

L2

Basic Statistics for Economists

Spring 2020

Department of Statistics

Today: Descriptive statistics

Univariate data = one variable at a time

Describe univariate data (a variable) by means of,

- ***Tables***
 - Distributions, frequency distributions (frequency = number of)
- ***Diagrams, graphics***
 - One variable at a time, univariate
 - Categorical and numerical variables
- ***Numerically***
 - Location ("where are the values typically located")
 - Variation, dispersion ("how spread out are they")

Frequency distribution – one variable

- **Number of** objects/observations that share the same property

$$n_k = \text{no. of objects with property } k$$

- The entire set of all n_k over all possible k is called the **frequency distribution** (sv. *frekvensfördelningen*)
- If there are in total n objects and in total C different categories we have

$$\sum_k n_k = n_1 + n_2 + \dots + n_C = n$$

- **Relative frequencies** (%): $100 \cdot \frac{n_k}{n}$

Works for categorical and discrete numerical variables – but how do we deal with continuous variables?

Frequency tables – count the numbers

- Categorical – nominal or ordinal
- Numerical – discrete or ***class-divided*** continuous

Count the number that fall into each defined category:

Nominal scale

Flavor	Frequency	Relative frequency %
Chocolate	70	35,0 %
Vanilla	n_k	$100 \cdot \frac{n_k}{n}$
Strawberry	45	22,5 %
Raspberry	30	15,0 %
Licorice	5	2,5 %
Sum	200	100 %

Largest first!

Pareto, NCT s. 32-33

Smallest last!

Note! Frequencies are always numerical but the variable is not necessarily numerical!

Frequency tables, cont.

**Categorical
ordinal scale**

Grade	Frequency	Relative frequency %
A	30	15,0 %
B	56	28,0 %
C	80	40,0 %
D	20	10,0 %
E	14	7,0 %
Sum	200	100 %

***Arrange in order
of ranking!***

*Pareto not
recommended!*

**Discrete
ratio scale**

No. of points	0	1	2	3	4	Sum
Frequency	7	42	98	63	70	280
Relative frequency %	2,5	15,0	35,0	22,5	25,0	100

Arrange in order of numerical magnitude!

Pareto not recommended!

Class separated continuous variable

- Continuous numerical variables (or discrete with many values) may be grouped into **classes, bins** – i.e. **intervals**
 - categorization (sv. *klassindelning*)
- **Classes and class widths** must be defined
 - ex. (0-4,99) (5-9,99) (10-19,99) (20 -) ← (*open class*, ≥ 20)
- Same class width or varying width? What does **NCT** say?
- Summarize in a table - ordered by magnitude

Class separated continuous variable

- **Cumulative** – indicates the total number of observations whose values are (e.g.) ***less than the upper limit*** of each class

8 bins

Income per month, tkr	Frequency	Relative freq.	Cumulative freq.	Cumulative relative freq.
< 20	20	10,0 %	20	10,0 %
20 – 40	40	20,0 %	60	30,0 %
40– 60	74	37,0 %	134	67,0 %
60 – 80	40	20,0 %	174	87,0 %
80 – 100	18	9,0 %	192	96,0 %
100 – 120	6	3,0 %	198	99,0 %
120 – 140	2	1,0 %	200	100,0 %
≥ 140	0	0,0 %	200	100,0 %
Summa	200	100 %		

**Accumulated
relative
frequencies**

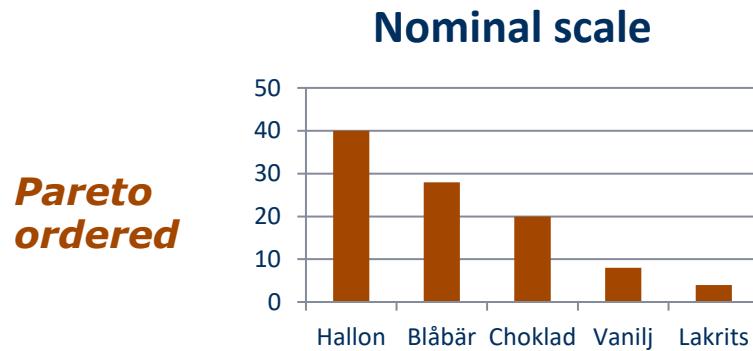
Graphical presentation – one variable

Frequencies (absolute or relative)

- **Bar charts** (*sv. stapeldiagram*)
 - categorical, nominal and ordinal; discrete numerical
 - ordered in the same way as we did for freq. tables
- **Pie charts**
 - categorical, nominal
- **Histogram** (adjacent bars, intervals)
 - class separated continuous variable, discrete many values

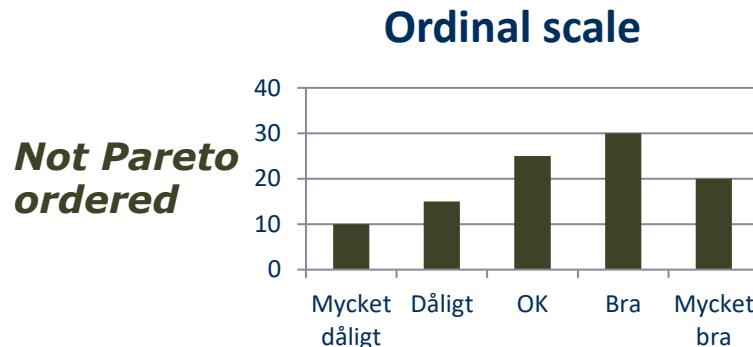
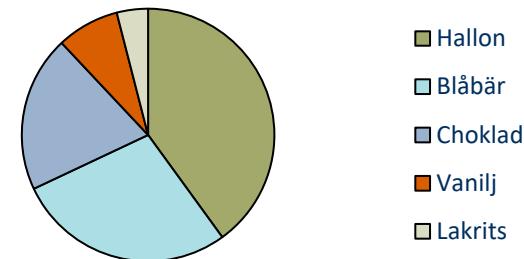
Diagram types – qualitative, categorical

Bar charts



Pie charts

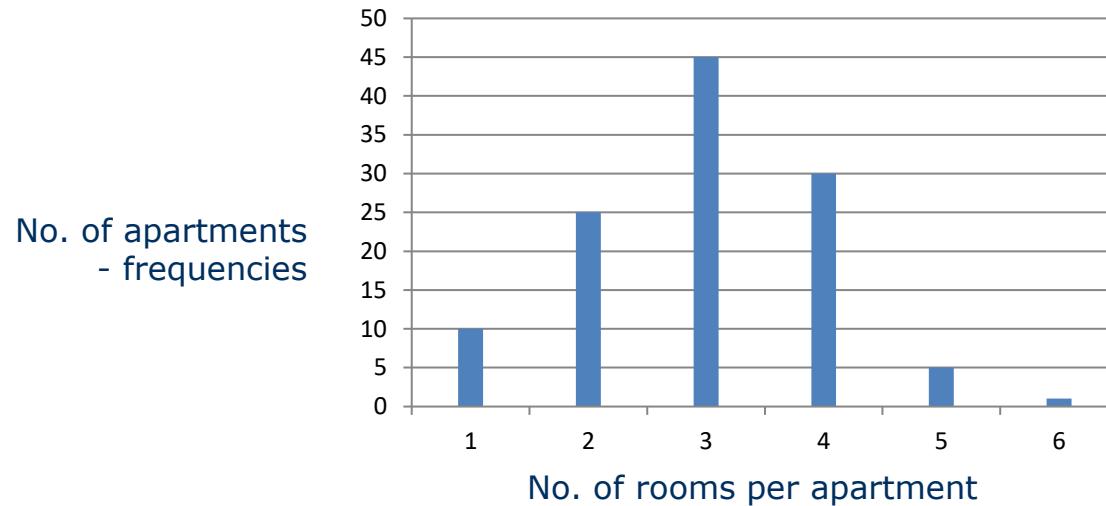
Nominal scale



Start at 12 o'clock and move clockwise, starting with the largest, second largest and so on ...

Diagram types - numerical discrete

Bar chart (sv. stolp- el. stapeldiagram)



Ordered by magnitude

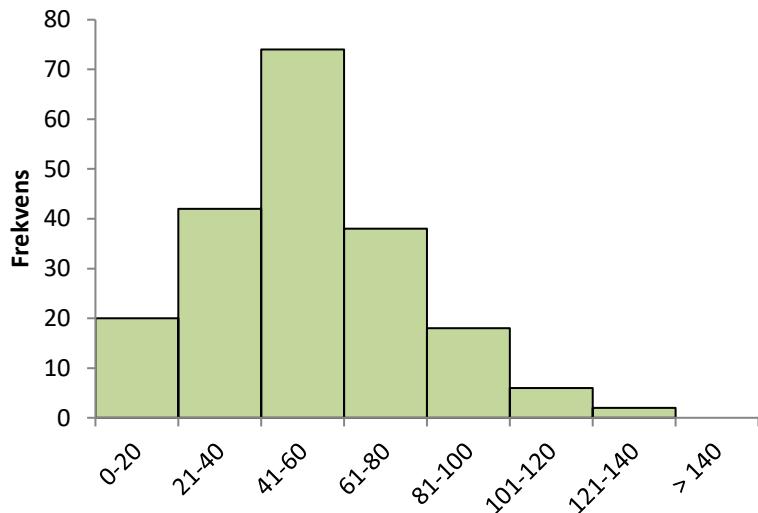
Histogram - numerical continuous

- Histogram are used for **continuous** variables
- **Class widths** are defined (bins)
- Inclusive and non-overlapping – each observation belongs to one class
- The **frequency** of a class is represented by **area of the bar** not its height (se NCT sid 52-53)
 - *however, if class widths are the same for all bins the heights are proportional to the areas and thus the frequencies*
- Open classes (e.g. >65) are indicated with e.g. dotted lines
 - *we don't know where it ends and thus nor the area!*



Histogram

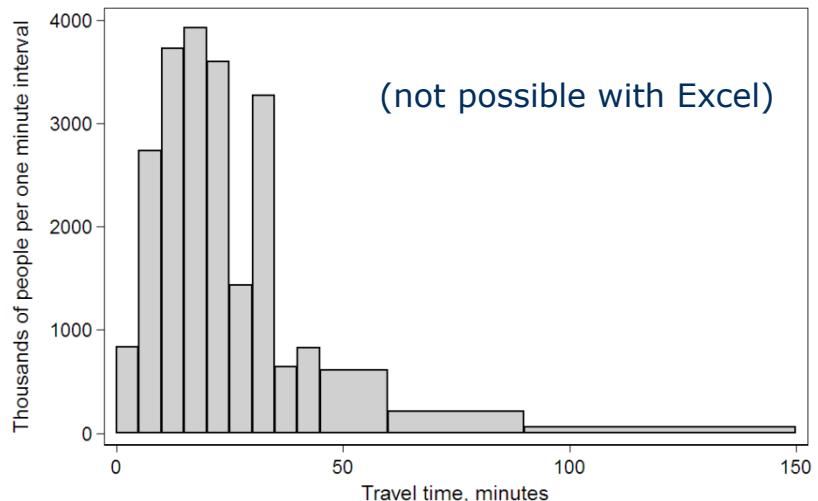
Equal class widths



Height is proportional to the area

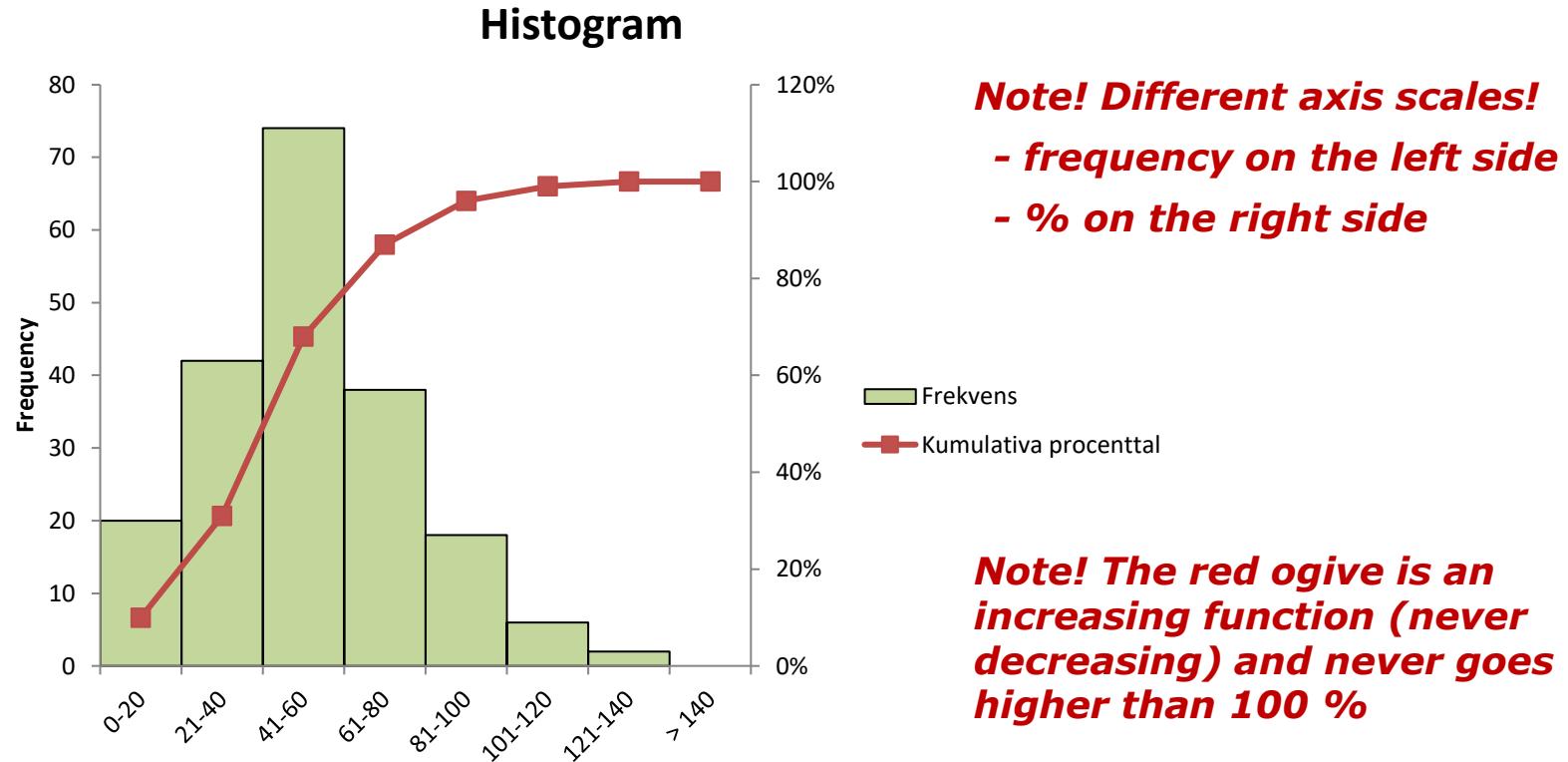
How is the scale of the
y-axis used?

Unequal class widths



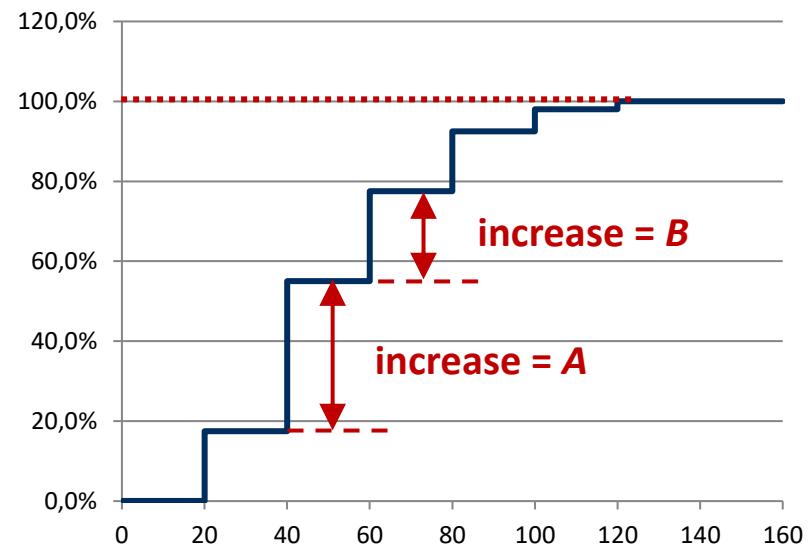
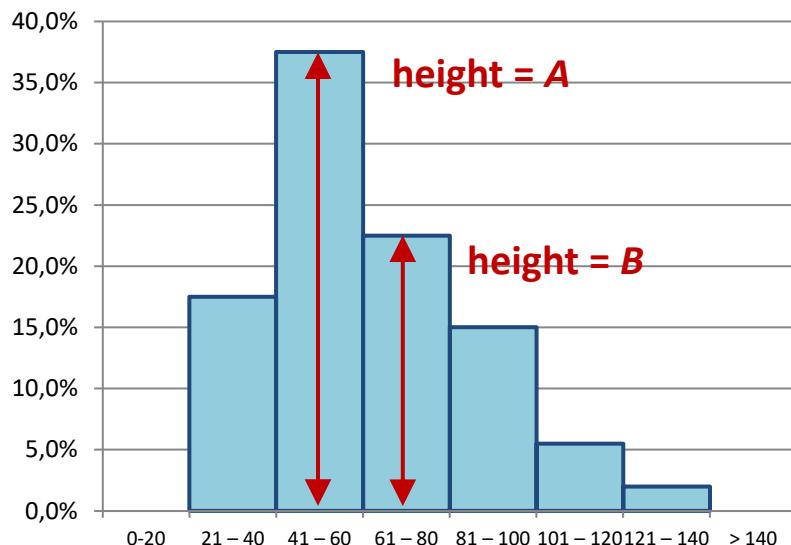
By Qwfp at English Wikipedia, CC BY-SA 3.0,
<https://commons.wikimedia.org/w/index.php?curid=20290683>

Cumulative relative frequency - Ogive



Cumulative rel. freq. – Step function

- The increase at each step is equal to the height of the corresponding bar in the histogram



*Increases (never decreases)
and never goes above 100 %*

Quick summary:

What type of diagram do we use to show a frequency distribution?

- Categorical, nominal **Bar chart, Pareto-ordered; Pie chart**
- Categorical, ordinal **Bar chart, ordered by rank (lowest - highest)**
- Numerical, discrete, few values **Bar chart, one bar for each discrete value**
- Numerical, discrete, many values **Histogram, divided into classes
(approximates continuous)**
- Numerical, continuous **Histogram , divided into classes**
- Visualizing a cumulative frequency distribution?
 Ogive or Step function (discrete and continuous)

Stem-and-Leaf Displays

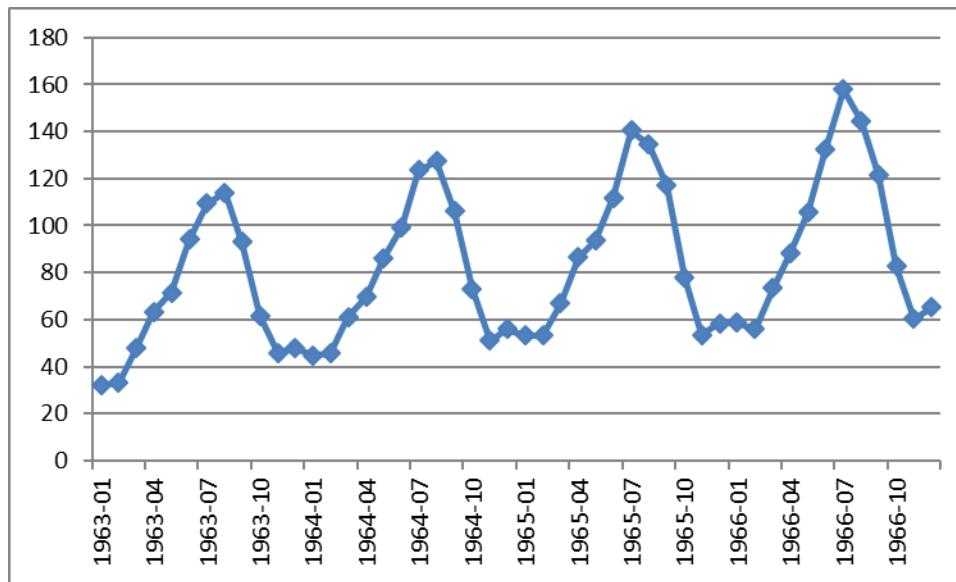
- sv. **stambladdiagram**
- Provides exact values and visualizes the distribution
- In this example
 - stems = tens (10, 20, ...)
 - leafs = ones (0, 1, 2,..., 9)
- *Not very common these days, before the era of graphical printing*

8	8
7	3
6	3
8	5 2
6	5 2
5	4 1
6	3 0 1
1	2 3 4 5



Time series, observations over time

- **Line chart, time series plot**
 - visualizes changes over time (what types of change?)
 - time on the x-axis, observed values on the y-axis
 - points are connected



No. of passenger miles (Eng. miles), domestic flights U.K.
Jan 1963 - Jan 1966

Month	Miles
1963-01	32,2
1963-02	33,1
1963-03	48,1
1963-04	63,2
1963-05	71,5
1963-06	94,1
1963-07	109,4
...	...

Numerical measures - summaries

- Define numerical measures that summarize the most important properties of a set of observations
- ***Location*** – where are the observations?
 - Around 4, 25, 100 or 10 000?
 - **Measures of location, central tendency**
- ***Dispersion*** – how spread out are the observations from the central location?
 - about 2-8 or 4-500? Or in the interval 100 ± 20 ?
 - Many close to the center? Or in the “tails” i.e. endpoints?
 - **Measures of variability**

The data and notation

- Denote the variable by x (or some other letter y, z, u, v, \dots)
- n observations, sample size (N population size)
- Denote by indexing with $i = 1, 2, 3, \dots, n - 1, n$ (*labels*)
- Value of the i^{th} observation of the variable x is denoted by x_i
- The entire set of observed values may be denoted as

$$(x_1, x_2, x_3, \dots, x_{n-1}, x_n)$$

Location: Mode

- Sv. **typvärde**
- The most frequently occurring value; largest frequency

ex. $(4, 2, 3, 3, 5, 1, 3, 5) \Rightarrow \text{Mode} = 3$ **Unimodal**

ex. $(5, 2, 3, 3, 5, 1, 3, 5) \Rightarrow \text{Mode} = 3 \text{ and } 5$

Bimodal

- Useful for categorical variables (nominal and ordinal scales)

ex. $(b, a, c, b, d, b, a, e) \Rightarrow \text{Mode} = b$

Location: Median

Can be applied to **ordinal** data also

- The **median** separates a numerical dataset in half
- 50% of the observations lie on either side of the median
- Arrange the observations in increasing order, smallest-largest
 n even \Rightarrow median = mean of the two in the middle
 n odd \Rightarrow median = the middle value

ex. $(2, \mathbf{3}, \mathbf{4}, 5) \Rightarrow \text{median} = \mathbf{3,5}$

Not so sensitive to extreme values

ex. $(2, \mathbf{3}, \mathbf{4}, 25) \Rightarrow \text{median} = \mathbf{3,5}$

ex. $(2, 3, \mathbf{4}, 25, 135) \Rightarrow \text{median} = \mathbf{4}$

Location: Mean

- **Arithmetic sample mean** (sv. medelvärde)

- Sum all and divide by the number

$$\bar{x} = \frac{1}{n} \sum_{i=1}^n x_i$$

- x -bar

- Mean value is sensitive of extreme values:

ex. $(2, 3, 4, 5)$ \Rightarrow $\bar{x} = 3,5$

ex. $(2, 3, 4, 25)$ \Rightarrow $\bar{x} = 8,5$

ex. $(22, 23, 24, 25)$ \Rightarrow $\bar{x} = 23,5$

- **Population mean** often denoted μ or μ_x

("mu", sv. "my")

$$\mu = \frac{1}{N} \sum_{i=1}^N x_i$$



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More on means – grouped values

- n observations, distributed such that we have n_k of them sharing the same value $x = k$
- E.g. n_0 zeroes ($x = 0$), n_1 ones ($x = 1$), n_2 twos ($x = 2$), ... etc. up to n_c with value $x = c$

$$\bar{x} = \frac{1}{n} \sum_{i=1}^n x_i = \frac{1}{n} \sum_{k=0}^c (n_k \cdot k) = \sum_{k=0}^c \left(\frac{n_k}{n} \cdot k \right)$$

**Proportion
with value k**

- Ex. 0, 0, 0, 1, 1, 2, 2, 2, 3, 3, 3, 3 yields

$$\bar{x} = \sum_{k=0}^3 \left(\frac{n_k}{n} k \right) = \left(\frac{3}{12} \cdot 0 + \frac{2}{12} \cdot 1 + \frac{3}{12} \cdot 2 + \frac{4}{12} \cdot 3 \right) = \frac{20}{12} = \frac{5}{3} = 1,6667$$

**We have
0,1,2, and 3
i.e. four
categories**

Geometric mean

- Monthly interest on an investment over 6 months:
10%, 7%, -2%, 11%, 8%, 4%
- Total growth over the entire period is:
 $1,10 \cdot 1,07 \cdot 0,98 \cdot 1,11 \cdot 1,08 \cdot 1,04 = 1,4381$
i.e. **+43,81%**
- **Geometric mean:** $\bar{x}_g = \sqrt[n]{x_1 x_2 \cdots x_3}$
- Here $\bar{x}_g = \sqrt[6]{1,4381} = 1,0624$
i.e. average interest per month = **6,24%**

Variability: nominal and ordinal data

- Not much we can do
- However, the number observed classes/categories = **C** is a kind of measure of variability, although a simple measure
- Sample:

$$(A, B, A, C, D, A, C, D, A, A, A, C) \Rightarrow C = 4$$

$$(A, B, C, D, E, F, G, H) \Rightarrow C = 8$$

A measure very much out of scope for this course is based on information theory and entropies

- Entropy = 0 \Leftrightarrow all observations are in the same single category, smallest possible dispersion
- Entropy = $^2\log(C)$ \Leftrightarrow equal number in each category, maximal dispersion

Variability: Range

Numerical variables

- The size of the observed range of values, the size of the interval where all observations lie
- Difference between the largest and smallest values

$$\text{Range} = \text{Max} - \text{Min}$$

ex. $(2, 3, 4, 5)$ \Rightarrow range = 3

ex. $(2, 3, 4, 25)$ \Rightarrow range = 23

ex. $(22, 23, 24, 25)$ \Rightarrow range = 3

- Sensitive of extreme values

Variability: Quartiles – Quartile Range

Arrange the observations in increasing order:

- $Q_1 = \text{1}^{\text{st}} \text{ quartile}$
25% of observations below, 75% above
- $Q_3 = \text{3}^{\text{rd}} \text{ quartile}$
75 % of observations below, 25 % above
- $IQR = \text{Inter Quartile Range} = Q_3 - Q_1$
(sv. *kvartilavstånd*)
- *50 % of the observations lie in an interval that is IQR wide*

Can be applied to
ordinal data also

But not IQR!

Percentiles

Let $x_{(1)}, x_{(2)}, \dots, x_{(n)}$ denote the *ordered* sample, ordered by size from the smallest value $x_{(1)}$ to the largest $x_{(n)}$

- Let $a = \text{integer part}$ of $(n + 1) \frac{p}{100}$
- Låt $b = \text{decimal part}$ of $(n + 1) \frac{p}{100}$
- $p^{\text{th}} \text{ percentile} = x_{(a)} + b \cdot (x_{(a+1)} - x_{(a)})$

Ex. $(11, 12, 14, 15, 17, 18, 20, 21, 21, 23, 30, 40)$, $n = 12$

$$40^{\text{th}} \text{ percentile: } (n + 1) \frac{40}{100} = (12 + 1) \cdot 0,4 = 5,2 \Rightarrow a = 5 \text{ och } b = 0,2$$

$$40^{\text{th}} \text{ percentile} = x_{(5)} + 0,2 \cdot (x_{(5+1)} - x_{(5)}) = 17 + 0,2 \cdot (18 - 17) = 17,2$$

Median = 50th percentile

- $n = 12$ observations ordered by size:
 $(11, 12, 14, 15, 17, \mathbf{18}, \mathbf{20}, 21, 21, 23, 30 \text{ and } 40)$
- Start with $(n + 1) = 13$
- $(n + 1) \cdot 0,5 = 6,5$ i.e. between the 6th and 7th
- $md = P_{50} = x_{(6)} + 0,5(x_{(7)} - x_{(6)}) = \frac{x_{(6)} + x_{(7)}}{2} = \frac{18 + 20}{2} = 19$
= mean value of the 6th and the 7th observations

Quartiles – 25th and 75th percentiles

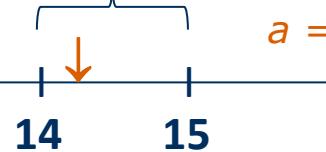
- 1st quartile

$$(n+1) \cdot 0,25 = 3,25$$

$$Q_1 = 14 + 0,25 \cdot 1 = 14,25$$

25th percentile

$$\Delta = 15 - 14 = 1$$



between 3rd and 4th

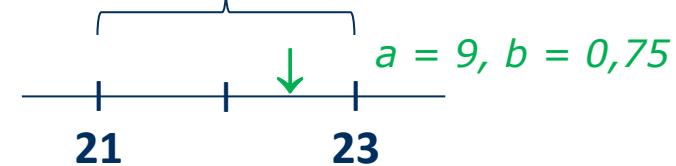
- 3:e quartile

$$(n+1) \cdot 0,75 = 9,75$$

$$Q_3 = 21 + 0,75 \cdot 2 = 22,50$$

75th percentile

$$\Delta = 23 - 21 = 2$$



between 9th and 10th

- $IQR = Q_3 - Q_1 = 8,25$

With Excel

- Same data used in the example are in the cells A1–A12
- Write the following functions in any empty cell:

=MIN(A1:A12)

=QUARTILE.EXC (A1:A12;1)

=MEDIAN(A1:A12)

=QUARTILE.EXC (A1:A12;3)

=MAX(A1:A12)

	A	B	C	D
1	11			
2	12			
3	14			
4	15	Min		11
5	17	Q1		14,25
6	18	Md		19
7	20	Q3		22,5
8	21	Max		40
9	21			
10	23			
11	30			
12	40			
13				

English and Swedish versions of Excel functions, see e.g.

<http://www.exceldepartment.com/excelkurs/extramaterial/excfunktioner-svenska-engelska/>



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Box-and Whisker plots – visual summary

- We need:
 - smallest and largest values - ***min*** and ***max***
 - median, 1st and 3rd quartiles - ***Md***, ***Q₁*** and ***Q₃***

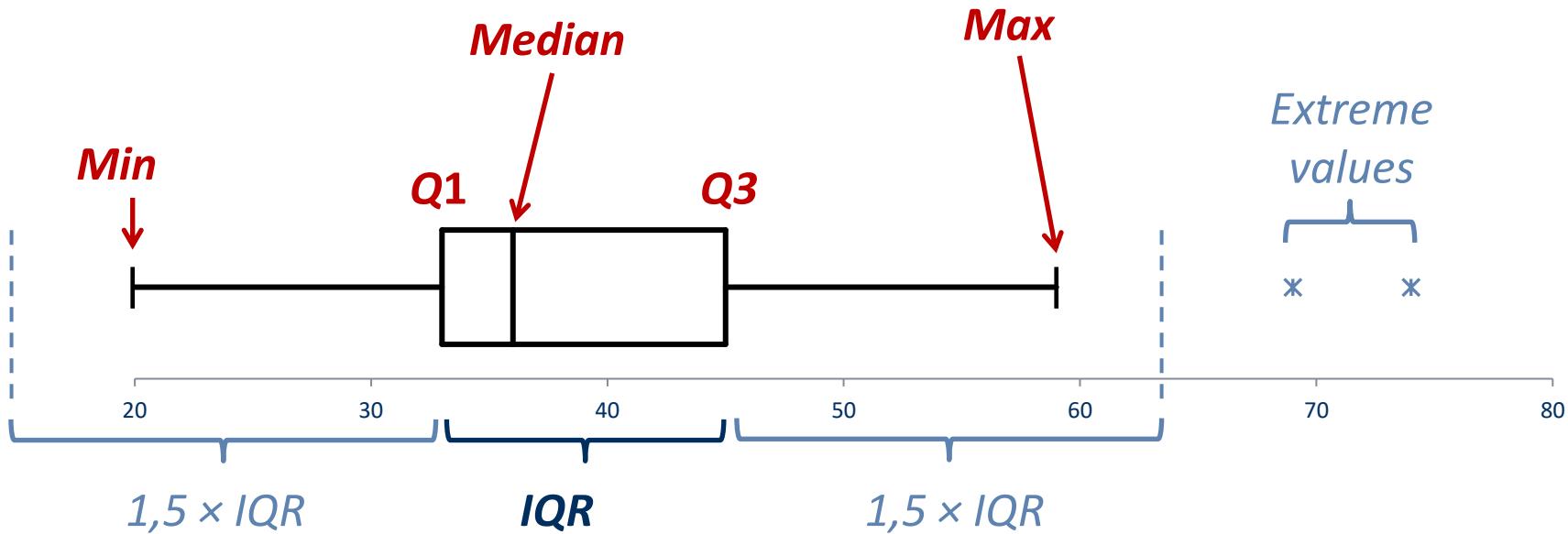
"Five-number summary" NCT p. 65

Definition of extreme values (according to Tukey):

- ***Outliers***: values that lie more than $1,5 \times IQR$ below Q_1 or above Q_3
- ***Extreme outliers***: $3 \times IQR$

Box plots, cont.

"Five-number summary"



Variability: Variance

- **Average squared distance to the mean**
- Sample and population variances:

$$s_x^2 = \frac{1}{n-1} \sum_{i=1}^n (x_i - \bar{x})^2$$

$$\sigma_x^2 = \frac{1}{N} \sum_{i=1}^N (x_i - \mu)^2 \quad ("sigma")$$

- **Note!** For samples, divide by $n - 1$ rather than n
- Unit of measurement is transformed to square units

- **Standard deviation:**

- Restores unit of measurement
- sv. standardavvikelse

$$s_x = \sqrt{s_x^2} \qquad \sigma_x = \sqrt{\sigma_x^2}$$

- **Coefficient of Variation:** read on your own in NCT p. 75

Variance – alternative formulas

- **Sample variance**

$$s_x^2 = \frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n - 1} = \frac{\sum_{i=1}^n x_i^2 - n\bar{x}^2}{n - 1}$$

Alternative formula
sometimes easier to use

Excel: '=VAR.S(...)'

- **Population variance**

$$\sigma_x^2 = \frac{\sum_{i=1}^N (x_i - \mu)^2}{N} = \frac{\sum_{i=1}^N x_i^2 - N\mu^2}{N}$$

Excel: '=VAR.P(...)'

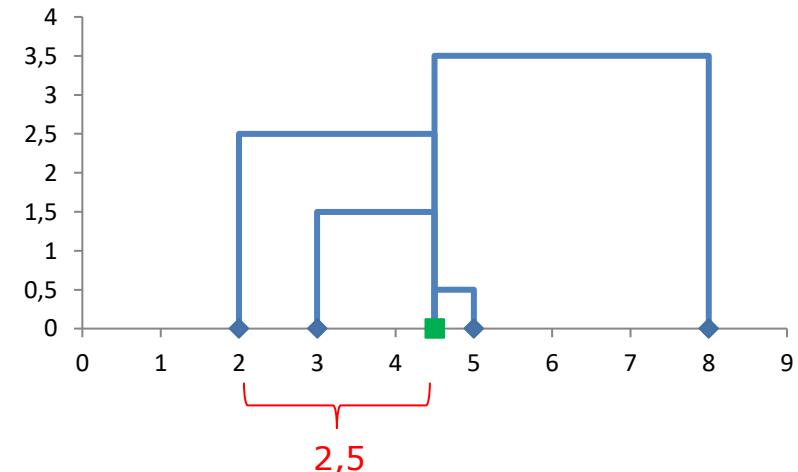
Variance

- Four observations $(2, 3, 5, 8)$; mean $\bar{x} = 4,5$
- Distance to mean $(x_i - \bar{x})$, square them and sum:

x_i	2	3	5	8	18
$(x_i - \bar{x})$	-2,5	-1,5	0,5	3,5	0
$(x_i - \bar{x})^2$	6,25	2,25	0,25	12,25	21
x_i^2	4	9	25	64	102

- Calculate the variance:
 - divide by $n - 1 = 3$ or $N = 4$?

$$s_x^2 = \frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n - 1} = \frac{21}{3} = 7 \quad s_x^2 = \frac{\sum_{i=1}^n x_i^2 - n\bar{x}^2}{n - 1} = \frac{102 - 4 \cdot 4,5^2}{4 - 1} = \frac{21}{3} = 7$$



Properties of the variance

Think about it ...

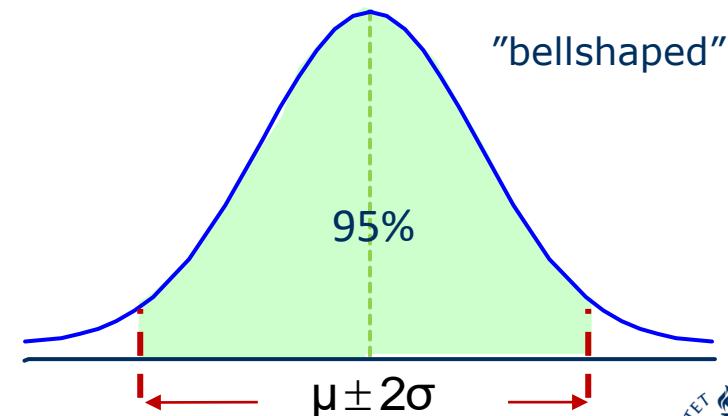
- Variances can never be negative (always ≥ 0)
- Add the same number a to every observed value
 - ⇒ the variance is unchanged
- Multiply every observed value by the same number b
 - ⇒ the variance is b^2 times larger
- Why is this interesting, to add or multiply?

Chebyshev's theorem and the Empirical rule

- Provides a description of how spread out our observations that relates to the standard deviation (variance):

Rule	$\mu \pm \sigma$	$\mu \pm 2\sigma$	$\mu \pm 3\sigma$	
Chebyshev:	0 %	75 %	88,89 %	Guaranteed
Empirical:	ca 68 %	ca 95 %	ca 100 %	Under some conditions

- Compare to Q1, Q3 and IQR

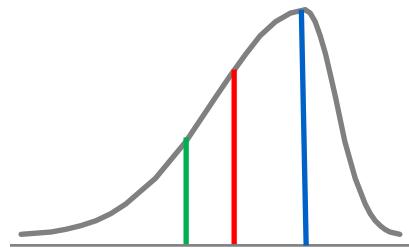


Skewness – sv. snedhet

- If the distribution looks as if it has been “pulled out” to one side, we say the distribution is **skewed** (sv. *sned*)
- **Symmetric** if it equally distributed on both sides (non-skewed)

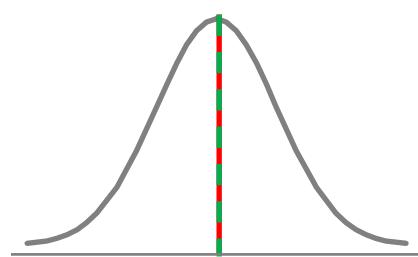
Left skewed

Mean ≠ Median ≠ Mode



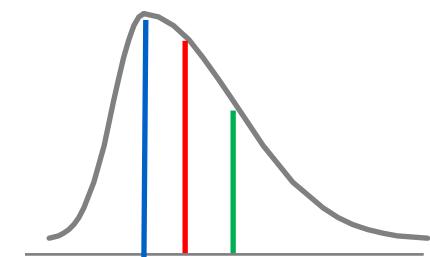
Symmetric

Mean = Median = Mode

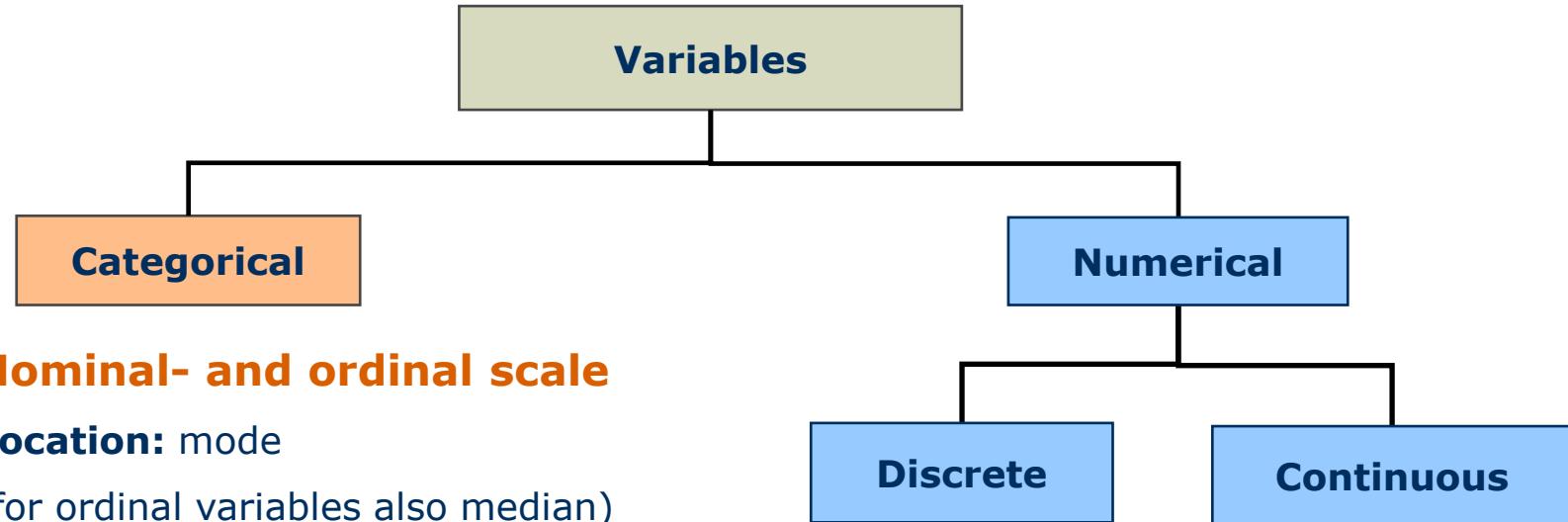


Right skewed

Mode ≠ Median ≠ Mean



Variable type & descriptive measures



Nominal- and ordinal scale

Location: mode

(for ordinal variables also median)

Variability: no. of observed categories/levels

(For ordinal variables Q1 and Q3 however not IQR!)

Interval and ratio scale

Location: mode, median (Q1 & Q3), mean

Variability: range, IQR, variance & standard deviation

Next time ...

... continue with descriptive statistics and discuss how to describe several variables at the same time (bivariate, multivariate):

- Tables and graphs etc.

Especially the relationship between two numerical variables

- Graphically
 - **scatter plots**
- Measures of Relationships between two variables:
 - **covariance** and **correlation coefficient**

Exercise: CIY (check it yourself)

i	1	2	3	4	5	6	7	8	9	10	Σ_i
x_i	5	2	3	6	5	2	5	3	5	4	40

Mean: $\bar{x} = \frac{1}{n} \sum_{i=1}^n x_i = \frac{1}{10} (5 + 2 + \dots + 4) = \frac{40}{10} = 4,0$

$x_i - \bar{x}$	1	-2	-1	2	1	-2	1	-1	1	0	0
$(x_i - \bar{x})^2$	1	4	1	4	1	4	1	1	1	0	18

Variance: $s_x^2 = \frac{1}{n-1} \sum_{i=1}^n (x_i - \bar{x})^2 = \frac{1}{9} (1 + 4 + 1 + \dots + 0) = \frac{18}{9} = 2,0$

Standard deviation: $s_x = \sqrt{s_x^2} = \sqrt{2,0} = 1,4142 \dots$

Exercise: CIY, cont.

i	1	2	3	4	5	6	7	8	9	10	Σ_i
x_i	5	2	3	6	5	2	5	3	5	4	40

Mean: $\bar{x} = \frac{1}{n} \sum_{i=1}^n x_i = \frac{1}{10} (5 + 2 + \dots + 4) = \frac{40}{10} = 4,0$

x_i^2	25	4	9	36	25	4	25	9	25	16	178
---------	----	---	---	----	----	---	----	---	----	----	-----

alt. formula:

Variance: $s_x^2 = \frac{1}{n-1} (\sum_{i=1}^n x_i^2 - n\bar{x}^2) = \frac{1}{9} (178 - 10 \cdot 4^2) = \frac{178 - 160}{9} = 2,0$

Mode = 5

Range = $Max - Min = 6 - 2 = 4$

$$n = 10 \Rightarrow n + 1 = 11$$

Exercise: CIY, cont.

(i)	1	2	3	4	5	6	7	8	9	10	Σ_i
$x_{(i)}$	2	2	3	3	4	5	5	5	5	6	40

Median: 50% of $(n + 1) = 5,5 \Rightarrow a = 5 \quad b = 0,5$

$$x_{(5)} + 0,5 \cdot (x_{(6)} - x_{(5)}) = 4 + 0,5(5 - 4) = 4,5$$

Q1: 25% of $(n + 1) = 2,75 \Rightarrow a = 2 \quad b = 0,75$

$$x_{(2)} + 0,75 \cdot (x_{(3)} - x_{(2)}) = 2 + 0,75(3 - 2) = 2,75$$

Q3: 75% of $(n + 1) = 8,25 \Rightarrow a = 8 \quad b = 0,25$

$$x_{(8)} + 0,25 \cdot (x_{(9)} - x_{(8)}) = 5 + 0,25(5 - 5) = 5$$

