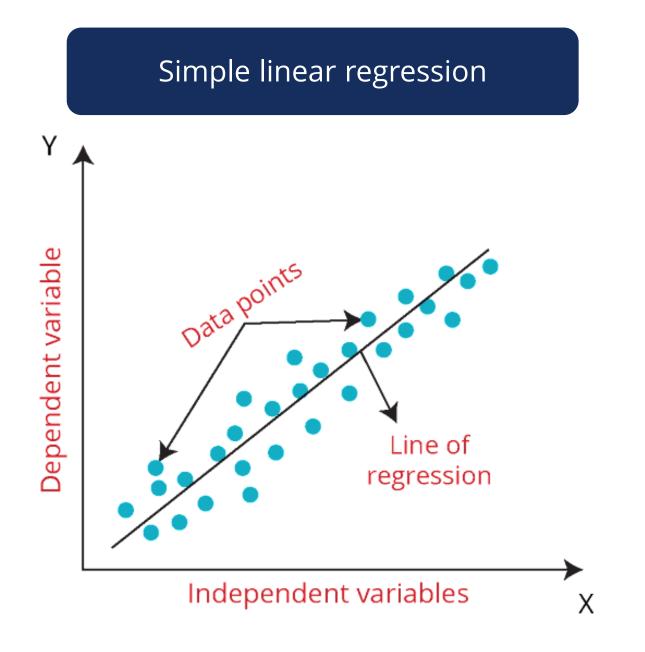


The relationship between a dependent variable (y) and one or more independent variables (x) is established using a best-fit straight line, also known as the regression line.

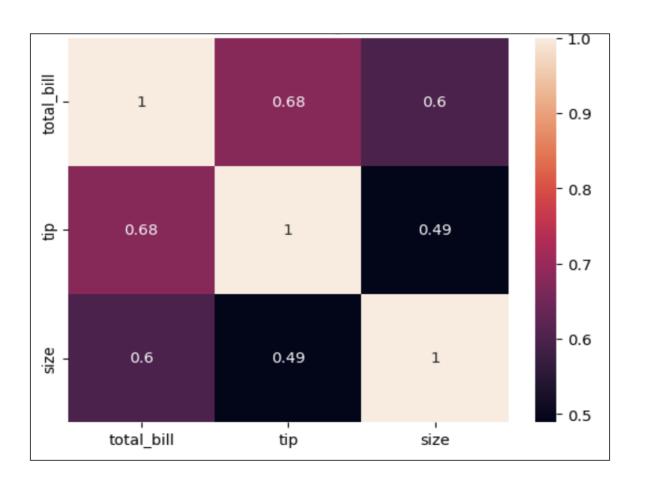
The nature of the regression line is linear in this technique.

# **Linear Regression**

There are two types of linear regression:

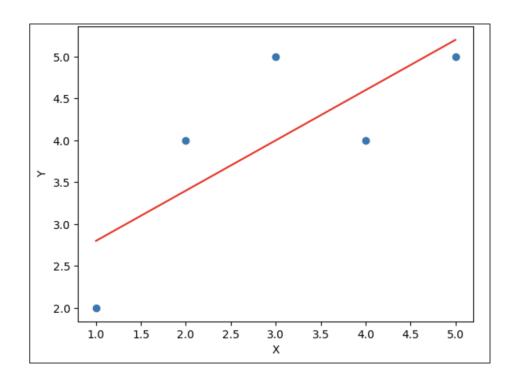


#### Multiple linear regression



# **Simple Linear Regression**

In a simple linear regression, the value of a numerical dependent variable is predicted using a single independent variable.

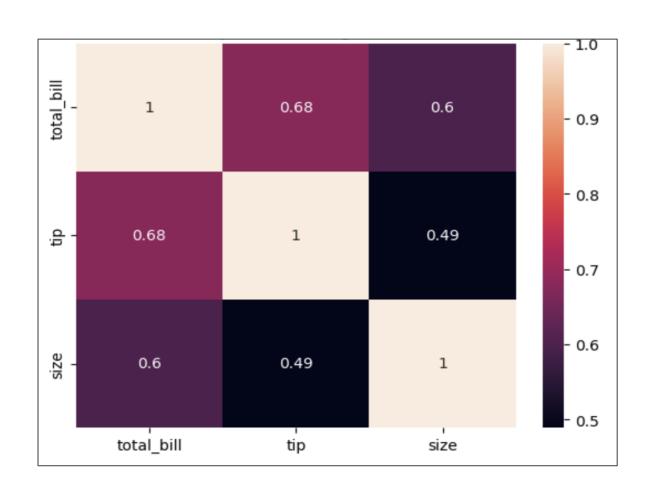


The equation used in simple linear regression is:

$$y = b_0 + b_1 * x_1$$

#### **Multiple Linear Regression**

It uses more than one independent variable to predict the value of a numerical dependent variable.



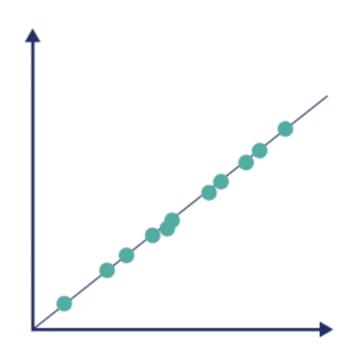
The equation used in multiple linear regression is:

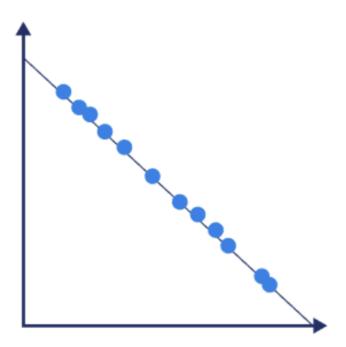
$$y = b_0 + b_1 * x_1 + b_2 * x_2 + ... + b_n * x_n$$

#### **Linear Regression Line**

The line showing the relationship between dependent and independent variables is called a regression line.

A regression line can depict two types of relationship:





**Positive linear relationship:** The dependent variable increases on the Y-axis and the independent variable increases on the X-axis.

**Negative linear relationship:** The dependent variable decreases on the Y-axis and the independent variable increases on the X-axis.

#### **Applications of Linear Regression**

Linear regression is used to administer the sulfur cap rule by the International Maritime Organization.

#### Problem

The problem is using linear regression to analyze the relationship between factors (fuel type, engine size, vessel age, and distance traveled) and sulfur emissions in the maritime industry to comply with the sulfur cap rule and reduce emissions effectively.

#### Solution

By applying linear regression, the shipping company identifies that engine size significantly impacts sulfur emissions, enabling it to prioritize retrofitting larger ships with more efficient engines to comply with the sulfur cap rule and reduce emissions.

Machine learning is used to measure how much sulfur is being released in the exhaust and what businesses can do to reduce the sulfur content.

**Critical Assumptions for Linear Regression** 

# **Linear Regression**

Regression is a parametric approach where assumptions about data are made for the purpose of the analysis.

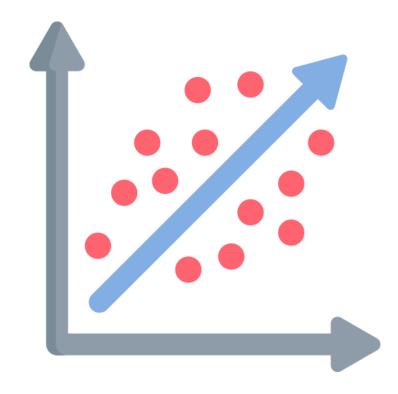


This makes regression restrictive.

Successful regression analysis requires validation of the assumptions made.

#### **Important Assumptions in Linear Regression**

The dependent (response) variables and the independent (predictor) variables have a linear and additive relationship.



An additive relationship implies that the effect of x on the response y is independent of other variables.

For a predictor variable (x) and a response variable (y), a linear relationship implies that a change in response y due to one unit change in x remains constant, regardless of the value of x.

## **Important Assumptions in Linear Regression**

Some other important assumptions in regression analysis are:

The error terms are normally distributed.

The independent variables are not correlated.

Error or residual terms are not correlated.

The error terms have constant variance.

#### **Assisted Practices**



Let's understand the topic below using Jupyter Notebook.

• 4.5\_Working with Linear Regression

**Note**: Please download the pdf files for each topic mentioned above from the Reference Material section.

### **Discussion: Linear Regression**



• What is linear regression?

**Answer:** In this the dependent variable is continuous and the independent variables can be either continuous or discrete.

How does multicollinearity impact regression analysis?
 Answer: Multicollinearity in regression analysis can cause instability and unreliable estimates of the regression coefficients.
 It makes it difficult to determine the individual effects of predictor variables, increases standard errors, and can lead to misleading interpretations of the relationships between variables.

**Logistic Regression** 

# **Discussion: Logistic Regression**



- Which algorithm works better in the presence of outliers, SVM or logistic regression?
- Discuss the odds ratio specific to logistic regression.

# **Logistic Regression**

It is a statistical analysis method used to predict a data value based on prior observations of a data set.

It finds the relationship between qualitative variables and independent variables.

It is a machine learning method used to distinguish one class from another.

#### **Logistic Regression**

Example: In a binary classification, for a given question, the algorithm sorts the answers into:

A set of positive points if the answer is positive

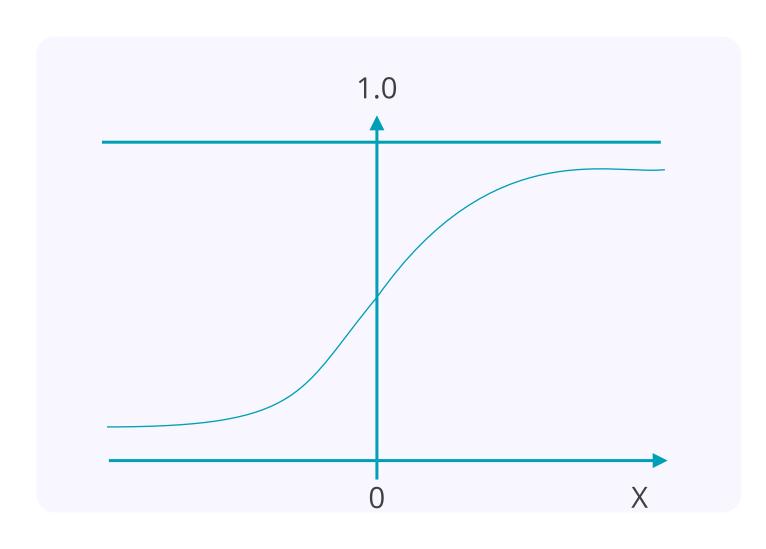
A set of negative points if the answer is negative

The main goal of logistic regression is to accurately predict the class of the two possible label data points.

A logistic regression model ensures that the output always falls between 0 and 1 as used in Sigmoid function.

# **Sigmoid Function**

Below is the formula of a sigmoid function:



$$f(x) = \frac{1}{1 + e^{-x}}$$

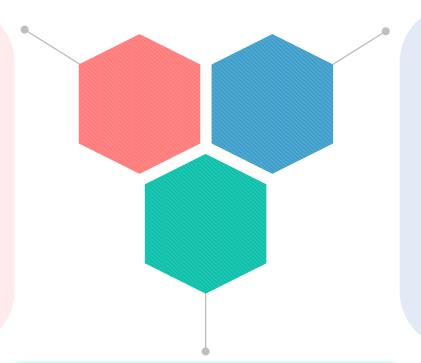
It is used to map predictions to probabilities.

It maps any real value to the other value between 0 and 1.

# **Types of Logistic Regressions**

# **Binary Logistics Regression: 2** variables

The response variable can only belong to one of two categories.



# Multinomial Logistic Regression: 3 or more variables

The response variable can belong to one of three or more categories and there is no natural ordering among the categories.

# Ordinal Logistic Regression: 3 or more ordinal variables

The response variable can belong to one of three or more categories and there is a natural ordering among the categories.

#### **Decision Boundary**

It is a threshold that separates the predicted classes based on the predicted probability of an observation belonging to a particular class.



The probability score computed using the algorithm is between 0 and 1, based on the inputs provided.

If the probability score is more than 0.5, it will be labeled as class 1, else as 0.

**Example:** Consider two products with one being eco-friendly and the other being toxic. Use the threshold value to classify the given product.

# **Applications of Logistic Regression**

Logistic regression can be used for:



Prediction of a baseball match outcome



Assessment of the presence or absence of fraud based on banking activity



Assessment of erosion of the seabed due to fishing



Prediction of a marine vessel crash based on tidal energy and icebergs



Prediction of bankruptcy

# **Discussion: Logistic Regression**



 Which algorithm works better in the presence of outliers, SVM or logistic regression?

**Answer:** SVM (Support Vector Machines) generally works better in the presence of outliers compared to logistic regression. SVM is less sensitive to outliers due to the use of support vectors, which prioritize correctly classifying data points near the decision boundary, while logistic regression is more influenced by outliers as it minimizes the sum of squared errors.

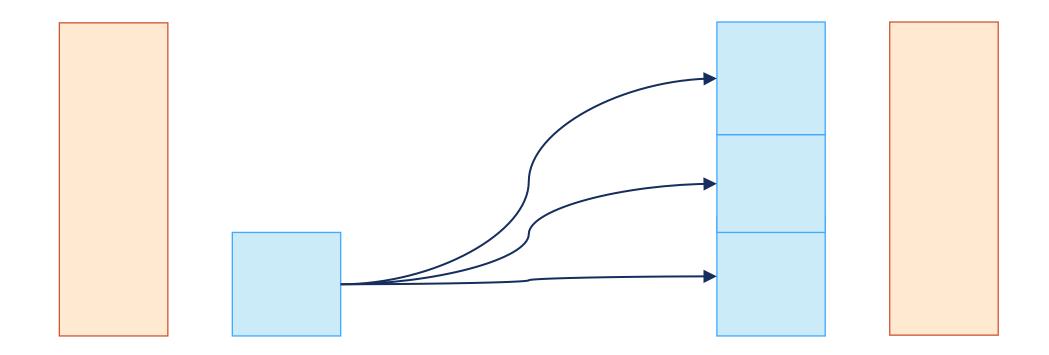
• Discuss the odds ratio specific to logistic regression.

**Answer:** In logistic regression, the odds ratio represents the change in odds of the dependent variable for a one-unit increase in the independent variable. It quantifies the strength and direction of the relationship between the independent variable and the probability of the dependent variable, with an odds ratio greater than 1 indicating a positive association and an odds ratio less than 1 indicating a negative association.

**Oversampling using SMOTE** 

#### **Imbalanced Data Set**

It is a dataset where its classes are not distributed equally. This can occur when one class has a lot more instances than the other.

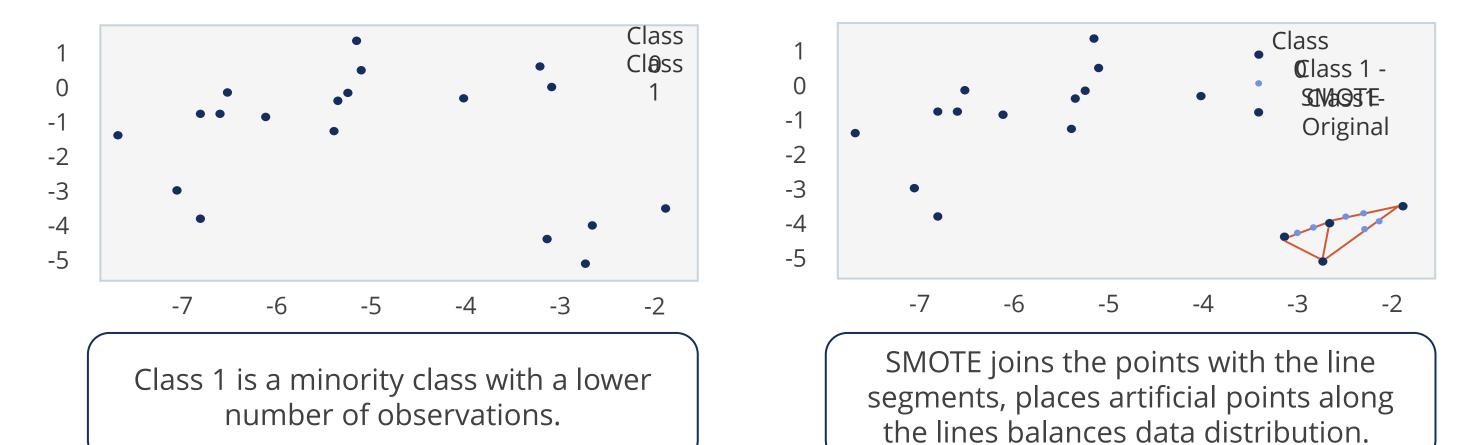


To address the data bias between classes, oversampling can be performed using a technique called Synthetic Minority Oversampling Technique (SMOTE).

# **Synthetic Minority Oversampling Technique (SMOTE)**

SMOTE is a data augmentation technique that helps balance data distribution by adding to the minority class.

Consider the following visual representation of a data set:



# **SMOTE Algorithm**

The working of the SMOTE algorithm is a four-step process:



- 1 Select an input vector from the minority class
- Find its K-nearest neighbors
- Build a line joining the point under consideration and the chosen neighbor
- 4 Place a synthetic point anywhere on the line drawn

Repeat steps 1 to 4 until data is balanced.

# **SMOTE Applications**

Applications of SMOTE include:



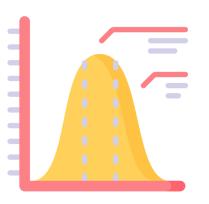
Balancing data for classification problems where one class is more than another



Classifying job roles or individuals based on the agility requirements of teams where teams are usually unbalanced data sets



Increasing decision boundaries



Improving classification performance by enhancing the probability distribution of data sets

#### **Assisted Practices**

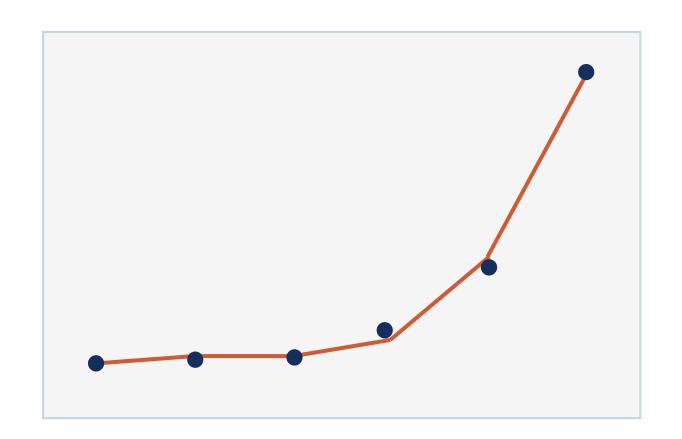


Let's understand the topic below using Jupyter Notebook.

• 4.8\_Data Exploration Using SMOTE

**Note**: Please download the pdf files for each topic mentioned above from the Reference Material section.

The linear regression technique represents the connection between dependent and independent variables in a linear fashion and so cannot be utilized for complex data.

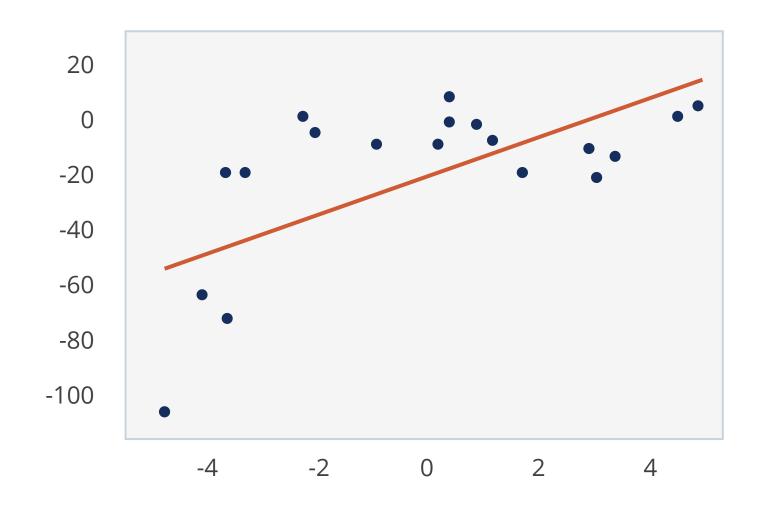


Polynomial regression is a modified linear regression for complex, nonlinear data.

It is a statistical method used in machine learning for predictive modeling and analysis.

It models the nonlinear relationship that exists between a dependent variable (y) and an independent variable (x) as an nth degree polynomial.

From the below figure, it is seen that the straight line is unable to capture the patterns in the given data.



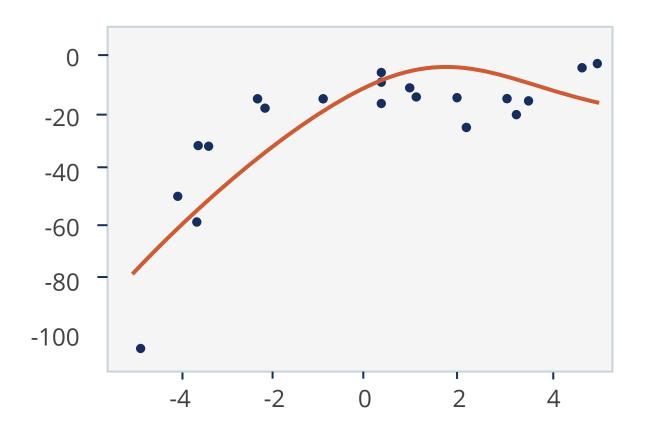
To achieve a higher-order equation that captures complex data patterns, powers of the original features can be added as new features.

Simple linear regression: 
$$y = b_0 + b_1 * x_1$$

Multiple linear regression: 
$$y = b_0 + b_1x_1 + b_2x_2 + ... + b_nx_n$$

Polynomial linear regression:  $y = b_0 + b_1x_1 + b_2x_1^2 + ... + b_nx_1^n$ 

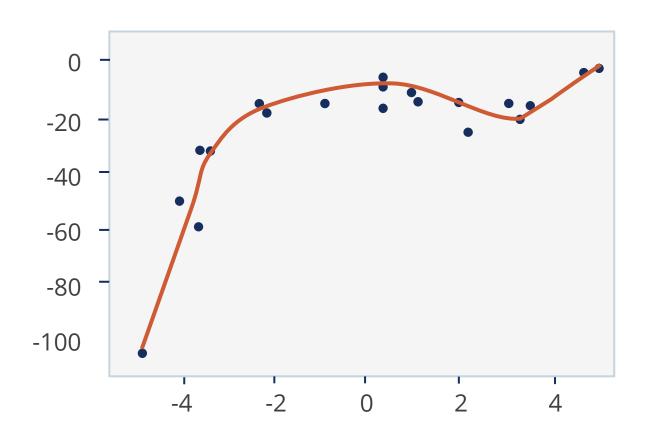
It is considered as a linear model due to the linear nature of coefficients or weights associated with the features.



x<sup>2</sup> is only a feature, but the curve fitting is quadratic. It doesn't capture some data points, as can be seen in the figure.

The polynomial features class provided by scikit-learn is used to capture more data points and convert the original features into their high-order.

The following graph is the result after applying polynomial regression:



It provides the best approximation of the relation between a dependent and an independent variable.

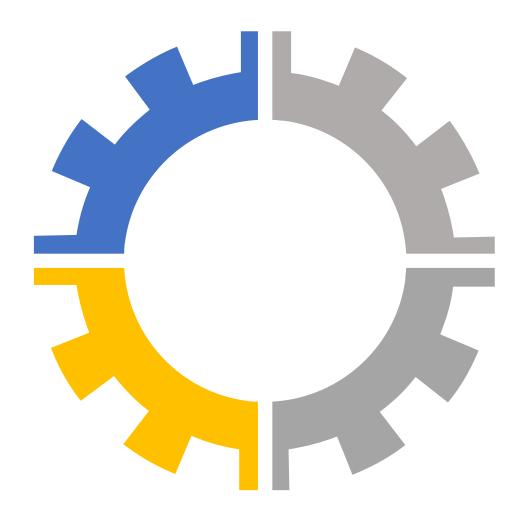
It captures the most data points and decreases the error between the actual data point and the predicted data point.

Hence, the model is now trained properly.

# **Applications of Polynomial Regression**

Polynomial regression can be applied to:

Examine the generation of any synthesis



Develop climate model predictions that run faster and more efficiently

Study the isotopes present in sediments

Predict the rise of different diseases within populations and their spread rates

#### **Assisted Practices**



Let's understand the topic below using Jupyter Notebook.

• 4.11\_Data Preparation, Model Building, and Performance Evaluation: Part A

**Note**: Please download the pdf files for each topic mentioned above from the Reference Material section.

It is a form of regression that shrinks the coefficient toward zero to reduce the complexity of the data.

It prevents the use of complex models and overfitting.



It decreases the multicollinearity between features in the data set.

It minimizes the variance of the model without increasing its bias.

Ridge regression involves a loss function called the residual sum of squares or RSS.

RSS is the difference between the actual and predicted values.

$$RSS = \sum_{i=1}^{n} \left( y_i - \beta_0 - \sum_{j=1}^{p} \beta_j x_{ij} \right)^2$$

Consider an example:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + ... + \beta_p X_p$$

Y is the independent variable β is the regression coefficient value X is the dependent variable

 $\lambda$  is the constant or the tuning parameter that decides the appropriate rate to penalize the flexibility of the model.

$$Cost (W) = RSS(W) + \lambda * (sum of squares of weights)$$

$$= \sum_{i=1}^{N} \left\{ y_i - \sum_{j=1}^{M} w_j x_{ij} \right\}^2 + \lambda \sum_{j=1}^{M} w_j^2$$

- When  $\lambda$  = 0, the penalty term has no effect as penalty is a multiple of  $\lambda$  and the sum of square of weights.
- When  $\lambda \rightarrow \infty$ , the impact of the shrinkage penalty grows the ridge regression coefficient estimates will approach zero.

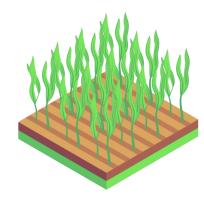
This results in a fewer complex data set which in turn helps get the best-fitting model.

# **Applications of Ridge Regression**

Ridge regression is used to eliminate multicollinearity in data models.



Used in the hospitality industry to manage seasonal fluctuations in booking prices of hotels or resorts



Used in farming as an effective method to predict grain yield under different water regimes

#### **Assisted Practices**



Let's understand the topic below using Jupyter Notebook.

• 4.13\_Data Preparation, Model Building, and Performance Evaluation: Part B

**Note**: Please download the pdf files for each topic mentioned above from the Reference Material section.

Lasso regression is a form of regression that shrinks the coefficient toward zero to reduce the complexity of the data.

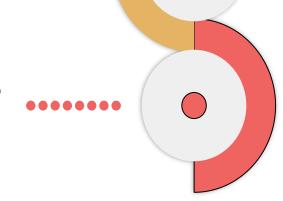


It forces some of the coefficient estimates to be exactly equal to zero with the help of a large tuning parameter  $\lambda$ .

It performs variable selection or feature selection.

It helps to reduce the learning of more complex data and overfitting of the model.

It decreases the variance of the model without an increase in bias.



The fitting procedure involves a loss function, also known as residual sum of squares (RSS), which is the difference between actual and predicted value.

$$RSS = \sum_{i=1}^{n} \left( y_i - \beta_0 - \sum_{j=1}^{p} \beta_j x_{ij} \right)^2$$

Consider an example:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + ... + \beta_p X_p$$

Where,

y = Independent variable

 $\beta$  = Regression coefficient value

x = Dependent variable

The variation differs from ridge regression only in penalizing the high coefficients.

The sum of the absolute value of weights is used instead of squaring the weights.

$$Cost(W) = RSS(W) + \lambda * (sum of absolute value of weights)$$

$$= \sum_{i=1}^{N} \left\{ y_i - \sum_{j=0}^{M} w_j x_{ij} \right\}^2 + \lambda \sum_{j=0}^{M} |w_j|$$

# **Applications of Lasso Regression**

Lasso regression is applied in data sets to shrink parameter estimates towards zero.







It is used in healthcare to distinguish cancer tissue from normal epithelial or stromal tissue.

It is used by surgeons to determine the spread of prostate cancer in a patient's body.

It is used by insurers to analyze social media profiles for lifestyle-based insurance offers.

It has many applications where variable selection or feature selection is required.

#### **Assisted Practices**



Let's understand the topic below using Jupyter Notebook.

• 4.15\_Data Preparation, Model Building, and Performance Evaluation: Part C

**Note**: Please download the pdf files for each topic mentioned above from the Reference Material section.

**Hyperparameter Tuning** 

## **Hyperparameter Tuning**

It is the process of finding the optimal values for hyperparameters, which are parameters that are not learned from the data but are set prior to training a machine-learning model.

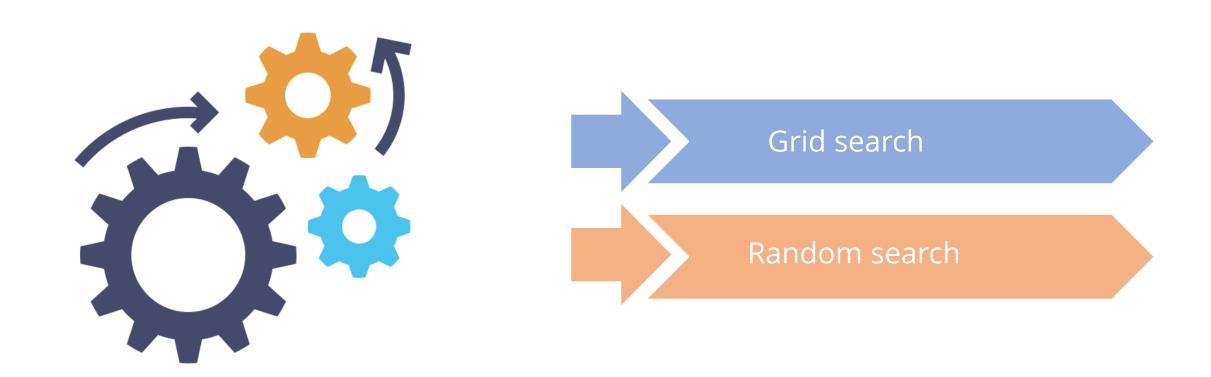


The goal of hyperparameter tuning is to:

- Optimize model performance
- Prevent overfitting
- Use resources efficiently

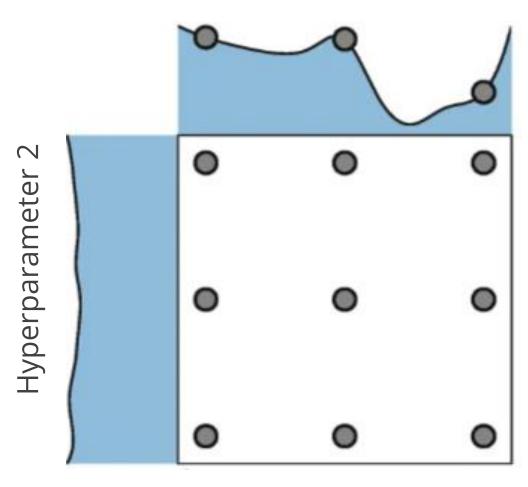
# **Hyperparameter Tuning Techniques**

The most important and commonly used techniques are:



## **Hyperparameter Tuning Techniques: Grid Search**

It is a systematic approach to hyperparameter tuning that involves defining a set of hyperparameters and their possible values in a grid.



Hyperparameter 1

- The points denote the hyperparameters.
- The curves on the left and on the top denote the model accuracy.

#### **Grid Search: GridSearchCV**

GridSearchCV is an advanced version of grid search that searches through hyperparameters in a predefined grid, using cross-validation to find the best combination for a machine learning model.

# Example:from sklearn.svm import SVC

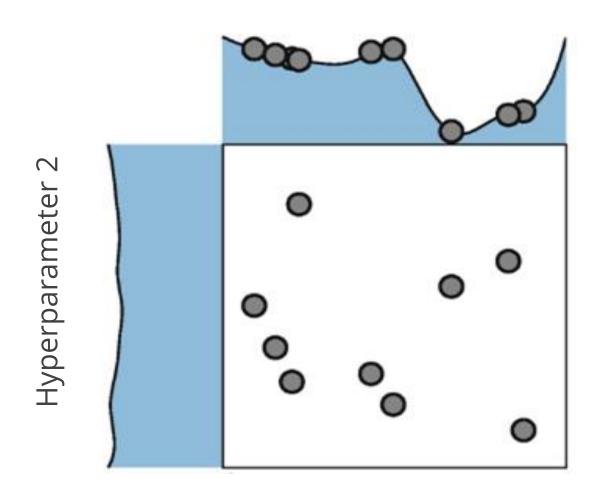
```
from sklearn.model selection import GridSearchCV
import numpy as np
X = np.array([[1, 2], [2, 3], [3, 4], [4, 5], [5, 6]])
y = np.array([0, 0, 1, 1, 0])
param grid = {
    'C': [0.1, 1, 10],
    'kernel': ['linear', 'rbf', 'poly']
svm = SVC()
grid search = GridSearchCV(estimator=svm, param grid=param grid, cv=3)
grid search.fit(X, y)
best params = grid search.best params
print("Best Hyperparameters:", best params)
```

#### Output:

```
Best Hyperparameters: {'C': 10, 'kernel': 'rbf'}
```

# **Hyperparameter Tuning Techniques: Random Search**

It is an efficient hyperparameter tuning technique that randomly samples hyperparameters from predefined distributions.



Hyperparameter 1

- The points denote the hyperparameters.
- The curves on the left and on the top denote the model accuracy.

#### Random Search: RandomizedSearchCV

RandomizedSearchCV is an advanced version of random search, efficiently sampling hyperparameter combinations to reduce computational burden in machine learning tuning.

```
Example:-
 from sklearn.model selection import RandomizedSearchCV
 from sklearn.svm import SVC
 import numpy as np
X = np.array([[1, 2], [2, 3], [3, 4], [4, 5], [5, 6]])
y = np.array([0, 0, 1, 1, 0])
param dist = {
    'C': np.logspace(-3, 2, 6),  # Vary C from 0.001 to 100 in a log scale
    'kernel': ['linear', 'rbf', 'poly']
svm = SVC()
```

## Hyperparameter Tuning Techniques: RandomizedSearchCV

The random search algorithm moves randomly, thereby reducing the computational burden and swiftly finding the best set of hyperparameters.

# Example:random search = RandomizedSearchCV( estimator=svm, param distributions=param dist, n iter=5, # Number of parameter settings to sample cv=3, random state=42 # Seed for reproducibility random search.fit(X, y) best params = random search.best params print("Best Hyperparameters:", best params)

#### Output:

```
Best Hyperparameters: {'kernel': 'linear', 'C': 0.001}
```

### **Assisted Practices**



Let's understand the topic below using Jupyter Notebook.

• 4.16\_Detecting and Preventing: Overfitting and Underfitting Using Hyperparameter Tuning

**Note**: Please download the pdf files for each topic mentioned above from the Reference Material section.

## **Key Takeaways**

- Regression is a supervised learning technique that predicts continuous values.
- Linear regression predicts numerical dependent variables using one or more independent variables and can depict positive or negative linear relationships.
- Logistic regression is a statistical method used for binary or multinomial classification problems, and a sigmoid function is used to map predicted values to probabilities.
- SMOTE helps balance the data distribution by adding to the minority class.
- Ridge and lasso regression are regularization techniques used in ML to reduce the complexity of data and prevent overfitting.





**Knowledge Check** 

- A. To check the correlation between dependent and independent variables
- B. To check the correlation between independent variables
- C. To calculate the accuracy of the regression model
- D. To calculate the variability of the regression model



#### Knowledge Check

1

#### What is the purpose of VIF in regression analysis?

- A. To check the correlation between dependent and independent variables
- B. To check the correlation between independent variables
- C. To calculate the accuracy of the regression model
- D. To calculate the variability of the regression model



#### The correct answer is **B**

Variance inflation factor (VIF) is used to identify the correlation between independent variables and to address multicollinearity issues in regression analysis.

## Why is a sigmoid function used in logistic regression?

- A. To plot data points on a graph
- B. To cluster data points based on their distance from a centroid
- C. To map real values to probabilities between 0 and 1
- D. To perform classification analysis



#### Knowledge Check

2

#### Why is a sigmoid function used in logistic regression?

- A. To plot data points on a graph
- B. To cluster data points based on their distance from a centroid
- C. To map real values to probabilities between 0 and 1
- D. To perform classification analysis



#### The correct answer is **C**

The sigmoid function is used in logistic regression to map any real value to a probability between 0 and 1.

- A technique to reduce multicollinearity between features in the data set
- A form of regression that shrinks the coefficient toward zero to reduce the complexity of the data
- A technique to fit the data points to the line using polynomial features
- A technique to predict the rise of different diseases within populations and their spread rates



- A. A technique to reduce multicollinearity between features in the data set
- B. A form of regression that shrinks the coefficient toward zero to reduce the complexity of the data
- C. A technique to fit the data points to the line using polynomial features
- D. A technique to predict the rise of different diseases within populations and their spread rates



The correct answer is **B** 

Ridge regression is a form of regression that shrinks the coefficient toward zero to reduce the complexity of the data.

**Thank You!**