

# Machine Learning Assignment - Pradeep Reddy Kethu

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###Project Background:

*Liability customers - Majority - Depositors Asset customers - Small - Borrowers Campaign of last year - conversion rate of 9.6% [Among the 5000 customers, only 480 (= 9.6%) accepted the personal loan that was offered to them in the earlier campaign.] Goal : use k-NN to predict whether a new customer will accept a loan offer. \* Data (rows): 5000 customers \*Success class as 1 (loan acceptance)*

####Packages used:

```
library(psych)  #for creating dummies
library(caret)  #for data partition, normalize data
```

```
## Loading required package: ggplot2
```

```
##
```

```
## Attaching package: 'ggplot2'
```

```
## The following objects are masked from 'package:psych':
```

```
##
```

```
##      %+%, alpha
```

```
## Loading required package: lattice
```

```
library(FNN)      #for Perfoming knn classification
library(class)
```

```
##
```

```
## Attaching package: 'class'
```

```
## The following objects are masked from 'package:FNN':
```

```
##
```

```
##      knn, knn.cv
```

```
library(dplyr)
```

```
##
```

```
## Attaching package: 'dplyr'
```

```
## The following objects are masked from 'package:stats':
```

```
##
```

```
##      filter, lag
```

```
## The following objects are masked from 'package:base':
##
## intersect, setdiff, setequal, union
```

```
###importing data
```

```
input<- read.csv("UniversalBank.csv")
```

```
#Eliminating variables [id & zip code] from the dataset
df=subset(input, select=-c(ID, ZIP.Code ))
```

```
#creating dummies
```

```
dummy_Education <- as.data.frame(dummy.code(df$Education))
names(dummy_Education) <- c("Education_1", "Education_2", "Education_3") #renaming dummy variable
df_without_education <- subset(df, select=-c(Education)) #eliminating education variable

UBank_data <- cbind(df_without_education, dummy_Education) #main dataset
```

```
###Data partition
```

```
#Partitioning the data into Training(60%) and Validation(40%)
set.seed(1234)
Train_Index = createDataPartition(UBank_data$Age, p= 0.6 , list=FALSE)
Train_Data = UBank_data[Train_Index,] #3001 observations

Validation_Data = UBank_data[-Train_Index,] #1999 observations
```

```
###Generating test data
```

```
Test_Data <- data.frame(Age=40 , Experience=10, Income = 84, Family = 2, CCAvg = 2, Education_1 = 0, Education_2 = 0, Education_3 = 0)
```

```
###Data Normalization
```

```
train.norm.df <- Train_Data
valid.norm.df <- Validation_Data
test.norm.df <- Test_Data
maindata.norm.df <- UBank_data

head(maindata.norm.df)
```

```
## Age Experience Income Family CCAvg Mortgage Personal.Loan Securities.Account
## 1 25 1 49 4 1.6 0 0 1
## 2 45 19 34 3 1.5 0 0 1
## 3 39 15 11 1 1.0 0 0 0
## 4 35 9 100 1 2.7 0 0 0
## 5 35 8 45 4 1.0 0 0 0
## 6 37 13 29 4 0.4 155 0 0
## CD.Account Online CreditCard Education_1 Education_2 Education_3
## 1 0 0 0 1 0 0
## 2 0 0 0 1 0 0
```

```
## 3      0      0      0      1      0      0
## 4      0      0      0      0      0      1
## 5      0      0      1      0      0      1
## 6      0      1      0      0      0      1
```

```
# use preProcess() from the caret package to normalize .
norm.values <- preProcess(Train_Data[,-7], method=c("center", "scale"))

train.norm.df[, -7] <- predict(norm.values, Train_Data[,-7]) #Training Data
valid.norm.df[, -7] <- predict(norm.values, Validation_Data[,-7]) #Validation Data
test.norm.df <- predict(norm.values, Test_Data) #Test Data
maindata.norm.df[, -7] <- predict(norm.values, UBank_data[,-7]) #Training + Validation data

head(maindata.norm.df)
```

```
##      Age Experience      Income      Family      CCAvg      Mortgage
## 1 -1.77136698 -1.6613124 -0.5177762  1.3933091 -0.1845814 -0.5438042
## 2 -0.03145296 -0.0978843 -0.8425723  0.5187388 -0.2419870 -0.5438042
## 3 -0.55342717 -0.4453128 -1.3405930 -1.2304018 -0.5290146 -0.5438042
## 4 -0.90140997 -0.9664555  0.5865306 -1.2304018  0.4468794 -0.5438042
## 5 -0.90140997 -1.0533126 -0.6043885  1.3933091 -0.5290146 -0.5438042
## 6 -0.72741857 -0.6190270 -0.9508377  1.3933091 -0.8734478  1.0035659
##      Personal.Loan Securities.Account CD.Account      Online CreditCard Education_1
## 1              0          2.9564494 -0.2533042 -1.2038741 -0.6538696  1.1696714
## 2              0          2.9564494 -0.2533042 -1.2038741 -0.6538696  1.1696714
## 3              0          -0.3381309 -0.2533042 -1.2038741 -0.6538696  1.1696714
## 4              0          -0.3381309 -0.2533042 -1.2038741 -0.6538696 -0.8546561
## 5              0          -0.3381309 -0.2533042 -1.2038741  1.5288474 -0.8546561
## 6              0          -0.3381309 -0.2533042  0.8303749 -0.6538696 -0.8546561
##      Education_2 Education_3
## 1 -0.6414311 -0.6331615
## 2 -0.6414311 -0.6331615
## 3 -0.6414311 -0.6331615
## 4 -0.6414311  1.5788497
## 5 -0.6414311  1.5788497
## 6 -0.6414311  1.5788497
```

### Performing k-NN classification , using k = 1

```
set.seed(1234)
prediction <- knn(train = train.norm.df[, -7], test = valid.norm.df[, -7],
                  cl = train.norm.df[, 7], k = 1, prob=TRUE)
actual = valid.norm.df$Personal.Loan
prediction_prob = attr(prediction, "prob")
table(prediction, actual)
```

```
##      actual
## prediction  0    1
##           0 1770  68
##           1   25 136
```

```
mean(prediction==actual)
```

```
## [1] 0.9534767
```

```
NROW(train.norm.df)
```

```
## [1] 3001
```

```
sqrt(3001)
```

```
## [1] 54.78138
```

```
accuracy.df <- data.frame(k = seq(1, 60, 1), accuracy = rep(0, 60))
```

```
# compute knn for different k on validation.
```

```
for(i in 1:60) {
```

```
  prediction <- knn(train = train.norm.df[, -7], test = valid.norm.df[-7],  
    cl = train.norm.df[, 7], k = i, prob=TRUE)
```

```
  accuracy.df[i, 2] <- mean(prediction==actual)
```

```
}
```

```
accuracy.df
```

```
##      k  accuracy  
## 1    1 0.9534767  
## 2    2 0.9494747  
## 3    3 0.9544772  
## 4    4 0.9549775  
## 5    5 0.9524762  
## 6    6 0.9504752  
## 7    7 0.9489745  
## 8    8 0.9459730  
## 9    9 0.9454727  
## 10  10 0.9454727  
## 11  11 0.9439720  
## 12  12 0.9424712  
## 13  13 0.9424712  
## 14  14 0.9414707  
## 15  15 0.9409705  
## 16  16 0.9414707  
## 17  17 0.9399700  
## 18  18 0.9394697  
## 19  19 0.9404702  
## 20  20 0.9394697  
## 21  21 0.9384692  
## 22  22 0.9364682  
## 23  23 0.9364682  
## 24  24 0.9339670  
## 25  25 0.9349675  
## 26  26 0.9344672  
## 27  27 0.9354677
```

```
## 28 28 0.9344672
## 29 29 0.9339670
## 30 30 0.9329665
## 31 31 0.9314657
## 32 32 0.9324662
## 33 33 0.9319660
## 34 34 0.9294647
## 35 35 0.9304652
## 36 36 0.9289645
## 37 37 0.9284642
## 38 38 0.9309655
## 39 39 0.9284642
## 40 40 0.9274637
## 41 41 0.9269635
## 42 42 0.9259630
## 43 43 0.9254627
## 44 44 0.9254627
## 45 45 0.9249625
## 46 46 0.9264632
## 47 47 0.9244622
## 48 48 0.9239620
## 49 49 0.9244622
## 50 50 0.9244622
## 51 51 0.9244622
## 52 52 0.9224612
## 53 53 0.9234617
## 54 54 0.9239620
## 55 55 0.9224612
## 56 56 0.9224612
## 57 57 0.9229615
## 58 58 0.9224612
## 59 59 0.9214607
## 60 60 0.9214607
```

The value of k we choose is 1 as it is given in the question [i.e the choice of k that balances between overfitting and ignoring the predictor information]

#### Validation data results using best k value [i.e: k = 1]

```
set.seed(1234)
prediction <- knn(train = train.norm.df[, -7], test = valid.norm.df[, -7],
                  cl = train.norm.df[, 7], k = 1, prob = TRUE)
actual = valid.norm.df$Personal.Loan
prediction_prob = attr(prediction, "prob")
```

*#Answer 3: confusion matrix for the best k value = 1*

```
##           actual
## prediction    0    1
##           0 1770   68
##           1   25  136
```

```
#accuracy of the best k=1
mean(prediction==actual)
```

```
## [1] 0.9534767
```

```
prediction_test <- knn(train = maindata.norm.df[,-7], test = Test_Data,
  cl = maindata.norm.df[,7], k = 1, prob=TRUE)
head(prediction_test)
```

Classifying the customer using the best k [performing k-NN classification on test data]

```
## [1] 1
## Levels: 0 1
```

k-NN model predicted that the new customer will accept a loan offer [loan accepted]

5) Repartition the data, this time into training, validation, and test sets (50% : 30% : 20%). Apply the k-NN method with the k chosen above. Compare the confusion matrix of the test set with that of the training and validation sets.

```
#Partitioning the data into Training(50%) ,Validation(30%), Test(20%)
set.seed(1234)

Test_Index_1 = createDataPartition(UBank_data$Age, p= 0.2 , list=FALSE) #20% test data
Test_Data_1 = UBank_data [Test_Index_1,]

Rem_DATA = UBank_data[-Test_Index_1,] #80% remaining data [training + validation]

Train_Index_1 = createDataPartition(Rem_DATA$Age, p= 0.5 , list=FALSE)
Train_Data_1 = Rem_DATA[Train_Index_1,] #Training data

Validation_Data_1 = Rem_DATA[-Train_Index_1,] #Validation data
```

```
#Data Normalization
```

```
# Copy the original data
train.norm.df_1 <- Train_Data_1
valid.norm.df_1 <- Validation_Data_1
test.norm.df_1 <- Test_Data_1
rem_data.norm.df_1 <- Rem_DATA

# use preProcess() from the caret package to normalize Sales and Age.
norm.values_1 <- preProcess(Train_Data_1[-7], method=c("center", "scale"))

train.norm.df_1[-7] <- predict(norm.values_1, Train_Data_1[-7]) #Training Data
valid.norm.df_1[-7] <- predict(norm.values_1, Validation_Data_1[-7]) #Validation Data
```

```
test.norm.df_1[-7] <- predict(norm.values_1, test.norm.df_1[-7]) #Test Data
test.norm.df_1[-7] <- predict(norm.values_1, Test_Data_1[-7])
rem_data.norm.df_1[-7] <- predict(norm.values_1, Rem_DATA[-7]) #Training + Validation data

head(test.norm.df_1)
```

```
##           Age  Experience      Income      Family      CCAvg  Mortgage
## 9  -0.90840439 -0.883582836  0.1435652  0.5333142 -0.780693325  0.4495336
## 28  0.05751618 -0.008054857  1.8189997 -1.2081200  0.234699617 -0.5532869
## 32 -0.46934959 -0.358266049 -0.9878972 -1.2081200  0.009056741 -0.5532869
## 40 -0.64497151 -0.620924443  0.1218063  1.4040313 -0.724282606  2.1948269
## 42 -0.99621536 -0.971135634 -0.3133715  0.5333142  0.178288898 -0.5532869
## 63 -0.29372767 -0.183160453 -1.1402094 -1.2081200 -0.555050449 -0.5532869
##   Personal.Loan Securities.Account CD.Account      Online CreditCard
## 9              0      -0.3360202 -0.2646808  0.8429167 -0.6350646
## 28              0      -0.3360202 -0.2646808  0.8429167  1.5738557
## 32              0      -0.3360202 -0.2646808  0.8429167 -0.6350646
## 40              0      -0.3360202 -0.2646808  0.8429167 -0.6350646
## 42              0      -0.3360202 -0.2646808 -1.1857637 -0.6350646
## 63              0      -0.3360202 -0.2646808 -1.1857637 -0.6350646
##   Education_1 Education_2 Education_3
## 9   -0.827392  -0.6607293   1.566207
## 28    1.208013  -0.6607293  -0.638166
## 32   -0.827392  -0.6607293   1.566207
## 40   -0.827392  1.5127224  -0.638166
## 42    1.208013  -0.6607293  -0.638166
## 63    1.208013  -0.6607293  -0.638166
```

```
#Perfoming k-NN classification on Training Data, k = 1
set.seed(1234)
prediction_Q5 <- knn(train = train.norm.df_1[, -7], test = valid.norm.df_1[, -7],
                     cl = train.norm.df_1[, 7], k = 1, prob=TRUE)
actual= valid.norm.df_1$Personal.Loan
prediction_prob = attr(prediction_Q5, "prob")

table(prediction_Q5, actual) #confusion matrix for the best k value =1
```

```
##           actual
## prediction_Q5    0    1
##              0 1795   69
##              1   16  119
```

```
mean(prediction_Q5==actual) #accuracy of the best k=1
```

```
## [1] 0.9574787
```

```
set.seed(1234)
prediction_Q5 <- knn(train = rem_data.norm.df_1[, -7], test = test.norm.df_1[, -7],
                     cl = rem_data.norm.df_1[, 7], k = 1, prob=TRUE)
actual= test.norm.df_1$Personal.Loan
prediction_prob = attr(prediction_Q5, "prob")

table(prediction_Q5, actual) #confusion matrix for the best k value =1
```

```
##          actual
## prediction_Q5  0   1
##           0 907  25
##           1  12  57
```

```
mean(prediction_Q5==actual) #accuracy of the best k=1
```

```
## [1] 0.963037
```

The model performed better in the test set, as it got enough data to learn from i.e 80% of the data, Whereas when we were working on training data it only learned from 50% of the data.