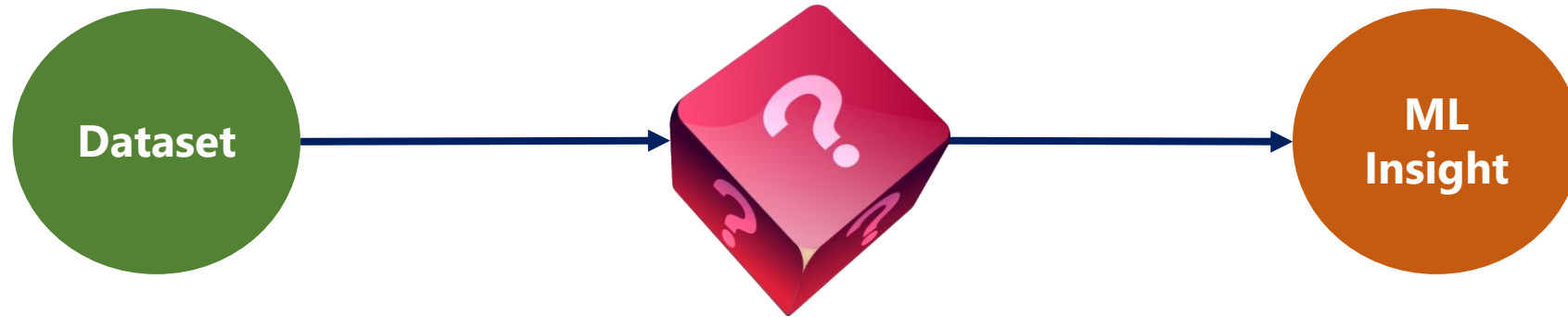


# PROBABILITY FOR STATISTICS AND DATA SCIENCE

## **Introduction to Probability: Cheat Sheet**

Probability Formula | Sample Space | Expected Values | Complements

# Words of welcome



**You are here because** you want to comprehend the basics of probability before you can dive into the world of statistics and machine learning. Understanding the driving forces behind key statistical features is crucial to reaching your goal of mastering data science. This way you will be able to extract important insight when analysing data through supervised machine learning methods like regressions, but also fathom the outputs unsupervised or assisted ML give you.

**Bayesian Inference** is a key component heavily used in many fields of mathematics to succinctly express complicated statements. Through Bayesian Notation we can convey the relationships between elements, sets and events. Understanding these new concepts will aid you in interpreting the mathematical intuition behind sophisticated data analytics methods.

**Distributions** are the main way we use to classify sets of data. If a dataset complies with certain characteristics, we can usually attribute the likelihood of its values to a specific distribution. Since many of these distributions have elegant relationships between certain outcomes and their probabilities of occurring, knowing key features of our data is extremely convenient and useful.

# What is probability?

Probability is **the likelihood of an event occurring**. This event can be pretty much anything – getting heads, rolling a 4 or even bench pressing 225lbs. We measure probability with numeric values between 0 and 1, because we like to *compare* the relative likelihood of events. Observe the general probability formula.

$$P(X) = \frac{\textit{Preferred outcomes}}{\textit{Sample Space}}$$

## Probability Formula:

- The Probability of event X occurring equals the *number* of preferred outcomes over the *number* of outcomes in the sample space.
- Preferred outcomes are the outcomes we want to occur or the outcomes we are interested in. We also call refer to such outcomes as “Favorable”.
- Sample space refers to all possible outcomes that can occur. Its “size” indicates the amount of elements in it.

## If two events are independent:

The probability of them occurring simultaneously equals the product of them occurring on their own.

$$P(A \heartsuit) = P(A) \cdot P(\heartsuit)$$

# Expected Values

**Trial** – Observing an event occur and recording the outcome.

**Experiment** – A collection of one or multiple trials.

**Experimental Probability** – The probability we assign an event, based on an experiment we conduct.

**Expected value** – the specific outcome we expect to occur when we run an experiment.

## **Example:** Trial

Flipping a coin and recording the outcome.

## **Example:** Experiment

Flipping a coin 20 times and recording the 20 individual outcomes.

In this instance, the **experimental probability** for getting heads would equal the number of heads we record over the course of the 20 outcomes, over 20 (the total number of trials).

The **expected value** can be numerical, Boolean, categorical or other, depending on the type of the event we are interested in. For instance, the expected value of the trial would be the more likely of the two outcomes, whereas the expected value of the experiment will be the number of time we expect to get either heads or tails after the 20 trials.

Expected value for **categorical** variables.

$$E(X) = n \times p$$

Expected value for **numeric** variables.

$$E(X) = \sum_{i=1}^n x_i \times p_i$$

# Probability Frequency Distribution

## What is a probability frequency distribution?:

A collection of the probabilities for each possible outcome of an event.

## Why do we need frequency distributions?:

We need the probability frequency distribution to try and predict future events when the expected value is unattainable.

## What is a frequency?:

Frequency is the number of times a given value or outcome appears in the sample space.

## What is a frequency distribution table?:

The frequency distribution **table** is a table matching each distinct outcome in the sample space to its associated frequency.

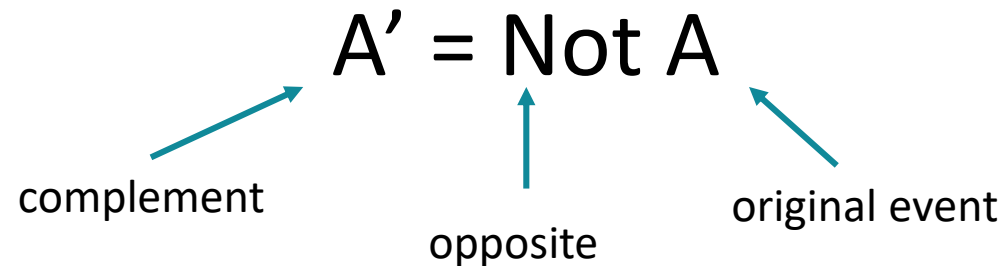
## How do we obtain the probability frequency distribution from the frequency distribution table?:

By dividing every frequency by the size of the sample space. (Think about the "favoured over all" formula.)

Sum	Frequency	Probability
2	1	$1/36$
3	2	$1/18$
4	3	$1/12$
5	4	$1/9$
6	5	$5/36$
7	6	$1/6$
8	5	$5/36$
9	4	$1/9$
10	3	$1/12$
11	2	$1/18$
12	1	$1/36$

# Complements

The complement of an event is **everything** an event is **not**. We denote the complement of an event with an apostrophe.



Characteristics of complements:

- Can never occur simultaneously.
- Add up to the sample space. ( $A + A' = \text{Sample space}$ )
- Their probabilities add up to 1. ( $P(A) + P(A') = 1$ )
- The complement of a complement is the original event. ( $((A')') = A$ )

**Example:**

- Assume event  $A$  represents drawing a spade, so  $P(A) = 0.25$ .
- Then,  $A'$  represents **not** drawing a spade, so drawing a club, a diamond or a heart.  $P(A') = 1 - P(A)$ , so  $P(A') = 0.75$ .

# Permutations

Permutations represent the number of different possible ways we can **arrange** a number of elements.

$$P(n) = n \times (n - 1) \times (n - 2) \times \cdots \times 1$$

The diagram illustrates the formula for permutations,  $P(n) = n \times (n - 1) \times (n - 2) \times \cdots \times 1$ . Four teal arrows point from descriptive text below to specific parts of the formula: one from 'Permutations' to  $P(n)$ , one from 'Options for who we put first' to  $n$ , one from 'Options for who we put second' to  $(n - 1)$ , and one from 'Options for who we put last' to  $1$ .

## Characteristics of Permutations:

- Arranging **all** elements within the sample space.
- No repetition.
- $P(n) = n \times (n - 1) \times (n - 2) \times \cdots \times 1 = n!$  (Called "n factorial")

## Example:

- If we need to arrange 5 people, we would have  $P(5) = 120$  ways of doing so.

# Factorials

Factorials express the **product** of all integers from 1 to  $n$  and we denote them with the “!” symbol.

$$n! = n \times (n - 1) \times (n - 2) \times \cdots \times 1$$

Key Values:

- $0! = 1$ .
- If  $n < 0$ ,  $n!$  does not exist.

Rules for factorial multiplication. (For  $n > 0$  and  $n > k$ )

- $(n + k)! = n! \times (n + 1) \times \cdots \times (n + k)$
- $(n - k)! = \frac{n!}{(n - k + 1) \times \cdots \times (n - k + k)} = \frac{n!}{(n - k + 1) \times \cdots \times n}$
- $\frac{n!}{k!} = \frac{k! \times (k + 1) \times \cdots \times n}{k!} = (k + 1) \times \cdots \times n$

Examples:  $n = 7, k = 4$

- $(7 + 4)! = 11! = 7! \times 8 \times 9 \times 10 \times 11$
- $(7 - 4)! = 3! = \frac{7!}{4 \times 5 \times 6 \times 7}$
- $\frac{7!}{4!} = 5 \times 6 \times 7$



# Variations

Variations represent the number of different possible ways we can **pick** and **arrange** a number of elements.

Variations **with** repetition  $\rightarrow \bar{V}(n, p) = n^p$

$\uparrow$  Number of different elements available       $\nwarrow$  Number of elements we are arranging

Variations without repetition  $\rightarrow V(n, p) = \frac{n!}{(n-p)!}$

$\uparrow$  Number of different elements available       $\nwarrow$  Number of elements we are arranging

## Intuition behind the formula. (With Repetition)

- We have  $n$ -many options for the first element.
- We **still have**  $n$ -many options for the second element because repetition is allowed.
- We have  $n$ -many options for each of the  $p$ -many elements.
- $n \times n \times n \dots n = n^p$

## Intuition behind the formula. (Without Repetition)

- We have  $n$ -many options for the first element.
- We **only have**  $(n-1)$ -many options for the second element because we cannot repeat the value for we chose to start with.
- We have less options left for each additional element.
- $n \times (n-1) \times (n-2) \dots (n-p+1) = \frac{n!}{(n-p)!}$

# Combinations

Combinations represent the number of different possible ways we can pick a number of elements.

$$C(n, p) = \frac{n!}{(n - p)! p!}$$

Combinations

Total number of elements in the sample space

Number of elements we need to select

## Characteristics of Combinations:

- Takes into account double-counting. (Selecting Johny, Kate and Marie is the same as selecting Marie, Kate and Johny)
- All the different permutations of a single combination are different variations.
- $C = \frac{V}{P} = \frac{n!/(n-p)!}{p!} = \frac{n!}{(n-p)!p!}$
- Combinations are symmetric, so  $C_p^n = C_{n-p}^n$ , since selecting p elements is the same as omitting n-p elements.

# Combinations with separate sample spaces

Combinations represent the number of different possible ways we can pick a number of elements.

$$C = n_1 \times n_2 \times \cdots \times n_p$$

The diagram illustrates the formula for combinations with separate sample spaces. It features the equation  $C = n_1 \times n_2 \times \cdots \times n_p$  at the top. Below the equation, four teal arrows point upwards to specific parts of the formula: the first arrow points to  $C$  and is labeled 'Combinations'; the second arrow points to  $n_1$  and is labeled 'Size of the first sample space.'; the third arrow points to  $n_2$  and is labeled 'Size of the second sample space.'; and the fourth arrow points to  $n_p$  and is labeled 'Size of the last sample space.'

Characteristics of Combinations with separate sample spaces:

- The option we choose for any element does not affect the number of options for the other elements.
- The order in which we pick the individual elements is arbitrary.
- We need to know the size of the sample space for each individual element.  $(n_1, n_2 \dots n_p)$

# Winning the Lottery

To win the lottery, you need to satisfy two distinct independent events:

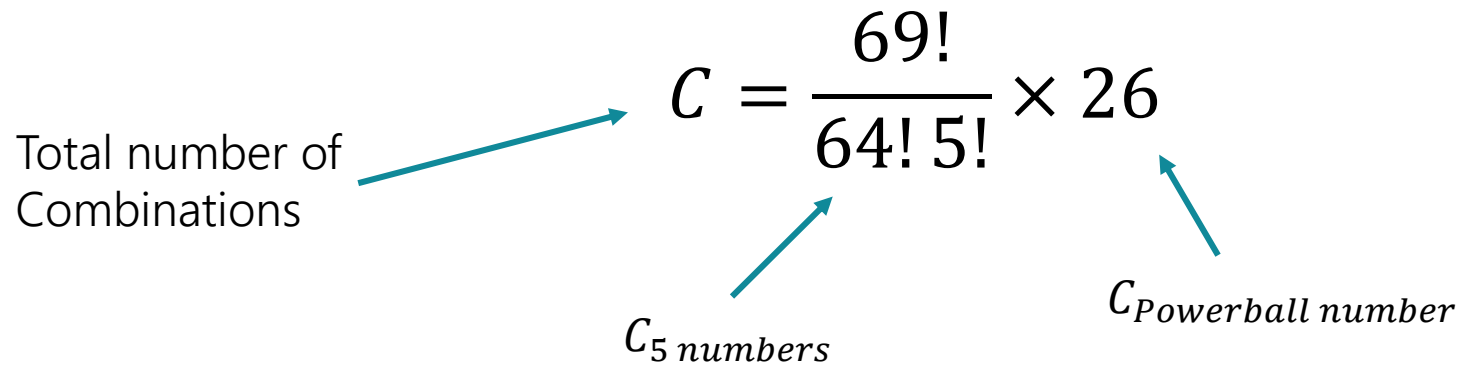
- Correctly guess the "Powerball" number. (From 1 to 26)
- Correctly guess the 5 regular numbers. (From 1 to 69)

Total number of Combinations

$$C = \frac{69!}{64! 5!} \times 26$$

$C_{5 \text{ numbers}}$

$C_{\text{Powerball number}}$

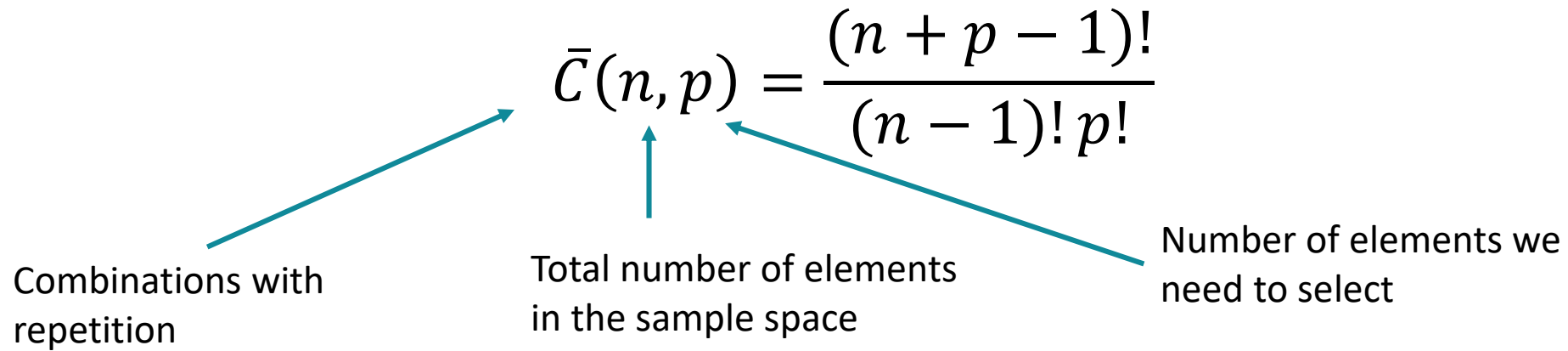


Intuition behind the formula:

- We consider the two distinct events as a combination of two elements with different sample sizes.
  - One event has a sample size of 26, the other has a sample size of  $C_5^{69}$ .
- Using the "favoured over all" formula, we find the probability of any single ticket winning equals  $1 / (\frac{69!}{64! 5!} \times 26)$ .

# Combinations With Repetition

Combinations represent the number of different possible ways we can **pick** a number of elements. In special cases we can have repetition in combinations and for those we use a different formula.



Combinations with repetition

$$\bar{C}(n, p) = \frac{(n + p - 1)!}{(n - 1)! p!}$$

Total number of elements in the sample space

Number of elements we need to select

Now that you know what the formula looks like, we are going to walk you through the process of deriving this formula from the Combinations *without* repetition formula. This way you will be able to fully understand the intuition behind and not have to bother memorizing it.

# Applications of Combinations with Repetition

To understand how combinations with repetition work you need to understand the instances where they occur.

We use combinations with repetition when the events we are dealing with, have sufficient quantity of each of the distinct values in the sample space.

One such example is the toppings on a pizza.

We can order extra of any given topping, so **repetition is allowed**. However, we **do not care about the order** in which the toppings are put on top of the pizza, so we cannot use variations.

Similar examples include picking the ice-cream flavours for a Sundae melt or the players for a Fantasy Football Team.



# Pizza Example

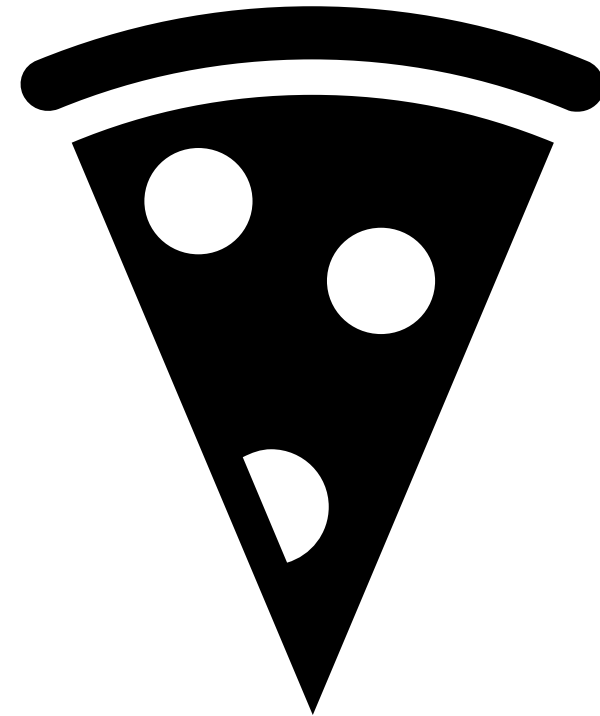
To get a better grasp of the number of combinations we have, let us explore a specific example.

You are ordering a 3-topping pizza from your local pizza place but they only have 6 toppings left because it's late.

The toppings are as follows:  
cheddar cheese, onions, green peppers, mushrooms, pepperoni and bacon.

Your pizza can have 3 different toppings, or you can repeat a topping up to 3 times.

You can either order a pizza with 3 different toppings, a pizza with 3 identical toppings or a pizza with 2 different toppings but having a double dose of one of them.



# Methodology

The methodology we use for such combinations is rather abstract. We like to represent each type of pizza with a special sequence of 0s and 1s. To do so, we first need to select a specific order for the available ingredients.

We can reuse the order we wrote down earlier:

cheddar **c**heese, **o**nions, **g**reen peppers, **m**ushrooms, **p**epperoni and **b**acon.

For convenience we can refer to each ingredient by the associated letter we have highlighted (e.g “c” means cheese, and “o” means onions).

To construct the sequence for each unique type of pizza we follow 2 rules as we go through the ingredients in the order we wrote down earlier.

1. If we want no more from a certain topping, we write a **0 and move to the next topping**.
2. If we want to include a certain topping, we write a **1 and stay on the same topping**.
  - Not going to the next topping allows us to indicate if we want extra by adding another 1, before we move forward. Say, if we want our pizza to have extra cheese, the sequence would begin with “1, 1”.
  - Also, we always apply rule 1 before moving on to another topping, so the sequence will actually start with “1, 1, 0”.



# Pizzas and Sequences

If we need to write a "0" after each topping, then every sequence would consist of 6 zeroes and 3 ones.

Let's look at some pizzas and the sequences they are expressed with.

A pizza with **cheese** and **extra peperoni** is represented by the sequence 1,0,0,0,0,1,1,0,0.

A vegan variety pizza with **onions**, **green peppers** and **mushrooms** would be represented by the sequence 0,1,0,1,0,1,0,0,0.

Now, what kind of pizza would the sequence 0,0,1,0,0,0,1,1,0 represent?

We can put the sequence into the table and see that it represents a cheese pizza with extra bacon.

C	O	G	M	P	B
1,0	0	0	0	1,1,0	0
0	1,0	1,0	1,0	0	0
0	0	1,0	0	0	1,1,0

# Always Ending in 0

Notice how all the sequences we have examined end on a 0:

- 1,0,0,0,0,1,1,0,0
- 0,1,0,1,0,1,0,0,0
- 0,0,1,0,0,0,1,1,0

This is no coincidence, since according to rule 1 of our algorithm, we need to add a "0" at the end of the sequence, regardless of whether we wanted bacon or not.

That means that only the first 8 elements of the sequence can take different values.

Each pizza is characterized by the positions of the 3 "1"s in the sequence. Since only 8 of the positions in the sequence can take a value of "1", then the number of different pizzas would be the combination of any 3 of the 8 positions.

C	O	G	M	P	B
1,0	0	0	0	1,1,0	0
0	1,0	1,0	1,0	0	0
0	0	1,0	0	0	1,1,0

# Positions

As stated before, we have 3 "1s" and 8 different positions. Therefore, the number of pizzas we can get would be the number of combinations of picking 3 elements out of a set of 8. This means we can transform combinations **with** repetition to combinations **without** repetition.

$$\bar{C}(6,3) = C(8,3)$$

Let's observe the values 3 and 8 for a moment and try to generalize the formula. "3" represents the amount of toppings we need to pick, so it is still equivalent to p.

"8" represents the number of positions we have available for the ones. We had 3 + 6, or 9 positions in total, but we knew the last one could not contain a "1". Thus, we had "n + p - 1" many positions that could contain a 1.

$$\bar{C}(n, p) = C(n + p - 1, p)$$

## The Final Step

Now that we know the relationship between the number of combinations **with** and **without** repetition, we can plug in “ $n+p-1$ ” into the combinations without repetition formula to get:

$$\bar{C}(n, p) = C(n + p - 1, p) = \frac{(n + p - 1)!}{((n + p - 1) - p)! p!} = \frac{(n + p - 1)!}{(n - 1)! p!}$$

This is the exact same formula we showed you at the beginning.

Before we continue to the next lecture, let's make a quick recap of the algorithm and the formula.

1. We started by ordering the possible values and expressing every combination as a sequence.
2. We examined that only certain elements of the sequence may differ.
3. We concluded that every unique sequence can be expressed as a combination of the positions of the “1” values.
4. We discovered a relationship between the formulas for combinations with and without repetition.
5. We used said relationship to create a general formula for combinations with repetition.

# Symmetry of Combinations

Let's see the algebraic proof of the notion that selecting  $p$ -many elements out of a set of  $n$  is the same as omitting  $n-p$  many elements.

For starters, recall the combination formula:

$$C(n, p) = \frac{n!}{(n-p)! p!}$$

If we plug in  $n-p$  for  $p$ , we get the following:

$$C(n, n-p) = \frac{n!}{(n-(n-p))! (n-p)!} = \frac{n!}{(n-n+p)! (n-p)!} = \frac{n!}{p! (n-p)!} = \frac{n!}{(n-p)! p!} = C(n, p)$$

Therefore, we can conclude that  $C(n, p) = C(n, n-p)$ .

## Combinatorics Exercises:

For the following set of problems determine what part of Combinatorics we need to use and apply the appropriate formula. Have in mind that there might be more than one correct approach to some (or all) of these questions.

### Problem 1:

Imagine you are working at an office and have 5 tasks labelled as “Critical” in Jira to complete by the end of the day. In how many ways can you complete said tasks before the day ends?

\*\* “Jira” is a Project Management software which allows you to create tasks and label them depending on their importance. “Critical” is the highest level of importance and no task with a lower-level can be started once such a task is initiated.

### Problem 2:

Imagine your company is trying to gain customers by running an online ad campaign. The idea is to focus on a certain demographic which frequently uses social media. Your campaign will run ads on Facebook, Messenger, Instagram, Twitter and Reddit. Your graphical designers have created 8 different versions of the banner you can use. Based on this information:

- Calculate how many different options you have for the entire campaign, assuming you want to use a different one for each platform.
- Calculate how many different options you have for the entire campaign, assuming you can use the same banner for some or all the platforms.
- Calculate how many ways we can pick which of the 8 banners to use, assuming we use different ones for each platform.
- Calculate how many ways we can pick which of the 8 banners to use, assuming we can use each one multiple times.

### Problem 3:

You are renovating your entire apartment and want to repaint the walls of each room. The flat consists of two bedrooms, a kitchen, a living room, a bathroom, a study and a hall, or 7 rooms in total. You have at your disposal several colors of paint: white, yellow, orange, red, purple, blue, green, grey and pink.

How many different ways can you paint the house, assuming...

- ...you paint all the rooms in different colours?
- ...you paint the bathroom, study and hall in white?
- ...you paint the two bedrooms in identical color?
- ...you can only use grey and yellow?

#### Problem 4:

This year, you are helping organize your college's career fest. There are 11 companies which are participating, and you have just enough room fit all of them. How many ways can you arrange the various firms, assuming...:

- a) ... no firm has any preference where they want to be positioned?
- b) ... JP Morgan representatives made a deal, where they have to be located exactly in the middle?
- c) ... JP Morgan, Citi Bank and Morgan-Stanley must be positioned in the middle 3 spots?
- d) ... Deutsche Bank representatives cancel, so you can give the additional space to one of the other companies?

#### Problem 5:

Your best friend is organizing a birthday party for her twins – Amy and Steve - and she put you in charge of ordering the cakes. The bakery offers several types of cakes – a Cheesecake, Sacher Cake, a Chiffon Cake, a Coconut Cake and a Carrot Cake. How many different ways can you order the cakes, assuming that...

- a) ... both twins enjoy all the 5 types of cake?
- b) ... Steve dislikes Coconuts?
- c) ... Amy loves chocolate (Sacher)?
- d) ... each cake comes with a generic "Happy Birthday!" wish?
- e) ... each cake comes with a personalized "Happy Birthday Steve!" or "Happy Birthday Amy!" sign?

#### Problem 6:

You want to go to the gym between lectures every day, but you only have an hour to workout. Knowing this, you decide to do a circuit workout. You start with 5 minutes of cardio as a warm-up, then you hit two different leg exercises, followed by a chest exercise, as well as one for shoulders. After that, you continue with a bicep exercise and a triceps one, before moving to the back one. You finish the circuit with 2 abdominal exercises like a plank and some crunches. After completing the circuit several times, you end with another 10 minutes of cardio before you stretch and leave.

Now, assuming the gym has ellipticals, treadmills and stationary bikes, you have 3 options for the cardio. Additionally, you have 5 different leg exercises you can do. You have 4 choices of what to do for each of the next 3 muscle groups (chest, shoulders and bicep). For triceps you have heavy preferences towards two specific exercises, so you always do one of the two. The same can be said about the back. When it comes to the abdominal exercises, you have 4 options once again.

Taking everything into consideration, if you want to do a different workout each day, how long will it take you to run out of options?

## Combinatorics Exercises (and Solutions):

For the following set of problems determine what part of Combinatorics we need to use and apply the appropriate formula. Have in mind that there might be more than one correct approach to some (or all) of these questions.

### Problem 1:

Imagine you are working at an office and have 5 tasks labelled as “Critical” in Jira to complete by the end of the day. In how many ways can you complete said tasks before the day ends?

\*\* “Jira” is a Project Management software which allows you to create tasks and label them depending on their importance. “Critical” is the highest level of importance and no task with a lower-level can be started once such a task is initiated.

### Solution:

We need to arrange all 5 tasks; hence we are looking for the number of Permutation between 5 elements. Thus, we have  $5! = 120$  ways of completing our assignments.

### Problem 2:

Imagine your company is trying to gain customers by running an online ad campaign. The idea is to focus on a certain demographic which frequently uses social media. Your campaign will run ads on Facebook, Messenger, Instagram, Twitter and Reddit. Your graphical designers have created 8 different versions of the banner you can use. Based on this information:

- Calculate how many different options you have for the entire campaign, assuming you want to use a different one for each platform.
- Calculate how many different options you have for the entire campaign, assuming you can use the same banner for some or all the platforms.
- Calculate how many ways we can pick which of the 8 banners to use, assuming we use different ones for each platform.
- Calculate how many ways we can pick which of the 8 banners to use, assuming we can use each one multiple times.

### Solution:

Now, we have 8 banners at our disposal, and we need to put them on 5 platforms.

- Using different banners for each platform means we can think of each social media platform as a different position. Hence, we are going to be dealing with Variations. Since we are using different ones for each site/app, we cannot repeat values, so our formula is  $V = \frac{n!}{(n-p)!} = \frac{8!}{3!} = 4 \times 5 \times 6 \times 7 \times 8 = 6,720$ .
- Same as a), but we **can** repeat values, so we have Variations **with** repetition, so  $\bar{V} = n^p = 8^5 = 32,768$ .



- c) We need to select 5 out of the 8 banners to use. We use different ones for each platform, so repetition is not allowed. Hence, we use the formula for Combinations without repetition. Thus,  $C = \frac{n!}{p!(n-p)!} = \frac{8!}{5!3!} = \frac{6 \times 7 \times 8}{6} = 7 \times 8 = 56$ .
- d) Now, we need to select 5 out of the 8 banners to use. However, we can choose some multiple times. Therefore, we need to use Combinations with repetition, so  $\bar{C} = \frac{(n+p-1)!}{p!(n-1)!} = \frac{12!}{5!7!} = \frac{8 \times 9 \times 10 \times 11 \times 12}{1 \times 2 \times 3 \times 4 \times 5} = \frac{(8 \times 9 \times 11) \times 10 \times 12}{(2 \times 5) \times (3 \times 4)} = 8 \times 9 \times 11 = 792$ .

In this case, it is vital to not only know which banners we are using, but also to know how many times we are using each one, so we can assign them accordingly. If instead, we did not care how many times we use each banner we have selected, then we would have to find the sum of  $C_5^8 + C_4^8 + C_3^8 + C_2^8 + C_1^8$ . That is because we are essentially estimating the number of ways, we can select the banners, assuming we are using 5 different ones, 4 different ones, 3 different ones and so on.

### Problem 3:

You are renovating your entire apartment and want to repaint the walls of each room. The flat consists of two bedrooms, a kitchen, a living room, a bathroom, a study and a hall, or 7 rooms in total. You have at your disposal several colors of paint: white, yellow, orange, red, purple, blue, green, grey and pink.

How many different ways can you paint the house, assuming...

- ...you paint all the rooms in different colours?
- ...you paint the bathroom, study and hall in white?
- ...you paint the two bedrooms in identical color?
- ...you can only use grey and yellow?

### Solution:

Now, we have 9 colors at our disposal, and 7 rooms we need to paint.

- Using different colors for each platform means we can think of each room as a different position. Hence, we are going to be dealing with Variations. Since we are using different colors for each room, we cannot repeat values, so our formula is:  $V = \frac{n!}{(n-p)!} = \frac{9!}{2!} = 9 \times 8 \times 7 \times 6 \times 5 \times 4 \times 3 = 181,440$ .
- If you paint the bathroom, study and hall in white, you only need to think about the other 4 rooms. Now, this problem can be interpreted several different ways, so let us examine each outcome:
  - We paint the other 4 rooms in 4 different colors. That means we have Variations without repetition, so  $V = \frac{n!}{(n-p)!} = \frac{9!}{5!} = 6 \times 7 \times 8 \times 9 = 3,024$ .
  - We paint the other 4 rooms in 4 different colors. That means we have Variations without repetition. Additionally, we have already used white, so we are down to only 8 colors. Thus,  $V = \frac{n!}{(n-p)!} = \frac{8!}{4!} = 5 \times 6 \times 7 \times 8 = 1,680$ .

- c. We have no restriction on the colors we plan to use in the remaining 4 rooms. Therefore, we have Variations with repetition, **and** we can use “white”. Thus,  $\bar{V} = n^p = 9^4 = 6,561$ .

We phrased the question with the idea of going for interpretation “b”, but we see merit in the other approaches as well.

- c) If we paint the two bedrooms in the same color, we can think of them as a single big room. Thus, the number of rooms becomes 6 instead of 7.
- There is no restriction on whether we can repeat any of the colors we use, so we have variations with repetition once more  $\bar{V} = n^p = 9^6 = 531,441$ .
  - Alternatively, it is not *clearly* stated we **can** repeat values, so let us examine the alternative. If we cannot repeat values, we have variations without repetition, so the formula we use becomes:  $V = \frac{n!}{(n-p)!} = \frac{9!}{3!} = 4 \times 5 \times 6 \times 7 \times 8 \times 9 = 60,480$ .
- d) Using only grey and yellow means we have 2 colors to choose from, so  $n = 2$ . Additionally, to paint all the rooms we **must** repeat one or both colors. Therefore, these are Variations with repetition, so the formula is the following:  $\bar{V} = n^p = 2^7 = 128$ .

#### Problem 4:

This year, you are helping organize your college’s career fest. There are 11 companies which are participating, and you have just enough room fit all of them. How many ways can you arrange the various firms, assuming...:

- ... no firm has any preference where they want to be positioned?
- ... JP Morgan representatives made a deal, where they have to be located exactly in the middle?
- ... JP Morgan, Citi Bank and Morgan-Stanley must be positioned in the middle 3 spots?
- ... Deutsche Bank representatives cancel, so you can give the additional space to one of the other companies?

#### Solution:

We have 11 firms and 11 spots where we can place each one.

- If no firm has any preference, then we need to arrange the entire set of 11 firms across the room. Thus, we need to use Permutations, so:  $P_n = 11! = 39,916,800$ .
- If JP Morgan has to be located in the middle, then we only need to arrange the remaining 10 firms around the room. Thus, we can once again use permutation, but this time  $n = 10$ . Thus,  $P_n = 10! = 3,628,800$ .
- One approach to this problem is by looking at two distinct groups of firms – JP Morgan, Citi Bank and MS as one group, and the other 8 firms as the second group. Then if we find the number of ways, we can set up each group around the room, we just have two events with distinct sample spaces.

Let’s start with arranging the 3 banks in the middle. Since we need to split the 3 middle spots among the 3 banks all we need to do is compute the number of Permutations among 3 elements. Therefore,  $P_n = 3! = 6$ .

Now, since none of the remaining 8 firms cares too much where they are positioned, we once again need to arrange them around the room. Since we have 8 firms and 8 positions, we once again rely on permutations, so  $P_n = 8! = 40,320$ .

For any of the 40,320 ways we set the 8 firms around the room, we have 6 different ways to arrange the 3 banks in the middle. Therefore, in total, we have  $40,320 \times 6 = 241,920$  ways of setting up the career fest.

- d) We have 10 firms, which need to fill out 11 spots. Then, if we start filling up the room in some specific order, then there are going to be 10 options for who gets the first position. Since any firm can be given the additional space provided by DB's withdrawal, then there are once again 10 options for the second spot. Then, there would be 9 different options for the third and so on. This results in having  $10 \times 10 \times 9 \times 8 \dots \times 1 = 10 \times 10! = 36,288,000$  many options to arrange the firms.

### Problem 5:

Your best friend is organizing a birthday party for her twins – Amy and Steve - and she put you in charge of ordering the cakes. The bakery offers several types of cakes – a Cheesecake, Sacher Cake, a Chiffon Cake, a Coconut Cake and a Carrot Cake. How many different ways can you order the cakes, assuming that...

- ... both twins enjoy all the 5 types of cake?
- ... Steve dislikes Coconuts?
- ... Amy loves chocolate (Sacher)?
- ... each cake comes with a generic "Happy Birthday!" wish?
- ... each cake comes with a personalized "Happy Birthday Steve!" or "Happy Birthday Amy!" sign?

### Solution:

- a) Now, if both twins enjoy all 5 cakes, then need to find the number of different combinations of picking 2 cakes out of these 5. Since we are not explicitly told whether we could get the same cake for both, we should consider both scenarios.
- Assuming we wish to get the different cakes, then we use the formula for Combinations without repetition:  $C = \frac{n!}{p!(n-p)!} = \frac{5!}{2!(3)!} = 10$ .
  - Assuming, we can get them identical cakes, that means we have 5 more options – Cheese and Cheese, Sacher and Sacher and so on. Therefore, we have 15 different ways of getting these cakes. Additionally, we can use the formula for variations with repetition to get:  $\bar{C} = \frac{(n+p-1)!}{p!(n-1)!} = \frac{6!}{2!4!} = \frac{6 \times 5}{1 \times 2} = 15$ .
- b) Since Steve dislikes coconuts, our options are limited to 4 cakes. Then, we need to choose two of the 4 remaining cakes, so  $C = \frac{n!}{p!(n-p)!} = \frac{4!}{2!2!} = 6$ . If we can get two identical cakes, then we have  $\bar{C} = \frac{(n+p-1)!}{p!(n-1)!} = \frac{5!}{2!3!} = 10$  options.

(Alternatively, we can get one Coconut cake and 1 other cake. That way Steve will still have something else to eat. In that scenario, if we can have two identical cakes, then the only option which we want to avoid is the double Coconut one. Thus, we take the 15 we got in part b of a), and subtract 1, so we get 14 options.

Now, if we want to have 2 different cakes, we need to remove the double Cheesecake, double Sacher, double Chiffon and double Carrot cake options. Therefore, there would be 10 different orders we could make.)

- c) If Amy **loves** chocolate, one of the two cakes **must** be Sacher. Then, we only need to think about what the other one is. Since we have 5 different cakes, then we have 5 options for choosing the cakes.
- d) Now, if the cakes come with generic “Happy Birthday” wishes, it does not matter who gets each cake. Then, since we are not given any additional indication of preference, we can assume this is equivalent to part a). Thus, there are 15 different orders we can make.
- e) Now, since it is vital to select the appropriate wish on each of the two cakes, this means that we are dealing with variations. Once again, we have two approaches depending on whether we wish to get them different cakes.
  - a. If we decide to do so, then we have  $V = \frac{n!}{(n-p)!} = \frac{5!}{3!} = 4 \times 5 = 20$  different orders.
  - b. Now, if we are allowed to get them identical cakes, then we have variations with repetition. Thus,  $\bar{V} = 5^2 = 25$ .

### Problem 6:

You want to go to the gym between lectures every day, but you only have an hour to workout. Knowing this, you decide to do a circuit workout. You start with 5 minutes of cardio as a warm-up, then you hit two different leg exercises, followed by a chest exercise, as well as one for shoulders. After that, you continue with a bicep exercise and a triceps one, before moving to the back one. You finish the circuit with 2 abdominal exercises like a plank and some crunches. After completing the circuit several times, you end with another 10 minutes of cardio before you stretch and leave.

Now, assuming the gym has ellipticals, treadmills and stationary bikes, you have 3 options for the cardio. Additionally, you have 5 different leg exercises you can do. You have 4 choices of what to do for each of the next 3 muscle groups (chest, shoulders and bicep). For triceps you have heavy preferences towards two specific exercises, so you always do one of the two. The same can be said about the back. When it comes to the abdominal exercises, you have 4 options once again.

Taking everything into consideration, if you want to do a different workout each day, how long will it take you to run out of options?

### Solution:

To begin with, notice that this *entire* exercise is just an example of Combinations of events with separate sample spaces. Our best approach would be to go through the workout regime one exercise at a time and determine the size of the sample space at each instance.

\_\_\_\_\_

Start with the warm-up cardio. We have 3 options, so we fill out the first position.

3 \_\_\_\_\_

Next, we go over the leg exercises. We want to do 2 different exercises and we care which one we do first. Thus, we have  $V = \frac{n!}{(n-p)!} = \frac{5!}{3!} = 4 \times 5 = 20$  options for the legs.

3 20 \_\_\_\_\_

Then we have 4 alternatives for each of the next 3 groups – chest, shoulders and biceps.

3 20 4 4 4 \_ \_ \_ \_

For triceps and back we have two options each, so we add those as well.

3 20 4 4 4 2 2 \_ \_

When it comes to the abdominal exercises, we take the same approach we did with the leg exercises. Thus, we have  $V = \frac{n!}{(n-p)!} = \frac{4!}{2!} = 3 \times 4 = 12$  options for the abs.

3 20 4 4 4 2 2 12 \_

Our warm-down consists of additional cardio, for which we have 3 options.

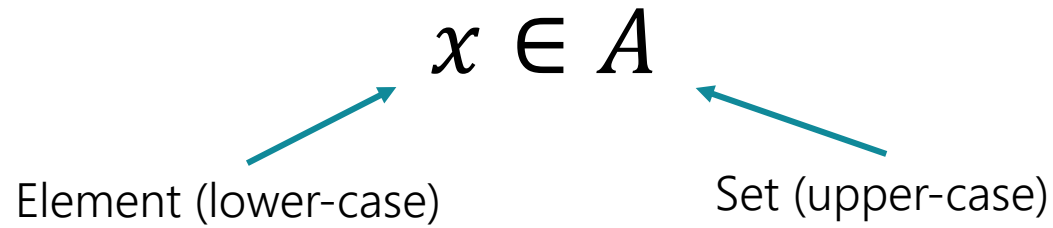
3 20 4 4 4 2 2 12 3

Now, to solve this, we need to multiply the sizes of the different sample spaces we just defined. Thus, we find the product  $\underline{3} \times \underline{20} \times \underline{4} \times \underline{4} \times \underline{4} \times \underline{2} \times \underline{2} \times \underline{12} \times \underline{3}$ . This results in 552, 960 different variations of the same circuit workout. Therefore, realistically, you will never run out of options.

# Bayesian Notation

A **set** is a collection of elements, which hold certain values. Additionally, every event has a set of outcomes that satisfy it.

The **null-set** (or **empty set**), denoted  $\emptyset$ , is an set which contain no values.



Notation:

$x \in A$

$A \ni x$

$x \notin A$

$\forall x$ :

$A \subseteq B$

Interpretation:

"Element x is a part of set A."

"Set A contains element x."

"Element x is NOT a part of set A."

"For all/any x such that..."

"A is a subset of B"

Example:

$2 \in \text{All even numbers}$

$\text{All even numbers} \ni 2$

$1 \notin \text{All even numbers}$

$\forall x: x \in \text{All even numbers}$

$\text{Even numbers} \subseteq \text{Integers}$

**Remember!** Every set has at least 2 subsets.

- $A \subseteq A$
- $\emptyset \subseteq A$

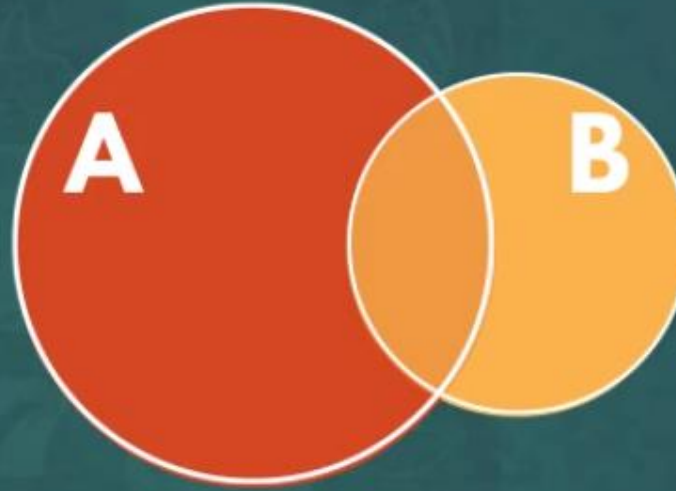
# Multiple Events

The sets of outcomes that satisfy two events A and B can interact in one of the following 3 ways.

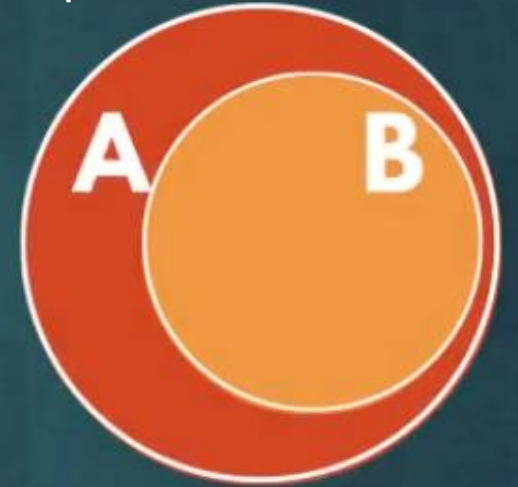
Not touch at all.



Intersect (Partially Overlap)



One completely overlaps the other.



Examples:

A -> Diamonds

B -> Hearts

Diamonds

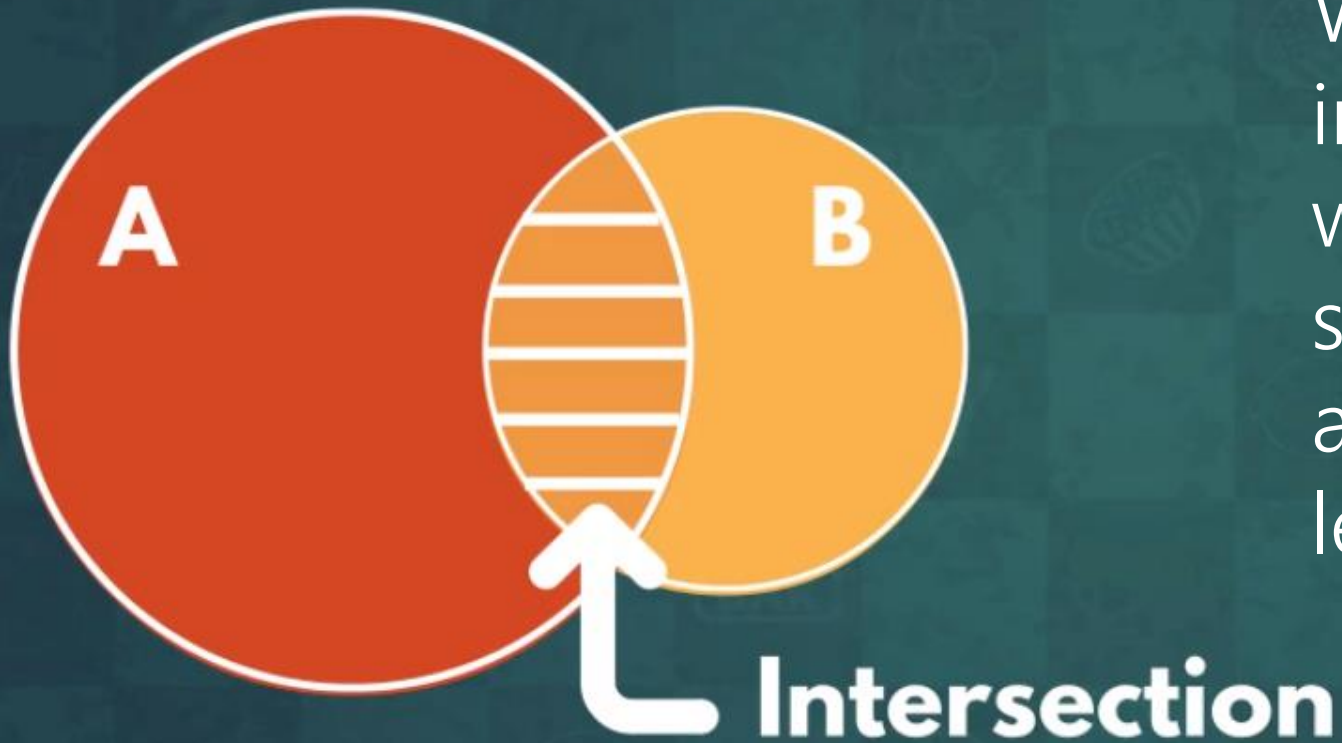
Queens

Red Cards

Diamond

# Intersection

The **intersection** of two or more events expresses the set of outcomes that satisfy all the events simultaneously. Graphically, this is the area where the sets intersect.



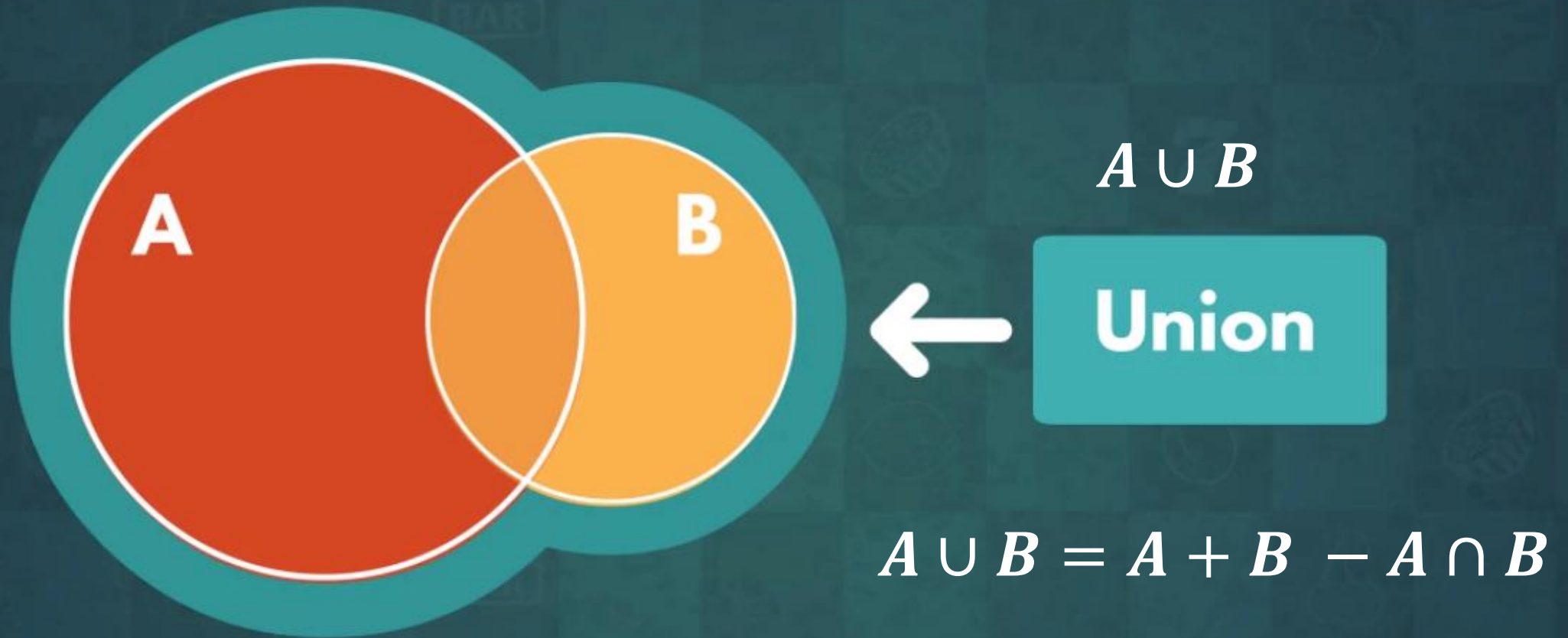
We denote the intersection of two sets with the “intersect” sign, which resembles an upside-down capital letter U:

$$A \cap B$$



# Union

The **union** of two or more events expresses the set of outcomes that satisfy at least one of the events. Graphically, this is the area that includes both sets.



# Mutually Exclusive Sets

Sets with no overlapping elements are called **mutually exclusive**. Graphically, their circles never touch.



If  $A \cap B = \emptyset$ , then the two sets are mutually exclusive.

## Remember:

All complements are mutually exclusive, but not all mutually exclusive sets are complements.

## Example:

Dogs and Cats are mutually exclusive sets, since no species is simultaneously a feline and a canine, but the two are not complements, since there exist other types of animals as well.

# Independent and Dependent Events

If the likelihood of event A occurring ( $P(A)$ ) is affected event B occurring, then we say that A and B are **dependent** events. Alternatively, if it isn't – the two events are **independent**.

We express the probability of event A occurring, given event B has occurred the following way  **$P(A|B)$** . We call this the conditional probability.

## Independent:

- All the probabilities we have examined so far.
- The outcome of A does not depend on the outcome of B.
- $P(A|B) = P(A)$

## Example

- A -> Hearts
- B -> Jacks

## Dependent

- New concept.
- The outcome of A depends on the outcome of B.
- $P(A|B) \neq P(A)$

## Example

- A -> Hearts
- B -> Red

# Conditional Probability

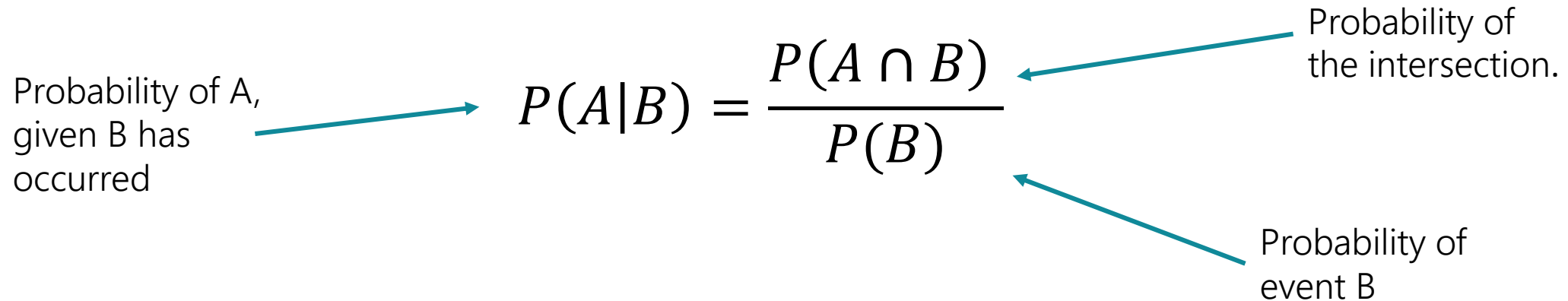
For any two events A and B, such that the likelihood of B occurring is greater than 0 ( $P(B) > 0$ ), the conditional probability formula states the following.

Probability of A,  
given B has  
occurred

$$P(A|B) = \frac{P(A \cap B)}{P(B)}$$

Probability of  
the intersection.

Probability of  
event B

A diagram illustrating the components of the conditional probability formula. On the left, the text 'Probability of A, given B has occurred' has an arrow pointing to the expression P(A|B). In the center is the formula P(A|B) = P(A ∩ B) / P(B). An arrow points from the text 'Probability of the intersection.' to the numerator P(A ∩ B). Another arrow points from the text 'Probability of event B' to the denominator P(B).

## Intuition behind the formula:

- Only interested in the outcomes where B is satisfied.
- Only the elements in the intersection would satisfy A as well.
- Parallel to the “favoured over all” formula:
  - Intersection = “preferred outcomes”
  - B = “sample space”

## Remember:

- Unlike the union or the intersection, changing the order of A and B in the conditional probability alters its meaning.
- $P(A|B)$  is not the same as  $P(B|A)$ , even if  $P(A|B) = P(B|A)$  numerically.
- The two conditional probabilities possess **different meanings** even if they have equal values.

# Law of total probability

The **law of total probability** dictates that for any set  $A$ , which is a union of many mutually exclusive sets  $B_1, B_2, \dots, B_n$ , its probability equals the following sum.

$$P(A) = P(A|B_1) \times P(B_1) + P(A|B_2) \times P(B_2) + \dots + P(A|B_n) \times P(B_n)$$

Conditional Probability of  $A$ , given  $B_1$  has occurred.

Probability of  $B_1$  occurring.

Conditional Probability of  $A$ , given  $B_2$  has occurred.

Probability of  $B_2$  occurring.

Intuition behind the formula:

- Since  $P(A)$  is the union of mutually exclusive sets, so it equals the **sum of the individual sets**.
- The **intersection** of a union and one of its subsets is the entire subset.
- We can rewrite the conditional probability formula  $P(A|B) = \frac{P(A \cap B)}{P(B)}$  to get  $P(A \cap B) = P(A|B) \times P(B)$ .
- Another way to express the law of total probability is:
  - $P(A) = P(A \cap B_1) + P(A \cap B_2) + \dots + P(A \cap B_n)$


# Additive Law

The additive law calculates the probability of the union based on the probability of the individual sets it accounts for.

$$P(A \cup B) = P(A) + P(B) - P(A \cap B)$$



Probability of the  
union



Probability of  
the intersection

## Intuition behind the formula

- Recall the formula for finding the size of the Union using the size of the Intersection:
  - $A \cup B = A + B - A \cap B$
- The probability of each one is simply its size over the size of the sample space.
- This holds true for any events A and B.

# The Multiplication Rule

The multiplication rule calculates the probability of the intersection based on the conditional probability.

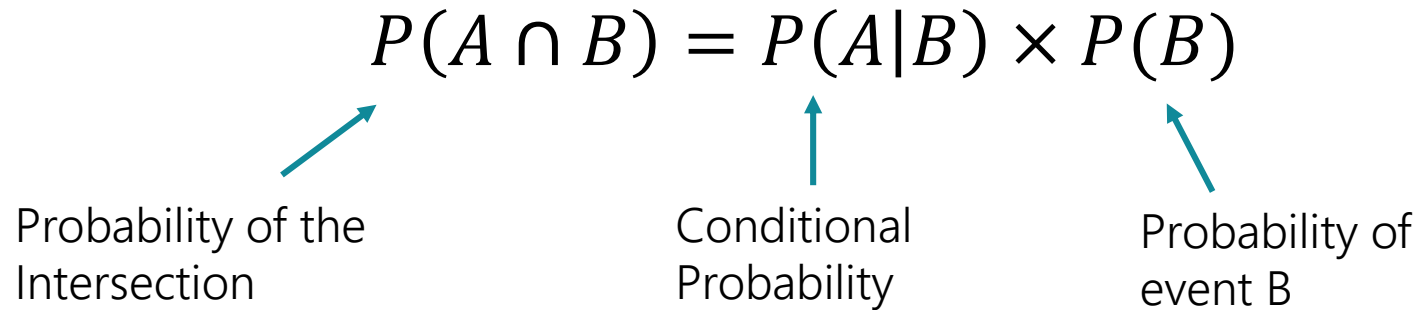
$$P(A \cap B) = P(A|B) \times P(B)$$


Diagram illustrating the Multiplication Rule formula:  $P(A \cap B) = P(A|B) \times P(B)$ . The terms are labeled as follows:

- $P(A \cap B)$ : Probability of the Intersection
- $P(A|B)$ : Conditional Probability
- $P(B)$ : Probability of event B

## Intuition behind the formula

- We can multiply both sides of the conditional probability formula  $P(A|B) = \frac{P(A \cap B)}{P(B)}$  by  $P(B)$  to get  $P(A \cap B) = P(A|B) \times P(B)$ .
- If event B occurs in 40% of the time ( $P(B) = 0.4$ ) and event A occurs in 50% of the time B occurs ( $P(A|B) = 0.5$ ), then they would simultaneously occur in 20% of the time ( $P(A|B) \times P(B) = 0.5 \times 0.4 = 0.2$ ).

# Bayes' Law

Bayes' Law helps us understand the relationship between two events by computing the different conditional probabilities. We also call it Bayes' Rule or Bayes' Theorem.

Conditional probability of B, given A.

↓

Conditional probability of A, given B. →  $P(A|B) = \frac{P(B|A) \times P(A)}{P(B)}$

## Intuition behind the formula

- According to the multiplication rule  $P(A \cap B) = P(A|B) \times P(B)$ , so  $P(B \cap A) = P(B|A) \times P(A)$ .
- Since  $P(A \cap B) = P(B \cap A)$ , we plug in  $P(B|A) \times P(A)$  for  $P(A \cap B)$  in the conditional probability formula  $P(A|B) = \frac{P(A \cap B)}{P(B)}$
- Bayes' Law is often used in medical or business analysis to determine which of two symptoms affects the other one more.



Here are the questions we left as homework towards the end of the video:

- 1) What is the likelihood for a male student to be accepted?
- 2) What is the likelihood for a female student to be accepted?
- 3) Does gender have an effect on your chances of being accepted?
- 4) Are first time freshmen men or women more likely to enrol?

Onto table C2.

- 1) What is the likelihood of being offered a place on the waitlist?
- 2) What is the likelihood of getting admitted, having accepted a place on the waitlist?
- 3) What is the likelihood of getting admitted, having been offered a place on the waitlist?

Now, let's start exploring the questions one by one and begin with those concerning table C1.

- 1) The likelihood for a male student being accepted, equals the number of admitted male students over the number of male students, who applied, so that is just  $634 / 2590$ , or approximately 24.48%.
- 2) We find the likelihood for a female student getting accepted pretty much the same way -  $741 / 3088$ , or approximately 24%.
- 3) We see that it is slightly more competitive to get accepted, being a woman, but the two likelihoods are relatively even.
- 4) The likelihood of first-time freshmen men enrolling equals the number of men who enrolled, over the number of men, who were accepted, or  $217 / 634$  or approximately 34.23%.

Once again, we find the associated likelihood for women in a similar way,  $263 / 741$ , or close to 35.49%. The higher enrollment rate makes sense, given the lower acceptance rate among female applicants.

Onto table C2.

- 1) We can interpret the likelihood of getting a place on the waiting list two different ways and each is equally correct, given we clearly define our understanding of the problem.

If we assume that we want the probability of getting on the waiting list, upon applying to Hamilton, then the probability would equal the number of students on the waiting list, over the total number of students who applied. From table C1 we know that we had 2590 male and 3088 female applicants, or 5678 total candidates that year. Since 1299 of them landed on the waiting list, then the likelihood was:  $1299 / 5678$ , or close to 22.88%.

Alternatively, we might want to calculate the probability of landing on the waiting list after not getting accepted. In this case, our sample size decrease from 5678, to 4303 after we take away the 634 male and 741 female accepted students. Then, the likelihood of getting a spot on the waiting list becomes  $1299 / 4304$  or roughly 30.19%.

- 2) We know that 629 students **accepted** a place on the waiting list, and out of those 629, 33 got admitted. Thus, the likelihood of getting admitted, given a student accepted a place on the waiting list, equals  $33 / 629$ , or 5.25%.

- 3) Now, this last question might *seem* the exact same as the one before, but this time we are asking for the likelihood of being admitted, given the student **was offered** a place on the waiting list. This means our sample space is not just the 629 students who **accepted** the place in the waiting list, but the entire 1299, who were offered one. Thus, the likelihood equals  $33 / 1299$ , or roughly 2.54%.

# An overview of Distributions

A distribution shows the possible values a random variable can take and how frequently they occur.



## Important Notation for Distributions:

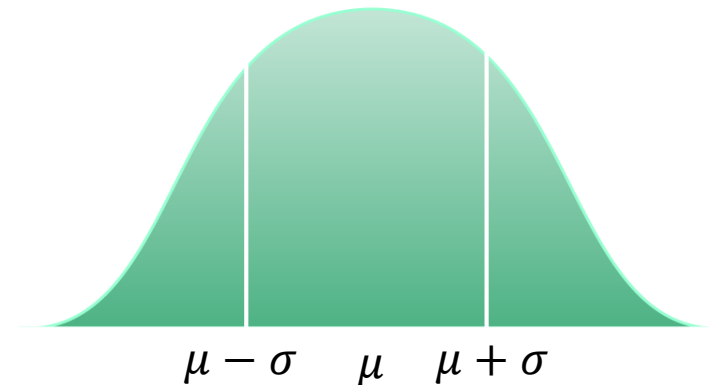
$Y$  actual outcome

$y$  one of the possible outcomes

$P(Y = y)$  is equivalent to  $p(y)$ .

We call a function that assigns a probability to each distinct outcome in the sample space, a **probability function**.

	Population	Sample
Mean	$\mu$	$\bar{x}$
Variance	$\sigma^2$	$s^2$
Standard Deviation	$\sigma$	$s$



# Types of Distributions

Certain distributions share characteristics, so we separate them into **types**. The well-defined types of distributions we often deal with have elegant statistics. We distinguish between two big types of distributions based on the type of the possible values for the variable – discrete and continuous.

## Discrete

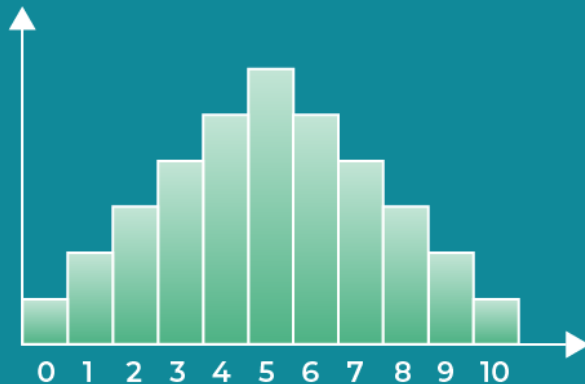
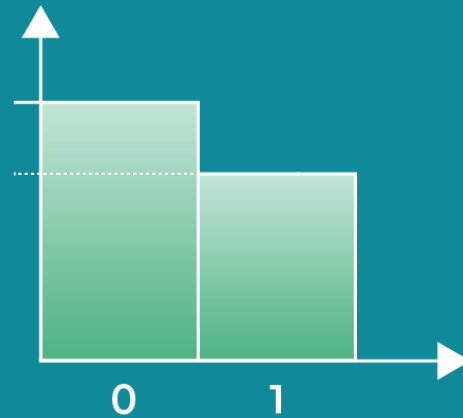
- Have a finite number of outcomes.
- Use formulas we already talked about.
- Can add up individual values to determine probability of an interval.
- Can be expressed with a table, graph or a piece-wise function.
- Expected Values might be unattainable.
- Graph consists of bars lined up one after the other.

## Continuous

- Have infinitely many consecutive possible values.
- Use new formulas for attaining the probability of specific values and intervals.
- Cannot add up the individual values that make up an interval because there are **infinitely many** of them.
- Can be expressed with a graph or a continuous function.
- Graph consists of a smooth curve.

# Discrete Distributions

Discrete Distributions have finitely many different possible outcomes. They possess several key characteristics which separate them from continuous ones.



## Key characteristics of discrete distribution

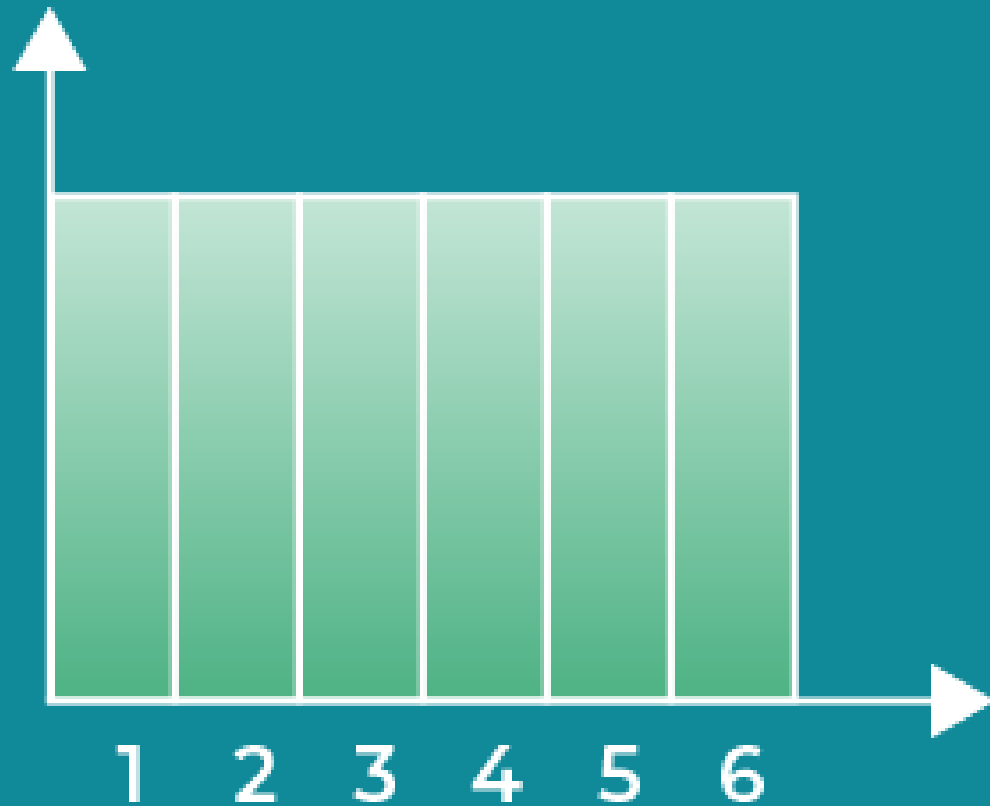
- Have a finite number of outcomes.
- Use formulas we already talked about.
- Can add up individual values to determine probability of an interval.
- Can be expressed with a table, graph or a piece-wise function.
- Expected Values might be unattainable.
- Graph consists of bars lined up one after the other.
- $P(Y \leq y) = P(Y < y + 1)$

## Examples of Discrete Distributions:

- Discrete Uniform Distribution
- Bernoulli Distribution
- Binomial Distribution
- Poisson Distribution

# Uniform Distribution

A distribution where all the outcomes are equally likely is called a **Uniform Distribution**.



Notation:

- $Y \sim U(a, b)$
- \* alternatively, if the values are categorical, we simply indicate the number of categories, like so:  $Y \sim U(a)$

Key characteristics

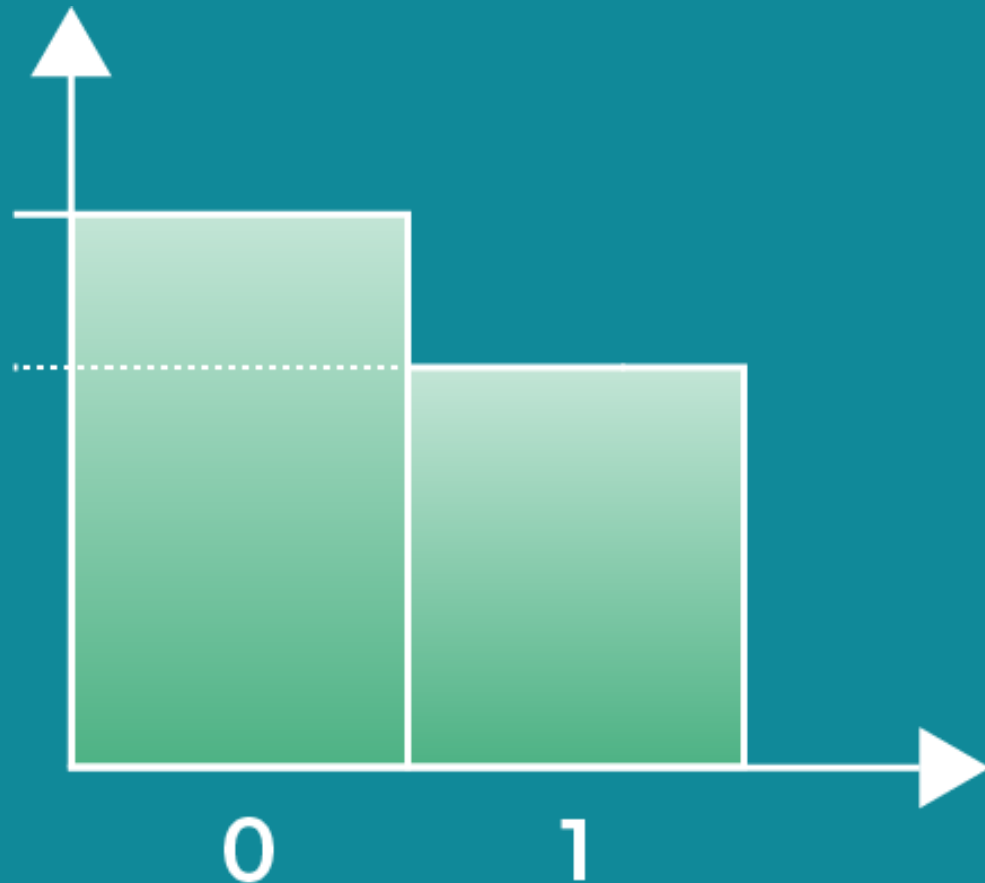
- All outcomes are equally likely.
- All the bars on the graph are equally tall.
- The expected value and variance have no predictive power.

Example and uses:

- Outcomes of rolling a single die.
- Often used in shuffling algorithms due to its fairness.

# Bernoulli Distribution

A distribution consisting of a single trial and only two possible outcomes – success or failure is called a **Bernoulli Distribution**.



Notation:

- $Y \sim \text{Bern}(p)$

Key characteristics

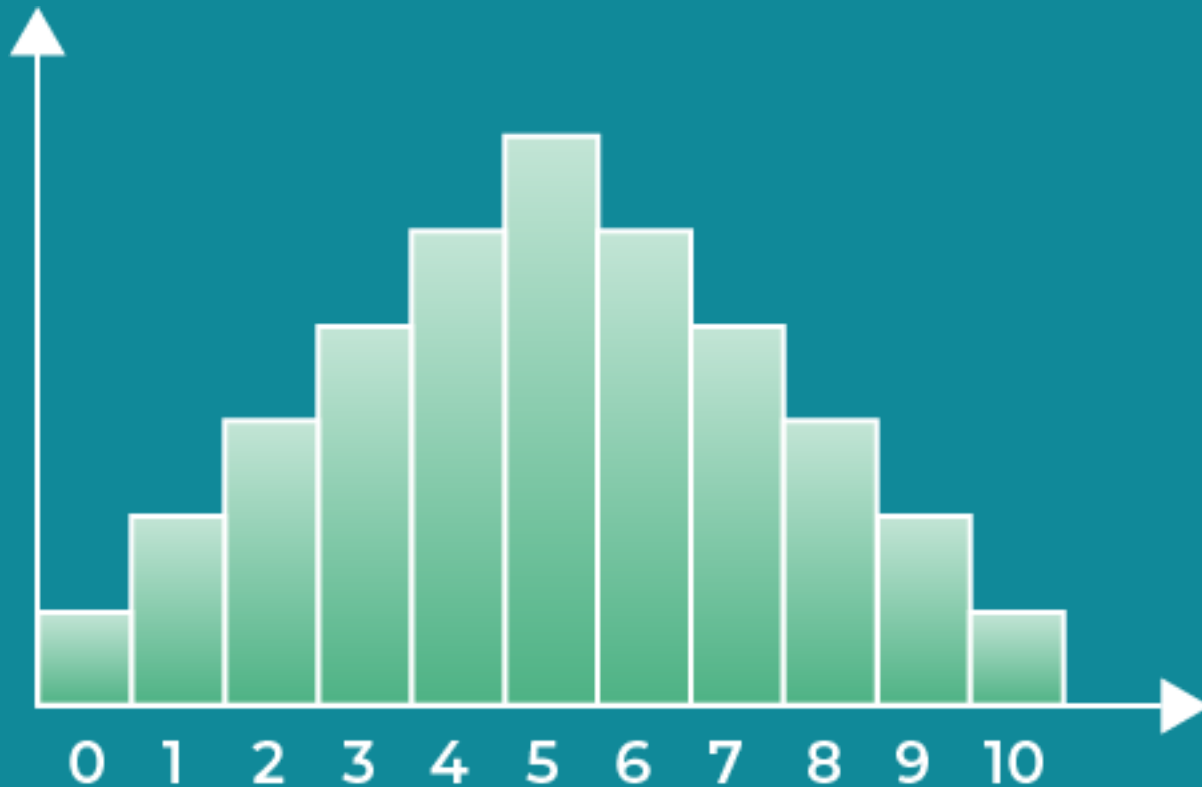
- One trial.
- Two possible outcomes.
- $E(Y) = p$
- $\text{Var}(Y) = p \times (1 - p)$

Example and uses:

- Guessing a single True/False question.
- Often used in when trying to determine what we expect to get out a single trial of an experiment.

# Binomial Distribution

A sequence of identical Bernoulli events is called Binomial and follows a **Binomial Distribution**. 



Notation:

- $Y \sim B(n, p)$

Key characteristics

- Measures the frequency of occurrence of one of the possible outcomes over the  $n$  trials.
- $P(Y = y) = C(y, n) \times p^y \times (1 - p)^{n-y}$
- $E(Y) = n \times p$
- $Var(Y) = n \times p \times (1 - p)$

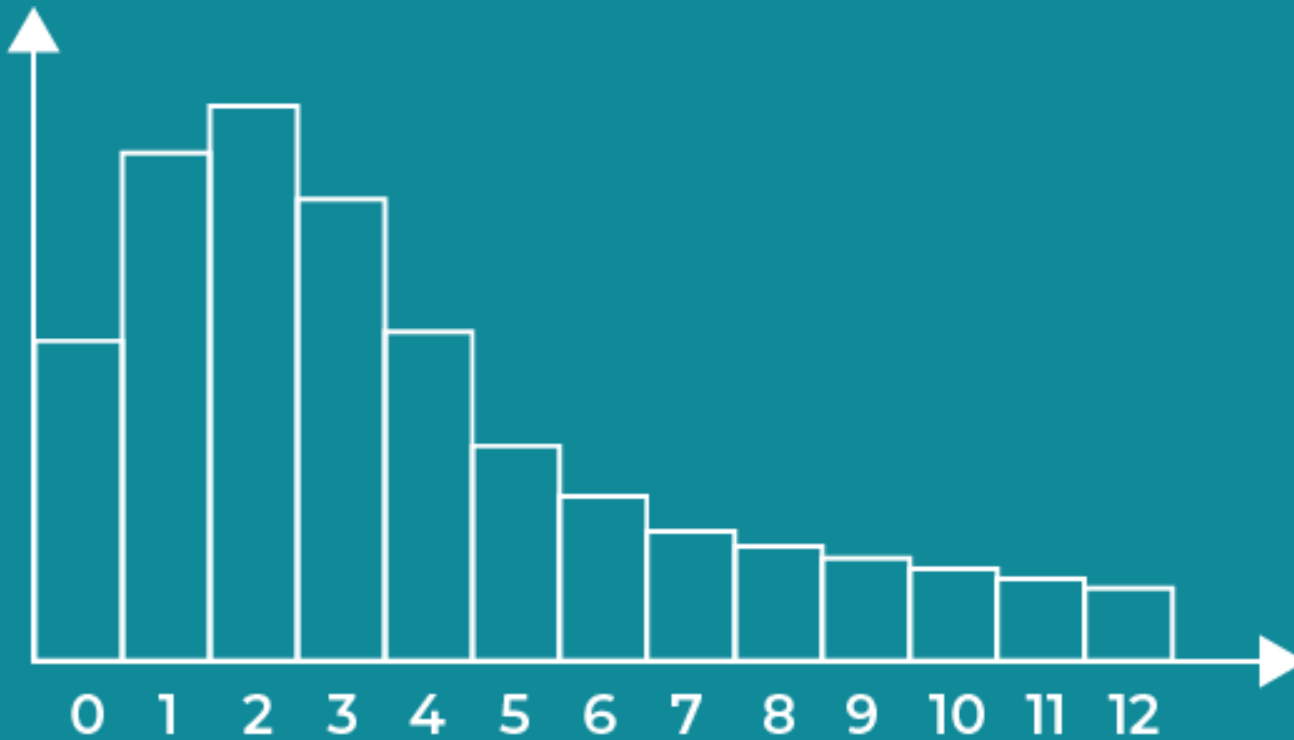
Example and uses:

- Determining how many times we expect to get a heads if we flip a coin 10 times.
- Often used when trying to predict how likely an event is to occur over a series of trials.



# Poisson Distribution

When we want to know the likelihood of a certain event occurring over a given interval of time or distance we use a **Poisson Distribution**.



Notation:

- $Y \sim Po(\lambda)$

Key characteristics

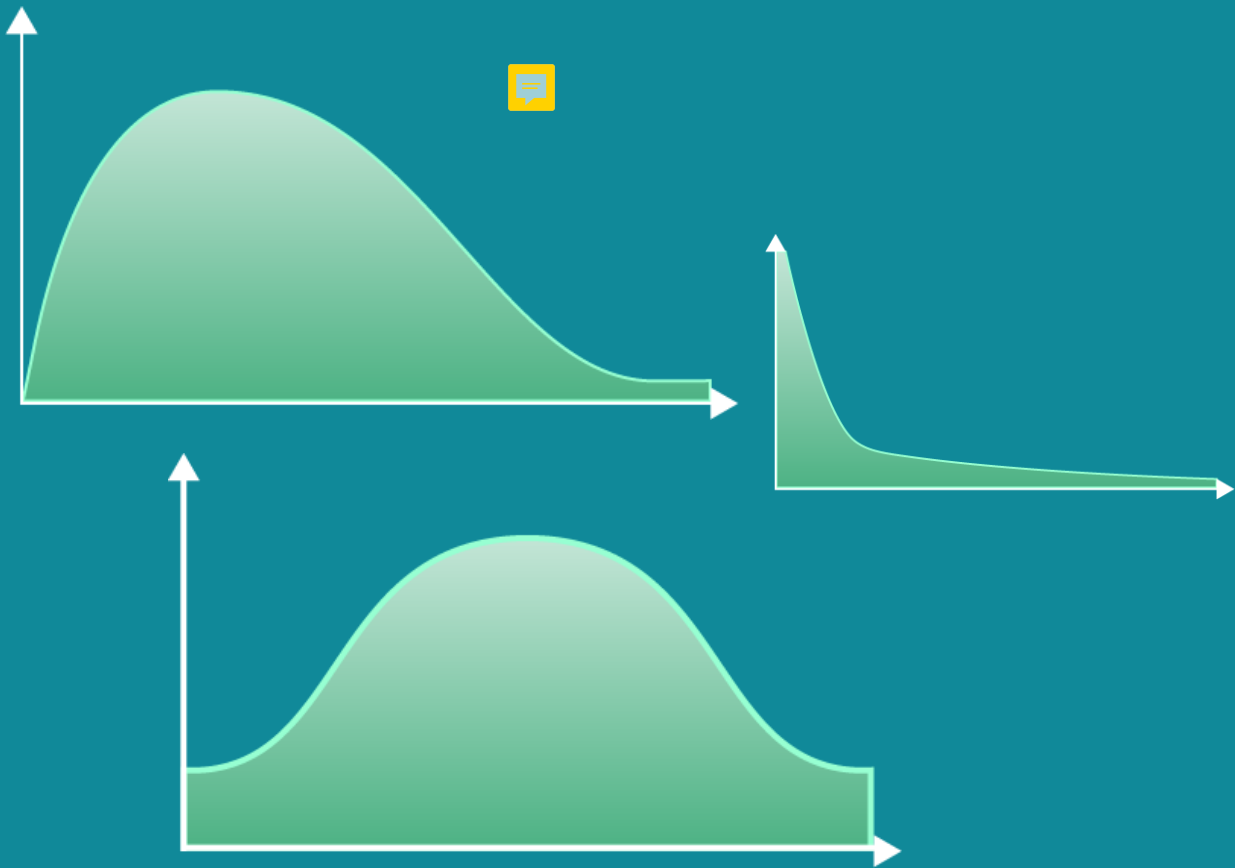
- Measures the frequency over an interval of time or distance. (Only non-negative values.)
- $P(Y = y) = \frac{\lambda^y e^{-\lambda}}{y!}$
- $E(Y) = \lambda$
- $Var(Y) = \lambda$

Example and uses:

- Used to determine how likely a specific outcome is, knowing how often the event **usually** occurs.
- Often incorporated in marketing analysis to determine whether above average visits are out of the ordinary or not.

# Continuous Distributions

If the possible values a random variable can take are a sequence of infinitely many consecutive values, we are dealing with a **continuous distribution**. 🗨️

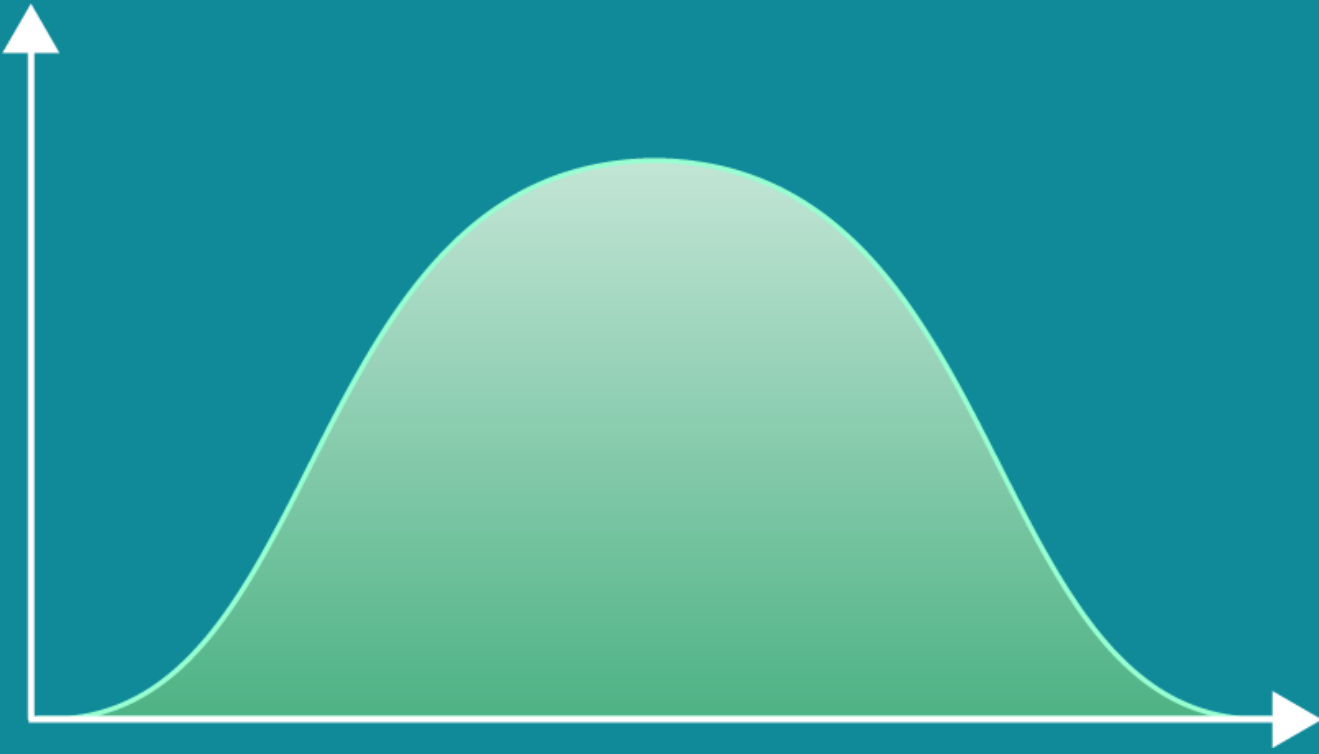


## Key characteristics

- Have infinitely many consecutive possible values.
- Cannot add up the individual values that make up an interval because there are **infinitely many** of them.
- Can be expressed with a graph or a continuous function. Cannot use a table, be
- Graph consists of a smooth curve.
- To calculate the likelihood of an interval, we need integrals.
- They have important CDFs. 🗨️
- $P(Y = y) = 0$  for any individual value  $y$ .
- $P(Y < y) = P(Y \leq y)$

# Normal Distribution

A Normal Distribution represents a distribution that most natural events follow.



Notation:

- $Y \sim N(\mu, \sigma^2)$

Key characteristics

- Its graph is bell-shaped curve, symmetric and has thin tails.
- $E(Y) = \mu$
- $Var(Y) = \sigma^2$
- 68% of all its values should fall in the interval:
  - $(\mu - \sigma, \mu + \sigma)$

Example and uses:

- Often observed in the size of animals in the wilderness.
- Could be standardized to use the Z-table.

# Standardizing a Normal Distribution

To standardize any normal distribution we need to transform it so that the mean is 0 and the variance and standard deviation are 1.

Using a transformation to create a new random variable z.

$$z = \frac{y - \mu}{\sigma}$$

Ensures mean is 0.



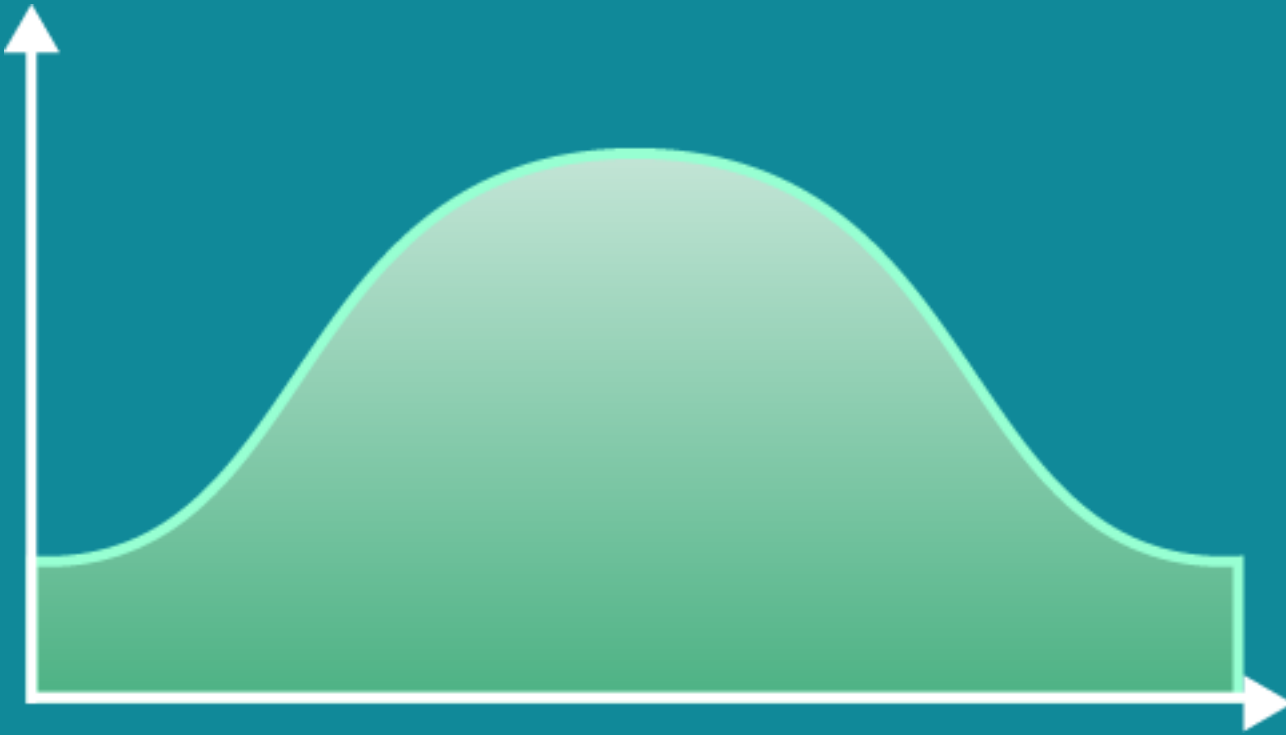
Ensures standard deviation is 1.

## Importance of the Standard Normal Distribution.

- The new variable z, represents how many standard deviations away from the mean, each corresponding value is.
- We can transform any Normal Distribution into a Standard Normal Distribution using the transformation shown above.
- Convenient to use because of a table of known values for its CDF, called the Z-score table, or simply the Z-table.

# Students' T Distribution

A Normal Distribution represents a small sample size approximation of a Normal Distribution.



Notation:



- $Y \sim t(k)$

## Key characteristics

- A small sample size approximation of a Normal Distribution.
- Its graph is bell-shaped curve, symmetric, but has **fat** tails.
- Accounts for extreme values better than the Normal Distribution.
- If  $k > 1$ :  $E(Y) = \mu$  and  $Var(Y) = s^2 \times \frac{k}{k-2}$

## Example and uses:

- Often used in analysis when examining a small sample of data that usually follows a Normal Distribution.

# Chi-Squared Distribution

A Chi-Squared distribution is often used.



Notation:

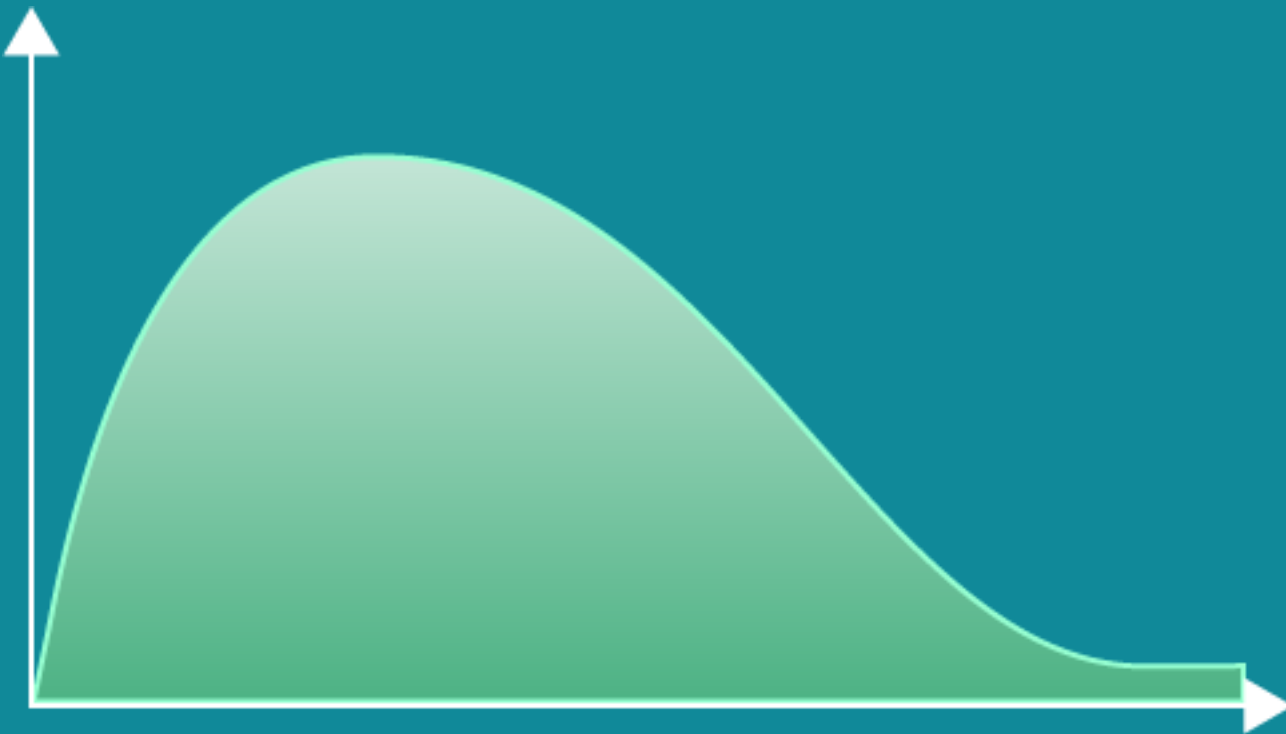
- $Y \sim \chi^2(k)$

Key characteristics

- Its graph is asymmetric and skewed to the right.
- $E(Y) = k$
- $Var(Y) = 2k$
- The Chi-Squared distribution is the square of the t-distribution.

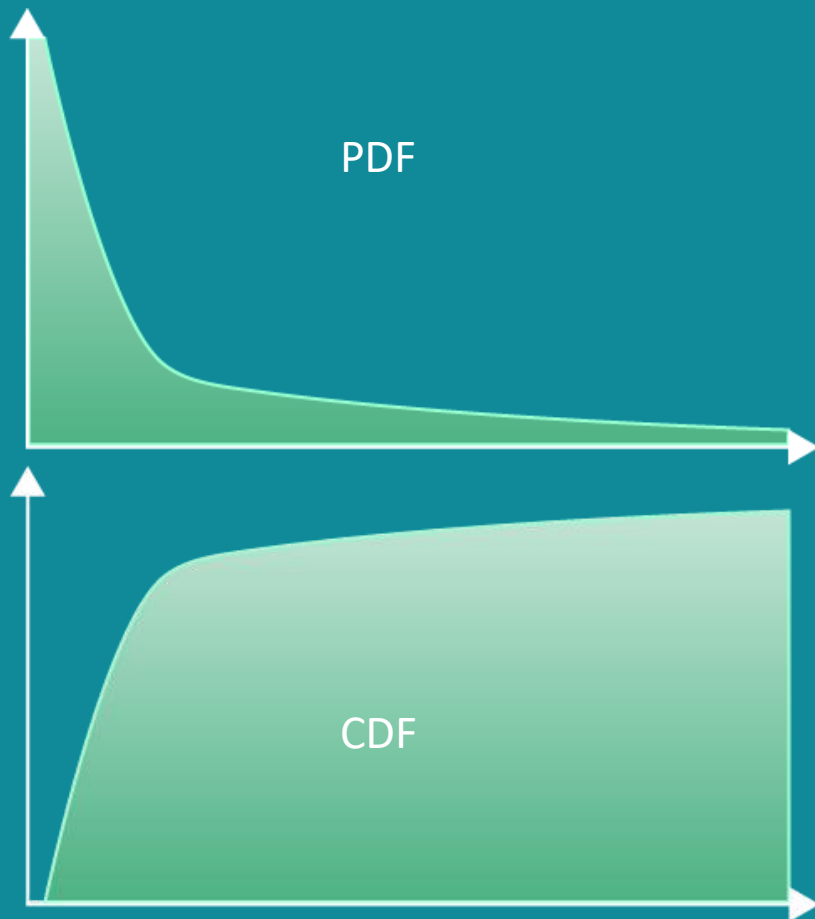
Example and uses:

- Often used to test goodness of fit.
- Contains a table of known values for its CDF called the  $\chi^2$ -table. The only difference is the table shows what part of the table



# Exponential Distribution

The **Exponential Distribution** is usually observed in events which significantly change early on.



Notation:

- $Y \sim \text{Exp}(\lambda)$

Key characteristics

- Both the PDF and the CDF plateau after a certain point.
- $E(Y) = \frac{1}{\lambda}$
- $\text{Var}(Y) = \frac{1}{\lambda^2}$
- We often use the natural logarithm to transform the values of such distributions since we do not have a table of known values like the Normal or Chi-Squared.

Example and uses:

- Often used with dynamically changing variables, like online website traffic or radioactive decay.

# Logistic Distribution

The **Continuous Logistic Distribution** is observed when trying to determine how continuous variable inputs can affect the probability of a binary outcome.

Notation:

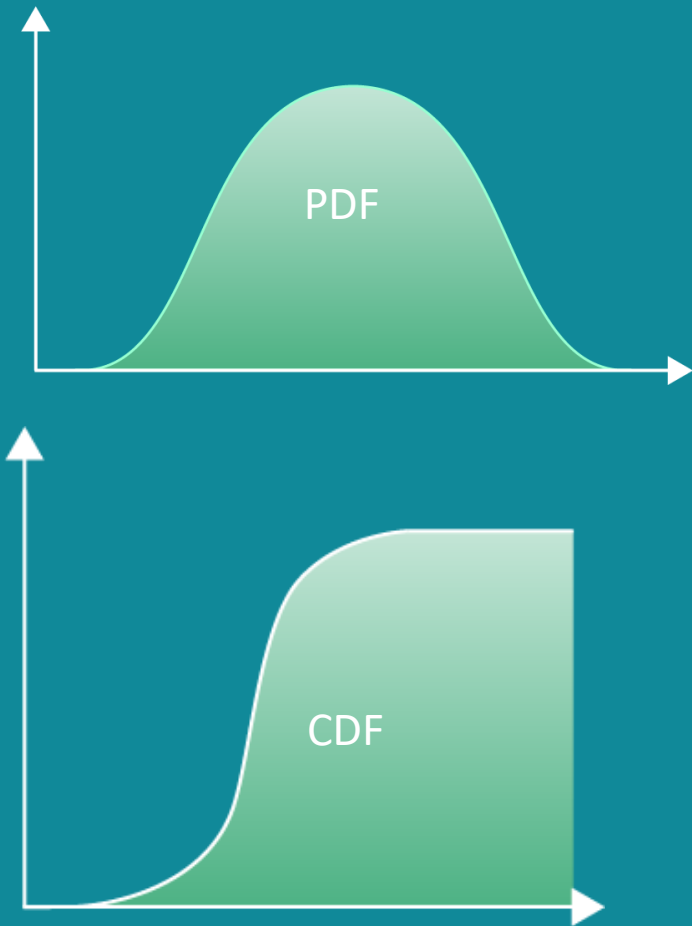
- $Y \sim \text{Logistic}(\mu, s)$

Key characteristics.

- $E(Y) = \mu$
- $\text{Var}(Y) = \frac{s^2 \times \pi^2}{3}$
- The CDF picks up when we reach values near the mean.
- The smaller the scale parameter, the quicker it reaches values close to 1.

Example and uses:

- Often used in sports to anticipate how a player's or team's performance can determine the outcome of the match.





## Poisson Distribution: Expected Value and Variance:

Assume we have a random variable  $Y$ , such that  $Y \sim \text{Poisson}(\lambda)$ , then we can find its expected value and variance the following way. Recall that the expected value for any discrete random variable is a sum of all possible values multiplied by their likelihood of occurring  $P(y)$ . Thus,

$$E(Y) = \sum_{y=0}^{\infty} y \frac{e^{-\lambda} \lambda^y}{y!}$$

Now, when  $y=0$ , the entire product is 0, so we can start the sum from  $y=1$  instead. Additionally, we can divide the numerator and denominator by “ $y$ ”, since “ $y$ ” will be non-zero in every case.

$$= \sum_{y=1}^{\infty} y \frac{e^{-\lambda} \lambda^y}{y!} = \sum_{y=1}^{\infty} \frac{e^{-\lambda} \lambda^y}{(y-1)!}$$

Since  $\lambda$  is a constant number, we can take out  $\lambda e^{-\lambda}$ , in front of the sum.

$$= \lambda e^{-\lambda} \sum_{y=1}^{\infty} \frac{\lambda^{y-1}}{(y-1)!}$$

Since we have “ $y-1$ ” in both the numerator and denominator and the sum starts from 1, this is equivalent to starting the sum from 0 and using  $y$  instead.

$$= \lambda e^{-\lambda} \sum_{y=0}^{\infty} \frac{\lambda^y}{y!}$$

Calculus dictates that for any constant “ $c$ ”,  $\sum_{x=0}^{\infty} \frac{c^x}{x!} = e^c$ . We use this to simplify the expression to:

$$= \lambda e^{-\lambda} e^{\lambda}$$

Lastly, since any value to the negative power is the same as 1 divided by that same value, then  $e^{-\lambda} e^{\lambda} = 1$ .

$$= \lambda$$

Now, let's move on to the variance. We are first going to express it in terms of expected values and then we are going to apply a similar approach to the one we used for the expected value.

We start off with the well-known relationship between the expected value and the variance, the variance is equal to the expected value of the squared variable, minus the expected value of the variable, squared.

$$\text{Var}(Y) = E(Y^2) - E(Y)^2$$

This next step might seem rather unintuitive, but we are simply expressing the squared variable in a way which makes it easier to manipulate. Knowing how to do proper operations with expected values, allows us to simplify the expression and plug in values we already know:

$$\begin{aligned}
&= E((Y)(Y-1) + Y) - E(Y)^2 \\
&= E((Y)(Y-1)) + E(Y) - E(Y)^2 \\
&= E((Y)(Y-1)) + (\lambda - \lambda^2)
\end{aligned}$$

We turn to the definition of the expected value once again.

$$= \sum_{y=0}^{\infty} (y)(y-1) \frac{e^{-\lambda} \lambda^y}{y!} + (\lambda - \lambda^2)$$

From here on out, the steps are pretty much the same once we took for the expected value:

- 1) we change the starting value of the sum, since the first 2 are zeroes
- 2) we cross our repeating values in the numerator and denominator
- 3) we take out the constant factors in front of the sum
- 4) adjust the starting value of the sum once again
- 5) substitute the sum with  $e^\lambda$

$$\begin{aligned}
&= \sum_{y=2}^{\infty} (y)(y-1) \frac{e^{-\lambda} \lambda^y}{y!} + (\lambda - \lambda^2) \\
&= \sum_{y=2}^{\infty} \frac{e^{-\lambda} \lambda^y}{(y-2)!} + (\lambda - \lambda^2) \\
&= \lambda^2 e^{-\lambda} \sum_{y=2}^{\infty} \frac{\lambda^{y-2}}{(y-2)!} + (\lambda - \lambda^2) \\
&= \lambda^2 e^{-\lambda} \sum_{y=0}^{\infty} \frac{\lambda^y}{y!} + (\lambda - \lambda^2) \\
&= \lambda^2 e^{-\lambda} e^\lambda + (\lambda - \lambda^2) \\
&= \lambda^2 + \lambda - \lambda^2 \\
&= \lambda
\end{aligned}$$

Therefore, both the mean and variance for a Poisson Distribution are equal to lambda ( $\lambda$ ).

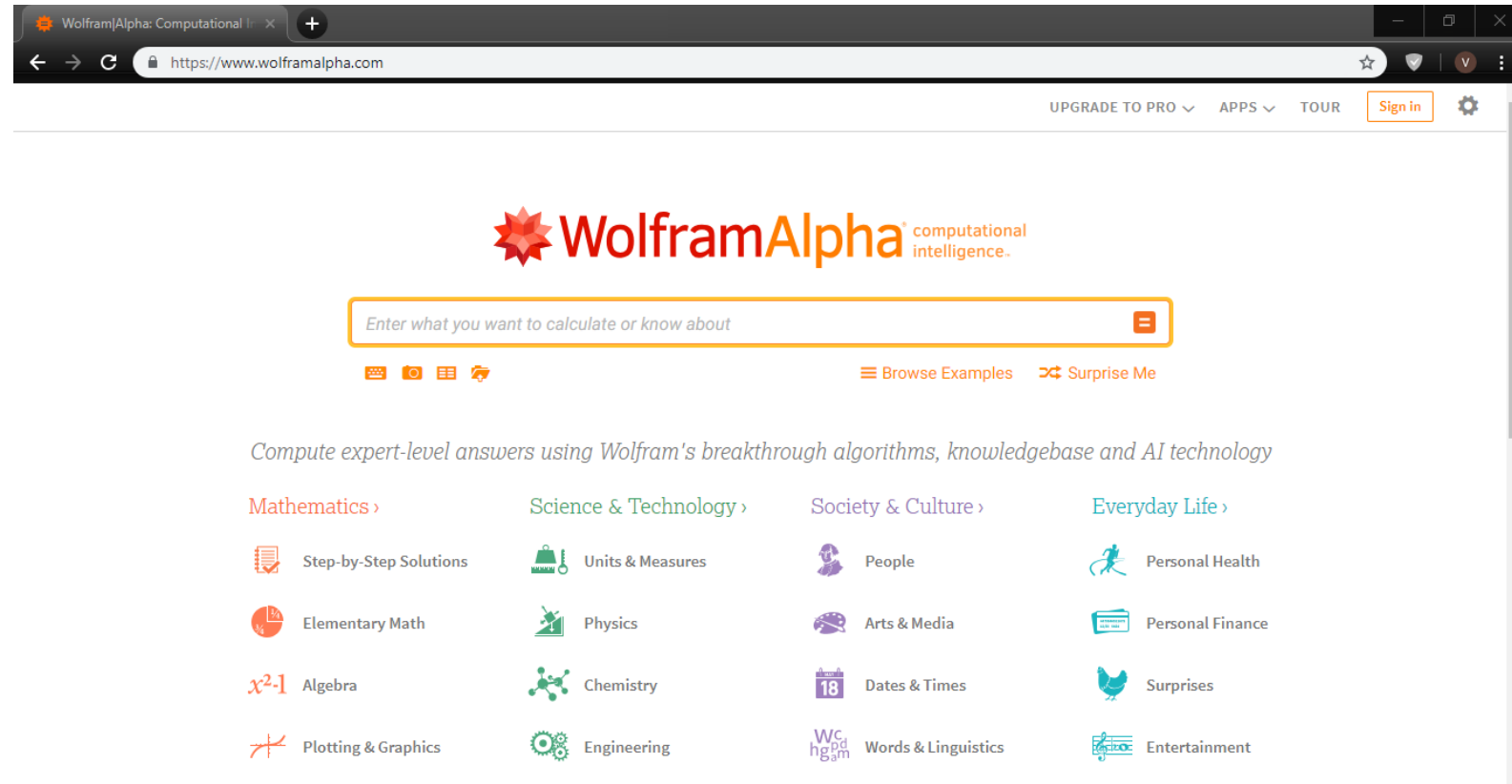
# Setting up Wolfram Alpha

**Step 1:** Open a browser of your choosing. (We have opted for Google Chrome in this specific case, but any browser will work.)

**Step 2:** Go to the <https://www.wolframalpha.com/> website. (The page you are on, should look something like the image on the right.)

**Step 3:** Click on the search bar which says “Enter what you want to calculate or know about.” bar. It will let you type in any mathematical formula you are interested in.

**Step 4:** Enter the precise formula you are interested in before pressing the “Enter” key or clicking the compute button on the screen. (The one with the “=” sign.)



# Typing up the integral formula

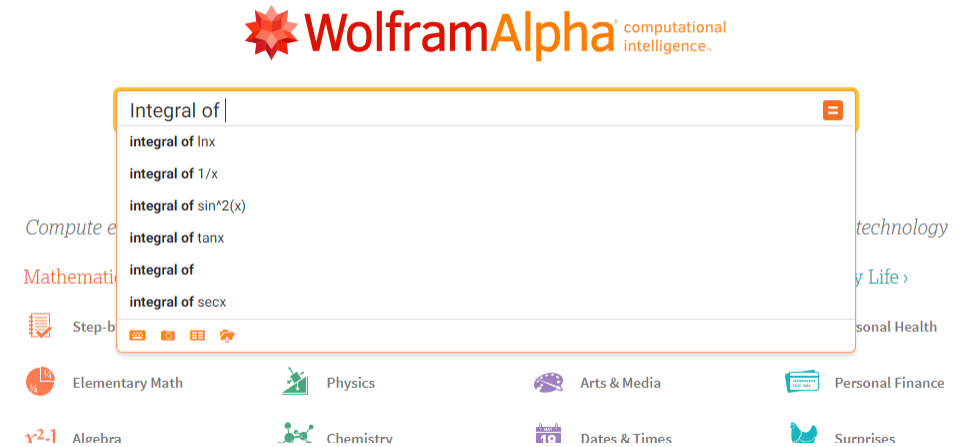
Now, let's focus on solving integrals.

**Step 1:** We start by typing in the words "Integral of" into the search bar, like the image on the right.

**Step 2:** Wolfram Alpha's engine will likely recommend some of the most frequently searched integrals. If the one you are looking for is included, simply select it from the list. If not, proceed to the next step.

**Step 3:** Type in the equation, whose integral you want to solve. For instance, if the function you are interested in is " $y = x^2$ ", you type in " $x^2$ ".

**Step 4:** After we type in the appropriate function we press the "Enter" key.



# Expressing Complex Formulas

Now, let's focus on the various notation we use for the **different complex functions**.

**Power:** If we want to express a number raised to a specific degree/power, we use the "^" sign. For instance,  $y^n = y^n$ .

**Euler's Constant:** To express Euler's constant we simply type in the letter "e".

**Pi:** If the function we want to use features  $\pi$ , we simply type in the word "pi".

**Natural Log:** To express the natural log of a number, we just write the letters "ln" followed by the number.

**Trigonometric Functions:** We simply type in the abbreviations for the given function (e.g. sin, cos, tan, cot)

The expression below is equivalent to  $\int e^x \pi dx$ . Note, we omit typing "dx" because it is trivial when we only have one random variable.



Integral of e^x\*pi



[Browse Examples](#)

[Surprise Me](#)

The expression below is equivalent to  $\int \ln \sin x dx$ .



integral of ln sin x



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[Surprise Me](#)

# Understanding the Solution

Now, let's focus on a specific function like  $\int e^x x dx$ .

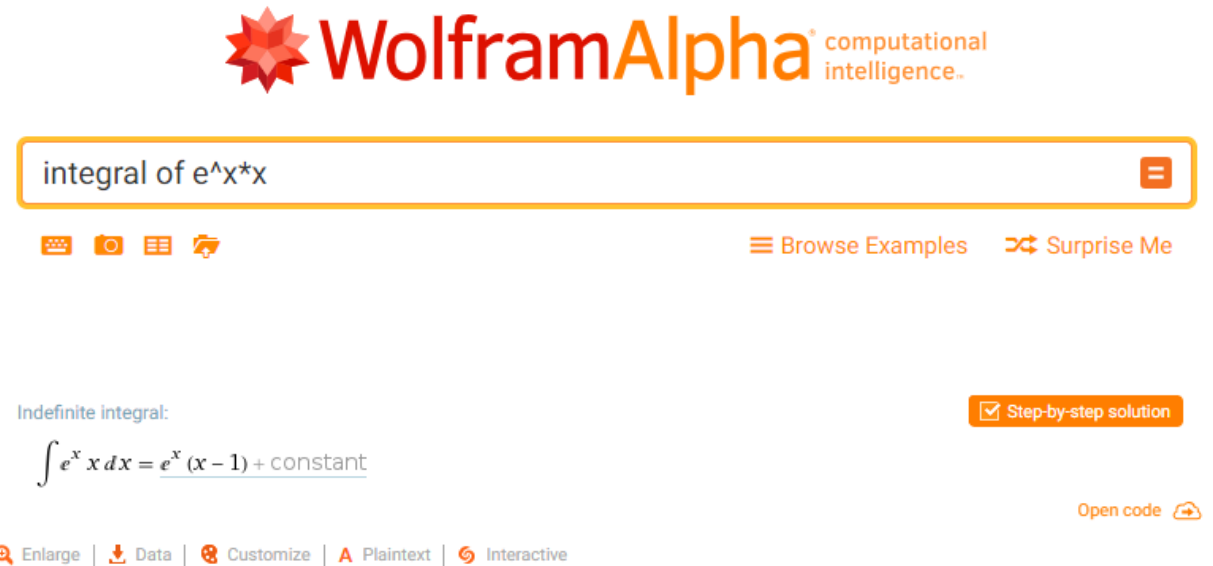
**Step 1:** Type in the integral like we explained earlier and press the "Enter" key:

**Step 2:** The software provides us with several outputs after computing the integral. We focus on the first one which is called "Indefinite Integral".

**Step 3:** The solution we get is another function which provides an output for any value  $x$  we input into it.

**Step 4:** We might want to compute the values of this interval within a specific interval from  $a$  to  $b$ . In such instances, we add "between  $a$  and  $b$ " at the end of the integral before computing.

**Step 5:** If we have a well-defined range like this, we need to analyse the "Definite Integral" section for our solution.



The screenshot shows the WolframAlpha interface. At the top is the logo "WolframAlpha computational intelligence.". Below it is a search bar containing the text "integral of e^x\*x". To the right of the search bar is a hamburger menu icon. Below the search bar are icons for keyboard input, voice input, image input, and a share icon. To the right of these icons are links for "Browse Examples" and "Surprise Me". Below the search bar, the text "Indefinite integral:" is displayed. Below this is the result:  $\int e^x x dx = e^x (x - 1) + \text{constant}$ . To the right of the result is a button labeled "Step-by-step solution" with a checkmark icon. Below the result are links for "Enlarge", "Data", "Customize", "Plaintext", and "Interactive". At the bottom right is a link for "Open code" with a code icon.



The screenshot shows the WolframAlpha interface. At the top is the logo "WolframAlpha computational intelligence.". Below it is a search bar containing the text "integral of e^x\*x between 0 and 1". To the right of the search bar is a hamburger menu icon. Below the search bar are icons for keyboard input, voice input, image input, and a share icon. To the right of these icons are links for "Browse Examples" and "Surprise Me". Below the search bar, the text "Definite integral:" is displayed. Below this is the result:  $\int_0^1 e^x x dx = 1$ . To the right of the result is a button labeled "Step-by-step solution" with a checkmark icon. At the bottom right is a link for "Open code" with a code icon.

## Normal Distribution $E(Y)$ , $Var(Y)$

We find the expected value of a function by finding the sum of the products for each possible outcome and its chance of occurring.

**Step 1:** For continuous variables, this means using an integral going from negative infinity to infinity. The chance of each outcome occurring is given by the PDF,  $f(y)$ , so  $E(Y) = \int_{-\infty}^{\infty} y f(y) dy$ .

**Step 2:** The PDF for a Normal Distribution is the following expression:  $f(y) = \frac{1}{\sigma\sqrt{2\pi}} e^{\frac{-(y-\mu)^2}{2\sigma^2}}$

**Step 3:** Thus, the expected value equals:  $E(Y) = \int_{-\infty}^{\infty} y \frac{1}{\sigma\sqrt{2\pi}} e^{\frac{-(y-\mu)^2}{2\sigma^2}} dy$

**Step 4:** Since sigma and pi are constant numbers, we can take them out of the integral:

$$E(Y) = \int_{-\infty}^{\infty} y \frac{1}{\sigma\sqrt{2\pi}} e^{\frac{-(y-\mu)^2}{2\sigma^2}} dy = \frac{1}{\sigma\sqrt{2\pi}} \int_{-\infty}^{\infty} y e^{\frac{-(y-\mu)^2}{2\sigma^2}} dy$$

## Normal Distribution $E(Y)$ , $Var(Y)$

**Step 5:** We will substitute  $t$  in for  $\frac{y-\mu}{\sqrt{2}\sigma}$  to make the integral more manageable. To do so, we need to transform  $y$  and  $dy$ . If  $t = \frac{y-\mu}{\sqrt{2}\sigma}$ , then clearly  $y = \mu + \sqrt{2}\sigma t$ . Knowing this,  $\frac{dy}{dt} = \sqrt{2}\sigma$ , so  $dy = \sqrt{2}\sigma dt$ . Therefore, we can substitute and take the constant out of the integral, before simplifying:

$$\frac{1}{\sigma\sqrt{2\pi}} \int_{-\infty}^{\infty} y e^{-\frac{(y-\mu)^2}{2\sigma^2}} dy = \frac{1}{\sigma\sqrt{2\pi}} \int_{-\infty}^{\infty} (\mu + \sqrt{2}\sigma t) e^{-t^2} \sqrt{2}\sigma dt = \frac{\sqrt{2}\sigma}{\sigma\sqrt{2\pi}} \int_{-\infty}^{\infty} (\mu + \sqrt{2}\sigma t) e^{-t^2} dt = \frac{1}{\sqrt{\pi}} \int_{-\infty}^{\infty} (\mu + \sqrt{2}\sigma t) e^{-t^2} dt$$

**Step 6:** We expand the expression within parenthesis and split the integral:

$$\frac{1}{\sqrt{\pi}} \int_{-\infty}^{\infty} (\mu + \sqrt{2}\sigma t) e^{-t^2} dt = \frac{1}{\sqrt{\pi}} \left[ \mu \int_{-\infty}^{\infty} e^{-t^2} dt + \sqrt{2}\sigma \int_{-\infty}^{\infty} t e^{-t^2} dt \right]$$

**Step 7:** We solve the two simpler integrals:

$$\frac{1}{\sqrt{\pi}} \left[ \mu \int_{-\infty}^{\infty} e^{-t^2} dt + \sqrt{2}\sigma \int_{-\infty}^{\infty} t e^{-t^2} dt \right] = \frac{1}{\sqrt{\pi}} \left[ \mu\sqrt{\pi} + \sqrt{2}\sigma \left( -\frac{1}{2} e^{-t^2} \right)_{-\infty}^{\infty} \right]$$



## Normal Distribution $E(Y)$ , $Var(Y)$

**Step 8:** Since the exponential tends to 0, we get the following:

$$\frac{1}{\sqrt{\pi}} \left[ \mu\sqrt{\pi} + \sqrt{2}\sigma \left( -\frac{1}{2} e^{-t^2} \right)_{-\infty}^{\infty} \right] = \frac{1}{\sqrt{\pi}} [\mu\sqrt{\pi} + \mathbf{0}] = \frac{\mu\sqrt{\pi}}{\sqrt{\pi}} = \mu$$

**Step 9:** Using Calculus we just showed that for a variable  $y$  which follows a Normal Distribution and has a PDF of  $f(y) = \frac{1}{\sigma\sqrt{2\pi}} e^{\frac{-(y-\mu)^2}{2\sigma^2}}$ , the expected value equals  $\mu$ .

To find the Variance of the distribution, we need to use the relationship between Expected Value and Variance we already know, namely:

$$Var(Y) = E(Y^2) - [E(Y)]^2$$

**Step 1:** We already know the expected value, so we can plug in  $\mu^2$  for  $[E(Y)]^2$ , hence:

$$Var(Y) = E(Y^2) - \mu^2$$

## Normal Distribution $E(Y)$ , $Var(Y)$

**Step 2:** To compute the expected value for  $Y^2$ , we need to go over the same process we did when calculating the expected value for  $Y$ , so let's quickly go over the obvious simplifications.

$$\begin{aligned} E(Y^2) - \mu^2 &= \int_{-\infty}^{\infty} y^2 \frac{1}{\sigma\sqrt{2\pi}} e^{\frac{-(y-\mu)^2}{2\sigma^2}} dy - \mu^2 = \\ &= \frac{1}{\sigma\sqrt{2\pi}} \int_{-\infty}^{\infty} y^2 e^{\frac{-(y-\mu)^2}{2\sigma^2}} dy - \mu^2 = \\ &= \frac{1}{\sigma\sqrt{2\pi}} \int_{-\infty}^{\infty} (\sqrt{2}\sigma t + \mu)^2 e^{-t^2} \sqrt{2}\sigma dt - \mu^2 = \\ &= \frac{\sqrt{2}\sigma}{\sigma\sqrt{2\pi}} \int_{-\infty}^{\infty} (\sqrt{2}\sigma t + \mu)^2 e^{-t^2} dt - \mu^2 = \\ &= \frac{1}{\sqrt{\pi}} \int_{-\infty}^{\infty} (\sqrt{2}\sigma t + \mu)^2 e^{-t^2} dt - \mu^2 = \\ &= \frac{1}{\sqrt{\pi}} \left[ \int_{-\infty}^{\infty} (2\sigma^2 t^2 + 2\sqrt{2}\sigma\mu t + \mu^2) e^{-t^2} dt \right] - \mu^2 = \\ &= \frac{1}{\sqrt{\pi}} \left[ 2\sigma^2 \int_{-\infty}^{\infty} t^2 e^{-t^2} dt + 2\sqrt{2}\sigma\mu \int_{-\infty}^{\infty} t e^{-t^2} dt + \mu^2 \int_{-\infty}^{\infty} e^{-t^2} dt \right] - \mu^2 \end{aligned}$$

## Normal Distribution $E(Y)$ , $Var(Y)$

**Step 3:** We already evaluated two of the integrals when finding the expected value, so let's just use the results and simplify.

$$\begin{aligned} & \frac{1}{\sqrt{\pi}} \left[ 2\sigma^2 \int_{-\infty}^{\infty} t^2 e^{-t^2} dt + 2\sqrt{2}\sigma\mu \int_{-\infty}^{\infty} t e^{-t^2} dt + \mu^2 \int_{-\infty}^{\infty} e^{-t^2} dt \right] - \mu^2 = \\ &= \frac{1}{\sqrt{\pi}} \left[ 2\sigma^2 \int_{-\infty}^{\infty} t^2 e^{-t^2} dt + 2\sqrt{2}\sigma\mu \times \mathbf{0} + \mu^2 \sqrt{\pi} \right] - \mu^2 = \\ &= \frac{1}{\sqrt{\pi}} \left[ 2\sigma^2 \int_{-\infty}^{\infty} t^2 e^{-t^2} dt \right] + \frac{1}{\sqrt{\pi}} \mu^2 \sqrt{\pi} - \mu^2 = \\ &= \frac{1}{\sqrt{\pi}} \left[ 2\sigma^2 \int_{-\infty}^{\infty} t^2 e^{-t^2} dt \right] + \mu^2 - \mu^2 = \\ &= \frac{2\sigma^2}{\sqrt{\pi}} \int_{-\infty}^{\infty} t^2 e^{-t^2} dt \end{aligned}$$

**Step 4:** We need to integrate by parts next:

$$\frac{2\sigma^2}{\sqrt{\pi}} \int_{-\infty}^{\infty} t^2 e^{-t^2} dt = \frac{2\sigma^2}{\sqrt{\pi}} \left( \left[ -\frac{t}{2} e^{-t^2} \right]_{-\infty}^{\infty} + \frac{1}{2} \int_{-\infty}^{\infty} e^{-t^2} dt \right)$$

## Normal Distribution $E(Y)$ , $Var(Y)$

**Step 5:** The exponential tends to 0 once again, so we get the following:

$$\begin{aligned} \frac{2\sigma^2}{\sqrt{\pi}} \left( \left[ -\frac{t}{2} e^{-t^2} \right]_{-\infty}^{\infty} + \frac{1}{2} \int_{-\infty}^{\infty} e^{-t^2} dt \right) &= \\ &= \frac{2\sigma^2}{\sqrt{\pi}} \left( \mathbf{0} + \frac{1}{2} \int_{-\infty}^{\infty} e^{-t^2} dt \right) = \\ &= \frac{2\sigma^2}{\sqrt{\pi}} \frac{1}{2} \int_{-\infty}^{\infty} e^{-t^2} dt = \\ &= \frac{\sigma^2}{\sqrt{\pi}} \int_{-\infty}^{\infty} e^{-t^2} dt \end{aligned}$$

**Step 6:** As we computed earlier,  $\int_{-\infty}^{\infty} e^{-t^2} dt = \sqrt{\pi}$ , which means:

$$\frac{\sigma^2}{\sqrt{\pi}} \int_{-\infty}^{\infty} e^{-t^2} dt = \frac{\sigma^2}{\sqrt{\pi}} \sqrt{\pi} = \sigma^2$$

Thus, the variance for a Variable, whose PDF looks like:  $f(y) = \frac{1}{\sigma\sqrt{2\pi}} e^{\frac{-(y-\mu)^2}{2\sigma^2}}$ , equals  $\sigma^2$ .

Determine the expected payoff of each deal and comment if we should take this deal if we still need to pay a premium of \$100?

What if the price only increased from \$1,100 to \$1,125, instead of \$1,200?



What if the likelihood of a price drop increases to 80%?



Determine the expected payoff of each deal and comment if we should take this deal if we still need to pay a premium of \$100?

What if the price only increased from \$1,100 to \$1,125, instead of \$1,200?



For the purposes of this assignment, we are going to assume there is no premium to be paid for this option. That way, the expected value will tell us the maximum premium price we would be willing to pay.

Then, if the price increases, we will call the option. If it decreases, we won't, since it's cheaper to buy them at the market price (\$1,000), instead of the pre-determined price (\$1,100).

Therefore, we have a 0.4 chance of making a profit and 0.6 chance of not calling the option. Now, we need to find the profit associated with the first outcome. If the price increases from \$1,100 to \$1,125, then we be making a profit of \$25 per stock. Since we wanted to get 10 of them, that would result in \$250.

Thus, we have a 40% chance of making \$250 and a 60% chance of ending up with \$0. Hence,

$$E(P_2) = 0.4 \times 250 + 0.6 \times 0 = \$100$$

This means, that if we have to pay a premium lower than \$100 for this deal, we should accept. If the premium is greater than \$100, we should not take the deal. And, in cases like this one, if the premium is exactly \$100, both choices are equally rational, so we can either accept or decline the deal.

What if the likelihood of a price drop increases to 80%?



The same methodology can be applied here.

From the video, we know that the payoff in the “increase” branch is equal to \$1,000 (\$100 for each of the 10 stocks).

Thus, we have a 20% chance of making \$1,000 and an 80% chance of making \$0. Hence,

$$E(P_3) = 0.2 \times 1,000 + 0.8 \times 0 = \$200$$

In this case, rational choice dictates we take any deal with a premium lower than \$200 and reject any deal with a premium higher than \$200.

Since the original premium for the deal is \$100, we should take the deal.



# BASIC PROBABILITY

The likelihood of an event occurring

$$P(X) = \frac{\text{preferred outcomes}}{\text{sample space}}$$

$$P(A, B) = P(A) + P(B)$$

## EXPECTED VALUES

Trial

Observing an event and record the outcome

Experiment

Collection of one or multiple trials

Experimental Probability

Probability of an event based on the experiment

Expected Value

Specific outcome we expect to occur when we run an experiment

Categorical

$$E(X) = n \cdot p$$

Numeric

$$E(X) = \sum_{i=1}^n n_i \cdot p_i$$

## FREQUENCY

Probability frequency distribution

Collection of the probabilities for each possible outcome of an event.

Why?

To try and predict future events when the expected value is unattainable.

Frequency

Number of times a given value or outcome appears in the sample space.

Frequency distribution table

Table that matches each distinct outcome in the sample space to its associated frequency.

How?

By dividing every frequency by the size of the sample space.

## COMPLEMENTS

Everything an event is **not**

$$A' = \text{Not } A$$

$$P(A') = 1 - P(A)$$

$$A + A' = \text{Sample space}$$

# COMBINATORICS

The likelihood of an event occurring

$$P(X) = \frac{\text{preferred outcomes}}{\text{sample space}}$$

$$P(A, B) = P(A) + P(B)$$

Without  
repetition

## PERMUTATIONS (arrange)

With  
repetition

$$P_n = P_n^n = n!$$

How many ways are  
to arrange 3 letters a,  
b, c?

How many ways are  
to arrange 2 letters a  
and 2 letters b?

$$P_{n_1, \dots, n_k} = \frac{(\sum n_i)!}{\prod n_i!}$$

## VARIATIONS (pick and arrange)

$$V_p^n = P_p^n = \frac{n!}{(n-p)!}$$

How many words of 2  
different letters can  
you make with 4  
letters a, b, c, d?

How many words of 2  
different letters can  
you make with 4  
letters a, b, c, d?

$$\bar{V}_p^n = n^p$$

## COMBINATIONS (pick)

$$C_p^n = \frac{n!}{p!(n-p)!}$$

How many ways are  
there to pick 2  
different letters out  
of 4 letters a, b, c, d?

How many ways are  
there to pick 2 letters  
out of 4 letters a, b, c,  
d?

$$\bar{C}_p^n = C_p^{n+p-1}$$

## FACTORIALS

$$0! = 1$$

If  $n < 0$ ,  $n!$  doesn't exist

If  $n > 0, n > k$

$$(n+k)! = n! \cdot (n+1) \cdot \dots \cdot (n+k)$$

$$(n-k)! = \frac{n!}{(n-k+1) \cdot \dots \cdot n}$$

$$\frac{n!}{k!} = (k+1) \cdot \dots \cdot n$$

# BAYESIAN INFERENCE

$x \in A, x \notin A$ : element  $x$  is a part of set  $A$  ( $x$  NOT in  $A$ )

$A \ni x$ : set  $A$  contains element  $x$

$\forall x$ : for all/any  $x$

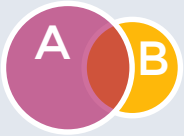
$A \subseteq B$ :  $A$  is a subset of  $B$



**Mutually exclusive**

$$A \cap B = \emptyset$$

All complements are mutually exclusive, but not all mutually exclusive sets are complements



**Intersect**

$$A \cap B$$

Satisfies all the events simultaneously

**Union**

$$A \cup B = A + B - A \cap B$$

Satisfies at least one of the events



**Completely overlap**

## Independent Events

$$P(A | B) = P(A)$$

Theoretically probability remains unaffected by other events

## Dependent Events

$$P(A | B) \neq P(A)$$

Probabilities of dependent events vary as conditions change

## Conditional Probability

$$P(A|B) = \frac{P(A \cap B)}{P(B)}$$

- $B$  has occurred
- Only elements of the intersection can satisfy  $A$
- $P(A|B)$  not the same meaning as  $P(B|A)$

## Law of Total Probability

$$A = B_1 + \dots + B_n$$

$$P(A) = P(A|B_1) \cdot P(B_1) + \dots + P(A|B_n) \cdot P(B_n)$$

## Additive Law

$$P(A \cup B) = P(A) + P(B) - P(A \cap B)$$

## Multiplication Rule

$$P(A \cap B) = P(A|B) \cdot P(B)$$

## Bayes' Law

$$P(A|B) = \frac{P(B|A) \cdot P(A)}{P(B)}$$

# DISTRIBUTIONS

Show the possible values a random variable can take and how frequently they occur.

- Y actual outcome
- Y one of the possible outcomes
- $P(Y = y) = p(y)$
- Probability function: function that assigns a probability to each distinct outcome in the sample space

	Population	Sample
Mean	$\mu$	$\bar{x}$
Variance	$\sigma^2$	$s^2$
Standard Deviation	$\sigma$	$s$

## DISCRETE

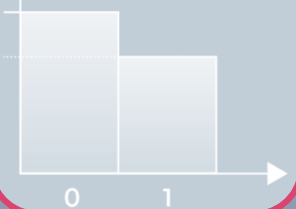
- Finite number of outcomes
- Can add up individual value to determine the probability of an interval
- Expressed with table, graph or piecewise function
- Expected values might be unattainable

### Uniform



- $Y \sim U(a, b)$
- $Y \sim U(a)$  for categorical
- Outcomes are equally likely
- No predictive power

### Bernoulli



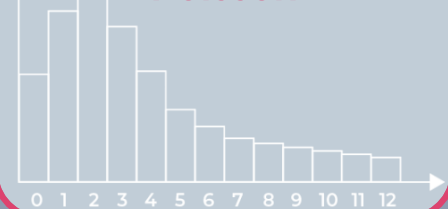
- $Y \sim \text{Bern}(p)$
- 1 trial, 2 possible outcomes
- $E(Y) = p$
- $\sigma^2(Y) = p \cdot (1-p)$

### Binomial



- $Y \sim B(n, p)$
- Measures the p 1 of the possible outcomes over n trials
- $P(Y=y) = p(y) = C(y, n) \cdot p^y \cdot (1-p)^{n-y}$
- $E(Y) = n \cdot p$
- $\sigma^2(Y) = n \cdot p \cdot (1-p)$

### Poisson



- $Y \sim \text{Po}(\lambda)$
- Measures the frequency over an interval of time or distance ( $\lambda \geq 0$ )
- $P(Y=y) = p(y) = \frac{\lambda^y}{y!} e^{-\lambda}$
- $E(Y) = \lambda$
- $\sigma^2(Y) = \lambda$

# DISTRIBUTIONS

- PDF: Probability Density Function
- CDF: Cumulative Density Function

## CONTINUOUS

- Infinitely many consecutive possible values
- Cannot add up individual value to determine the probability of an interval
- Expressed with graph or continuous function
- $P(Y=y) = p(y) = 0$  for any individual value  $y$  ( $P(Y < y) = P(Y \leq y)$ )

### Normal

- $Y \sim N(\mu, \sigma^2)$
- $E(Y) = \mu$
- $\sigma^2(Y) = \sigma^2$
- 68% of all values fall in the interval  $(\mu - \sigma, \mu + \sigma)$

- $Y \sim t(k)$
- Small sample size approximation of a Normal (accounts for extreme values better)
- If  $k > 1$ :  $E(Y) = \mu$  and  $\sigma^2(Y) = s^2 \cdot k / (k-2)$

### Students' T

### Chi-Squared

- $Y \sim \chi^2(\lambda)$
- Square of the t-distribution
- $E(Y) = k$
- $\sigma^2(Y) = 2k$

### Exponential

- $Y \sim \text{Exp}(\lambda)$
- $E(Y) = 1/\lambda$
- $\sigma^2(Y) = 1/\lambda^2$

### Logistic

- $Y \sim \text{Logistic}(\mu, s)$
- Continuous variable inputs and binary outcome
- CDF  $\uparrow$  when values near the mean
- $\downarrow s$ , the quicker it reaches values close to 1
- $E(Y) = \mu$
- $\sigma^2(Y) = s^2 \cdot \pi^2 / 3$