CS 584-04: Machine Learning

Fall 2018 Assignment 3

# INSTRUCTIONS

1. Students should complete this assignment independently.
2. Students must submit their answers to Blackboard before 11:59 PM on October 7, 2018.

# Question 1 (50 points)

You will use the CART algorithm to build profiles of credit card holders. The data is the CustomerSurveyData.csv. The analysis specifications are:

**Target Variable**

* **CreditCard**. The type of credit card held. This variable has five categories which are *American Express*, *Discover*, *MasterCard*, *Others*, and *Visa*.
* Drop all missing values in the target variable.

**Nominal Predictors**

* **CarOwnership**. The type of car ownership. This variable has three non-missing categories which are *Leased*, *None*, and *Own*.
* **JobCategory**. The category of the job held. This variable has six non-missing categories which are *Agriculture*, *Crafts*, *Labor*, *Professional*, *Sales*, and *Service*.
* Recode all the missing values into the *Missing* category.

You will use the Gini metric as the splitting criterion. You may want to write a Python program to assist you in answering the questions.

1. (5 points). What is the Gini metric for the root node?
2. (5 points). How many possible binary-splits that you can generate from the CarOwnership predictor?
3. (10 points). Calculate the Gini metric for each possibly binary split that you can generate from the CarOwnership predictor. List your answers in a table. The table should have three columns: the sequence index of the split, the contents of the two branches, the split Gini metric.
4. (5 points). What is the optimal split for the CarOwnership predictor?
5. (5 points). How many possible binary-splits that you can generate from the JobCategory predictor?
6. (10 points). Calculate the Gini metric for each possibly binary split that you can generate from the JobCategory predictor. List your answers in a table. The table should have three columns: the sequence index of the split, the contents of the two branches, the split Gini metric.
7. (5 points). What is the optimal split for the JobCategory predictor?
8. (5 points). Between the CarOwnership and the JobCategory predictors, which predictor will you choose for the second layer (i.e., depth 1) of your decision tree?

# Question 2 (50 points)

In 2014, Allstate provided the data on Kaggle.com for the Allstate Purchase Prediction Challenge which is open. The data contain transaction history for customers that ended up purchasing a policy. For each Customer ID, you are given their quote history and the coverage options they purchased.

The data is available on the Blackboard as Purchase\_Likelihood.csv. It contains 665,249 observations on 97,009 unique Customer ID. We are going to use the MNLogit function to build a multinomial logistic model to predict purchase likelihood of coverage A using three predictors. The target variable is **A** which have these categories 0, 1, and 2. The nominal predictors are (categories are inside the parentheses):

1. **group\_size**. How many people will be covered under the policy (1, 2, 3 or 4)?
2. **homeowner**. Whether the customer owns a home or not (0=no, 1=yes)
3. **married\_couple**. Does the customer group contain a married couple (0=no, 1=yes)

Please build a multinomial logistic model using and answer the following questions.

1. (10 points) Suppose you start with a model with only the Intercept term (i.e., without any predictors). You are asked to mathematically calculate the maximum likelihood estimates of the predicted probabilities without calling the MNLogit function. Show all the necessary steps and the estimates for the . (Hint: equate the first derivatives of the log-likelihood function to zeros for this Intercept-only model)

1. (10 points) Next, you are asked to mathematically calculate the maximum likelihood estimates of the Intercept terms . The convention is to set the Intercept term to zero for the target category A = 0, i.e., . (Hint: use the mathematical formula of the logit of (i.e., for this Intercept only model, then solve for the betas)?
2. (4 points) Now, you will use the MNLogit function to build the multinomial logistic model. What value of the target variable A is used by the MNLogit function as the reference category?
3. (2 points) How many iterations are performed before convergence is achieved?
4. (4 points) How many parameters (including the redundant ones) are in the model?
5. (5 points) When group\_size = 2, homeowner = 1, and married\_couple = 1, what are the predicted probabilities: Prob(A = 0), Prob(A = 1), and Prob(A = 2)?
6. (10 points) What are the values of the predictors group\_size, homeowner, and married\_couple such that Prob(A = 0) will attain its maximum? What is the maximum Prob(A = 0) value?
7. (5 points) According to the logistic model, what is the odds ratio for group\_size = 4 versus group\_size = 1, and A = 1 versus A = 0? Mathematically, the odds ratio is (Prob(A=1)/Prob(A=0) | group\_size = 4) / ((Prob(A=1)/Prob(A=0) | group\_size = 1).