

I.I.D. Random Variables

Estimating the bias of a coin

Question: We want to estimate the proportion p of Democrats in the US population, by taking a small random sample. How large does our sample have to be to guarantee that our estimate will be within (say) 10% (in relative terms) of the true value with probability at least 0.95?

This is perhaps the most basic statistical estimation problem, and shows up everywhere. We will develop a simple solution that uses only Chebyshev's inequality. More refined methods can be used to get sharper results.

Let's denote the size of our sample by n (to be determined), and the number of Democrats in it by the random variable S_n . (The subscript n just reminds us that the r.v. depends on the size of the sample.) Then our estimate will be the value $A_n = \frac{1}{n}S_n$.

Now as has often been the case, we will find it helpful to write $S_n = X_1 + X_2 + \dots + X_n$, where $X_i = \begin{cases} 1 & \text{if person } i \text{ in sample is a Democrat;} \\ 0 & \text{otherwise.} \end{cases}$

Note that each X_i can be viewed as a coin toss, with Heads probability p (though of course we do not know the value of p !). And the coin tosses are independent.¹

What is the expectation of our estimate?

$$E(A_n) = E\left(\frac{1}{n}S_n\right) = \frac{1}{n}E(X_1 + X_2 + \dots + X_n) = \frac{1}{n} \times (np) = p.$$

So for any value of n , our estimate will always have the correct expectation p . [Such a r.v. is often called an *unbiased estimator* of p .] Now presumably, as we increase our sample size n , our estimate should get more and more accurate. This will show up in the fact that the *variance* decreases with n : i.e., as n increases, the probability that we are far from the mean p will get smaller.

To see this, we need to compute $\text{Var}(A_n)$. But $A_n = \frac{1}{n} \sum_{i=1}^n X_i$, which is just a constant times a sum of *independent* random variables. So we can compute $\text{Var}(A_n)$ using the technology we established in the last lecture note:

$$\text{Var}(A_n) = \text{Var}\left(\frac{1}{n} \sum_{i=1}^n X_i\right) = \left(\frac{1}{n}\right)^2 \text{Var}\left(\sum_{i=1}^n X_i\right) = \left(\frac{1}{n}\right)^2 \sum_{i=1}^n \text{Var}(X_i) = \frac{\sigma^2}{n},$$

where we have written σ^2 for the variance of each of the X_i . So we see that the variance of A_n decreases linearly with n . This fact ensures that, as we take larger and larger sample sizes n , the probability that we deviate much from the expectation p gets smaller and smaller.

Let's now use Chebyshev's inequality to figure out how large n has to be to ensure a specified accuracy in our estimate of the proportion of Democrats p . A natural way to measure this is for us to specify two

¹We are assuming here that the sampling is done "with replacement"; i.e., we select each person in the sample from the entire population, including those we have already picked. So there is a small chance that we will pick the same person twice.

parameters, ϵ and δ , both in the range $(0, 1)$. The parameter ϵ controls the *error* we are prepared to tolerate in our estimate, and δ controls the *confidence* we want to have in our estimate. A more precise version of our original question is then the following:

Question: For the Democrat-estimation problem above, how large does the sample size n have to be in order to ensure that

$$\Pr[|A_n - p| \geq \epsilon p] \leq \delta ?$$

In our original question, we had $\epsilon = 0.1$ and $\delta = 0.05$. Notice that ϵ measures the *relative* error, i.e., the error as a *ratio* of the target value p . This seems like a more reasonable convention than the *absolute* error (based on $\Pr[|A_n - p| \geq \epsilon]$). This is because a given absolute error (say, ± 0.1) might be quite small in the context of measuring a large value like $p = 0.5$, but very large when measuring a small value like $p = 0.05$. In contrast, the relative error treats all values of p equally.

Let's apply Chebyshev's inequality to answer our more precise question above. Since we know $\text{Var}(A_n)$, this will be quite simple. From Chebyshev's inequality, we have

$$\Pr[|A_n - p| \geq \epsilon p] \leq \frac{\text{Var}(A_n)}{(\epsilon p)^2} = \frac{\sigma^2}{np^2\epsilon^2}.$$

To make this less than the desired value δ , we need to set

$$n \geq \frac{\sigma^2}{p^2} \times \frac{1}{\epsilon^2\delta}. \quad (1)$$

Now recall that $\sigma^2 = \text{Var}(X_i)$ is the variance of a single sample X_i . So, since X_i is a 0/1-valued r.v., we have $\sigma^2 = p(1-p)$, and inequality (1) becomes

$$n \geq \frac{1-p}{p} \times \frac{1}{\epsilon^2\delta}. \quad (2)$$

Plugging in $\epsilon = 0.1$ and $\delta = 0.05$, we see that a sample size of $n = 2000 \times \frac{1-p}{p}$ is sufficient.

At this point you should be worried. Why? Because our formula for the sample size contains p , and this is precisely the quantity we are trying to estimate! But we can get around this as follows. We just pick a value p' that we know for sure is less than p . (For example, in the Democrats problem we could certainly take $p' = \frac{1}{3}$.) Then we use p' in place of p in equation (2). Since p' is less than p , this will always lead us to take at least enough samples (why?). In the Democrats example, with $p' = \frac{1}{3}$, this means we would take a sample size of $n = 2000 \times 2 = 4000$.

Estimating a general expectation

What if we wanted to estimate something a little more complex than the proportion of Democrats in the population, such as the average wealth of people in the US? Then we could use exactly the same scheme as above, except that now the r.v. X_i is the wealth of the i th person in our sample. Clearly $E(X_i) = \mu$, the average wealth (which is what we are trying to estimate). And our estimate will again be $A_n = \frac{1}{n} \sum_{i=1}^n X_i$, for a suitably chosen sample size n . Once again the X_i are i.i.d. random variables², so we again have $E(A_n) = \mu$ and $\text{Var}(A_n) = \frac{\sigma^2}{n}$, where $\sigma^2 = \text{Var}(X_i)$ is the variance of the X_i . (Recall that the only facts we used about the X_i was that they were independent and had the same distribution — actually the same expectation and variance would be enough: why?)

²The standard acronym “i.i.d.” stands for “independent, identically distributed.”

From equation (1), it is enough for the sample size n to satisfy

$$n \geq \frac{\sigma^2}{\mu^2} \times \frac{1}{\varepsilon^2 \delta}. \quad (3)$$

Here ε and δ are the desired error and confidence respectively, as before. Now of course we don't know the other two quantities, μ and σ^2 , appearing in equation (3). In practice, we would use a lower bound on μ and an upper bound on σ^2 (just as we used a lower bound on p in the Democrats problem). Plugging these bounds into equation (3) will ensure that our sample size is large enough.

For example, in the average wealth problem we could probably safely take μ to be at least (say) \$20k (probably more). However, the existence of people such as Bill Gates means that we would need to take a very high value for the variance σ^2 . Indeed, if there is at least one individual with wealth \$50 billion, then assuming a relatively small value of μ means that the variance must be at least about $\frac{(50 \times 10^9)^2}{250 \times 10^6} = 10^{13}$. (Check this.) However, this individual's contribution to the mean is only $\frac{50 \times 10^9}{250 \times 10^6} = 200$. There is really no way around this problem with simple uniform sampling: the uneven distribution of wealth means that the variance is inherently very large, and we will need a huge number of samples before we are likely to find anybody who is immensely wealthy. But if we don't include such people in our sample, then our estimate will be way too low.

As a further example, suppose we are trying to estimate the average rate of emission from a radioactive source, and we are willing to assume that the emissions follow a Poisson distribution with some unknown parameter λ — of course, this λ is precisely the expectation we are trying to estimate. Now in this case we have $\mu = \lambda$ and also $\sigma^2 = \lambda$ (see the previous lecture note). So $\frac{\sigma^2}{\mu^2} = \frac{1}{\lambda}$. Thus in this case a sample size of $n = \frac{1}{\lambda \varepsilon^2 \delta}$ suffices. (Again, in practice we would use a lower bound on λ .)

The Law of Large Numbers

The estimation method we used in the previous two sections is based on a principle that we accept as part of everyday life: namely, the Law of Large Numbers (LLN). This asserts that, if we observe some random variable many times, and take the average of the observations, then this average will converge to a *single value*, which is of course the expectation of the random variable. In other words, averaging tends to smooth out any large fluctuations, and the more averaging we do the better the smoothing.

Theorem 17.1: [Law of Large Numbers] *Let X_1, X_2, \dots, X_n be i.i.d. random variables with common expectation $\mu = E(X_i)$. Define $A_n = \frac{1}{n} \sum_{i=1}^n X_i$. Then for any $\alpha > 0$, we have*

$$\Pr[|A_n - \mu| \geq \alpha] \rightarrow 0 \quad \text{as } n \rightarrow \infty.$$

Proof: Let $\text{Var}(X_i) = \sigma^2$ be the common variance of the r.v.'s; we assume that σ^2 is finite³. With this (relatively mild) assumption, the LLN is an immediate consequence of Chebyshev's Inequality. For, as we have seen above, $E(A_n) = \mu$ and $\text{Var}(A_n) = \frac{\sigma^2}{n}$, so by Chebyshev we have

$$\Pr[|A_n - \mu| \geq \alpha] \leq \frac{\text{Var}(A_n)}{\alpha^2} = \frac{\sigma^2}{n\alpha^2} \rightarrow 0 \quad \text{as } n \rightarrow \infty.$$

This completes the proof. \square

³If σ^2 is not finite, the LLN still holds but the proof is much trickier.

Notice that the LLN says that the probability of *any* deviation α from the mean, however small, tends to zero as the number of observations n in our average tends to infinity. Thus by taking n large enough, we can make the probability of any given deviation as small as we like.