

Machine Learning for econometrics

Statistical learning and regularized linear models

Matthieu Doutreligne

A lot of today's content is taken from the excellent [sklearn mooc](#) (Estève et al., 2022)

Matthieu Doutreligne

- 2018: Master degree in statistical learning and artificial intelligence (Ensaie/MVA)
- 2018-2020: Data scientist at the French Ministry of Health (Drees)
- 2020-2023: PhD in statistics and informatics (SODA / scikit-learn inria team):

Causal inference with machine learning applied to clinical data

- Same time: Statistician during 5 years at Haute Autorité de santé (HAS)
- 2025-: Data analyst at Insee (Département des Études Économiques)

More from the machine learning than economics culture

Objectives

Important **concepts and methods** of machine learning...

Useful for **empirical work** in economics.


Introduction of the course

Objectives

Important **concepts and methods** of machine learning...

Useful for **empirical work** in economics.

Philosophy

- More **intuitions** than equations
- Basics and **references for formal understanding**
- Focus on practical skills: **coding** 

8 sessions, two teachers: Matthieu Doutréline (MD), Bruno Crépon (BC)

Sessions

- 1. Statistical learning and regularized linear models (MD)
- 2. Flexible models for tabular data (MD)
- 3. Reminders of potential outcomes and Directed Acyclic Graphs (MD)
- 4.a Event studies: Causal methods for pannel data (MD)
- 4.b Double-lasso for statistical inference (BC)
- 5. Double machine learning: Neyman-orthogonality (BC)
- 6. Heterogeneous treatment effect (BC)
- 7. Oral presentations of the evaluation projects (MD + BC)

Coding project

- Causal inference on a small dataset of your choice: several datasets provided.
- Objective: ask a sound causal question, discuss hypotheses and estimate a causal effect with a machine learning method, discuss the design and the results.

Details

- **Handing over** a notebook with code and comments on a github: (Python, R or stata)
- **Presenting** your work in a 20-30 minutes oral during the last session.
- Details and datasets: <https://straymat.github.io/causal-ml-course/evaluation.html>
- Inscription: email sent to every students.

Course resources for my four sessions

Website

Detailed syllabus: <https://straymat.github.io/causal-ml-course/syllabus.html>

Slides: <https://straymat.github.io/causal-ml-course/slides.html>

Practical sessions: https://straymat.github.io/causal-ml-course/practical_sessions.html

Predictive inference in high dimensions

- Statistical learning basics
- Regularized linear models for predictive inference
- Practice with scikit-learn

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Next two sessions

- Flexible models: Trees, Random Forests, Gradient Boosting and more scikit-learn
- Reminders of potential outcomes and Directed Acyclic Graphs

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Statistical learning framework

Goal

- Predict the value of an outcome based on one or more input variables.

Statistical learning, ie. predictive inference

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Setting

- Data: n pairs of (features, outcome), $(x_i, y_i) \in \mathcal{X} \times \mathcal{Y}$ identically and independently distributed (i.i.d.) from an unknown distribution P .
- Goal: find a function $\hat{f} : \mathcal{X} \rightarrow \mathcal{Y}$ that approximates the true value of y ie. for a new pair (x, y) , we should have:

$$\hat{y} = \hat{f}(x) \approx y$$

Statistical learning, ie. predictive inference

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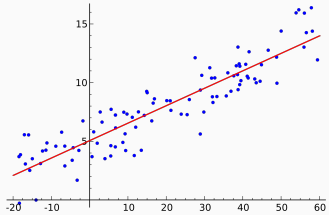
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Vocabulary: Fitting the model

Finding the appropriate model \hat{f} is called learning, training or fitting the model.

Statistical learning, two classes of problems

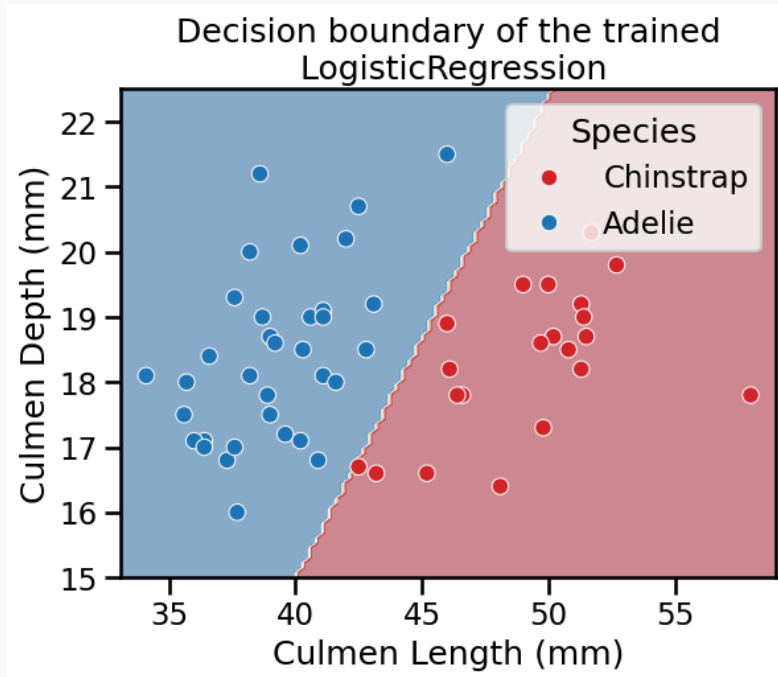


Regression

- The outcome is continuous: eg. wage prediction
- The error is often measured by the mean squared error (MSE):

$$\text{MSE} = \mathbb{E} \left[\left(Y - \hat{f}(X) \right)^2 \right]$$

Statistical learning, two classes of problems



Classification

- Outcome is categorical: eg. diagnosis, loan default, ...
- Error is often measured with accuracy:

$$\text{Misclassification rate} = \mathbb{E} \left[\mathbb{1} \left(Y \neq \hat{f}(X) \right) \right]$$

with $\hat{f} \in \{0, 1\}$ for binary classification

Statistical learning framework

Motivation: why prediction?

Why do we need prediction for ?

Predictive inference

- Some problems in economics requires accurate prediction without a causal interpretation (Kleinberg et al., 2015), only knowledge of y (eg. stratifying on a risk score for loan, preventive care, ...)
- Reconstruct missing data: eg. imputation of missing values between two waves of a survey (eg. house prices, production of cultivation plots,...)

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Statistical/causal inference

- Infer the effect of an intervention with a causal interpretation
- Powerful predictive models are used to regress “away” the relationship between the treatment/outcome and the confounders
 - > More on this in sessions on Double machine learning and Directed Acyclic Graphs.

Do we need more than linear models?

Let:

- p is the number of features
- n is the number of observations

Maybe no

- Low-dimensional data: $n \gg p$
- No non-linearities, no or few interactions between features

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Maybe yes

- High-dimensional data: ie. $p \gg n$
- Non-linearities, many interactions between features

What high-dimension means: Is $p \gg n$ common in economics?

 **p can be greater than the number of columns in the dataset**

Characteristics leading to high-dimensionality

- Categorical variables with high cardinality, eg. job title, diagnoses...
- Text data: eg. job description, medical reports...
- Technical regressors to handle non-linearities, eg. polynomials, splines, log, ...

What high-dimension means, concrete example

- Population referencing individual files (INSEE): $n = 19,735,576$; $n_{\text{cols}} = 88$ 🙌
- But many variables with cardinality: more than 555 pairs of (variable, category).
- Adding interaction of degree 2: $\binom{p}{2} = \binom{555}{2} = \frac{555 \cdot 554}{2} = 153735$ features 😓
- Adding interactions of any degree: $2^p - p - 1 = 2^{555} - 554$ 🤯

Is this common? Yes

- Categorical with high cardinality or text data are increasingly common.
- Image data is high-dimensional by nature.
- Automation of data collection and storage leads to more datasets and more variables.

Some problems where high dimensional data is common

Some examples

- The US [Current Population Survey \(CPS\)](#) dataset has hundreds of variables, many of which are categorical
- The [Système National des Données de Santé \(SNDS\)](#) in France = healthcare claims : many hundreds of variables, many of which are categorical.

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Other area

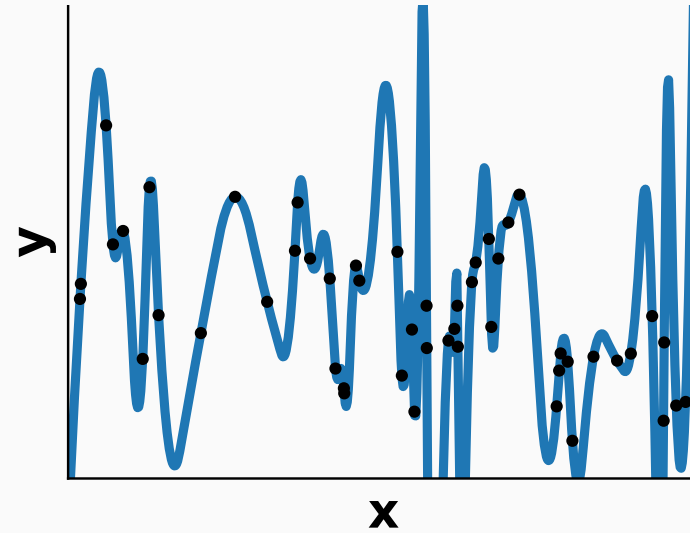
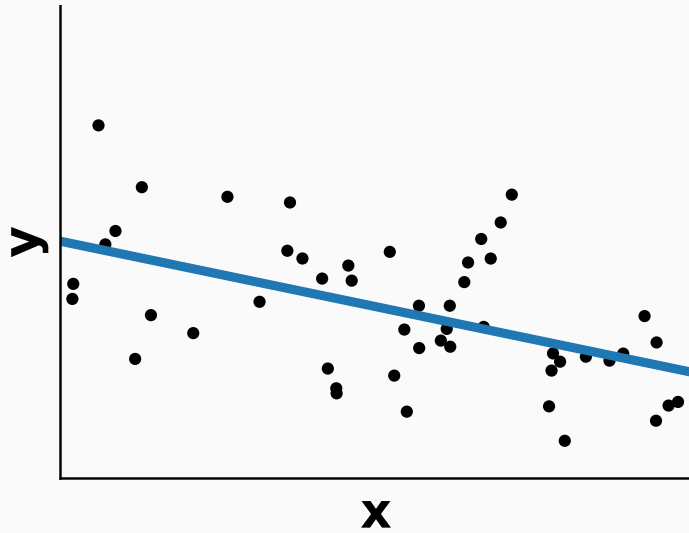
- Country characteristics in cross-country wealth analysis,
- Housing characteristics in house pricing/appraisal analysis,
- Product characteristics at the point of purchase in demand analysis.

Statistical learning framework

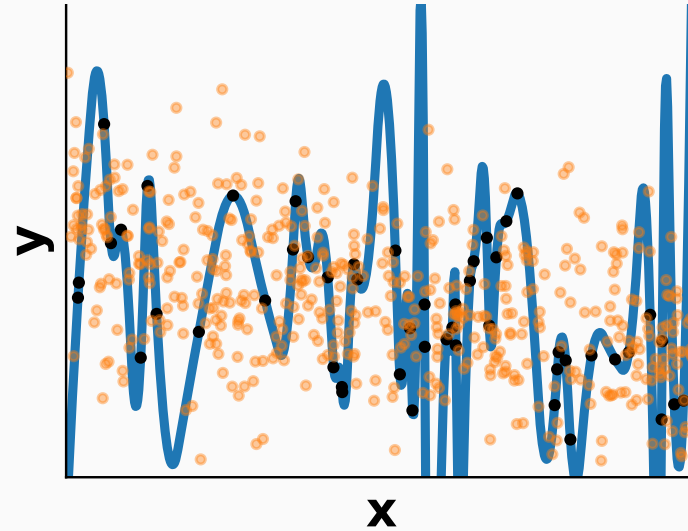
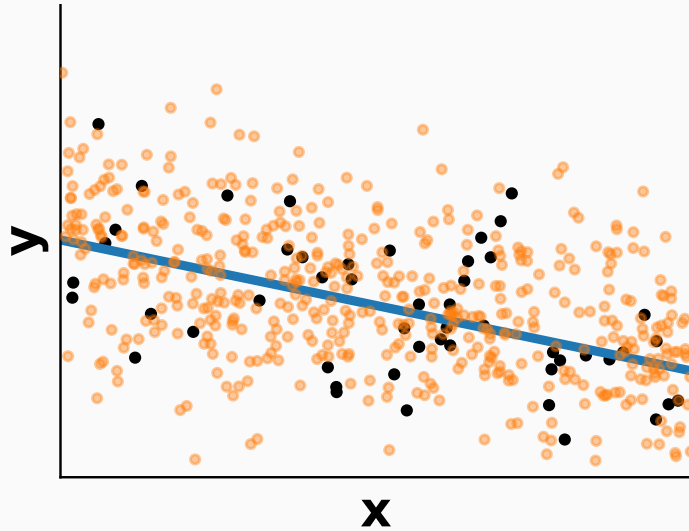
Statistical learning theory and intuitions

Under vs. overfitting

Which data fit do you prefer?



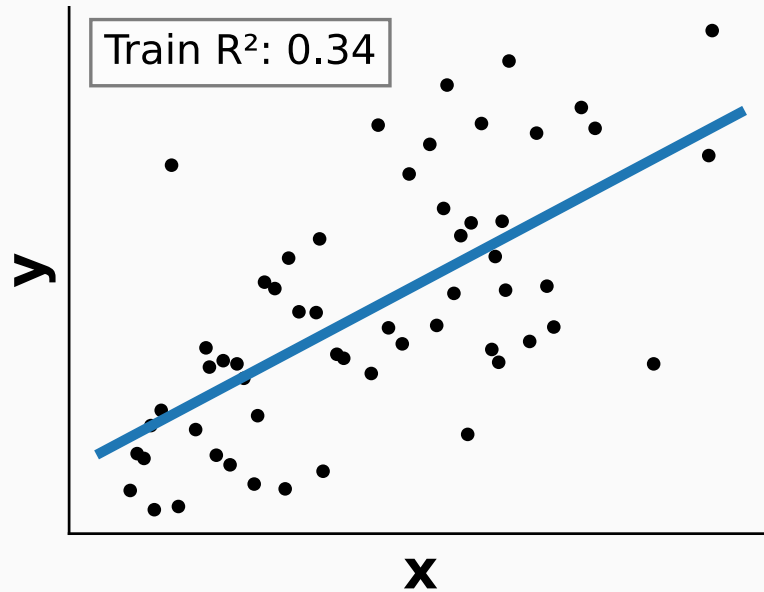
Which data fit do you prefer? (new data incoming)



- Answering this question might be hard.
- Goal: create models that generalize.
- The good way of framing the question is: **how will the model perform on new data?**

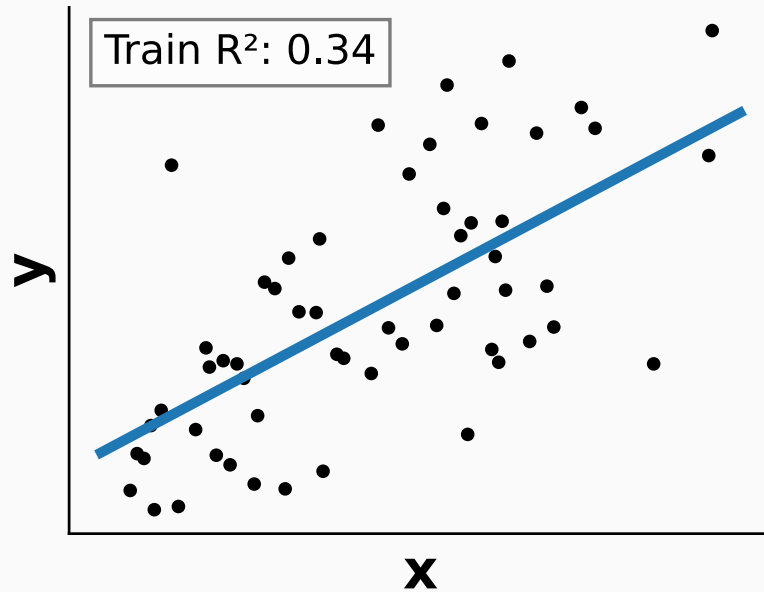
Train vs test error: simple models

Measure the errors on the training data => fitting

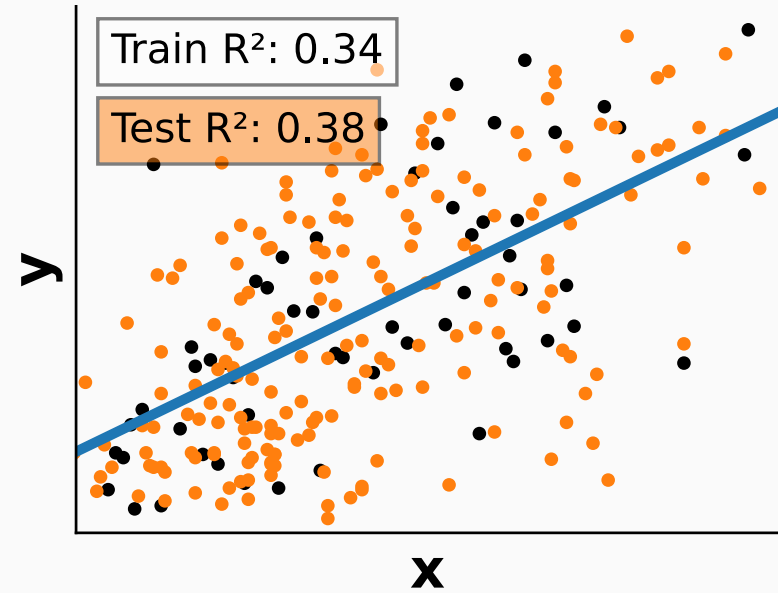


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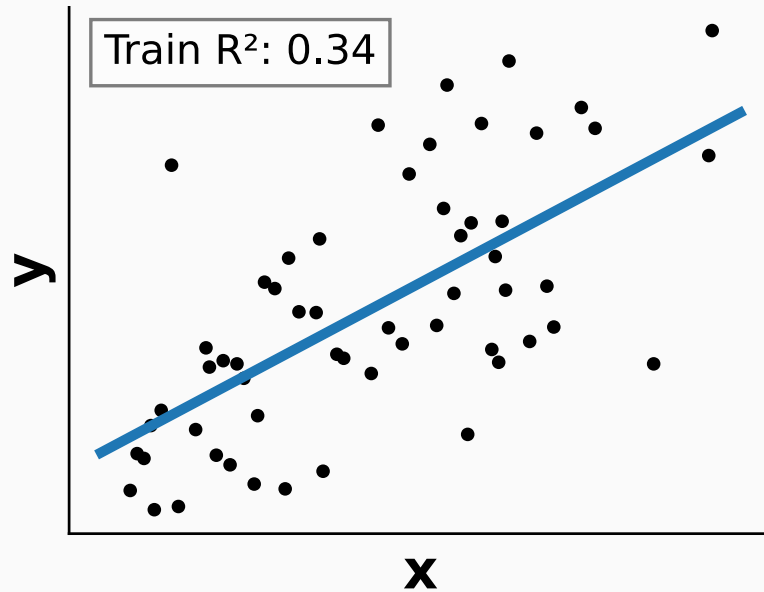


Measure the performances on test data => generalization

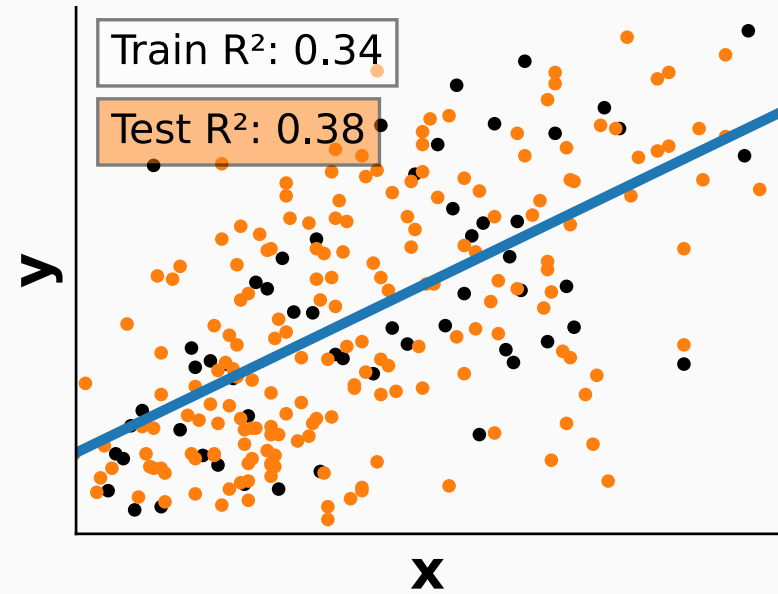


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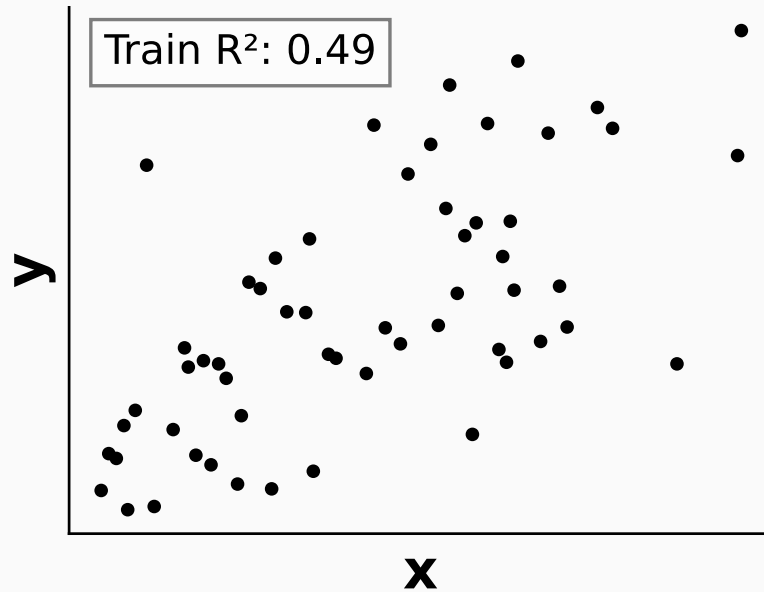
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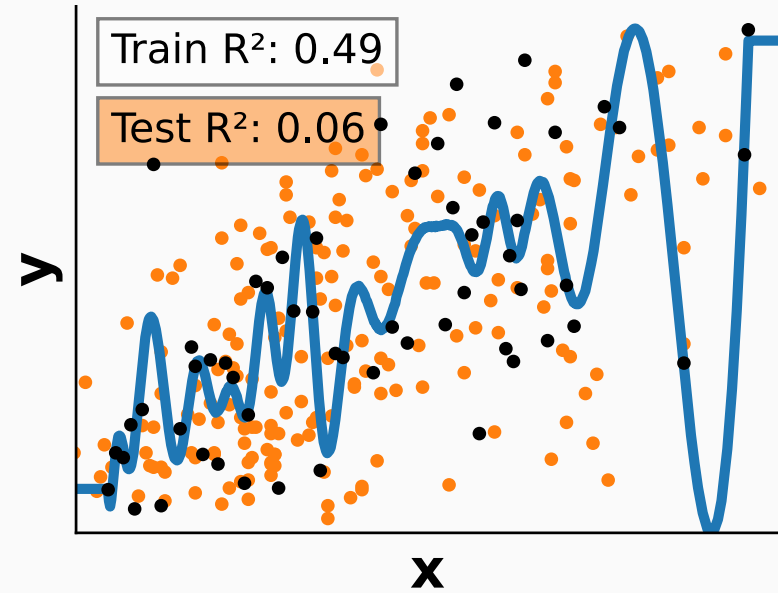
🎉 Here, no problem of overfitting: train vs test error are similar.

Train vs test error: flexible models

Measure the errors on the training data = fitting

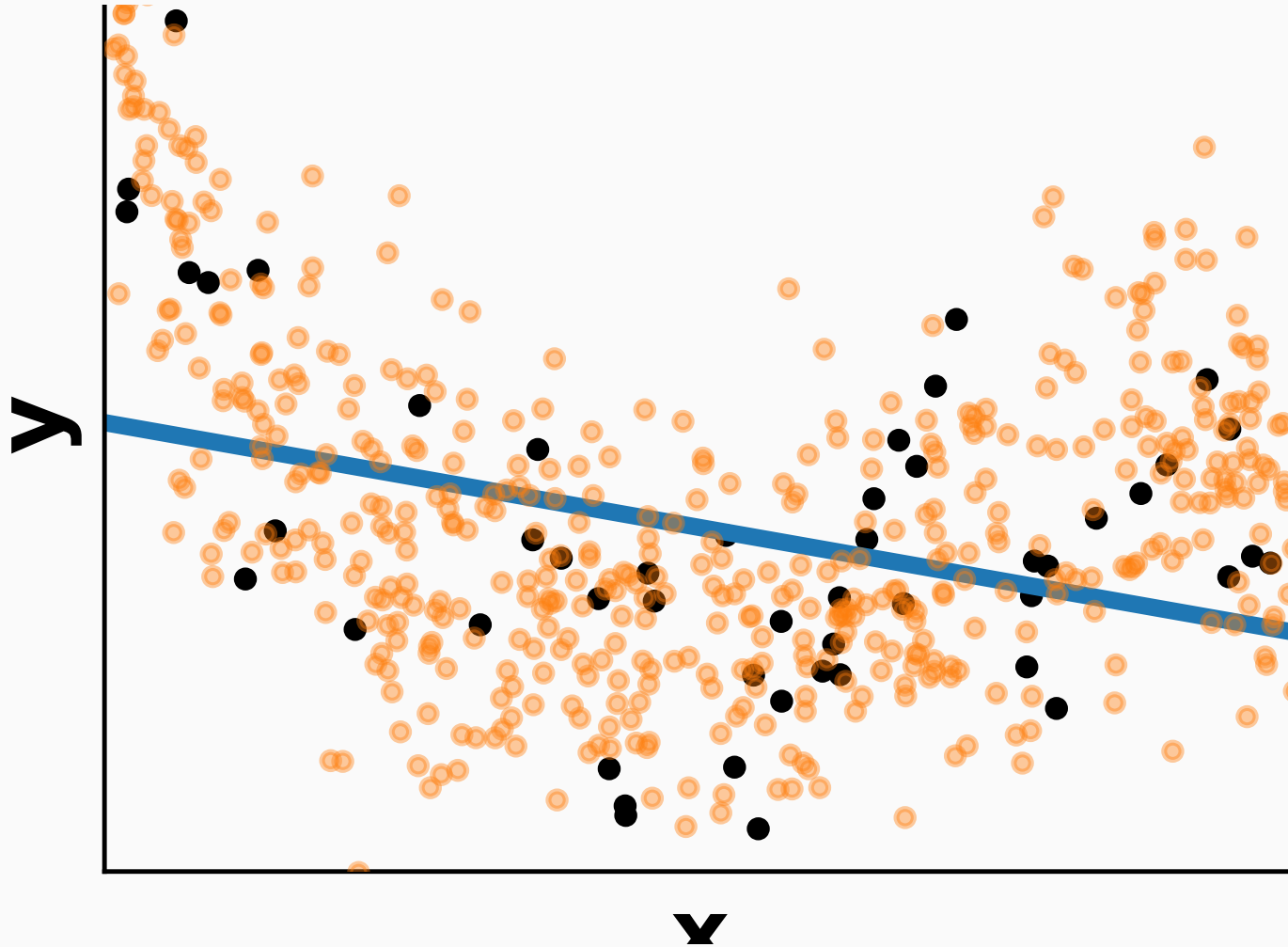


Measure the performances on test data = generalization



😞 Overfitting: the model is too complex and captures noise.

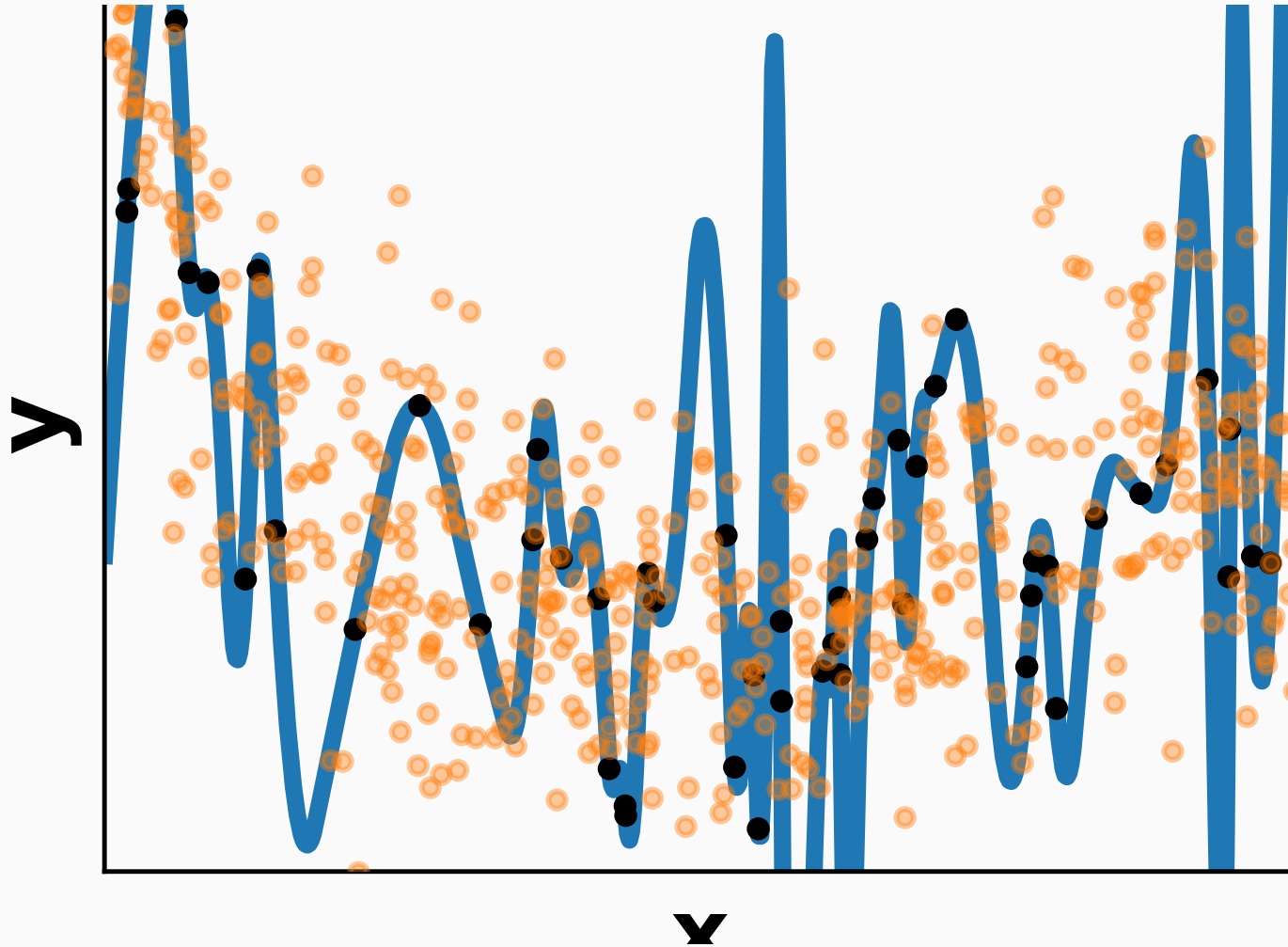
How to choose the complexity of the model?



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[

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How to choose the complexity of the model?

]

This trade-off is called **Bias variance trade-off**.

- Let's recover it in the context of statistical learning theory.

Empirical Risk Minimization

Loss function

A **loss function** ℓ defines the proximity between the predicted value $\hat{y} = f(x)$ and the true value y : $\ell(f(x), y)$

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Example, for continuous outcomes, the **squared loss**

$$\ell(f(x), y) = (f(x) - y)^2$$

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Risk minimization

We look into a (finite) family of candidate functions $f \in \mathcal{F}$,

For the best possible function f^* , ie f minimizing the **risk or expected loss**

$$\mathcal{E}(f) = \mathbb{E}[(f(x) - y)^2]:$$

Empirical Risk Minimization

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$$f^* = \operatorname{argmin}_{f \in \mathcal{F}} \mathbb{E}[(f(x) - y)^2]$$

Empirical risk minimization: estimation error

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- In practice, we minimize the **empirical risk** or average loss $R_{\text{emp}} = \sum_{i=1}^n (f(x_i) - y_i)^2$:

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Empirical risk minimization: estimation error

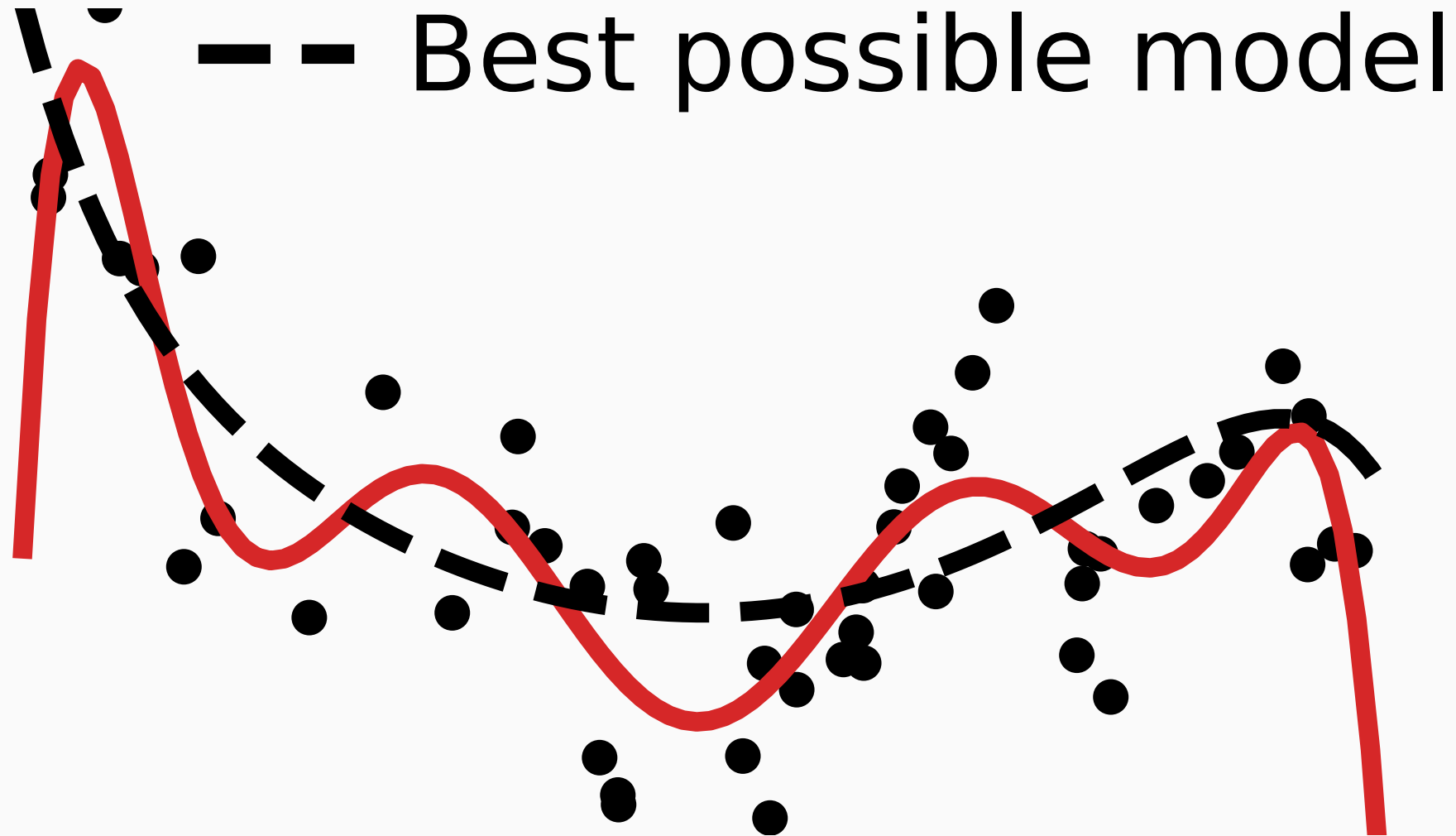
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$$\hat{f} = \operatorname{argmin}_{f \in \mathcal{F}} \sum_{i=1}^n (f(x_i) - y_i)^2$$

- This creates the **estimation error**, related to sampling noise:

$$\mathcal{E}(\hat{f}) - \mathcal{E}(f^*) = \mathbb{E} \left[(\hat{f}(x) - y)^2 \right] - \mathbb{E} \left[(f^*(x) - y)^2 \right] \geq 0$$

High estimation error means overfit



, [

Model is too complex

- The model is able to recover the true generative process
- But its flexibility captures noise

Too much noise

Not enough data

]



Interesting problems exhibit randomness

$y = g(x) + e$ with $E(e|x) = 0$ and $\text{Var}(e|x) = \sigma^2$

Bayes error rate: Randomness of the problem



Interesting problems exhibit randomness

$y = g(x) + e$ with $E(e|x) = 0$ and $\text{Var}(e|x) = \sigma^2$



$g(\cdot)$ is the best possible estimator

$g(\cdot)$ induces the **Bayes error**, the unavoidable error:

$$\mathcal{E}(g) = \mathbb{E}[(g(x) + e - g(x))^2] = \mathbb{E}[e^2] = \sigma^2$$

In practice, the class of function in which the true function lies is unknown:

$y \approx g(x)$: Every model is wrong !

Empirical risk minimization: approximation error

In practice, the class of function in which the true function lies is unknown:

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One chooses the best possible function in the candidate family \mathcal{F}

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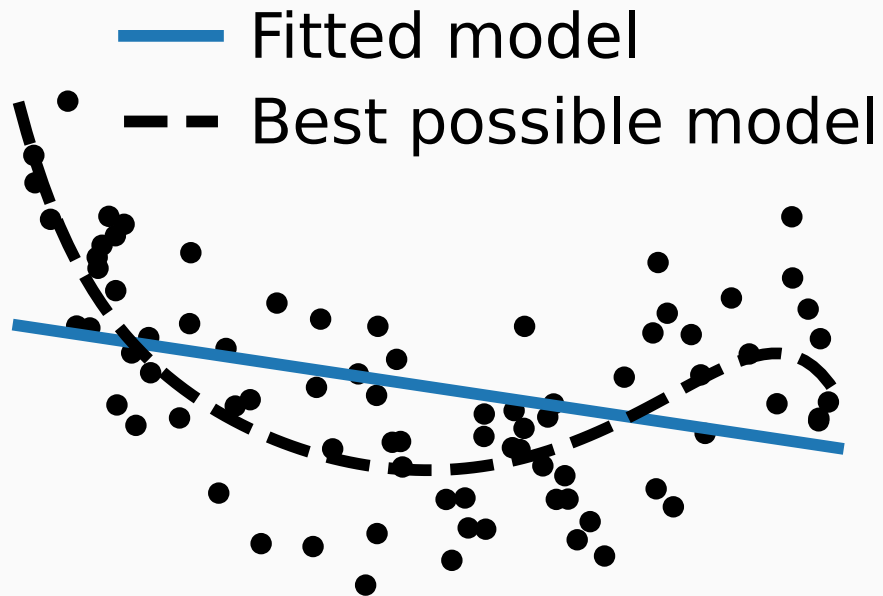
One chooses the best possible function in the candidate family \mathcal{F}

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This creates the approximation error:

$$\mathcal{E}(f^*) - \mathcal{E}(g) = \mathbb{E}[(f^*(x) - y)^2] - \mathbb{E}[(g(x) - y)^2] \geq 0$$

High approximation error means underfit



Model is too simple for the data

- its best fit does not approximate the true generative process
- Yet it captures little noise

Low noise

Rapidly enough data to fit the model

Bias variance trade-off: Putting the pieces together

Decomposition of the empirical risk of a fitted model \hat{f}

$$\mathcal{E}(\hat{f}) = \underbrace{\mathcal{E}(g)}_{\text{Bayes error}} + \underbrace{\mathcal{E}(f^*) - \mathcal{E}(g)}_{\text{approximation error}} + \underbrace{\mathcal{E}(\hat{f}) - \mathcal{E}(f^*)}_{\text{estimation error}}$$

Bias variance trade-off: Putting the pieces together

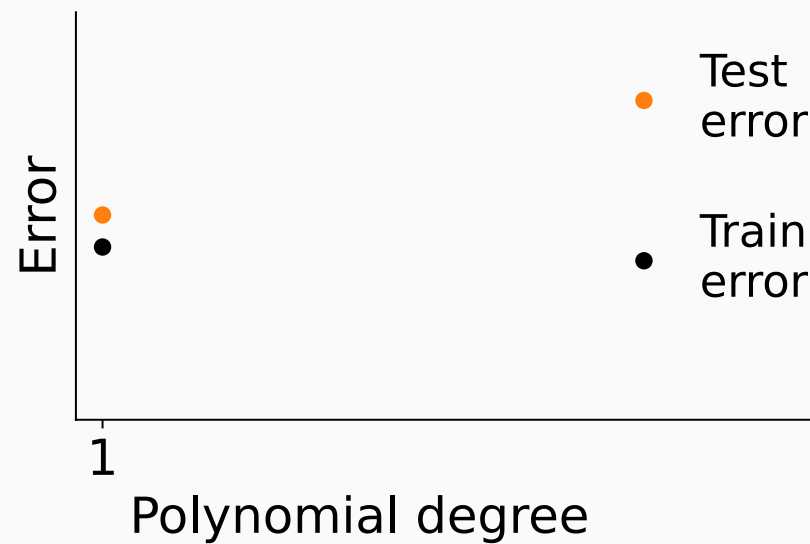
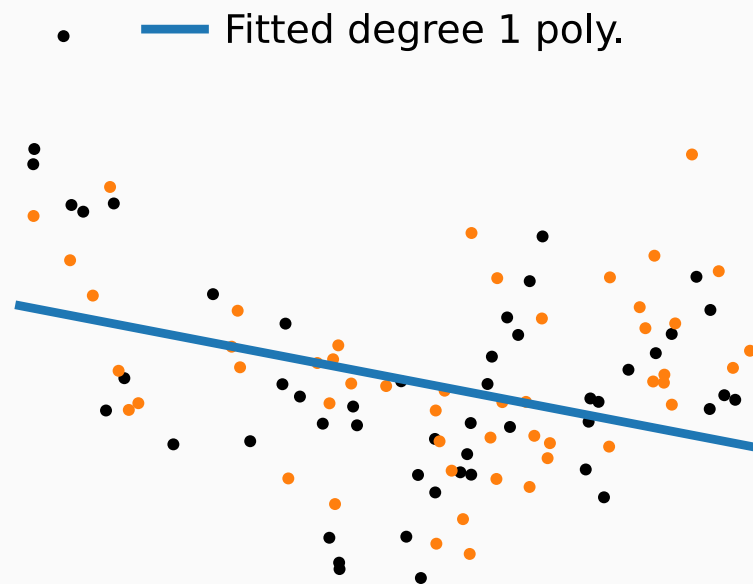
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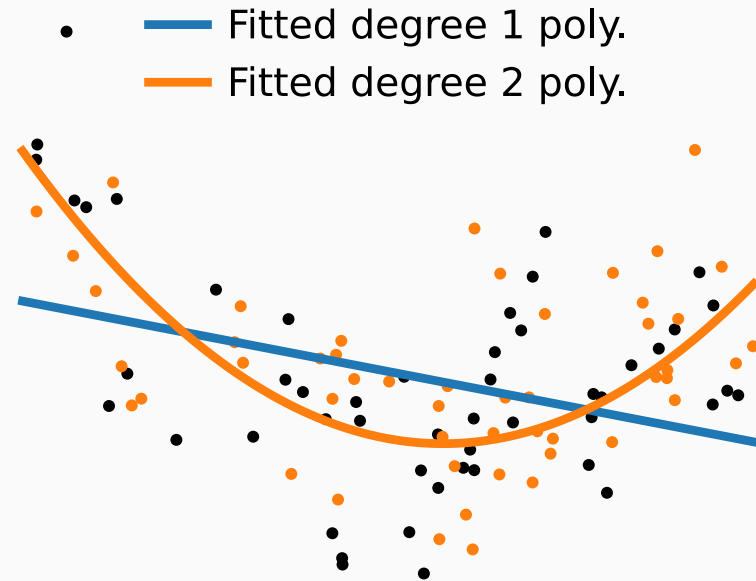
Controls on this trade-off

- Bigger candidate family (more complex models) \mathcal{F} : increases the estimation errors but decreases the approximation error.
- Smaller candidate family (simpler models): decreases the estimation error but increases the approximation error.
- Bigger sample size n : reduces estimation error and allows more complex models.

Train vs test error: increasing complexity

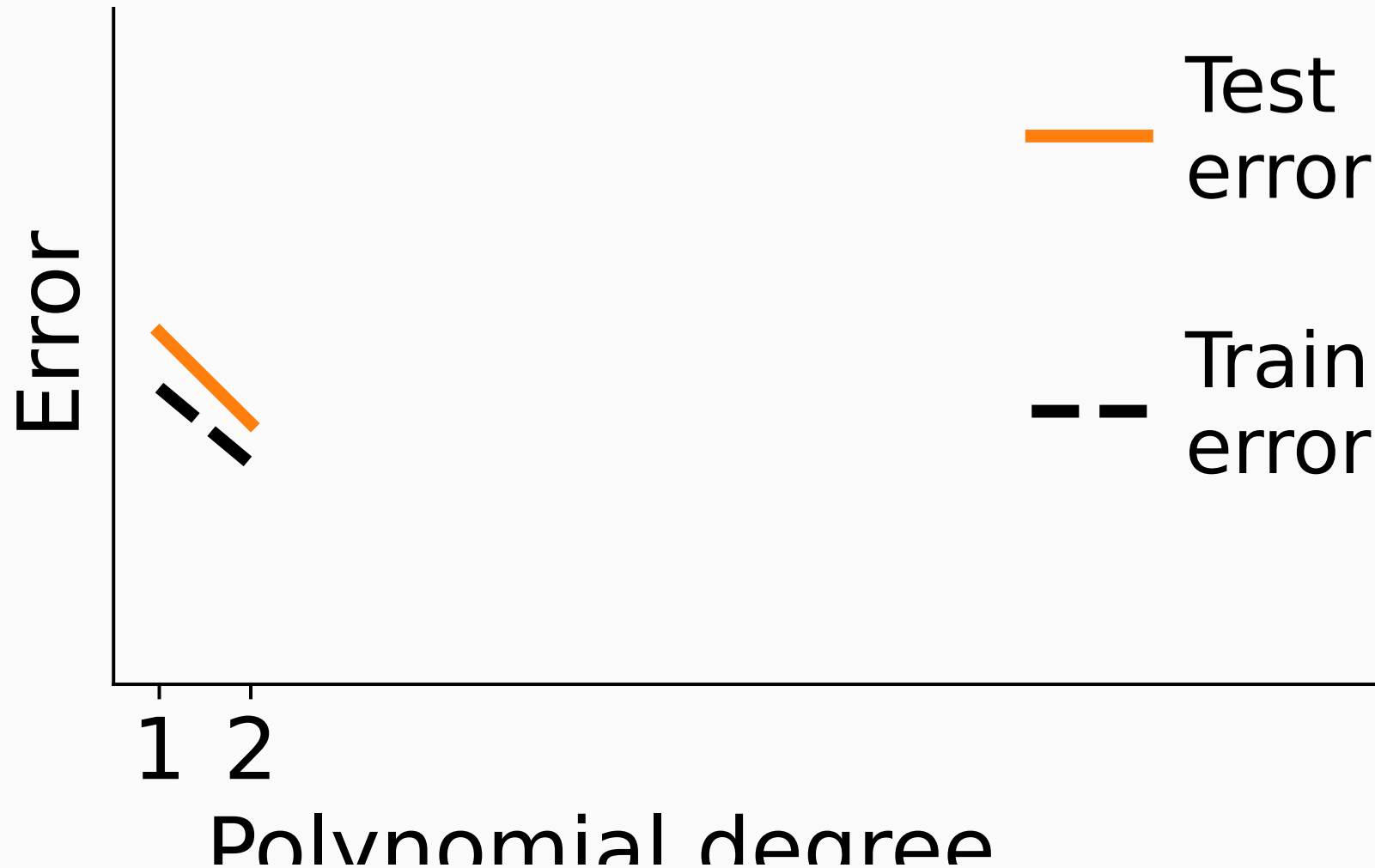


Train vs test error: increasing complexity



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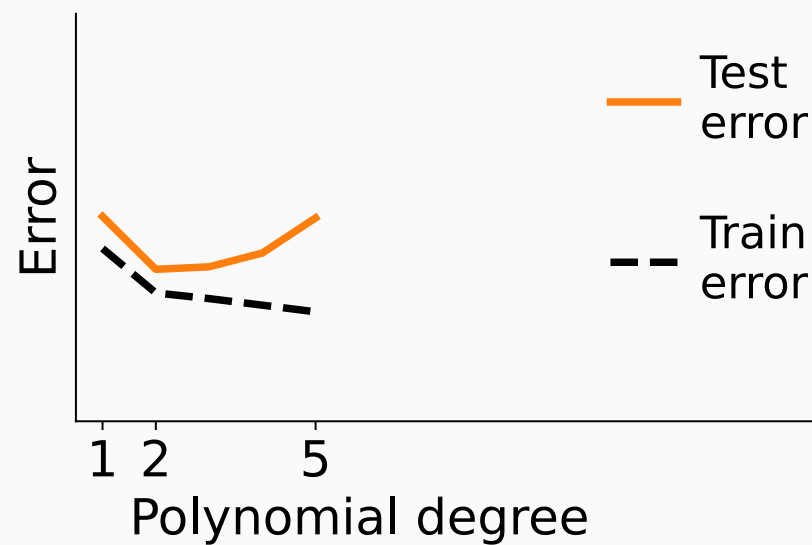
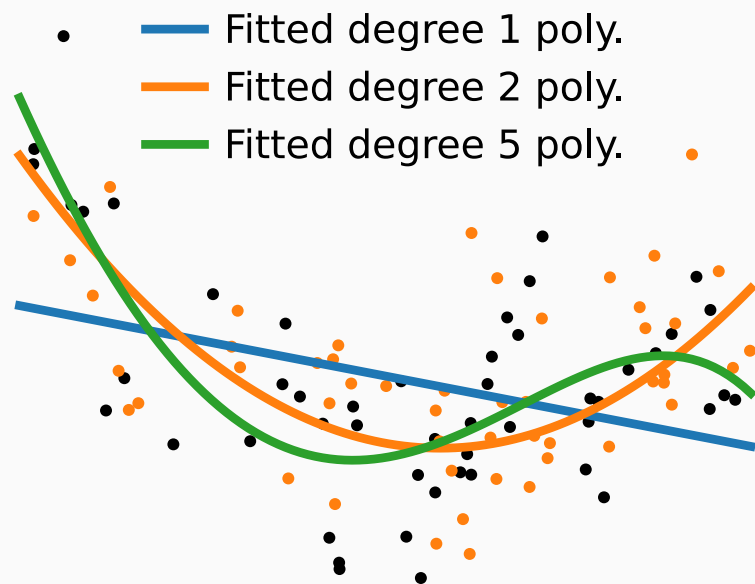
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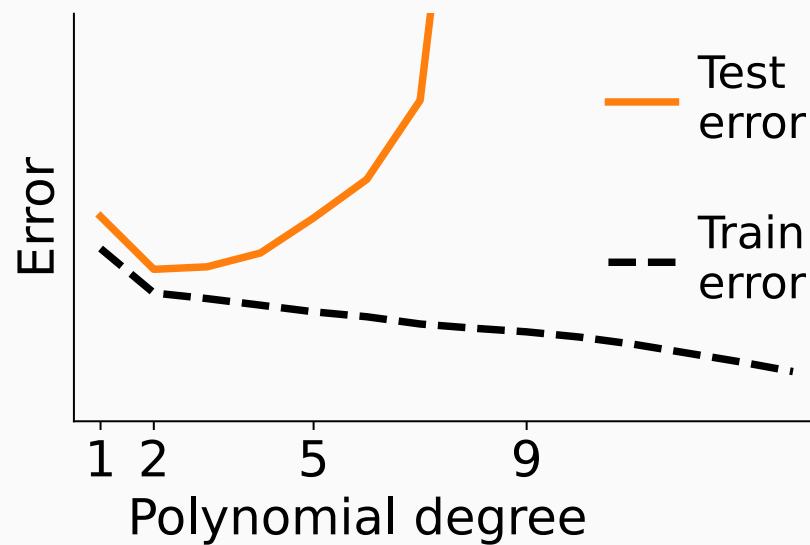
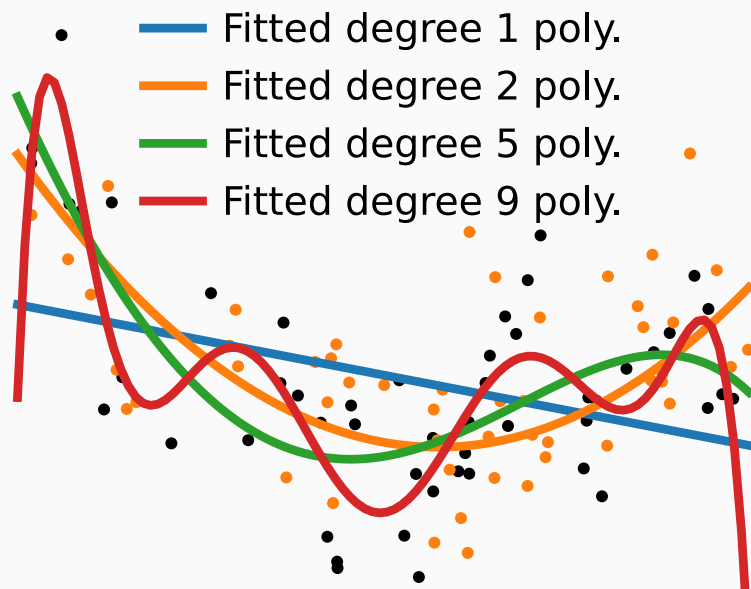
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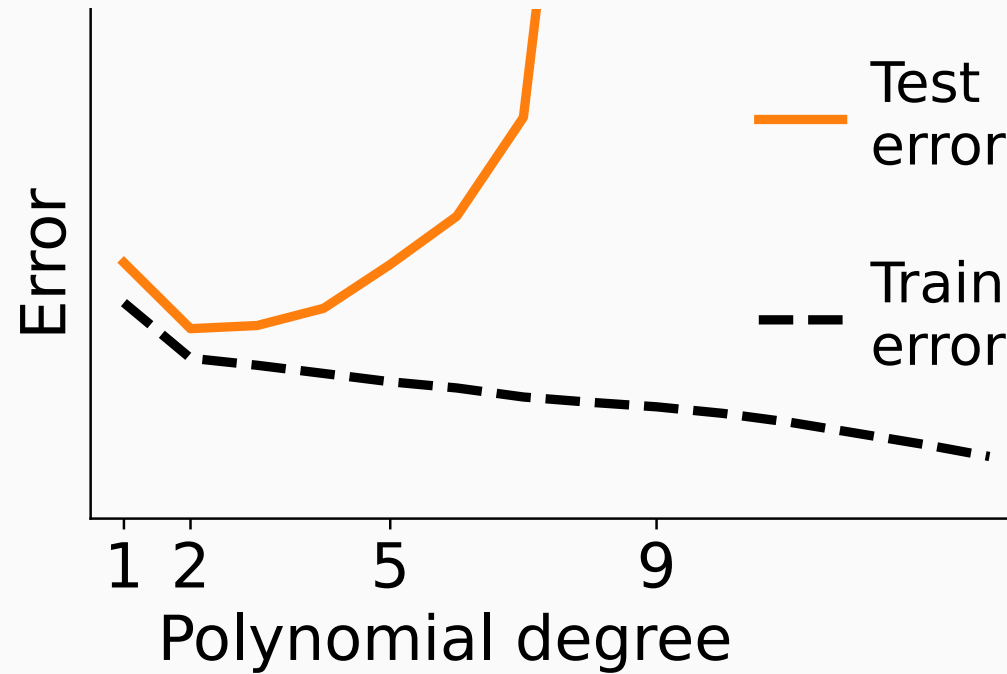
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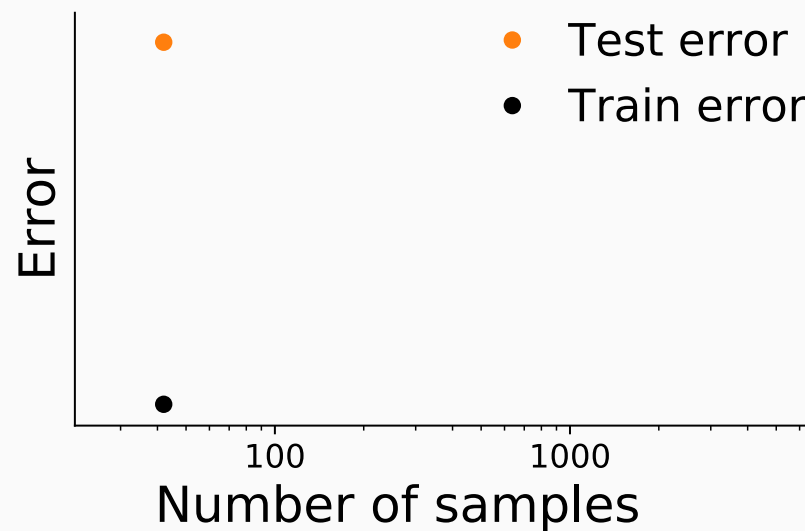
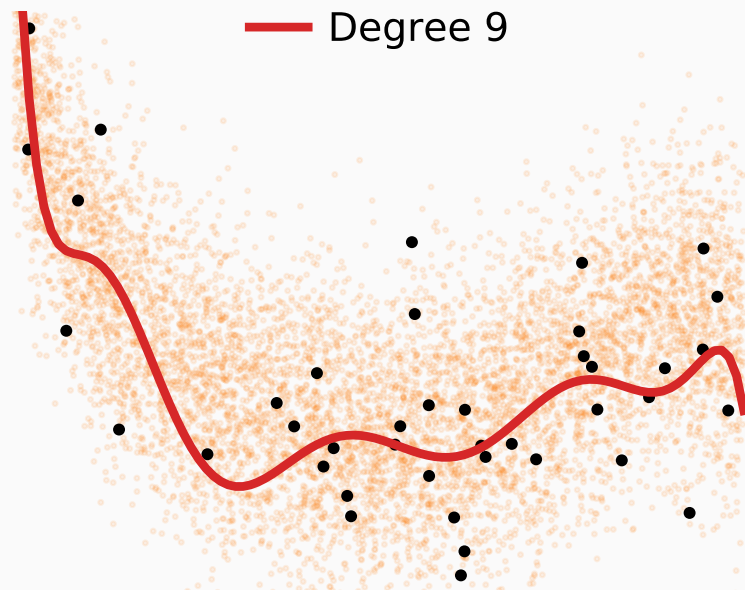


Underfit

Sweet Spot

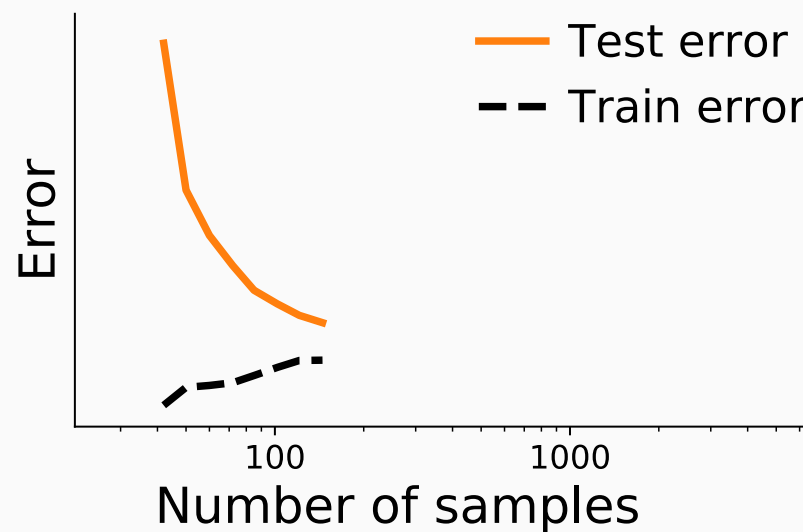
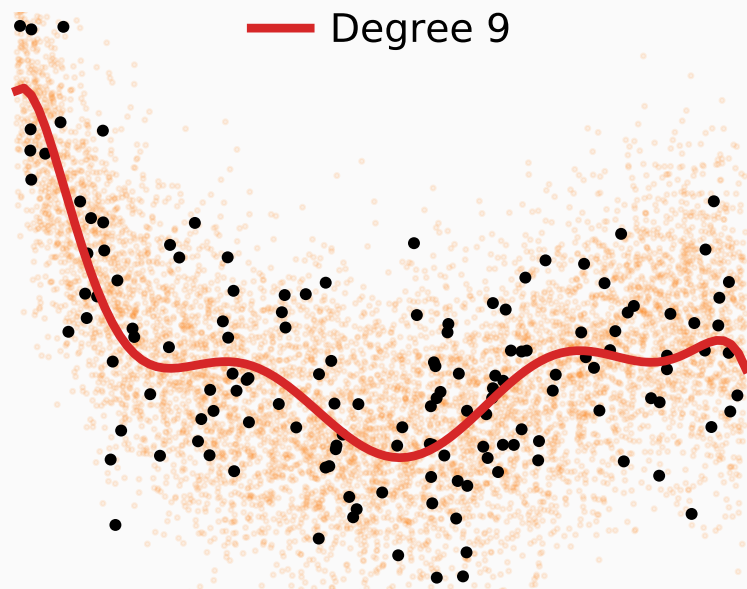
Overfit

Varying sample size with a candidate family (\mathcal{F} polynoms of degree 9)

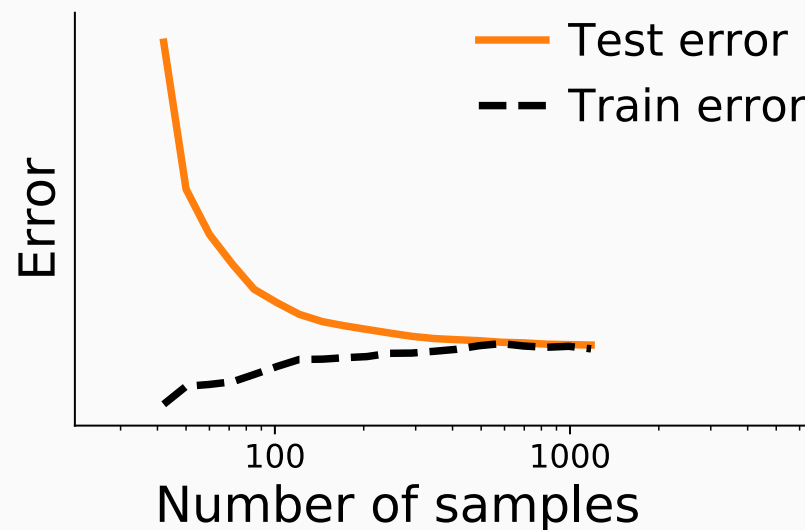
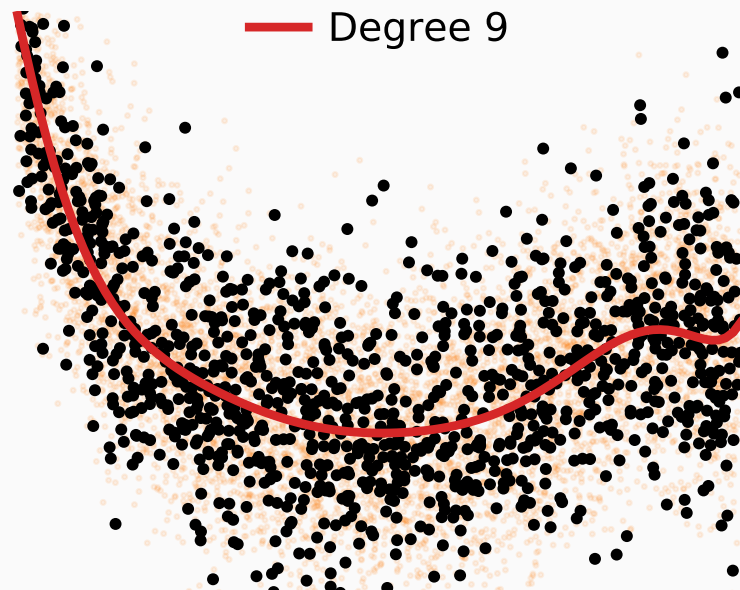


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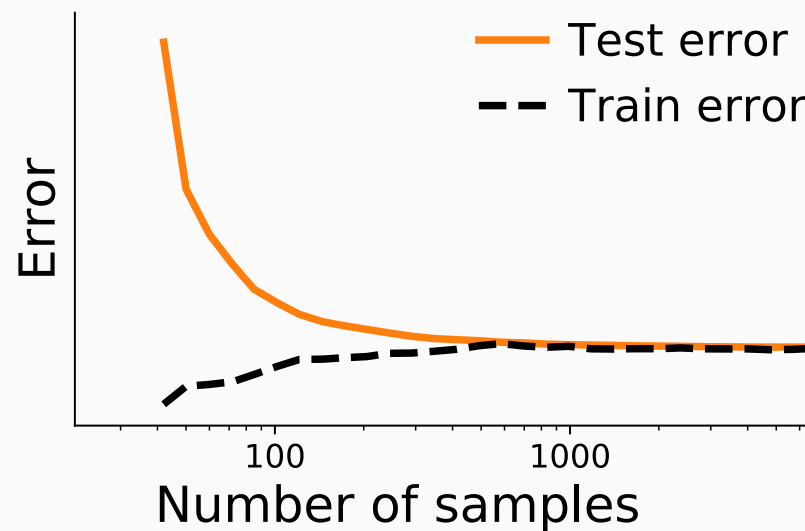
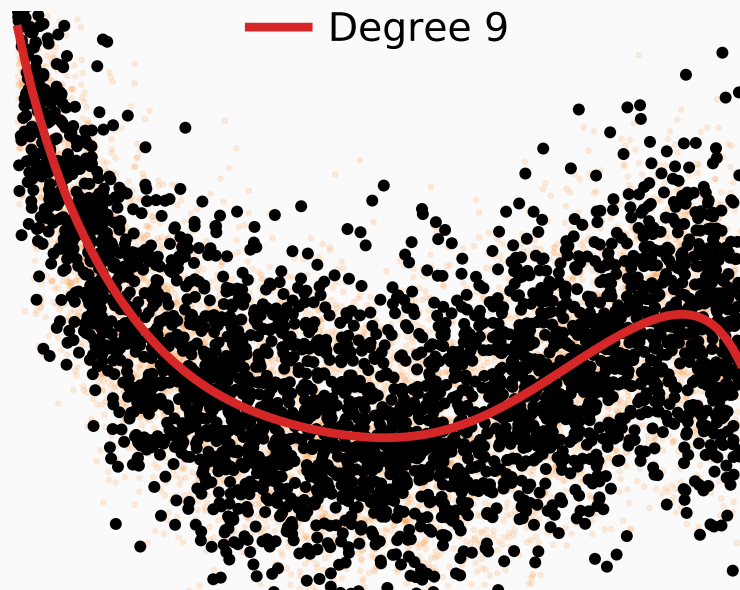


Varying sample size with a candidate family (\mathcal{F} polynoms of degree 9)



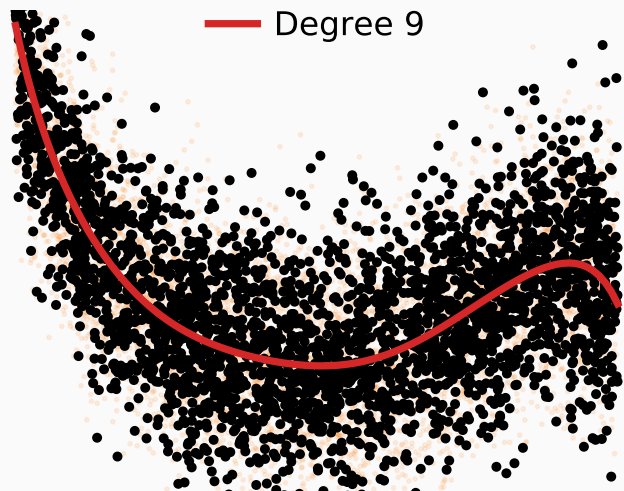
Sweet spot?

Varying sample size with a candidate family (\mathcal{F} polynoms of degree 9)



Diminishing returns?

Varying sample size with a candidate family (\mathcal{F} polynoms of degree 9)



The error of the best model trained on unlimited data.

Here, the data is generated by a polynomial of degree 9.

We cannot do better.

Prediction is limited by noise: **Bayes error**.

Common model families suited to tabular data

Today

- Regularized linear models: Lasso and Ridge
- Hands-on with scikit-learn

Next session

- Practical model selection: Cross-validation
- Flexible models: Trees, Random Forests, Gradient Boosting
- Practical scikit-learn

**High approximation error
means underfit**

Regularized linear models for predictive inference

Reminder: Linear regression

y is a linear combination of the features $x \in \mathbb{R}^p$

$$Y_i = X_i^T \beta_0 + \varepsilon_i$$

- ε the random error term (noise), often assumed $\varepsilon_i \mid X \sim \mathcal{N}(0, \sigma^2)$
- $\beta_0 \in \mathbb{R}^{p \times 1}$ the *true* coefficients.

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Usually, we assume that the errors are normally distributed and independent of X_i :

$$\varepsilon_i \sim \mathcal{N}(0, \sigma^2) \text{ and } \varepsilon_i \perp\!\!\!\perp X_i$$

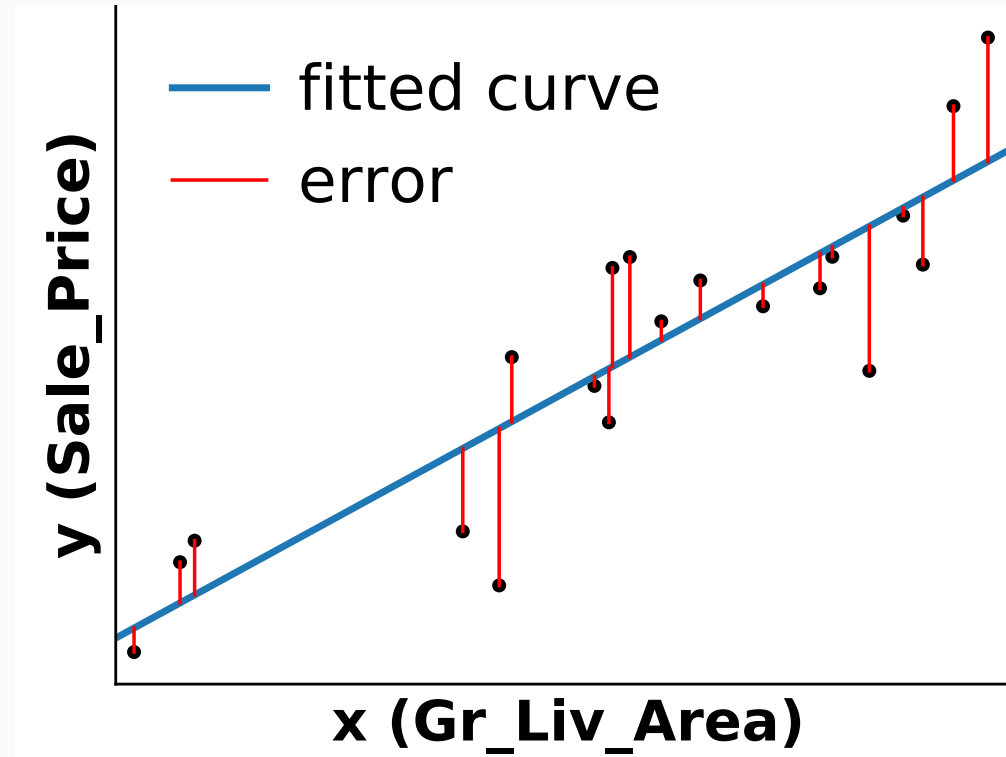
Model are typically fitted by linear algebra methods (Hastie, 2009).

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Reminder: Linear regression



Common metrics

- Mean Squared Error: $\text{MSE} = \frac{1}{n} \sum_{i=1}^n (Y_i - \hat{Y}_i)^2$

Common metrics

- Mean Squared Error: $\text{MSE} = \frac{1}{n} \sum_{i=1}^n (Y_i - \hat{Y}_i)^2$
- R-squared, : $R^2 = 1 - \frac{\sum_{i=1}^n (Y_i - \hat{Y}_i)^2}{\sum_{i=1}^n (Y_i - \bar{Y})^2}$ where $\bar{Y} = \frac{1}{n} \sum_{i=1}^n Y_i$

The proportion of variance explained by the model (perfect fit: $R^2 = 1$)

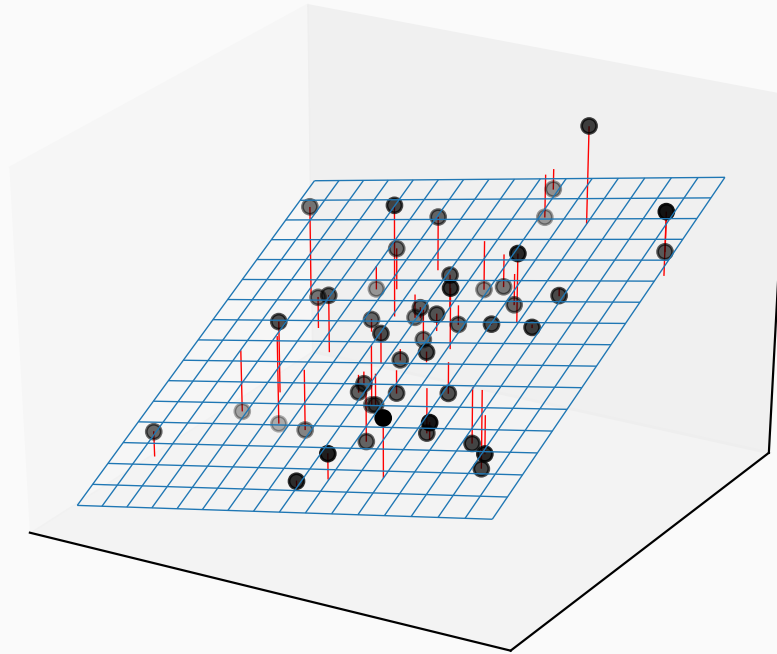
Common metrics

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The proportion of variance explained by the model (perfect fit: $R^2 = 1$)

- Mean absolute error: $\text{MAE} = \frac{1}{n} \sum_{i=1}^n |Y_i - \hat{Y}_i|$

Linear regression: Illustration in two dimensions



Reminder: logistic regression for classification

The logit of the probability of the outcome is a linear combination of the features $X_i \in \mathbb{R}^p$:

$$\ln \left(\frac{p(Y_i=1|X_i)}{p(Y_i=0|X_i)} \right) = X_i^T \beta_0$$

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$$p(Y_i = 1|X_i, \beta_0) \stackrel{\text{def}}{=} p(X_i, \beta_0) = \frac{1}{1 + \exp(-X_i^T \beta_0)}$$

The statistical model is a Bernoulli : $B(p(x, \beta_0))$

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The statistical model is a Bernoulli : $B(p(x, \beta_0))$

Reminder: logistic regression for classification

Model fitted by maximum likelihood with iterative optimization (Hastie, 2009): eg. coordinate descents (liblinear), second order descent (Newton's method), gradient descent (SAG)...

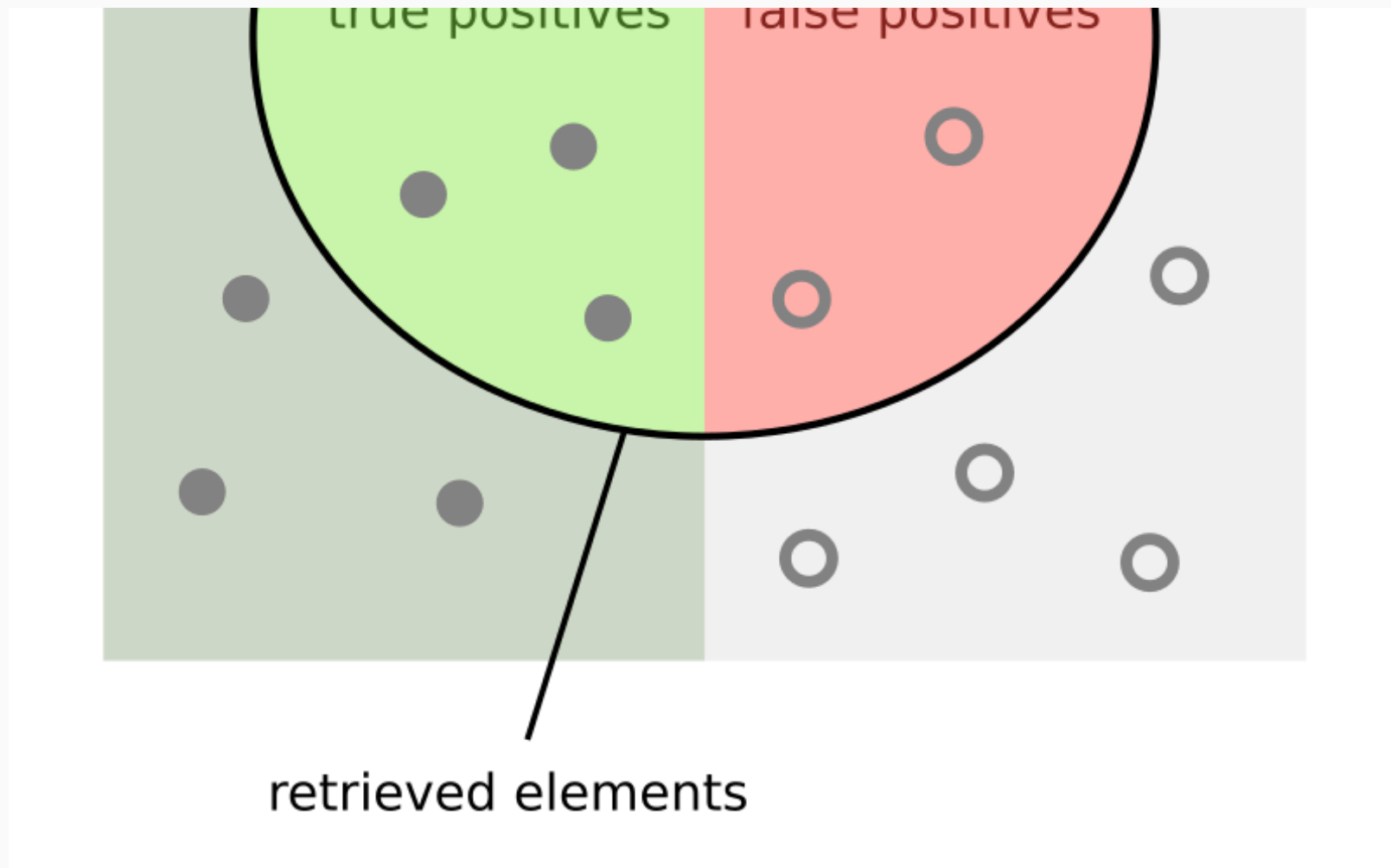
[

Common metrics

- Accuracy = $\frac{1}{n} \sum_{i=1}^n \mathbb{1}(Y_i = \hat{Y}_i)$
- Precision: $\text{Precision} = \frac{\text{TP}}{\text{TP} + \text{FP}}$
- Recall: $\text{Recall} = \frac{\text{TP}}{\text{TP} + \text{FN}}$
- Brier score loss: $\text{BSL} = \frac{1}{n} \sum_{i=1}^n (Y_i - p_i)^2$

], [

Reminder: classification, logistic regression

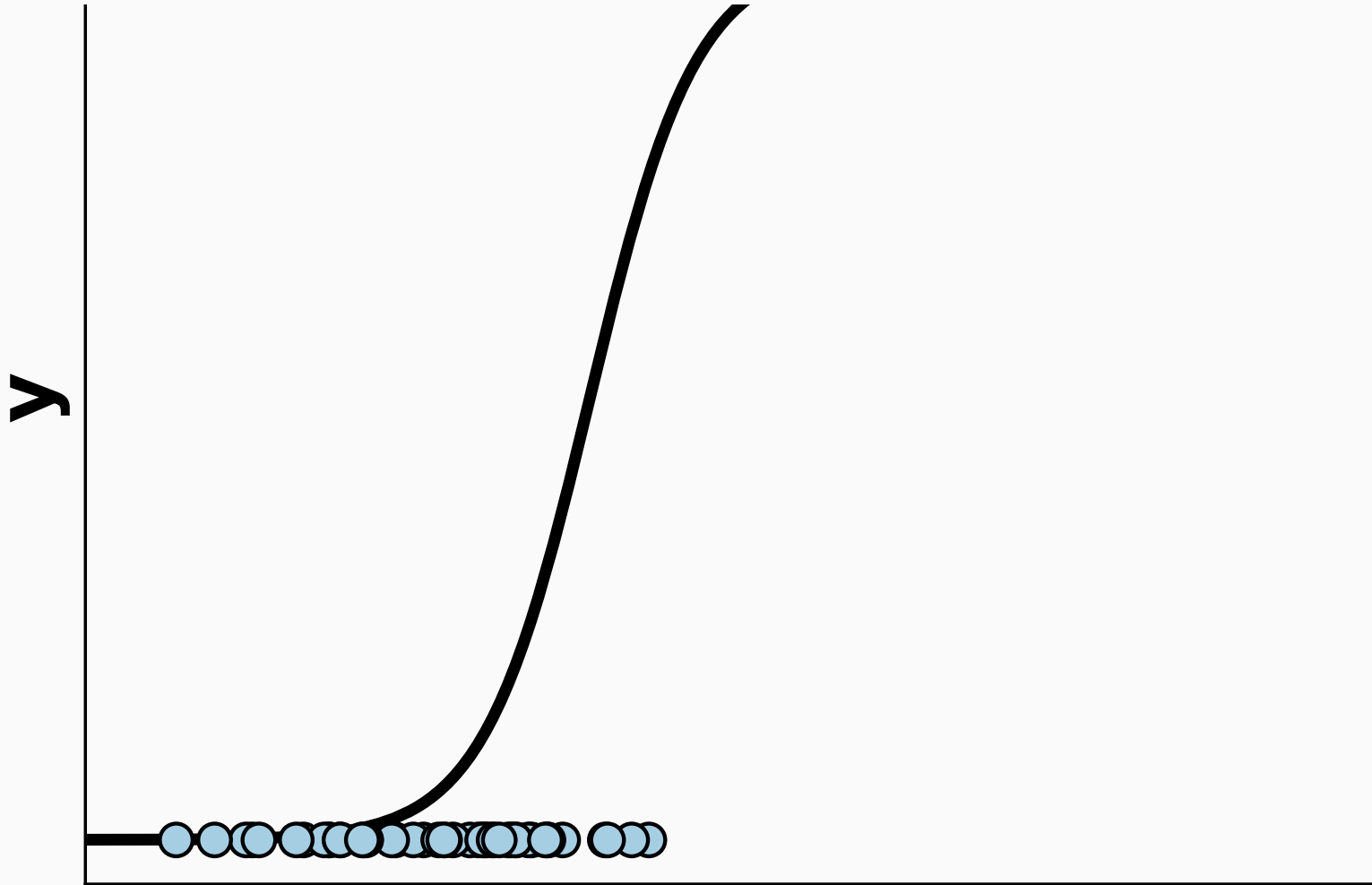


Reminder: classification, logistic regression

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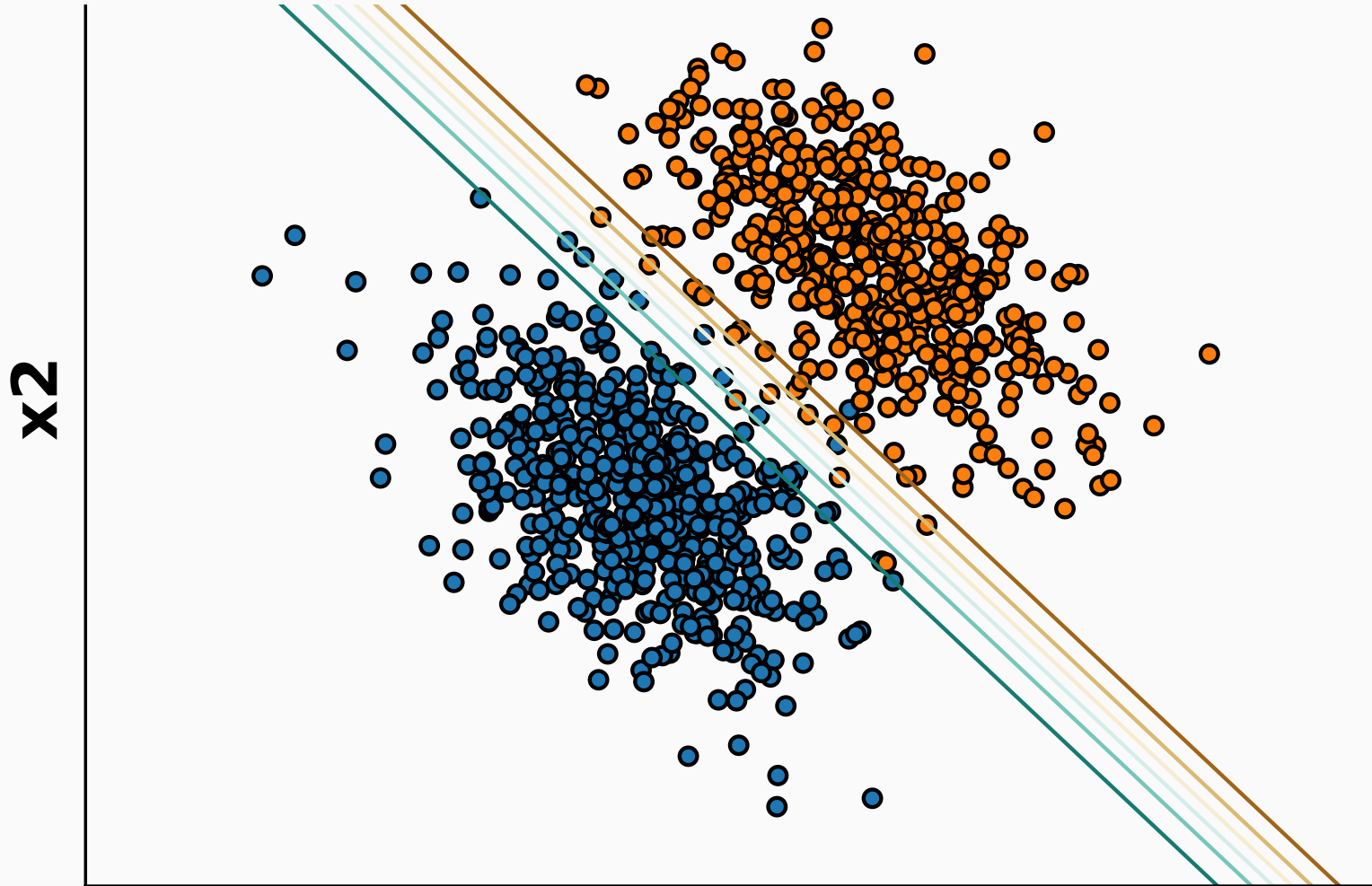
Logistic regression: Illustrations



Logistic regression: Illustrations

Logistic regression in one dimension.], [

Logistic regression: Illustrations



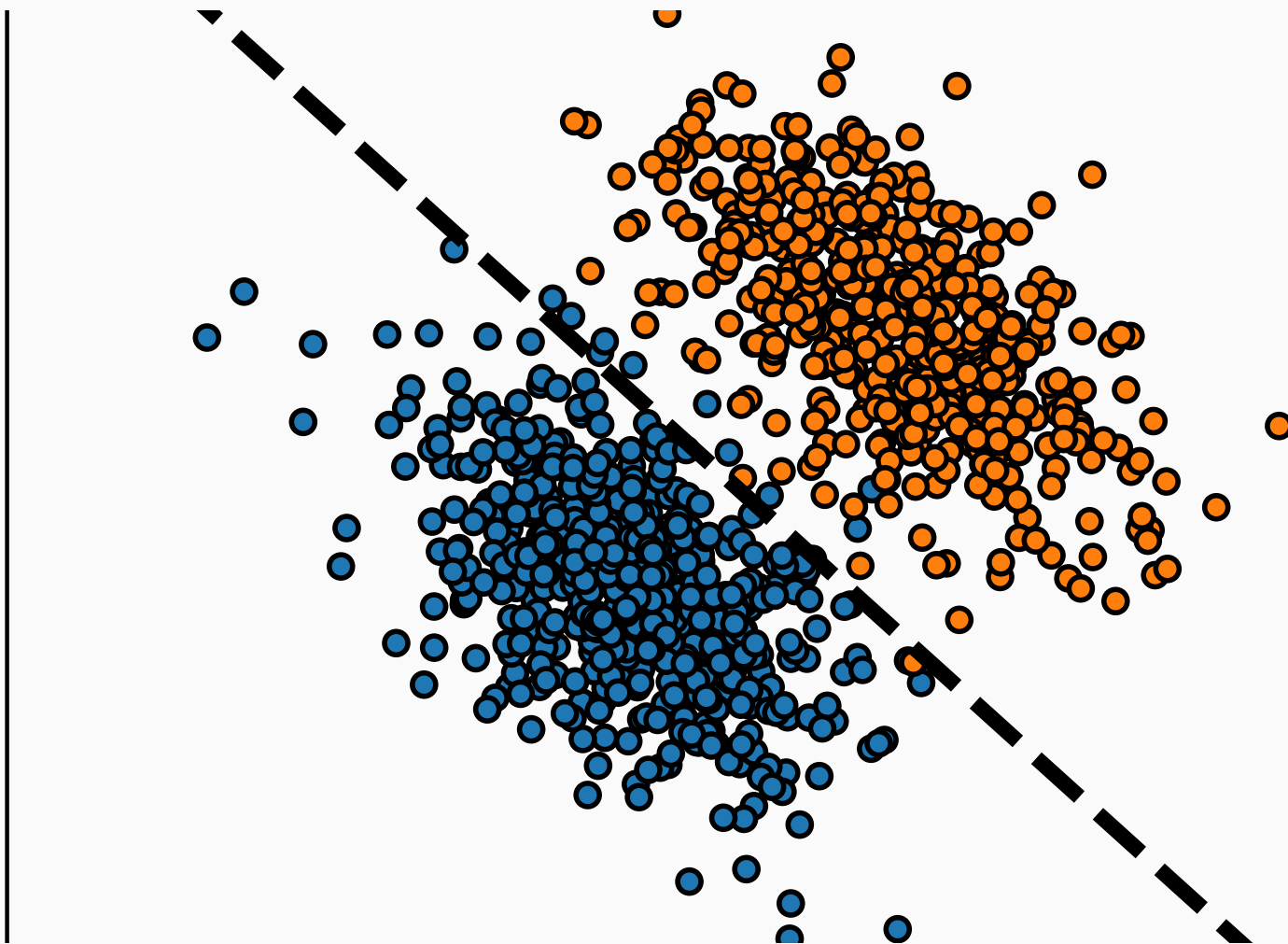
Logistic regression: Illustrations

Logistic regression in two dimensions.]

Linear models are not suited to all data

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Linear models are not suited to all data

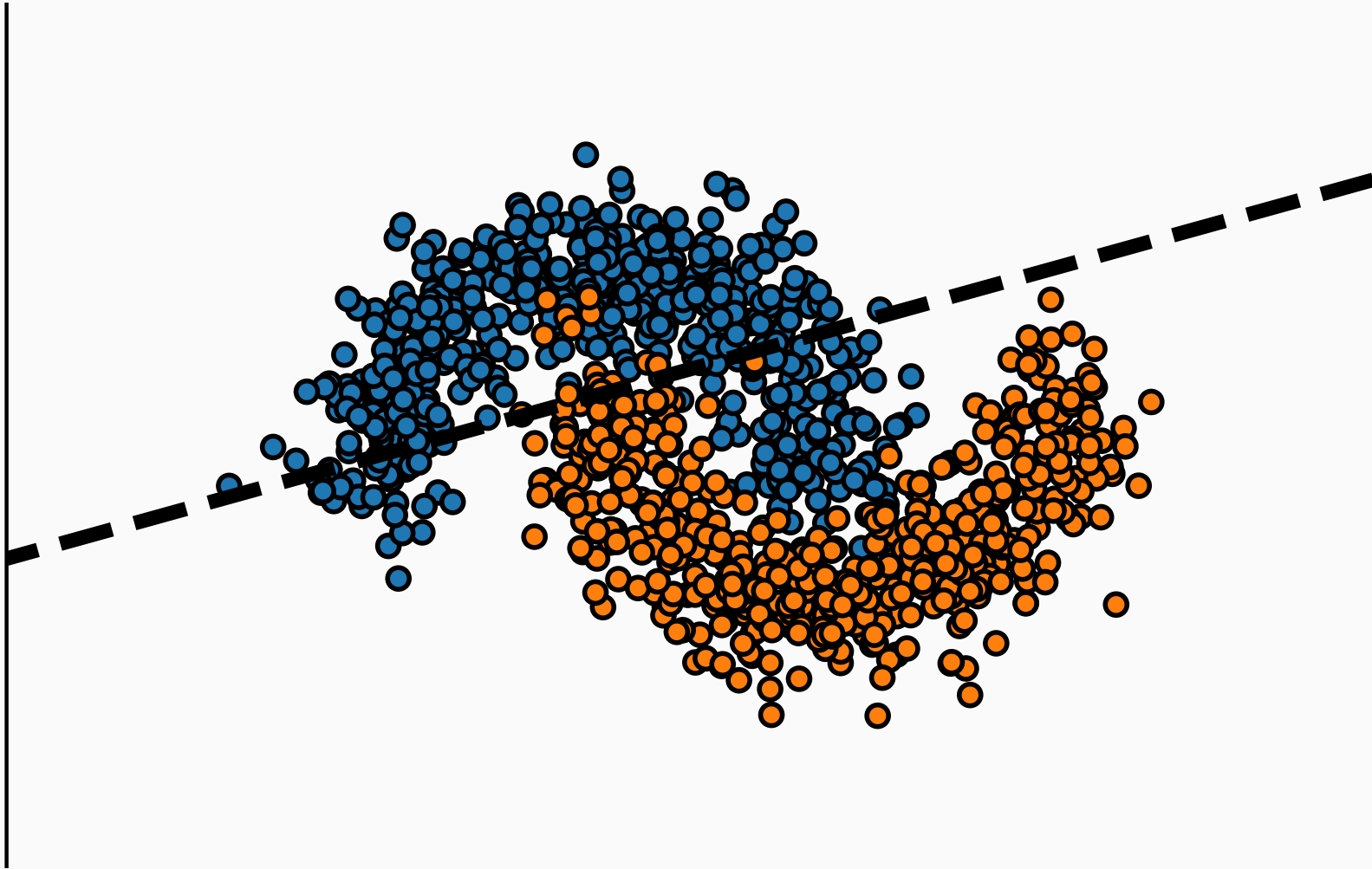


Linear models are not suited to all data

Almost linearly separable data.],

[

Linear models are not suited to all data



Linear models are not suited to all data

Data not linearly separable.]

Pros

- Converge quickly
- Hard to beat when n_{features} is large but we still have $n_{\text{samples}} \gg n_{\text{features}}$
- Linear models work well if
 - the classes are (almost) linearly separable
 - or the outcome is (almost) linearly related to the features.

Cons

Sometimes

- the best decision boundary to separate classes is not well approximated by a straight line.
- there are important non-linear relationships between the features and the outcome.

Cons

Sometimes

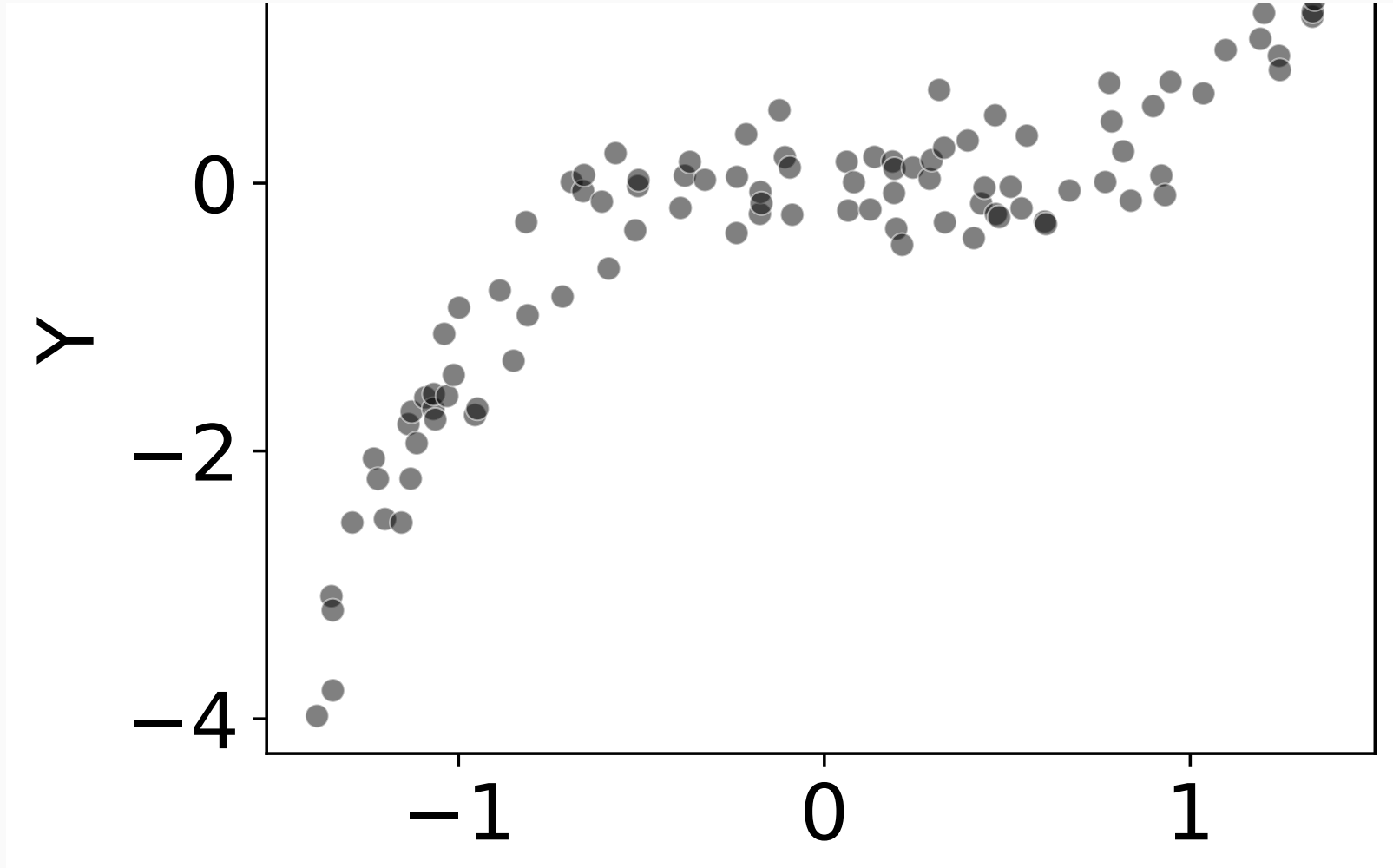
- the best decision boundary to separate classes is not well approximated by a straight line.
- there are important non-linear relationships between the features and the outcome.

 Either use non-linear models, or perform transformations on the data, to engineer new features.

Transformation of the features: Example

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Transformation of the features: Example



Transformation of the features: Example

], [

Non-linear relationship between the features and the outcome

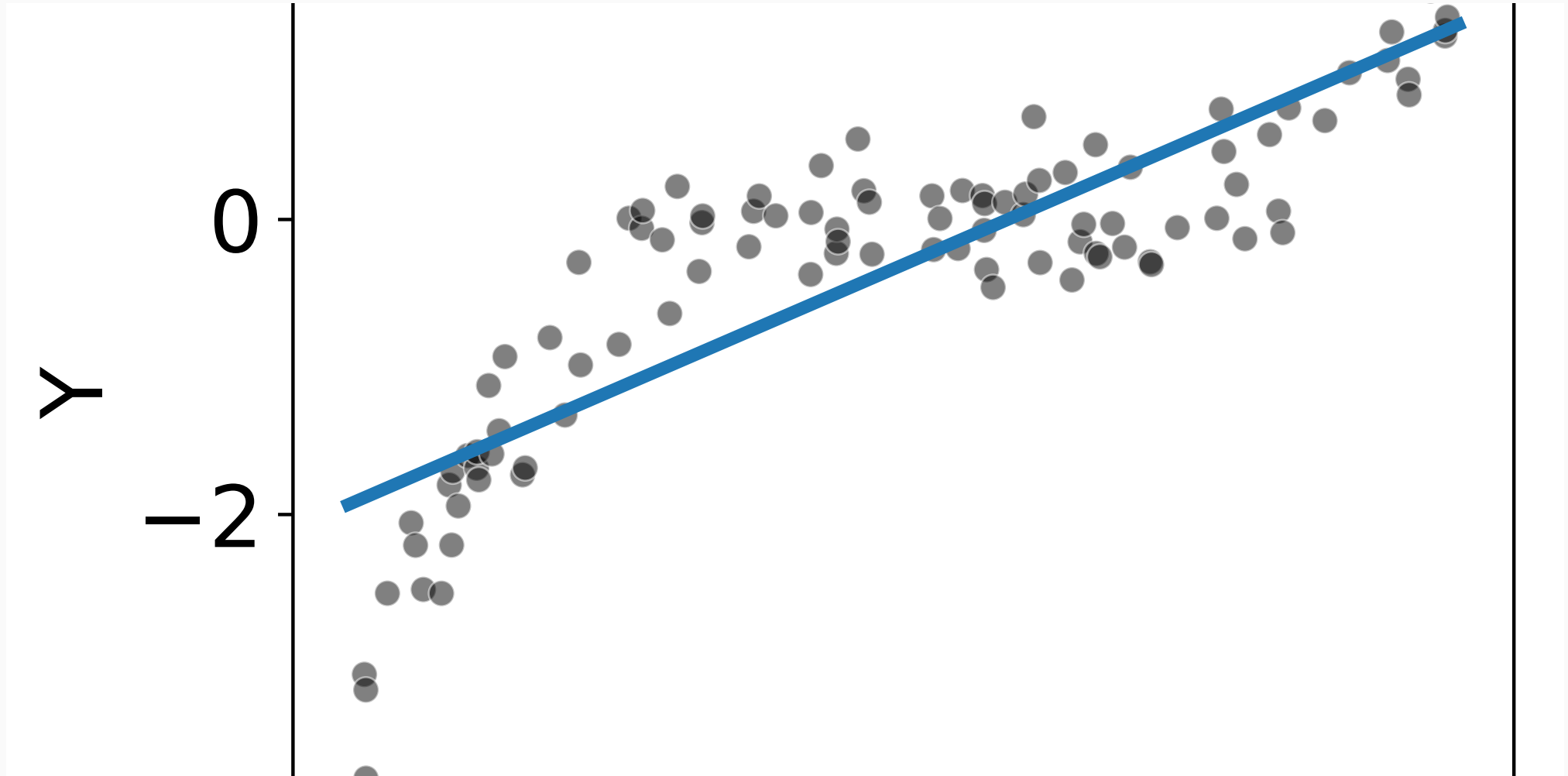
True data generating process:

$$Y = X^3 - 0.5 \times X^2 + \varepsilon]$$

Transformation of the features: Example

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Transformation of the features: Example



Transformation of the features: Example

], [

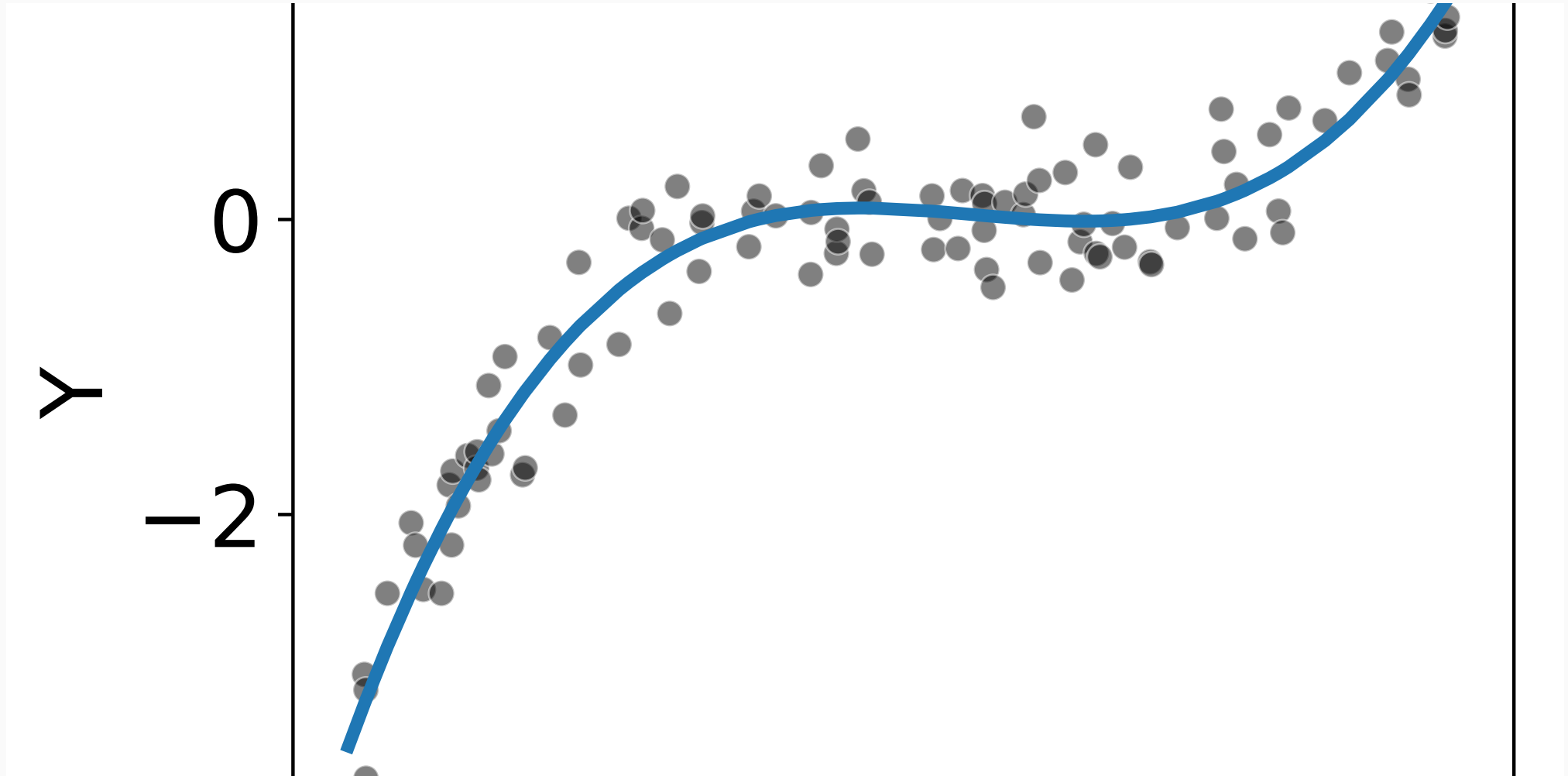
Vanilla linear regression fails to capture the relationship.

],

Transformation of the features: Example

[

Transformation of the features: Example



Transformation of the features: Example

], [

Solution:

- Expand the feature space with polynoms of the features:

$$X = [X, X^2, X^3]$$

- Run a linear regression on the new feature space.

$$Y = [X, X^2, X^3]^T \hat{\beta}$$

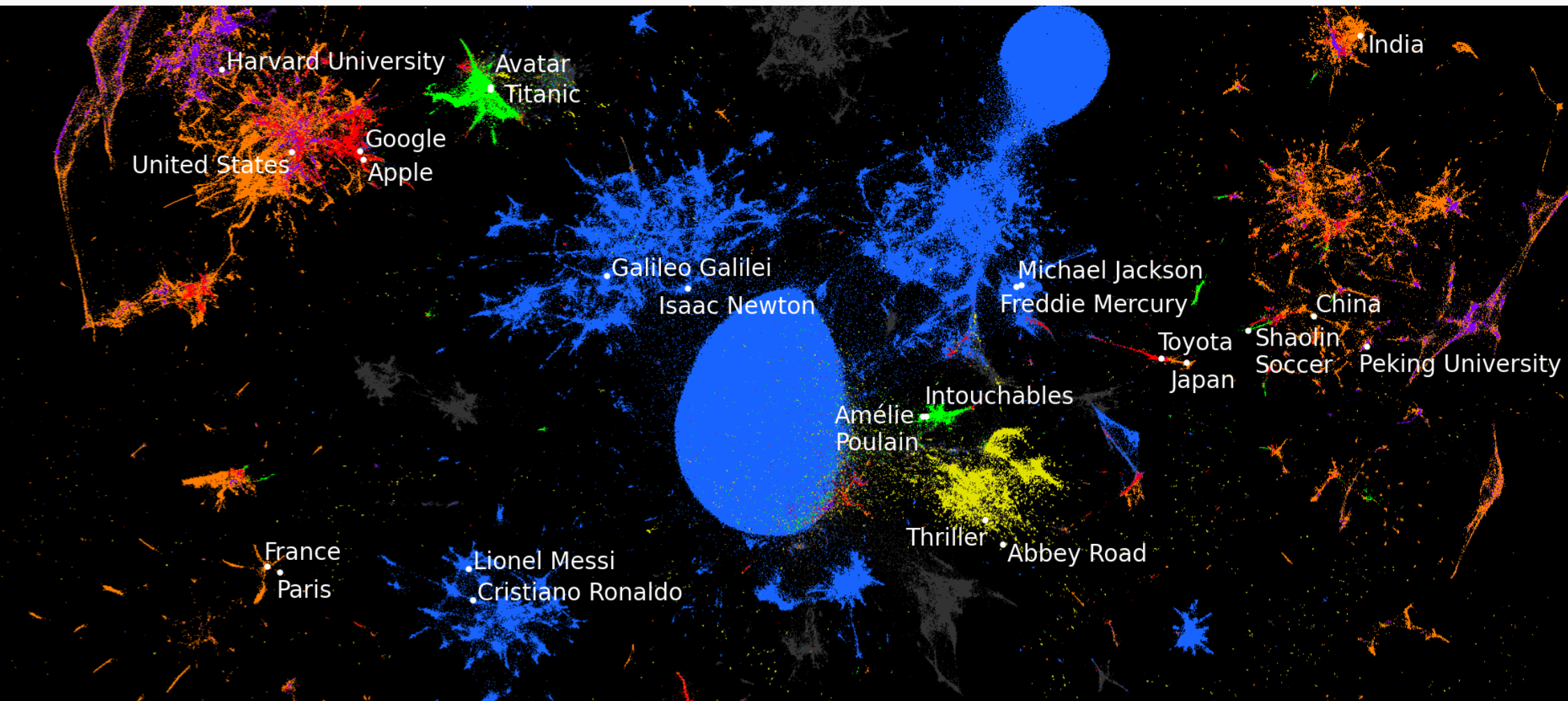
Feature expansion increase the family of models

- Linear model can underfit : when n_{features} small or the problem is not linearly separable.
- Feature expansion is an easy way to capture non-linear relationships.
- Different feature expansions exists: polynomial, log, splines, embeddings, kernels, ...

KEN (Cvetkov-Iliev et al., 2023): Relational Data Embeddings

[Easy to use with [skrub library](#)], [

KEN (Cvetkov-Iliev et al., 2023): Relational Data Embeddings



]

But Linear models can also overfit!

When

- p is large
- Many uninformative features

But Linear models can also overfit!

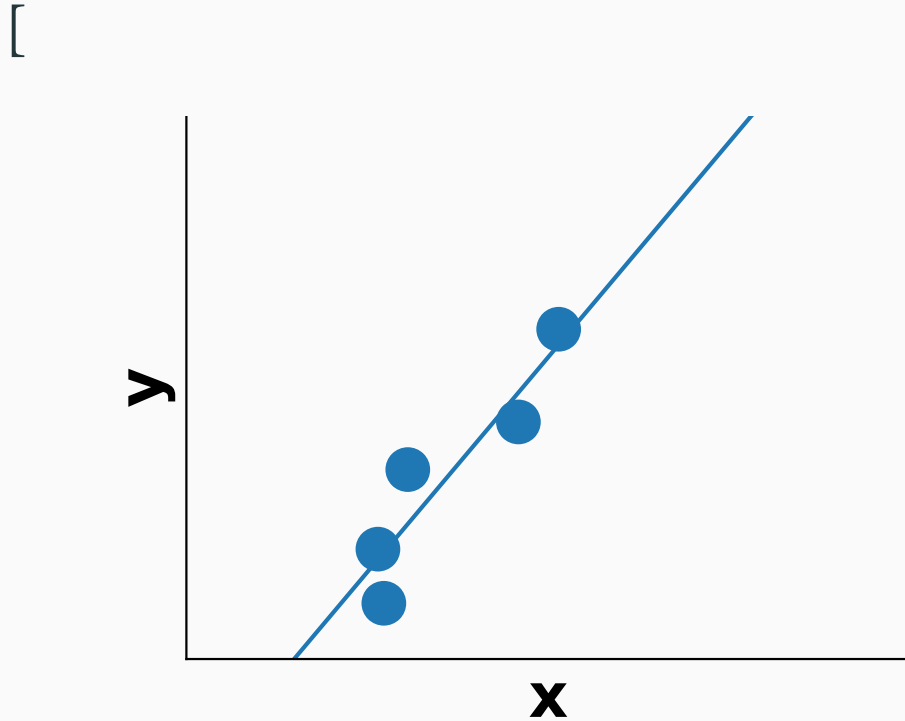
When

- p is large
- Many uninformative features

Solution

- Used regularized linear models: penalize extreme weights
- Statistically, this allows biased models but with lower variance.
- We will see: Lasso and Ridge but this is a general principle in machine learning.

Many features, few observations: illustration in 1D



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- Few observations with respect to the number of features.

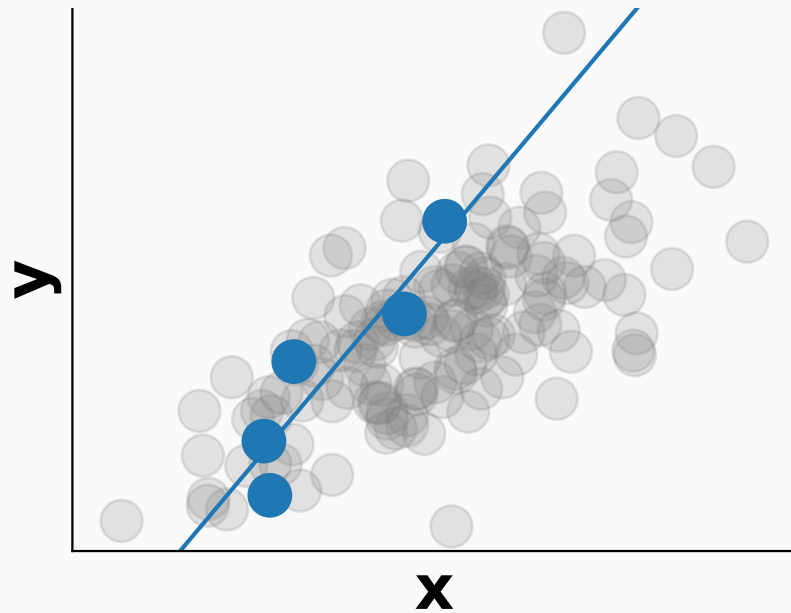
Many features, few observations: illustration in 1D

- Fit a linear model without regularization.

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Many features, few observations: illustration in 1D

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- Few observations with respect to the number of features.

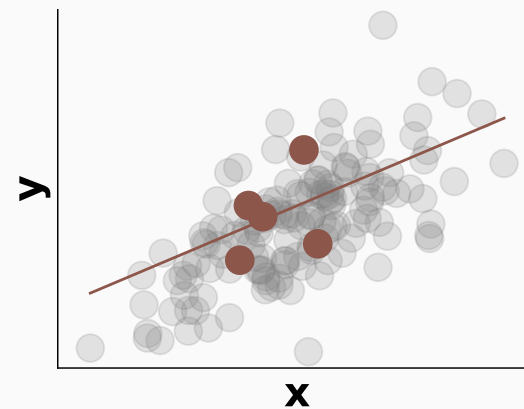
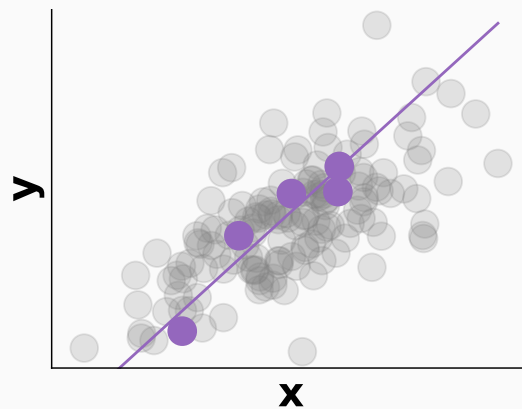
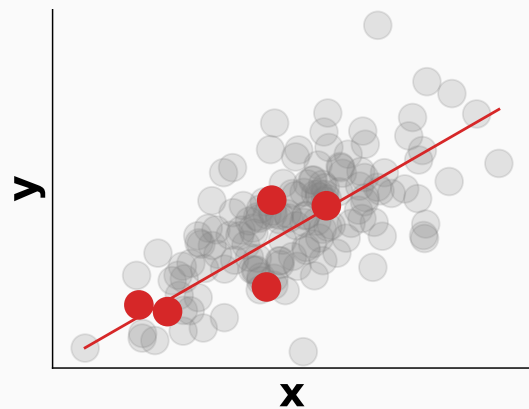
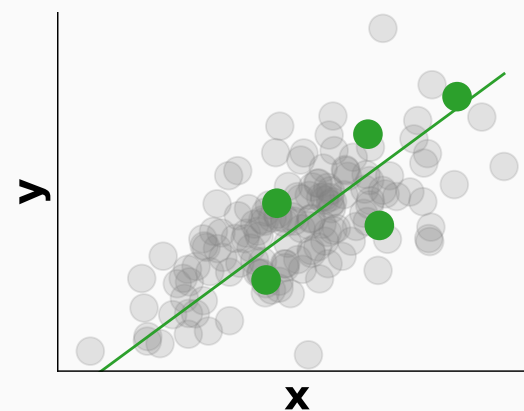
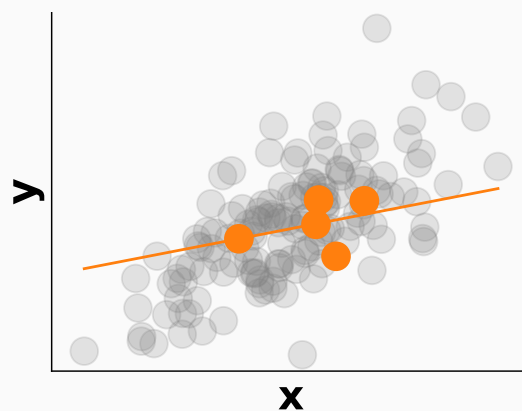
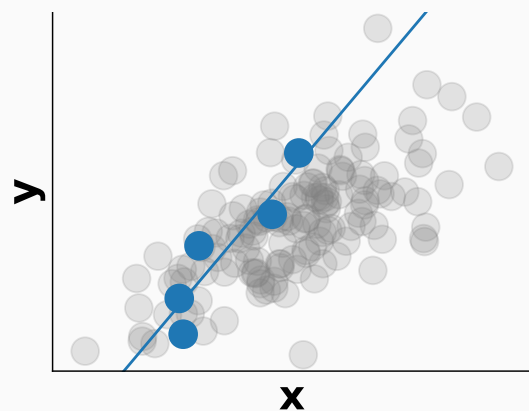
Many features, few observations: illustration in 1D

- Fit a linear model without regularization.
- Linear model can overfit if data is noisy.

],

Many features, few observations: illustration in 1D

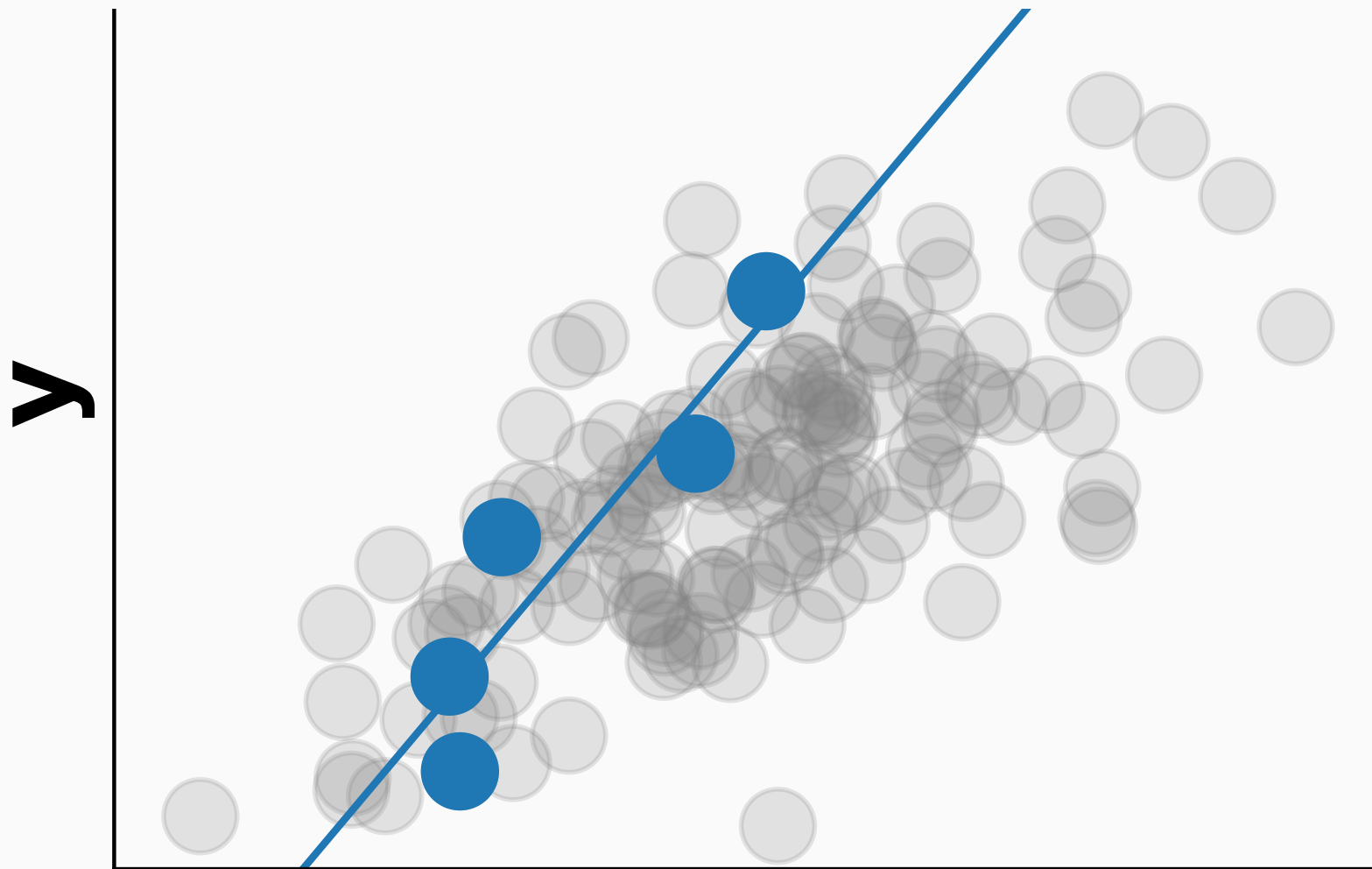
Sampling different training sets



Bias variance trade-off with Lasso

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Bias variance trade-off with Lasso

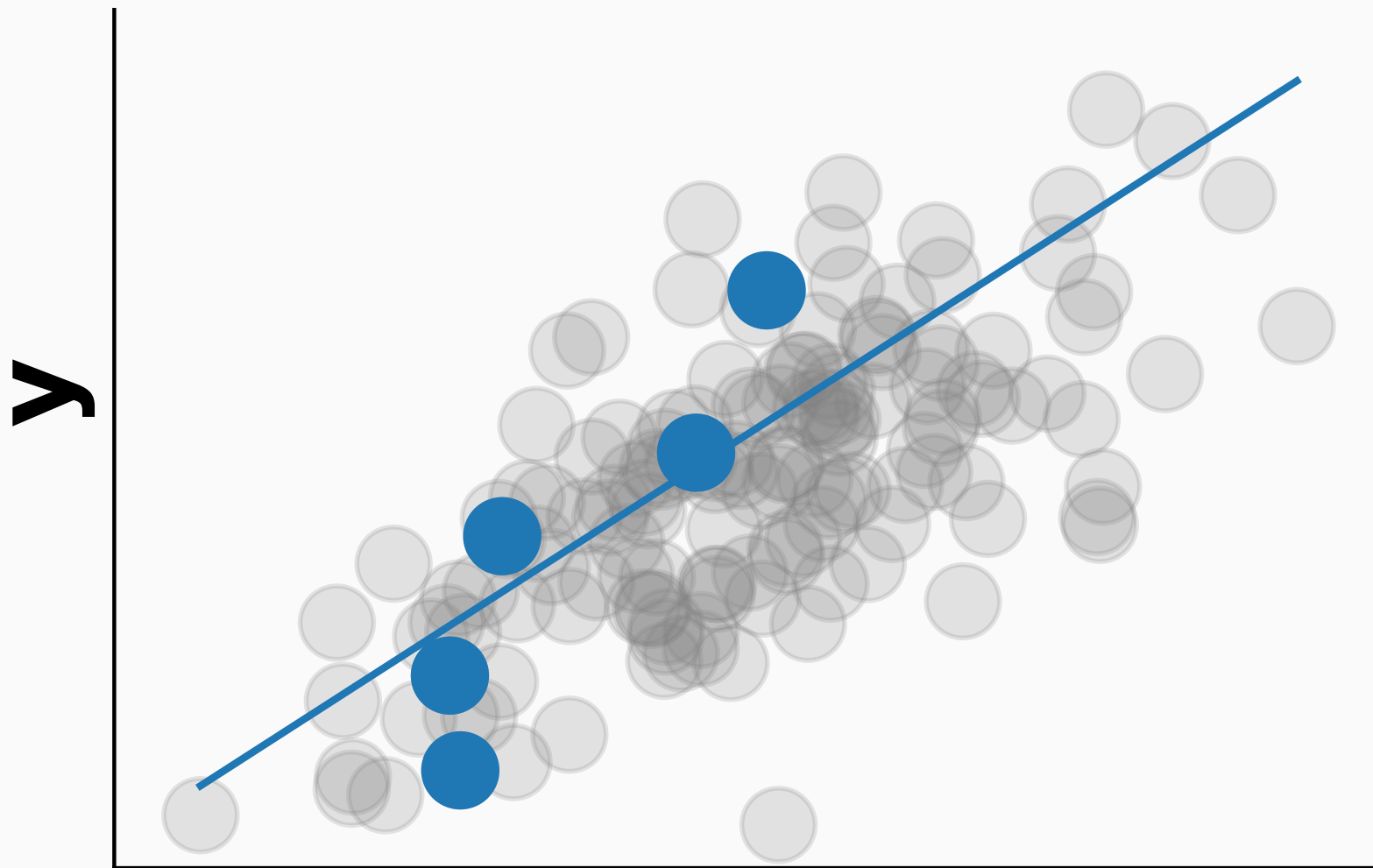


Bias variance trade-off with Lasso

Linear regression (no regularization)

High variance, no bias.], [

Bias variance trade-off with Lasso

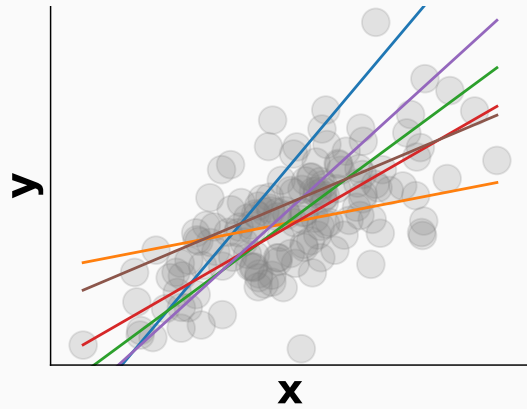


Bias variance trade-off with Lasso

Lasso (regularization): Shrink some coefficients of β .

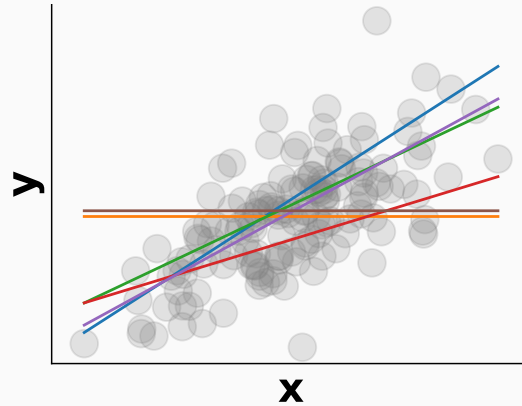
Lower variance, but bias.],

Bias variance trade-off with Lasso

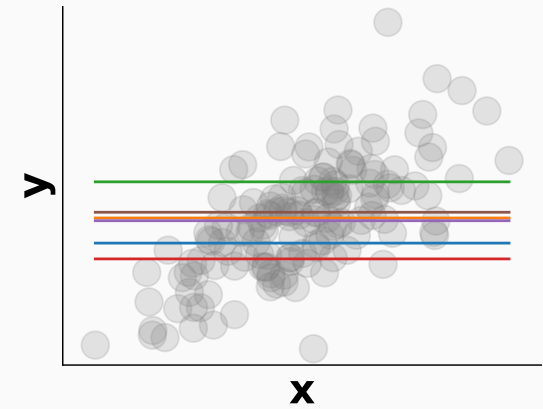


Too much variance

Not enough regularization



Best trade-off



Too much bias

Too much regularization

Many features, few observations

Assumption 1: Linear model with high dimension

$$Y = X\beta_0 + \varepsilon, \quad \varepsilon \perp X \text{ and } X \in \mathbb{R}^{n \times p} \text{ with } n \ll p$$

Assumption 2: (approximate) sparsity

- The true β_0 is sparse: ie. many coefficients are zero or very close to zero.

Objective function of the Lasso

The lasso puts a constraint of amplitude t on the L_1 norm of the coefficients:

$$\min_{\beta} \frac{1}{n} \sum_i^n \left((y_i - \beta^T x_i)^2 \right) \text{ st. } \sum_1^p |\beta_j| \leq t$$

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$$\min_{\beta} \frac{1}{n} \sum \left((y_i - \beta^T x_i)^2 \right) + \alpha \sum (|\beta_j|)$$

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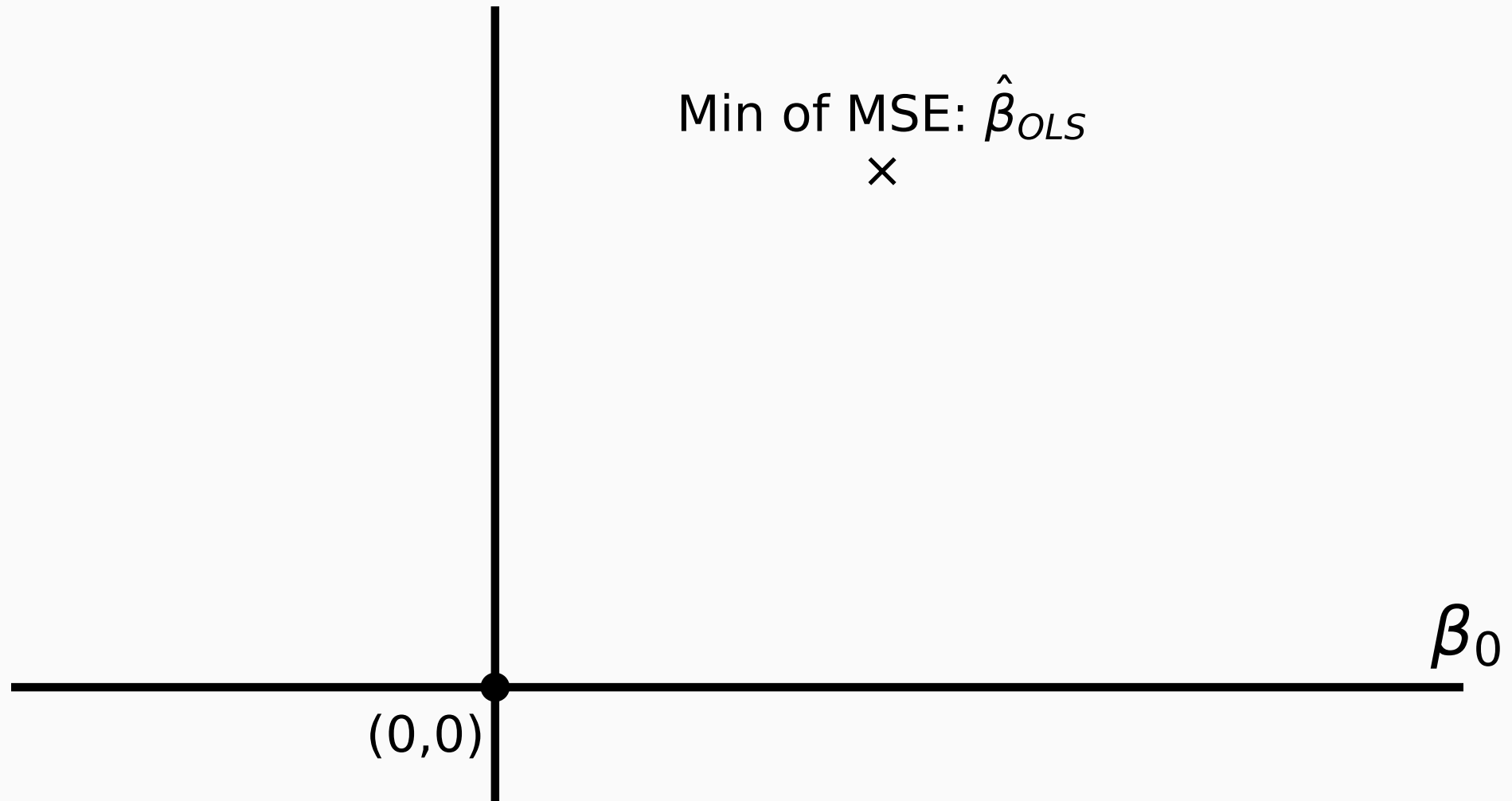
$$\min_{\beta} \frac{1}{n} \sum \left((y_i - \beta^T x_i)^2 \right) + \alpha \sum (|\beta_j|)$$

This penalty discourages large weights and can shrink certain weights to exactly *zero* (not clear yet why).

Why does Lasso shrink some coefficients to zero?

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Why does Lasso shrink some coefficients to zero?



Why does Lasso shrink some coefficients to zero?

], [

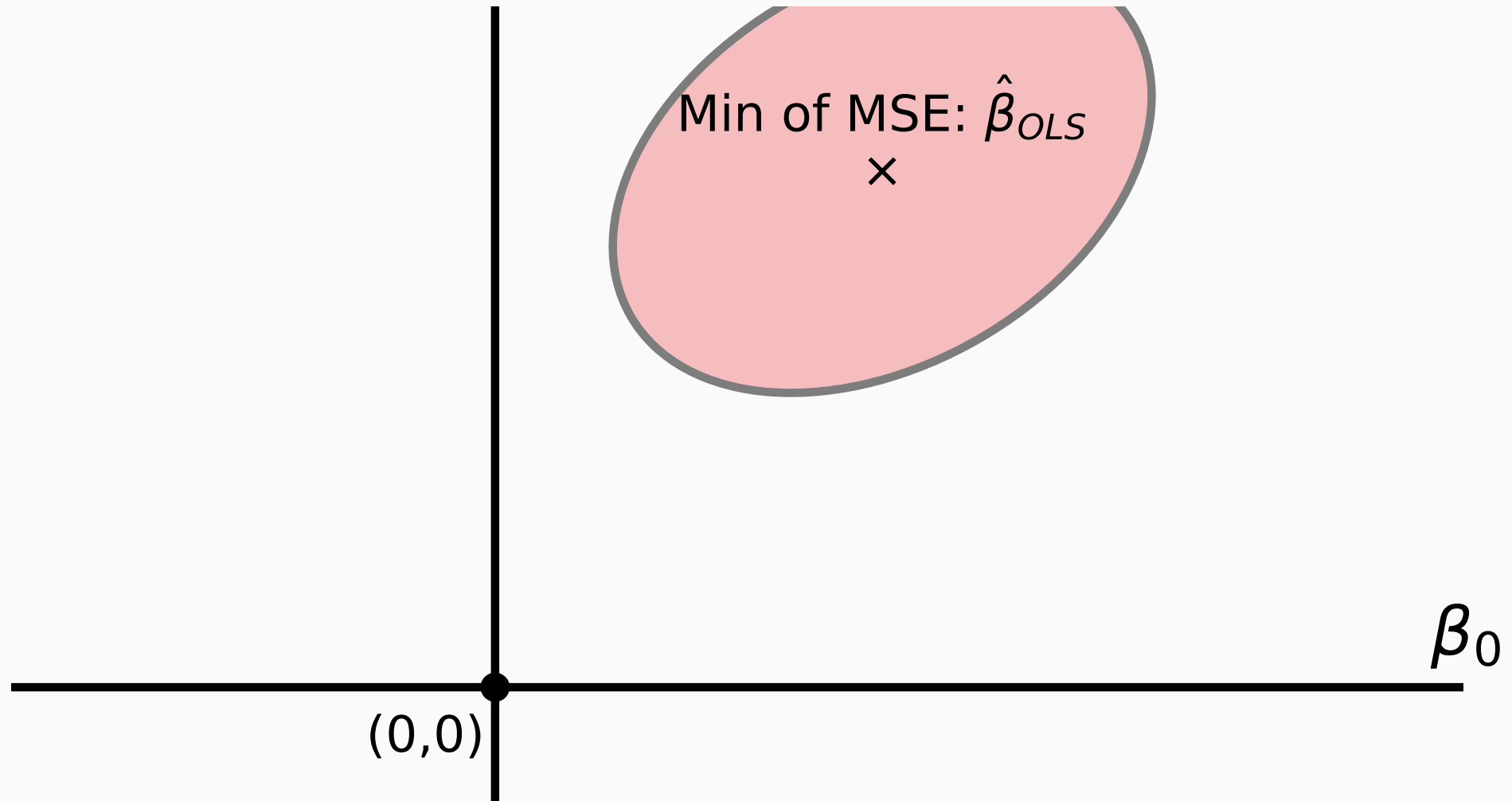
MSE as a function of the coefficients.

],)

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MSE as a function of the coefficients.

The MSE surface is an ellipsoid in β :

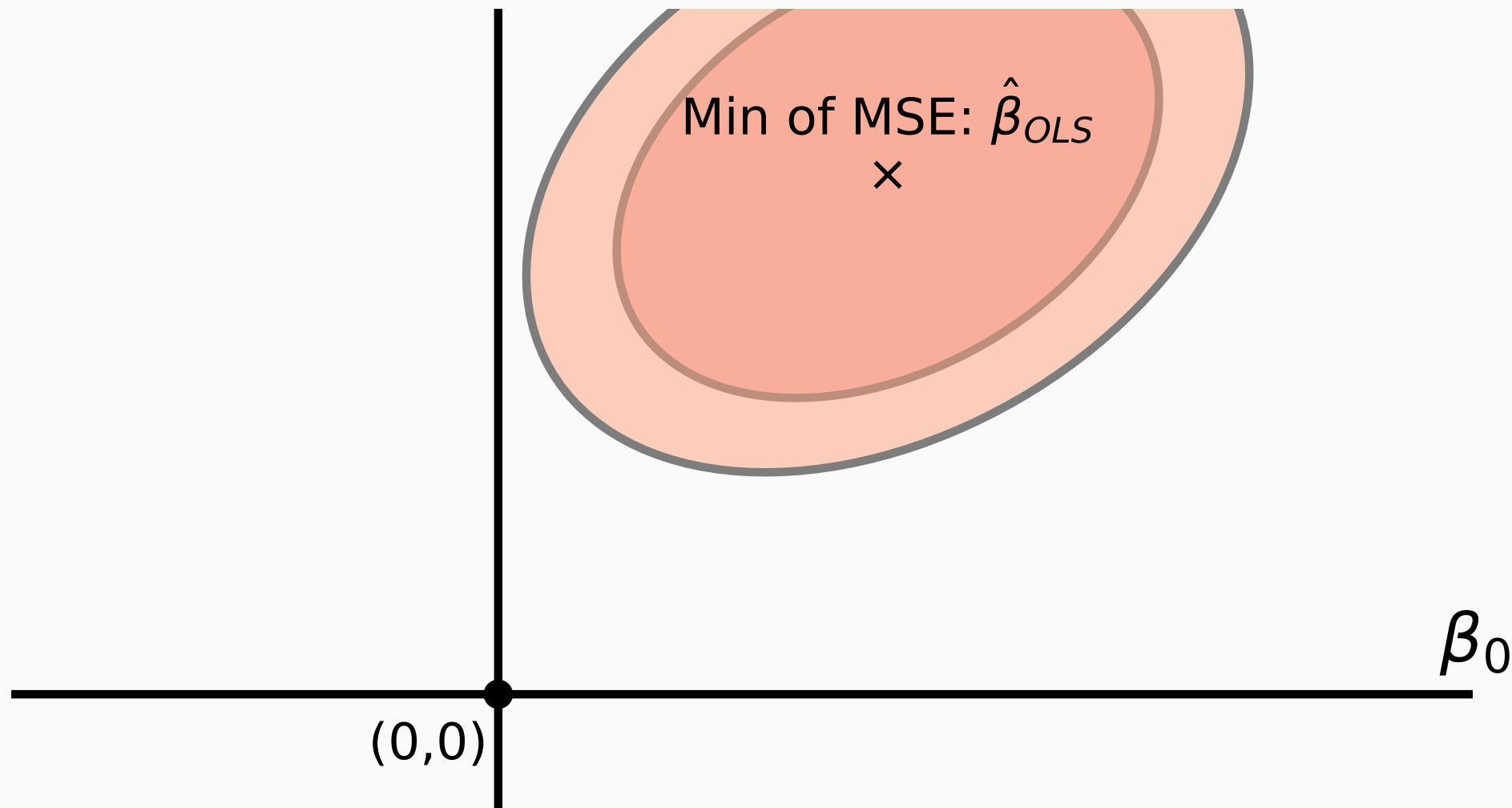
Every point on the ellipsoid edge has the same MSE.

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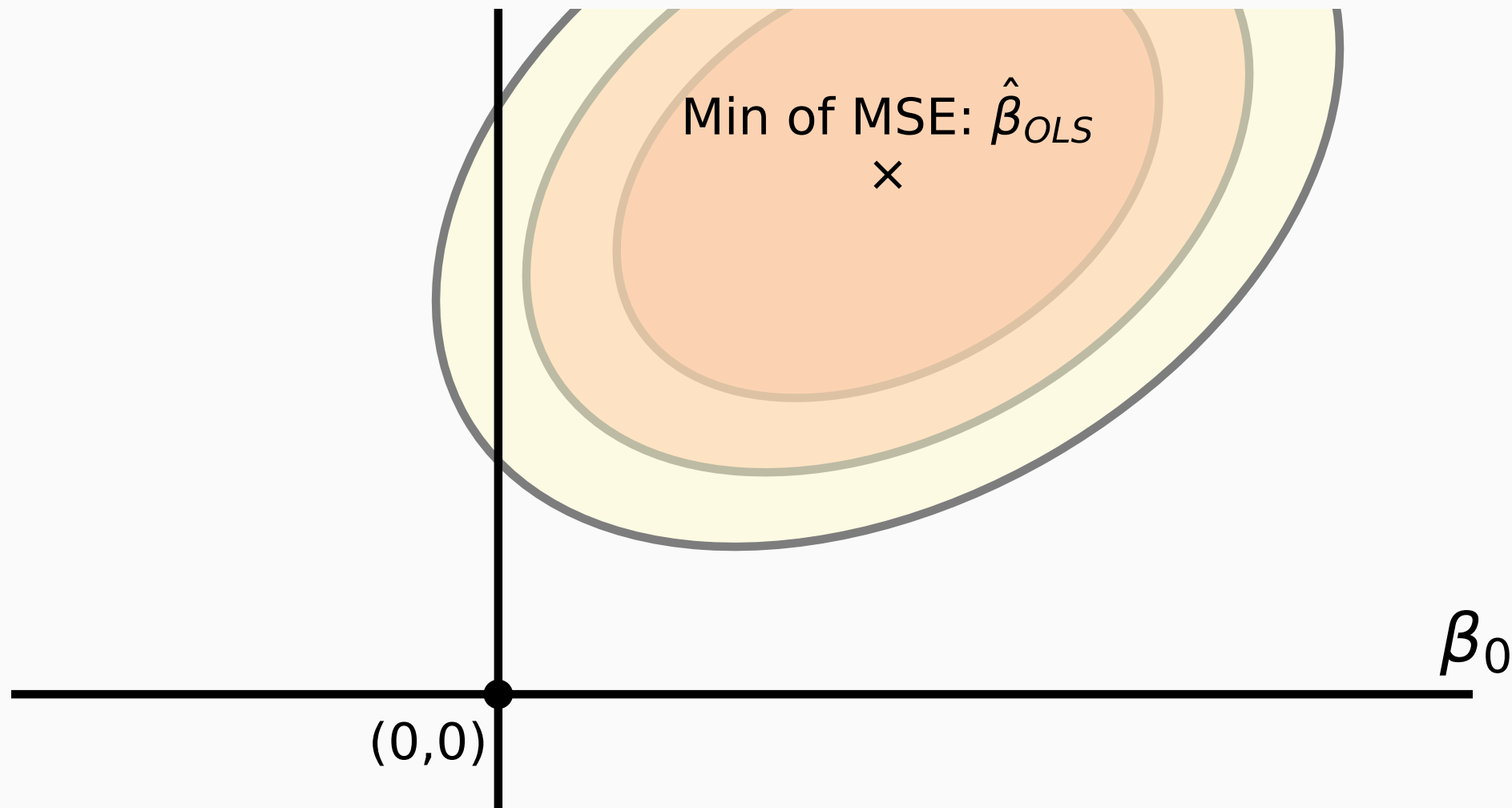
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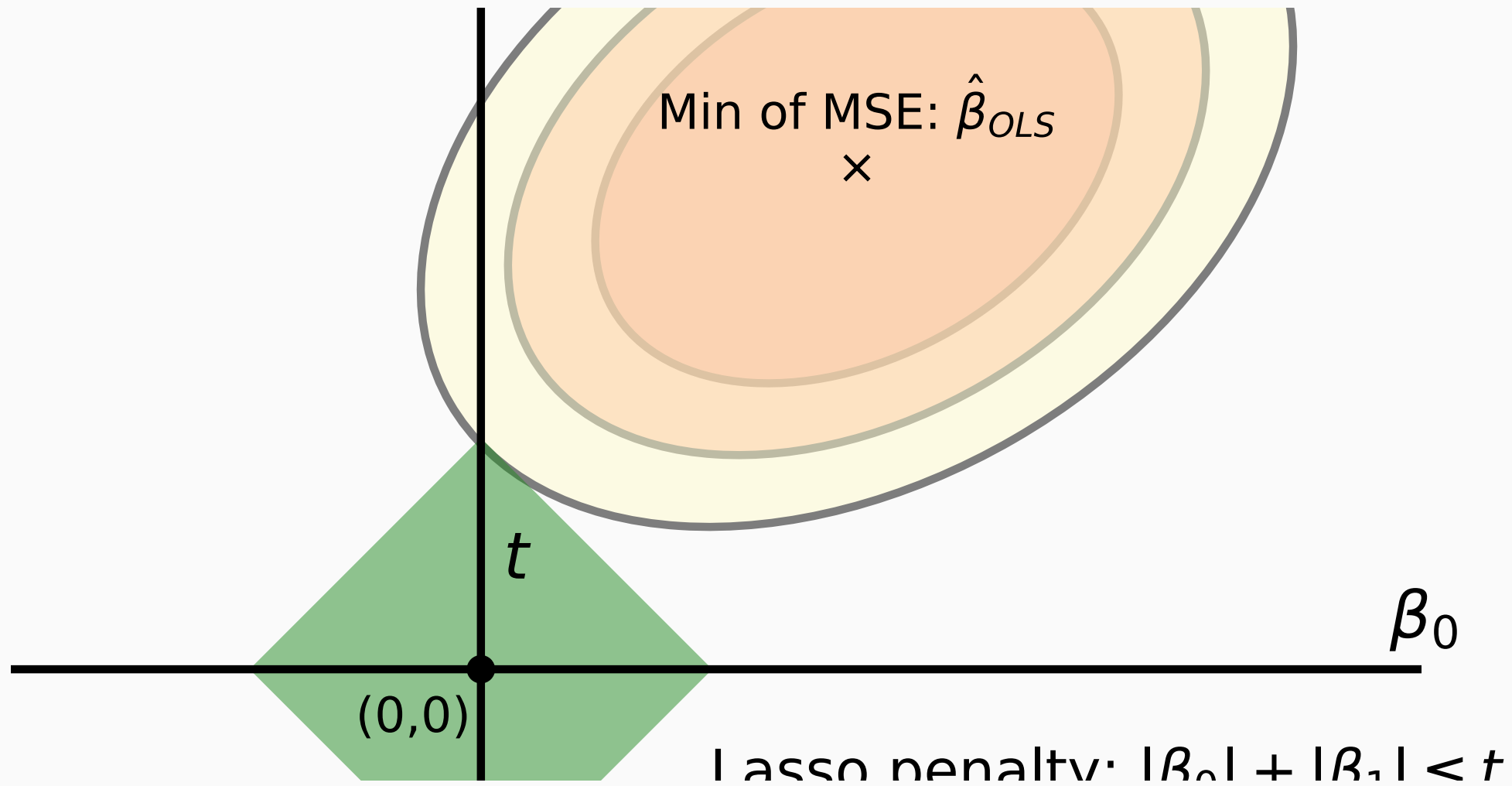
Moving away from OLS solution

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MSE as a function of the coefficients.

The MSE surface is an ellipsoid in β :

Every point on the ellipsoid edge has the same MSE.

Moving away from OLS solution

Until the ellipsoid respects the lasso penalty (green diamond).],)

Another regularized linear model: Ridge

Ridge puts a constraint of amplitude t on the L_2 norm of the coefficients:

$$\min_{\beta} \frac{1}{n} \sum_i^n \left((y_i - \beta^T x_i)^2 \right) \quad \text{st.} \sum_1^p \beta_j^2 \leq t$$

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This penalty shrinks the coefficients towards zero and each other.

Illustration of Ridge penalty

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Illustration of Ridge penalty

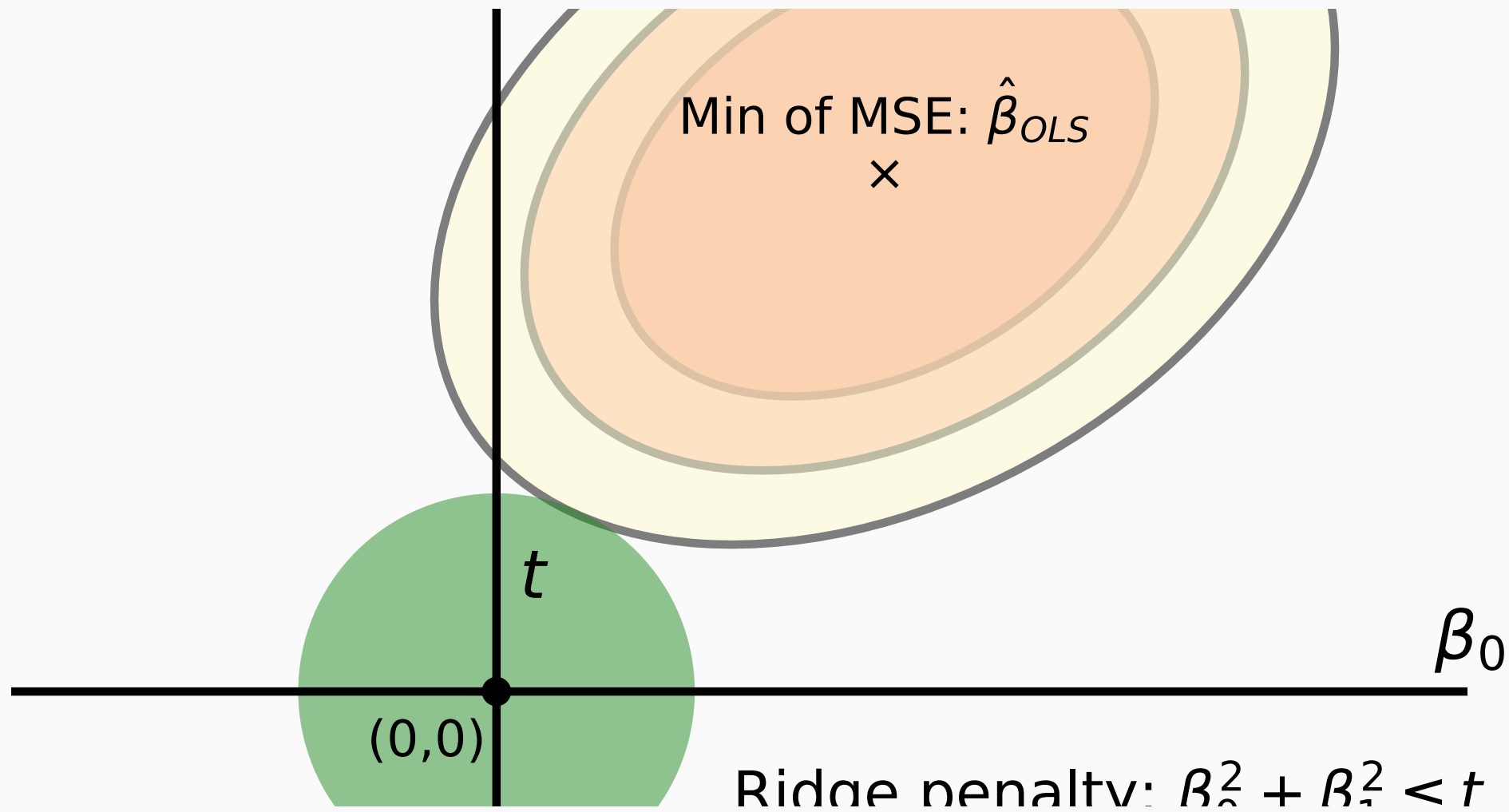


Illustration of Ridge penalty

], [

The first contact between the ellipsoid and the circle is the solution of Ridge.

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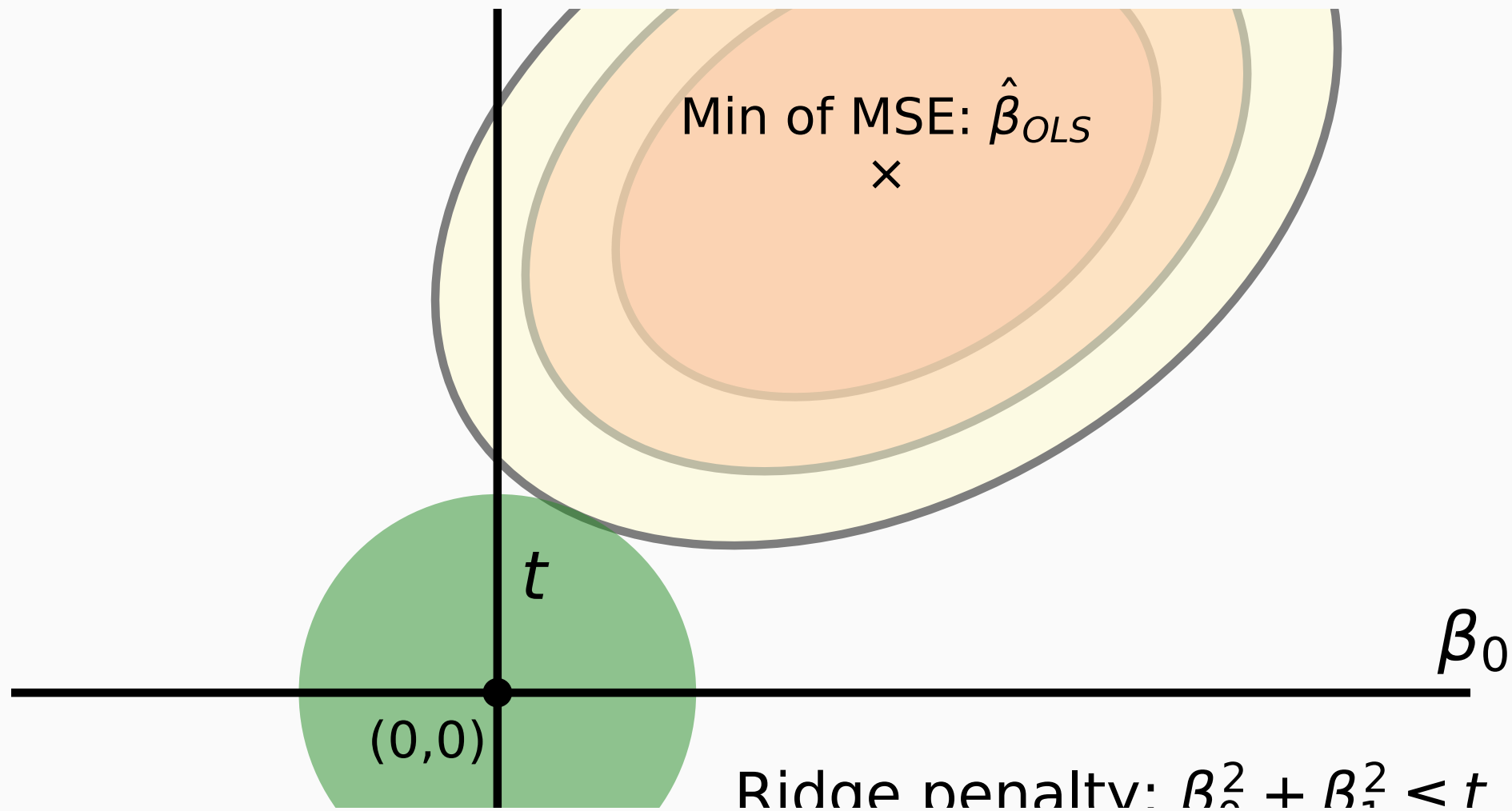


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Few chances than lasso to cross an axis.

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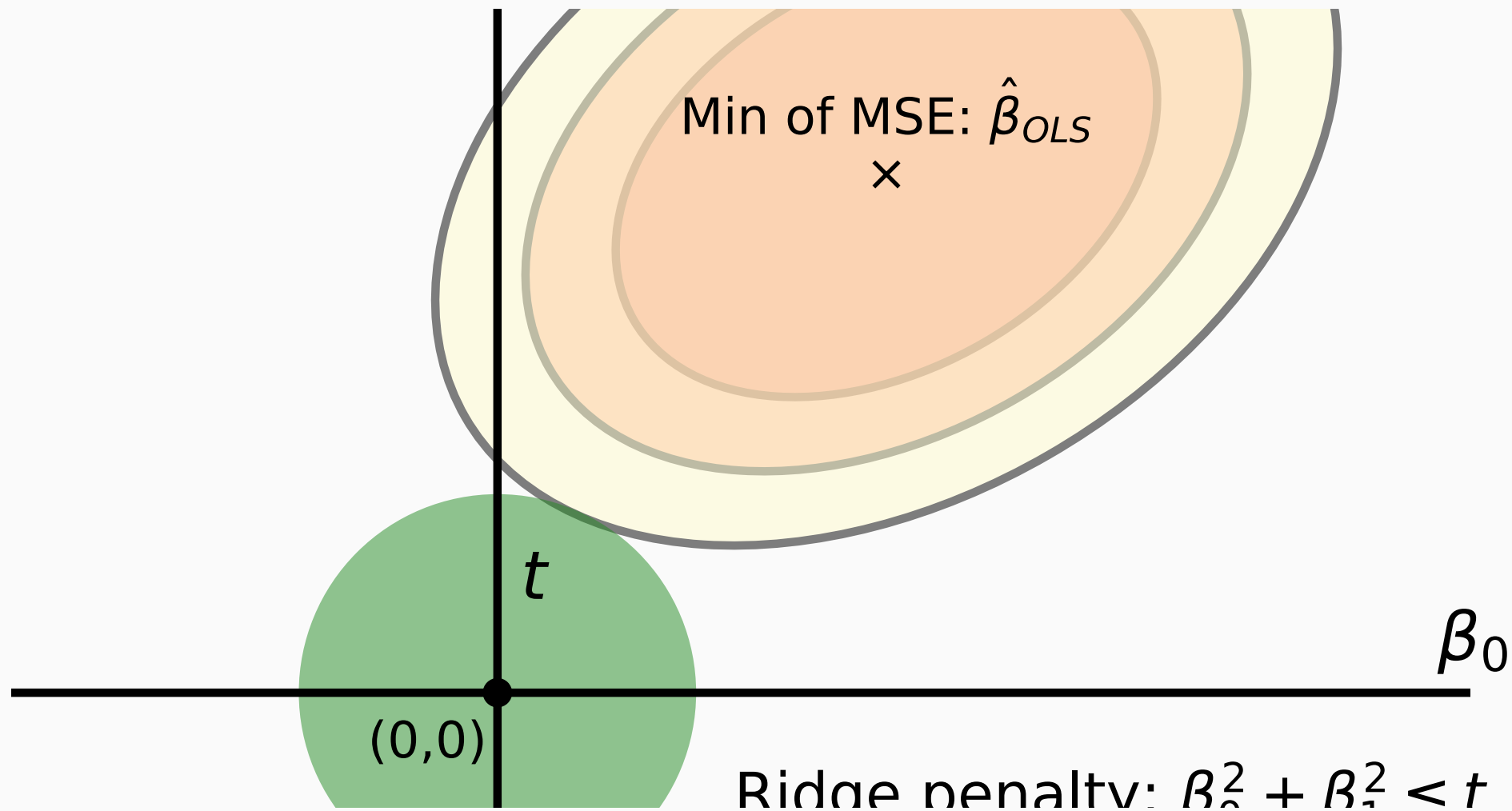


Illustration of Ridge penalty

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The first contact between the ellipsoid and the circle is the solution of Ridge.

Few chances than lasso to cross an axis.

Ridge insure smaller coefficients, but no exact zeros.],)

Why rescale?

- The penalty term in the Lasso and Ridge is sensitive to the scale of the features.
- If the features are not on the same scale, the regularization will not be applied uniformly.
- The coefficients of the model will be biased towards the features with the largest scale.

Why rescale?

- The penalty term in the Lasso and Ridge is sensitive to the scale of the features.
- If the features are not on the same scale, the regularization will not be applied uniformly.
- The coefficients of the model will be biased towards the features with the largest scale.

How to rescale?

- Gaussian hypothesis? Standard scaling: $X = \frac{X - \text{mean}(X)}{\text{std}(X)}$
- Non Gaussian? MinMax scaling: $X = \frac{X - \min(X)}{\max(X) - \min(X)}$

Log likelihood for Lasso classification



Log likelihood for vanilla logistic regression

$$\begin{aligned} p_{i,\beta} &= \mathbb{P}[Y_i | X_i, \beta] = \frac{1}{1 + \exp(-\beta^T X_i)} \\ L(\beta) &= \frac{1}{n} \sum_{i=1}^n \log \left[p_{i,\beta}^{y_i} (1 - p_{i,\beta})^{1-y_i} \right] \\ &= \frac{1}{n} \sum_{i=1}^n [(y_i \beta^T X_i - \log[1 + \exp(\beta^T X_i)])] \end{aligned}$$

Regularized linear models for classification

Log likelihood for Lasso classification

$$L(\beta) = \frac{1}{n} \sum_{i=1}^n \left[(y_i \beta^T X_i - \log[1 + \exp(\beta^T X_i)]) - \lambda \sum_{j=1}^p |\beta_j| \right]$$



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Regularized linear models for classification

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How to choose λ ?

Theoretical guarantees

- See (Chernozhukov et al., 2024, Chap 3.2)

Theoretical guarantees

- See (Chernozhukov et al., 2024, Chap 3.2)  but assumptions are hard to check.

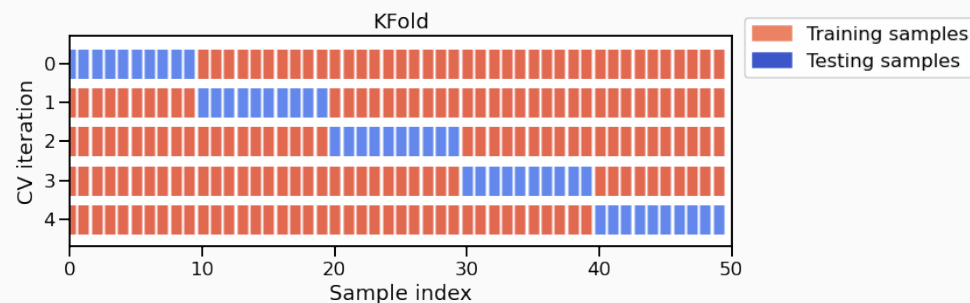
How to choose lambda?

Theoretical guarantees

- See (Chernozhukov et al., 2024, Chap 3.2)

In practice

Use cross-validation: repeated train/test splits.



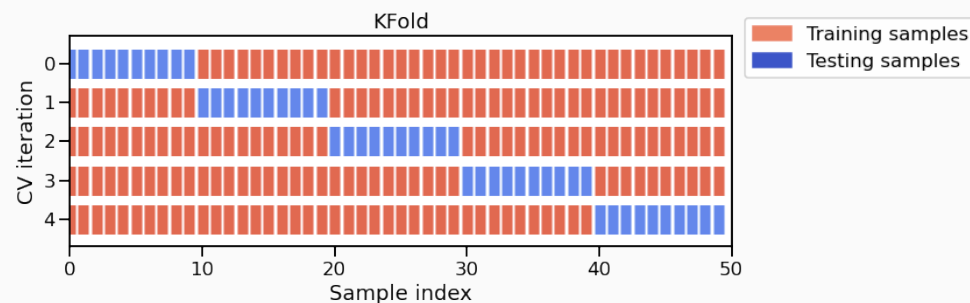
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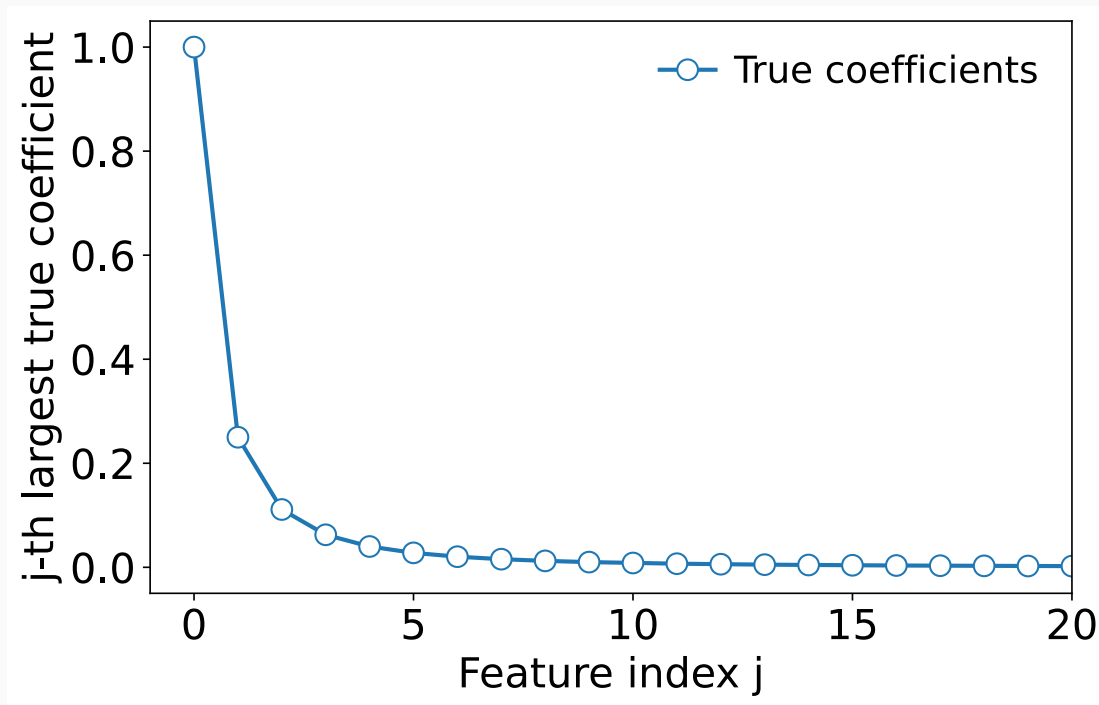
In practice

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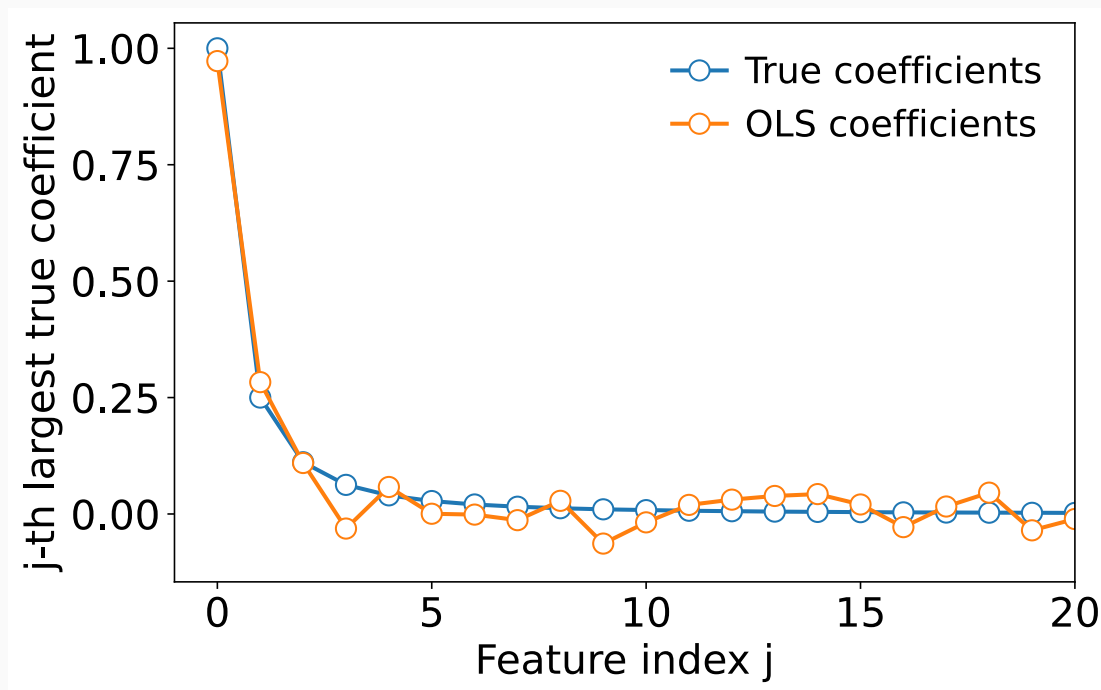


We will look into that in more details in the next session.

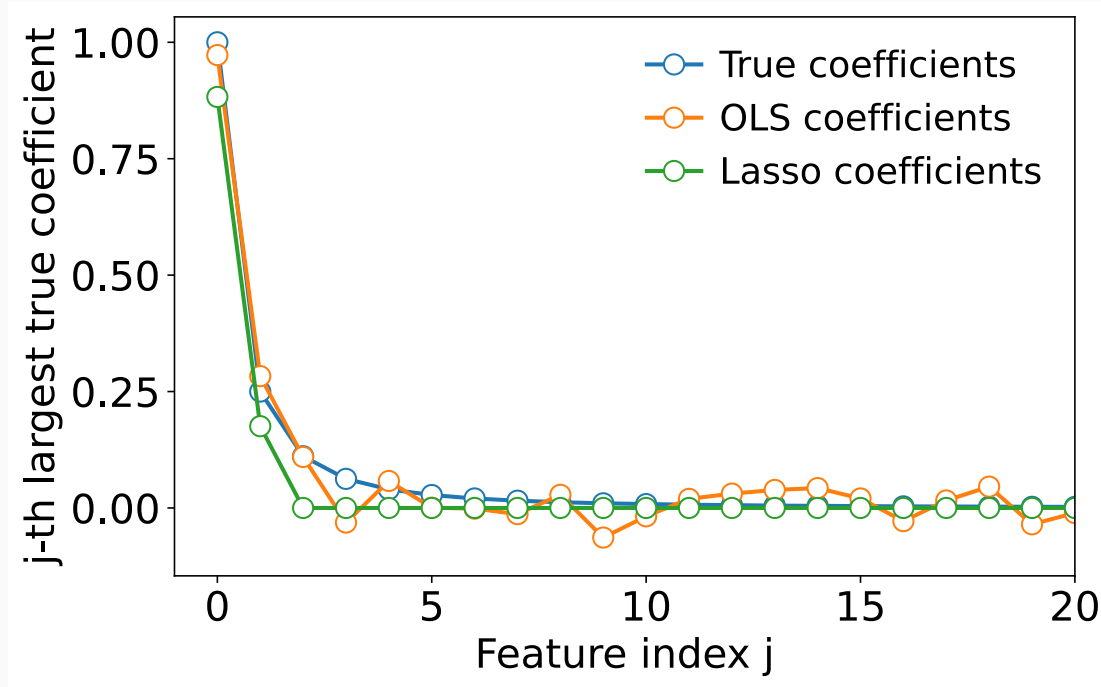
OLS Post-Lasso: fixing excessive shrinkage of coefficients



OLS Post-Lasso: fixing excessive shrinkage of coefficients



OLS Post-Lasso: fixing excessive shrinkage of coefficients



Lasso is good for true zero coefficients (on the right)

But not so good for true non-zeros coefficients (on the left)

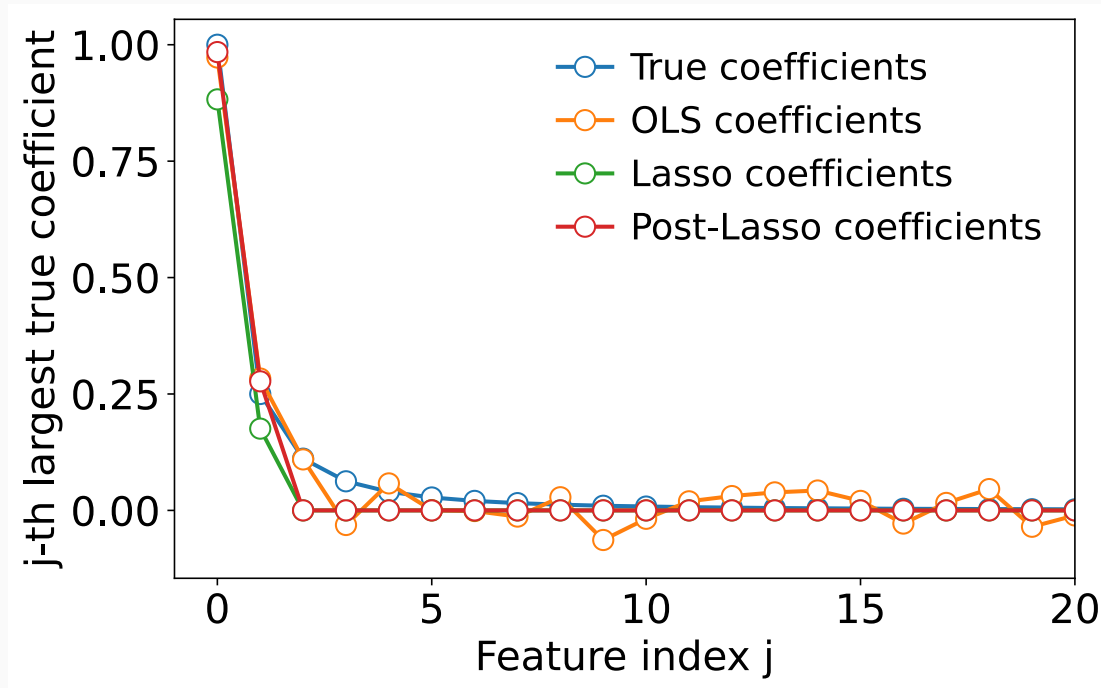


Fit an OLS on the features selected by the Lasso (Belloni & Chernozhukov, 2013)

OLS Post-Lasso



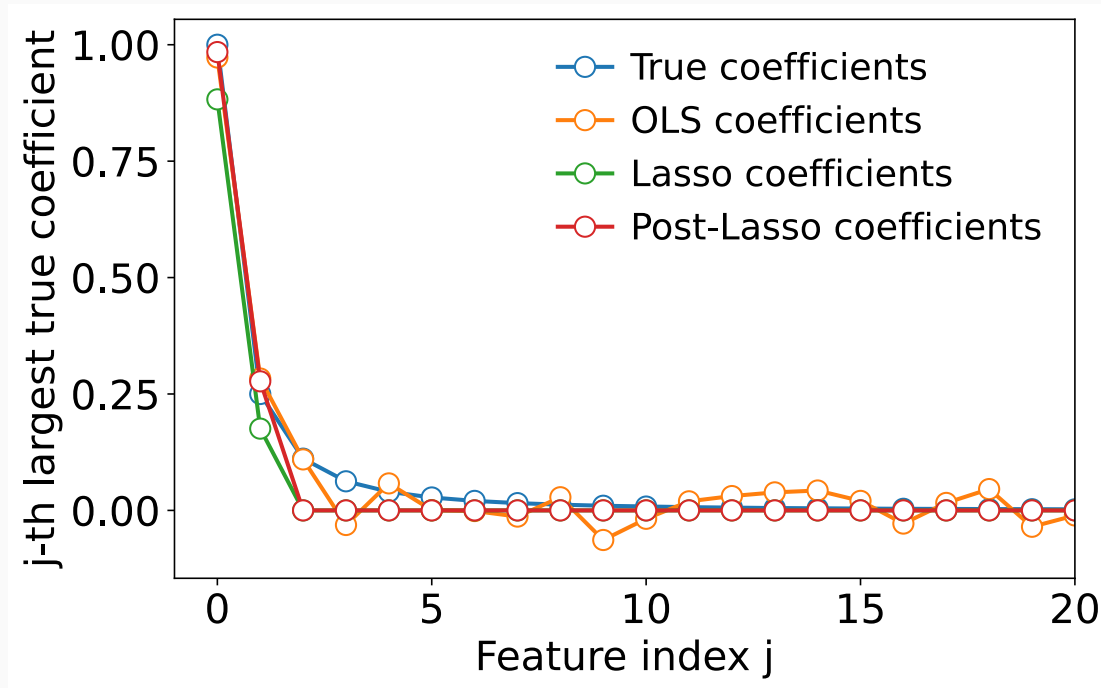
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OLS Post-Lasso



Fit an OLS on the features selected by the Lasso (Belloni & Chernozhukov, 2013)



⚠ Cross-validation should apply to the full procedure: Lasso + OLS, not only to the Lasso.

Take home messages: Bias-variance trade-off

High bias = underfitting

- systematic prediction errors
- the model prefers to ignore some aspects of the data
- misspecified models

High variance = overfitting

- prediction errors without obvious structure
- small change in the training set, large change in model
- unstable models

Take home messages: Lasso and Ridge

Lasso

- L1 penalty: sparsity
- Feature selection
- Unstable for correlated features

Ridge

- L2 penalty: shrinkage
- No feature selection
- Stable for correlated features

- url: https://straymat.github.io/causal-ml-course/practical_sessions.html

Many features, few observations

Python hands-on: Common pitfalls in the interpretation of coefficients of linear models

To your notebooks !

- url: https://straymat.github.io/causal-ml-course/practical_sessions.html

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Bibliography

Supplementary materials

Statistical model for lasso: approximate sparsity

Definition: Approximate sparsity

The sorted absolute values of the coefficients decay quickly.

$$|\beta|_{(j)} < Aj^{-a} \quad a > \frac{1}{2}$$

for each j , where the constants a and A do not depend on the sample size n .