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AMS 206: Quiz 1 *[40 total points]*

Name: ____

Here is Your background information, translatable into $\mathcal{B}$, for this problem.

- *(Fact 1)* As a broad generalization (which you can verify empirically), statisticians tend to have shy personalities more often than economists do — let's quantify this observation by assuming that 80% of statisticians are shy but the corresponding percentage among economists is only 15%.
- *(Fact 2)* Conferences on the topic of *econometrics* are almost exclusively attended by economists and statisticians, with the majority of participants being economists — let's quantify this fact by assuming that 90% of the attendees are economists (and the rest statisticians).

Suppose that you (a physicist, say) go to an econometrics conference — you strike up a conversation with the first person you (haphazardly) meet, and find that this person is shy. The point of this problem is to show that the (conditional) probability p that you're talking to a statistician, given this data and the above background information, is only about 37%, which most people find surprisingly low, and to understand why this is the right answer. Let St = (person is statistician), E = (person is economist), and Sh = (person is shy).

(a) Identify (in the form of a proposition B_1, one of the elements of $\mathcal{B}$) the most important assumption needed in this problem to permit its solution to be probabilistic; expain briefly. *[5 points]*

(b) Using the St, E and Sh notation, express the three numbers (80%, 15%, 90%) above, and the probability we're solving for, in conditional probability terms, remembering to condition appropriately on $\mathcal{B}$. *[5 points]*

(c) Briefly explain why calculating the desired probability is a good job for Bayes's Theorem. *[5 points]*

(over)

(d) Briefly explain why the following expression is a correct use of Bayes's Theorem in odds form in this problem. *[5 points]*

$$\left[\frac{P(St \,|\, Sh, \mathcal{B})}{P(E \,|\, Sh, \mathcal{B})}\right] = \left[\frac{P(St \,|\, \mathcal{B})}{P(E \,|\, \mathcal{B})}\right] \cdot \left[\frac{P(Sh \,|\, St, \mathcal{B})}{P(Sh \,|\, E, \mathcal{B})}\right]$$
$$(1) \qquad = \qquad (2) \qquad \cdot \qquad (3)$$

(e) Here are three terms that are relevant to the quantities in part (d) above:

- (Prior odds in favor of St over E given $\mathcal{B}$)
- (Bayes factor in favor of St over E given the data and $\mathcal{B}$)
- (Posterior odds in favor of St over E given the data and $\mathcal{B}$)

Match these three terms with the numbers (1), (2), (3) in the second line of the equation in part (d). *[5 points]*

(f) Compute the three odds values in part (e), briefly explaining your reasoning, thereby demonstrating that the posterior odds value o in favor of St over E, given the data and $\mathcal{B}$, is $o = \frac{16}{27} \doteq 0.593$. *[5 points]*

(g) Use the expression $p = \frac{o}{1+o}$ to show that the desired probability in this problem — the conditional probability that you're talking to a statistician, given the data and the background information — is $p = \frac{16}{43} \doteq 0.372$. *[5 points]*

(h) Someone says, "That probability can't be right: 80% of statisticians are shy, versus 15% for economists, so your probability of talking to a statistician has to be over 50%." Briefly explain why this line of reasoning is wrong, and why p should indeed be less than 50%. *[5 points]*