Lecture 16: Sept 28

Last time

- HW3 posted
- Midterm Exam 1 10/10, will have a practice exam
- Probability integral transformation
- Expectations (2.2)

Today

- Exam 1 covers up to next Monday's lecture
- Expectations (2.2)
- Moments and moment generation function

Expectation

The process of taking expectations is a linear operation, which means that the expectation of a linear function of X can be easily evaluated by noting that for any constants a and b, such that

$$E(aX + b) = aEX + b$$

Theorem Let X be a random variable and let a, b, and c be constants. Then for any functions $g_1(x)$ and $g_2(x)$ whose expectations exist,

1. $E(ag_1(X) + bg_2(X) + c) = aEg_1(X) + bEg_2(X) + c$.
2. If $g_1(x) \geqslant 0$ for all x, then $Eg_1(X) \geqslant 0$.
3. If $g_1(x) \geqslant g_2(x)$ for all x, then $Eg_1(X) \geqslant Eg_2(X)$.
4. If $a \leqslant g_1(x) \leqslant b$ for all x, then $a \leqslant Eg_1(X) \leqslant b$.

Proof:

Example (Method of indicators) An example of how the above properties are useful. Let $X \sim Binomial(n, p)$ for n positive integer and $0 \leqslant p \leqslant 1$ (n is the number of independent identical binary trials and p is the probability of success). We can write

$$X = \sum_{i=1}^{n} I_i$$

where I_i is the indicator that i^{th} trial is a success (i.e. $I_i \overset{\text{i.i.d.}}{\sim} Bernoulli(p)$). We have

$$EI_i = 1 \cdot p + 0 \cdot (1 - p) = p.$$

Therefore,

$$EX = \sum_{i=1}^{n} EI_i = \sum_{i=1}^{n} p = np.$$

Theorem For a non-negative random variable X (i.e. $f(x) = 0$ for $x < 0$).

$$EX = \begin{cases} \int_0^\infty (1 - F(x))dx, & X \text{ continuous} \\ \sum_{x=0}^\infty (1 - F(x)), & X \text{ discrete} \end{cases}$$

Proof:

Moments

Example (Minimizing distance) The expected value of a random variable has another property, one that we can think of as relating to the interpretation of EX as a good guess at a value of X.

Suppose we measure the distance between a random variable X and a constant b by $(X-b)^2$. The closer b is to X, the smaller this quantity is. We can now determine the value of b that minimizes $E\left[(X-b)^2\right]$ and, hence, will provide us with a good predictor of X. (Note that it does no good to look for a value of b that minimizes $(X-b)^2$, since the answer would depend on X, making it a useless predictor of X.)

We could proceed with the minimization of $E(X-b)^2$ by using calculus, but there is a simpler method:

$$\begin{aligned} E(X-b)^2 &= E(X - EX + EX - b)^2 \\ &= E\left[(X - EX) + (EX - b)\right]^2 \\ &= E(X-EX)^2 + (EX-b)^2 + 2E\left[(X-EX)(EX-b)\right], \end{aligned}$$

where we have expanded the square. Note that $E\left[(X-EX)(EX-b)\right] = (EX-b)E(X-EX) = 0$, since $EX - b$ is constant and comes out of the expectation, $E(X-EX) = EX - EX = 0$. This means

$$E(X-b)^2 = E(X-EX)^2 + (EX-b)^2.$$

Such that $E(X-b)^2$ is minimized at $b = EX$. And $E(X-EX)^2$ is actually the variance of X ($VarX = E(X-EX)^2$).

The various moments of a distribution are an important class of expectations.

Definition For each integer n, the nth *moment* of X (or $F_X(x)$), μ_n', is

$$\mu_n' = EX^n.$$

The nth *central moment* of X, μ_n, is

$$\mu_n = E(X-\mu)^n,$$

where $\mu = \mu'_1 = EX$.

Notes:

- $\mu'_0 = EX^0 = 1$
- μ'_1 is the *mean*, usually denoted by μ.
- $\mu_0 = E(X-\mu)^0 = 1$
- $\mu_1 = 0$
- $\mu_2 = E(X-EX)^2$ is the *variance*
- $\mu_3 = E(X-EX)^3$ is related to the *skewness*.
- $\mu_4 = E(X-EX)^4$ is related to the *kurtosis*.

Definition The *variance* of a random variable X is its second central moment, $\mathrm{Var}\,(X) = E\left[(X-EX)^2\right]$. The positive square root of $\mathrm{Var}\,(X)$ is the *standard deviation* of X.

The variance gives a measure of the degree of spread of a distribution around its mean. Figure 16.1 shows a plot of two samples, one sample draws 100 numbers from a normal distribution with mean 0 and variance 1, $N(0,1)$. The other sample draws 100 numbers from a normal distribution with mean 0 and variance 100, $N(0,100)$.

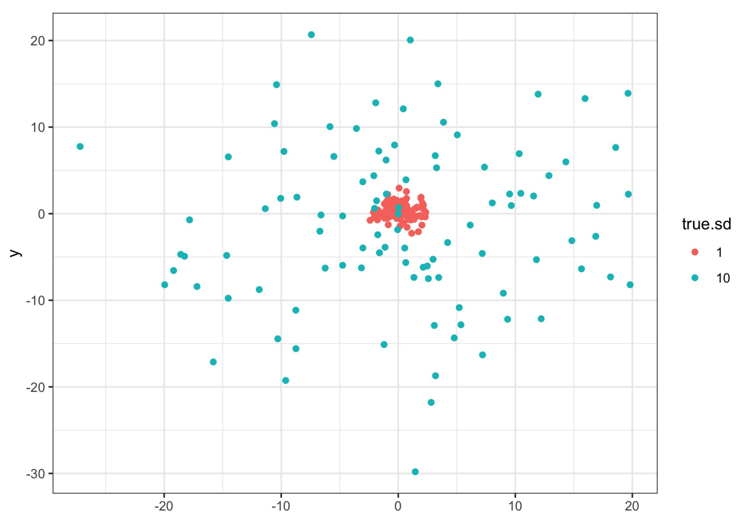

Figure 16.1: Figure 2.1.2. Two samples of 100 numbers drawn from $N(0,1)$ and $N(0,100)$.

Example (Exponential variance) Let X have the exponential(λ) distribution. We can calculate the variance of X now.
Solution:

$$
\begin{aligned}
\text{Var}\,(X) &= E(X-\lambda)^2 \\
&= \int_0^\infty (x-\lambda)^2 \frac{1}{\lambda} e^{-x/\lambda} dx
\end{aligned}
$$

Theorem If X is a random variable with finite variance, then for any constants a and b,

$$
\text{Var}\,(aX+b) = a^2 \text{Var}\,(X)\,.
$$

Proof:
From the definition, we have

$$
\begin{aligned}
\text{Var}\,(aX+b) &= E\left[(aX+b) - E(aX+b)\right]^2 \\
&= E(aX - aEX)^2 \\
&= a^2 E(X-EX)^2 \\
&= a^2 \text{Var}\,(X)\,.
\end{aligned}
$$

It is sometimes to use an alternative formula for the variance, given by

$$
\text{Var}\,(X) = E(X^2) - (EX)^2,
$$

which is easily established by

$$
\begin{aligned}
\text{Var}\,(X) &= E(X-EX)^2 = E\left[X^2 - 2XEX + (EX)^2\right] \\
&= EX^2 - 2(EX)^2 + (EX)^2 \\
&= EX^2 - (EX)^2.
\end{aligned}
$$

Example (Binomial variance) Let $X \sim Binomial(n,p)$, that is ,

$$
\Pr(X=x) = \binom{n}{x} p^x (1-p)^{n-x}.
$$

What is the variance of X?
Solutions: