Profit Curves

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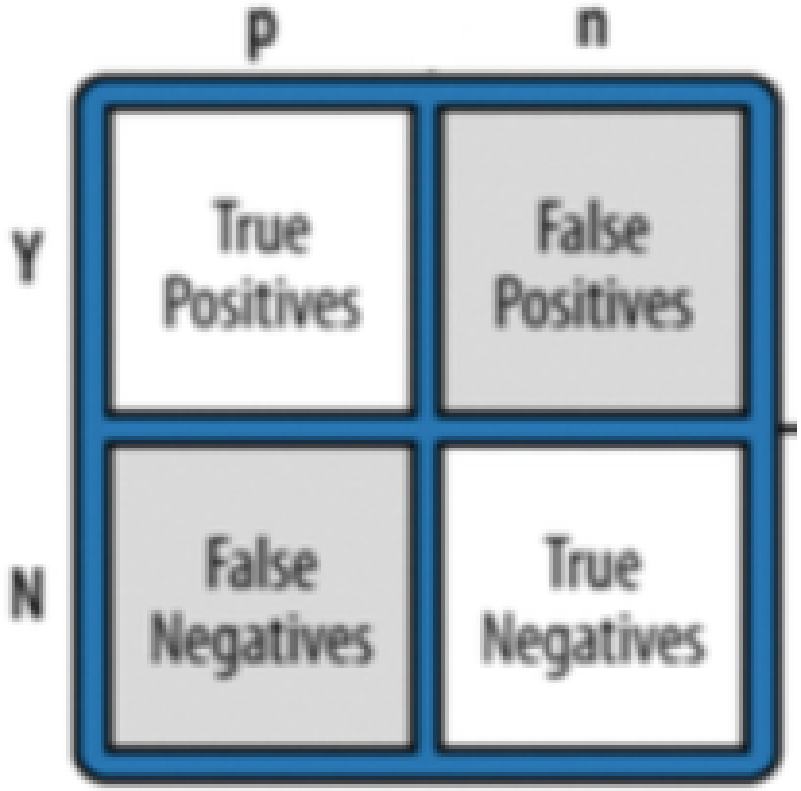
Cost-Benefit Information

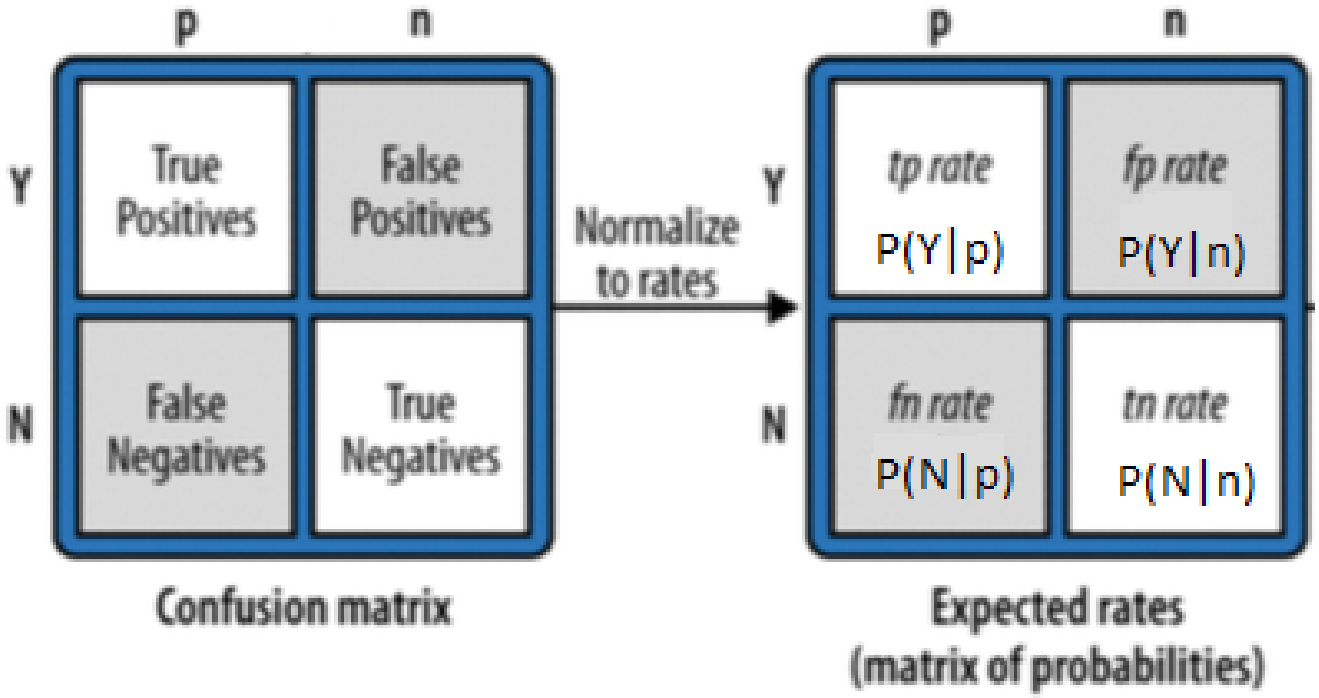
- ROC Curves alone assume an equal cost due to misclassification
- However
  - Different kinds of errors have different costs
  - Correct classifications could also have different benefits

Profit Curves allow us to compare models and select the one that will maximize profit for a specified cost-benefit

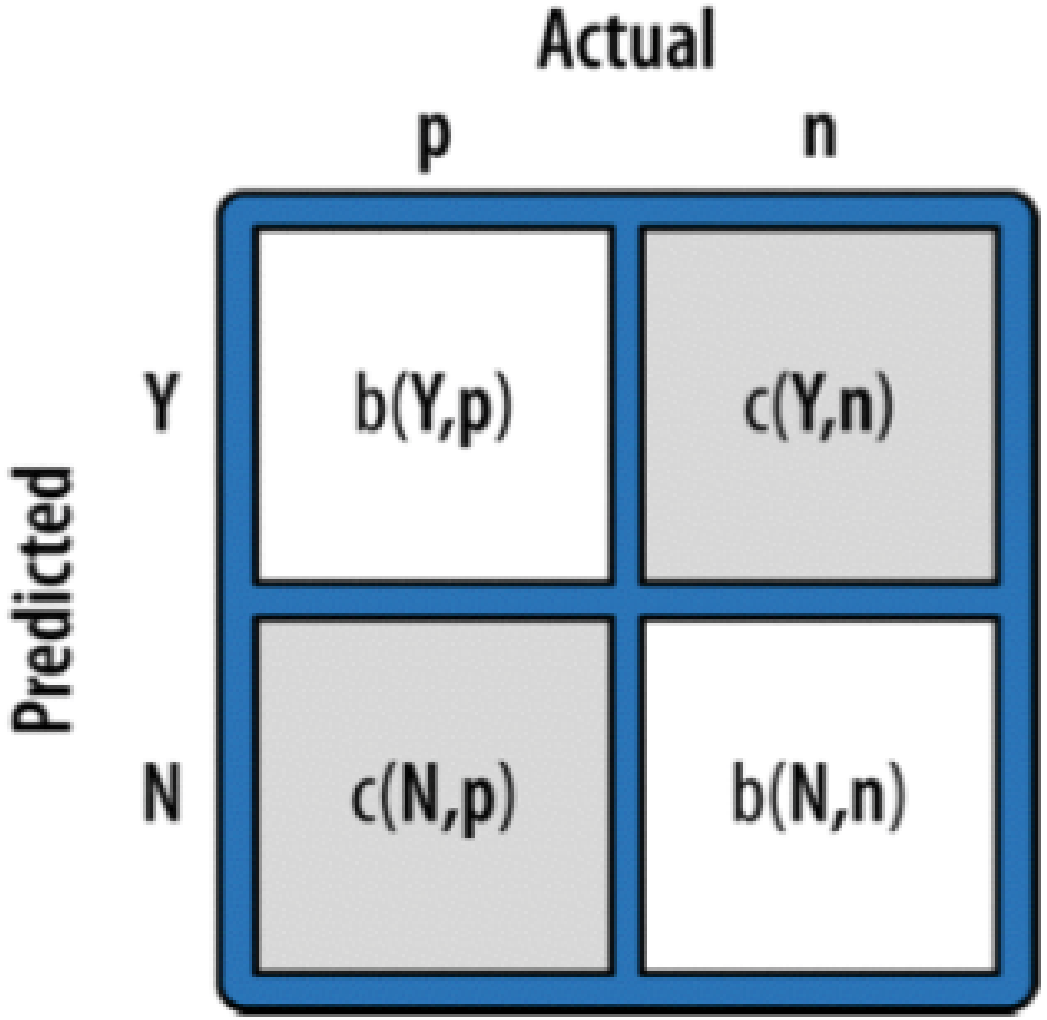
Start with the Confusion Matrix



Normalize Confusion Matrix to Rates



Add in Cost-Benefit Matrix



Calculating Expected Profit

By combining information from the Confusion Matrix and the Cost-Benefit Matrix, we can calculate the Expected Profit:

$$
\begin{aligned}
E[Profit] &= P(Y,p)\cdot b(Y,p) + P(Y,n)\cdot c(Y,n) + \\
&\quad P(N,p)\cdot c(N,p) + P(N,n)\cdot b(N,n) \\
&= P(Y|p)\cdot P(p)\cdot b(Y,p) + P(Y|n)\cdot P(n)\cdot c(Y,n) + \\
&\quad P(N|p)\cdot P(p)\cdot c(N,p) + P(N|n)\cdot P(n)\cdot b(N,n) \\
&= P(p)\cdot [P(Y|p)\cdot b(Y,p) + P(N|p)\cdot c(N,p)] + \\
&\quad P(n)\cdot [P(Y|n)\cdot c(Y,n) + P(N|n)\cdot b(N,n)]
\end{aligned}
$$

Building the Profit Curve

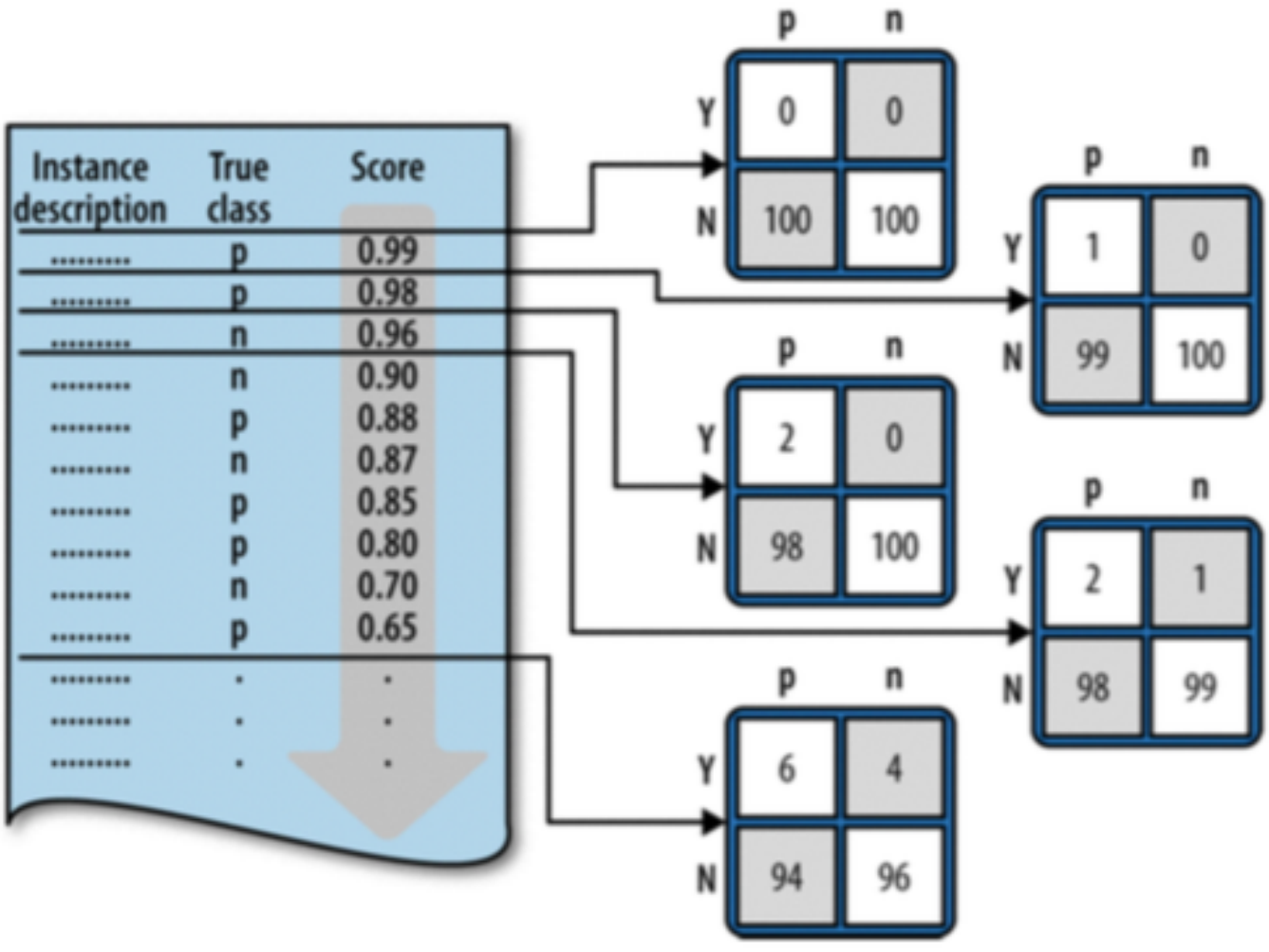
For a given model f, each threshold value T gives a point on the Profit Curve

Model score is the threshold probability classifying $+$ vs $-$

1. Allow T to be the maximum score
2. $TP = 0, FP = 0$
3. Calculate $E[Profit]$
4. For each observation, i:
   - If $\hat{\pi}_i > T \longrightarrow$ increment TP
   - Else $\longrightarrow$ increment FP
5. Add point (% Test Instances predicted Positive, $E[Profit]$) to the Profit Graph

Increment T from max-score to min-score, repeating steps 1-4

Building the Profit Curve



Example

Let's assume our profit margin is small: each offer costs \$5 to make and market and each accepted offer earns \$9, for a profit of \$4.

The cost-benefit matrix would be:

	p	n
Y	\$4	-\$5
N	\$0	\$0

Example: Profit Curves for Multiple Classifiers