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Session Outline

Introduction (5 min)
A. Descriptive statistics, graphs, tables (5 min)
B. Inferential statistics (10 min)
C. Forecasting methods (10 min)
D. Population analysis and projection (5 min)
E. Economic analysis (5 min)
F. Benefit cost analysis (5 min)
A. Descriptive statistics

Types of data

- Four types of measurement scales
  - Nominal
  - Ordinal
  - Interval
  - Ratio

- Primary data vs. secondary data

- Enumeration or census vs. sample
Measures of central tendency

- **Mean**
  - Sum of items / Count of items

- **Median**
  - Sort items high to low
  - Select middle item, or average of two middle items

- **Mode**
  - What value occurs most often?
  - Bimodal distributions
Measures of dispersion

- **Range**
  - High value minus low value

- **Variance**
  - Subtract the mean from each value
  - Square each difference
  - Sum the squares of the differences and divide by the number of cases

- **Standard deviation**
  - Take the square root of the variance
  - Can relate to original units
### Using Tables to Investigate Association

#### Figure 3-18 Student Test Performance in a Policy Analysis Class

<table>
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<th>FINAL EXAM PERFORMANCE</th>
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Gamma = 0.39

#### Figure 3-19 Controlling for Whether the Test Taker Attended the Review Session

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Gamma = 0.0

#### Figure 3-20 Final Exam Performance and Review Session Attendance

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<td>67%</td>
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Gamma = 0.72
# Types of Graphs

**Figure 3-4 Altman's Typology of Graphic Displays**

<table>
<thead>
<tr>
<th>COMPARISON TYPE</th>
<th>KEY WORDS</th>
<th>GRAPHICAL FORM</th>
<th>TYPICAL COMPARISONS</th>
</tr>
</thead>
</table>
| 1. Component    | • Contribution  
                  • Share  
                  • Proportion  
                  • Percentage of total | Pie chart | Proportion of tax revenue by major sources  
                                  Share of municipal budget by operating department  
                                  Percentage of population in urban, suburban, rural areas |
| 2. Item         | • (Item) A more (less) than B  
                  • Differences  
                  • Rank A is greater (less) than B | Bar chart | Number of employees by department  
                                  Tax revenue from major sources  
                                  Operating costs for different field offices of public service organizations |
| 3. Frequency distribution | • Variation  
                              • Distribution  
                              • Concentration  
                              • Relative frequency | Histogram  
                                  Dot diagram | Number of families in different income classes  
                                  Distribution of county governments by property tax rate  
                                  Variation in the population of counties in a given state |
### Figure 3-4 Altman's Typology of Graphic Displays

<table>
<thead>
<tr>
<th>COMPARISON TYPE</th>
<th>KEY WORDS</th>
<th>GRAPHICAL FORM</th>
<th>TYPICAL COMPARISONS</th>
</tr>
</thead>
</table>
| 4. Co-relationships | • A is related to B  
• A increases (decreases) as B  
• A does not increase (decrease) with B | Scatter diagram          | Hospital respiratory admissions related to air pollution index.                    |
|                 |                                                                          |                         | Number of state employees related to size of state population                      |
|                 |                                                                          |                         | Consumer expenditures increase with disposable income                              |
| 5. Time series  | • Trends  
• Since  
• From (date) to (date)  
• Verbs, such as Fluctuate  
Change  
• Nouns, such as Rise  
Decline  
Growth | Time series—plotting a curve which shows how the quantity of an item varies with time | Changes in annual municipal budget  
Trends in amount of refuse collected  
Seasonal variations in unemployment |
Figure 3-5  Pie Chart: Sun City Neighborhood Populations, 1980

Windhaven (2200) (11.0%)
Holly Hill (1800) (9.0%)
Bayside (1100) (5.5%)
Fairmont (500) (8.0%)
Emory (3400) (17.0%)
Mabry (4500) (22.5%)
Atwater (2800) (14.0%)
Elmwood (2600) (13.0%)
Figure 3-6 Bar Chart: Number of Households by Race, Holly Hill, 1980
3-7 Histogram: Number of Households by Income, Bayside, 1980
Figure 3-8 Dot Diagram: Number of Households by Income, Bayside, 1980
Figure 3-9 Scatter Diagram: Rent versus Household Income, Fairmont, 1980
Figure 3-10 Time-Series Diagram: Number of Households Residing in Bayside, 1900–1980
B. Inferential statistics

- What can we infer about a population given a sample size and a sample statistic?
- A population parameter is a (usually unknown) summary measure of a characteristic of a full population.
- A sample statistic is a corresponding summary measure of a sample characteristic (usually known or calculated).
Let's say these are the ages of the people now in this room.

<table>
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</table>
Basic calculations:

- The range is $40 - 21 = 19$
- The average is $2945 / 100 = 29.45$
- The variance is
  - $37 - 29.45 = 7.55$ (difference)
  - $7.55$ squared is $57.0025$ (difference squared)
  - Sum all 100 differences squared and divide by $100 = 30.96$
- The standard deviation is the square root of the variance $= 5.56$
- The cases are bimodal. 11 people are 22 and another 11 are 29.
Now, let’s take a random sample of 10 cases

- Cases: 28, 70, 11, 81, 54, 66, 5, 6, 63, 37
- Ages: 34, 26, 29, 37, 21, 24, 33, 28, 32, 28
- The mean of these 10 cases is 29.20 but our population mean was 29.45.
- Inferential statistics help us understand how reliably a (known) sample statistic represents a (usually unknown) population parameter.
Now let’s take another sample of 10, and another, and another, and …

- If we took many, many samples of 10, most would have means near 29.45, with a few much lower and a few much higher.
- Over many samples, the mean of all the samples would come closer and closer to the population mean. This is the central limit theorem.
- We can graph a frequency distribution of the mean over many samples, which is called a sampling distribution.
Samples of size 10

Number of samples

25.45  29.45  35.45
If we took samples of 20, the curve would be narrower and higher. More samples would be closer to the real population mean, and fewer would be much lower or much higher.
The standard error of the mean depends on the standard deviation of the population and the size of the sample.
- The smaller the SD of the population, the smaller the error.
- The larger the sample size, the smaller the error.

Choosing an adequate sample size depends on the two factors listed above.

You may want to be 90% certain that the mean of the sample will be within one year of the mean of the population.
Hypothesis testing

- A sample of 500 voters might show that 52% will vote for candidate X.
- That 52% could result from either
  - Random sampling fluctuation, or
  - Over 50% of all voters will really vote for candidate X
- Hypothesis testing allows us to conclude with 95% certainty, that over 50% of voters support candidate X.
C. Forecasting methods

- Intuitive methods
  - Delphi
  - Scenario writing

- Extrapolation methods
  - Assume future change of same amount added or subtracted per year (or decade)
  - Assume future change of same percentage increase (or decrease) per year (or decade, or any period)
Theoretical methods

- Dependent variable or y variable: the variable being predicted
- Independent variable(s) or x variable(s): the variable(s) used to predict
- Three methods
  - Bivariate regression (one x variable)
  - Multiple regression (two or more x variables)
  - Gravity models
Bivariate regression

- Assumes a straight line can be used to describe the relationship between the independent (x) variable and the dependent (y) variable.

- $y = a + b \times x$

- a is the line’s y intercept
- b is the line’s slope

- $R^2$ measures how well the line fits the data and ranges from 0.0 to 1.0
Bivariate regression

We want to predict the number of autos per household.

This is our data for 10 census tracts.

Income is listed in thousands of dollars.

<table>
<thead>
<tr>
<th>Tract</th>
<th>Avg HH Income</th>
<th>Avg # of Autos per HH</th>
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</thead>
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<td>8.5</td>
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<td>1.2</td>
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<td>2.1</td>
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<td>10</td>
<td>34.8</td>
<td>2.5</td>
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</table>
Household Income vs. Auto Ownership

$y = 0.3591 + 0.065x$
Household Income vs. Auto Ownership

\[ y = 0.3591 + 0.065x \]

Constant is y intercept
Household Income vs. Auto Ownership

\[ y = 0.3591 + 0.065x \]

- Constant is y intercept
- X coefficient is slope of line

The graph shows the relationship between Household Income and Average # of Autos, with a linear equation \( y = 0.3591 + 0.065x \). The y-intercept represents the average number of autos when household income is zero, and the x-coefficient indicates the increase in average autos for each unit increase in household income.
Results of fitting regression lines to different datasets

(a) $r^2 \sim .9$
- $a < 0$
- $b > 0$

(b) $r^2 \sim .3$
- $a < 0$
- $b > 0$

(c) $r^2 = 0$
- $a > 0$
- $b = 0$

(d) $r^2 = 0$
- $a > 0$
- $b = 0$
Results of fitting regression lines to different datasets

- (e) $r^2 \sim .9$
  - $a > 0$
  - $b < 0$

- (f) $r^2 \sim .3$
  - $a > 0$
  - $b < 0$

- (g) $r^2 \sim .3$
  - $a > 0$
  - $b < 0$

- (h) $r^2 \sim .1$
  - $a > 0$
  - $b < 0$
Multiple regression uses more than one x variable

- $y$ (house sale price) = $x_1 \cdot \text{Square footage} + x_2 \cdot \text{Number of bedrooms} + x_3 \cdot \text{Number of bathrooms} + x_4 \cdot \text{Accessibility to employment} + x_5 \cdot \text{Location in historic district}$

- When an x coefficient is positive, higher values of x lead to higher values of y; when negative, lower
Trips from zone i to zone j =
- A constant (K) times
- An origin push force (population) times
- A destination pull force (employment) divided by
  - A friction component (travel time) raised to a power (often squared)

Total trips to one zone (j) are then the sum of trips from all origins (O_i)
D. Population analysis and projection

- An **estimate** is an indirect measure of a present or past condition that cannot be directly measured.

- A **projection** (or prediction) is a conditional statement about the future.

- A **forecast** is a judgmental statement of what the analyst believes to be the most likely future.
Non-component projection methods

- Extrapolation with graphs
- Time series regression, with time (year) as the independent (x) variable
- Ratio methods comparing to similar areas
- Share methods using proportions of regional or state projections
Time series regression to project US population

\[ y = -3777.7 + 2.0222 \times x \]

Predicted change in \( x \) for a one unit change in \( y \)

Each year, we add 2.02 million people.
Cohort component models

- We divide the population into cohorts by age (five years), sex, and race/ethnicity.
- Population change is subdivided into three components: births, deaths, migrants.
- Calculate birth rates, survival rates, and migration rates for a recent period.
- Extend those rates into the future, possibly adjusting them upward or downward.
- Birth and death data is readily available; migration data is difficult, apart from Census years.
Migration notes

- Migration can be projected as a function of changes in employment.
- Net migration = Inmigration - outmigration
- Net migration can estimated by the residual method:
  
  1990 population: 100,000
  2000 population: 120,000
  1990 to 2000 births: 5,000
  1990 to 2000 deaths: 3,000
  How many 1990 to 2000 inmigrants? (18,000)
E: Economic analysis
Economic base theory

- Assumes two kinds of industry
  - Basic or export: sells to customers outside the area of analysis
  - Service or non-basic: sells to customers within the area

- Economic base multiplier
  - Total employment / basic employment
  - A multiplier of 4.0 says that 4 total jobs are created for every additional basic job
Location quotients

- LQs compare the local concentration of employment in an industry to the national employment in that industry

\[
LQ_i = \frac{\text{Local employment in industry } I}{\text{Total local employment in all industries}} \div \frac{\text{National employment in industry } I}{\text{Total national employment in all industries}}
\]
More on location quotients

- Alternate formula: \( LQ_i = \frac{\text{Local percent of employment in industry } i}{\text{National percent of employment in industry } I} \)

- Interpreting LQs
  - If \( LQ_i \) is greater than 1.0 we can assume an export or basic industry
  - If \( LQ_i \) is less than 1.0 we can assume we import some goods or services
  - If \( LQ_i = 1.0 \), the region produces just enough to serve the region, and no more
Shift share analysis

Shift share analysis interprets changes in an industry’s local employment (over a period of x years) in terms of three components:

- National share: how much would local industry employment have changed if it mirrored changes in total national employment
- Industry mix: how much additional would it have changed if it mirrored national industry employment
- Local shift: how many additional jobs did the local industry gain or lose, presumably due to local competitive advantage or disadvantage.
F. Project analysis and benefit cost analysis

- Many public projects have high initial costs, then produce benefits for many years.
- $1,000 of benefits in 10 years is less valuable than $1,000 of benefits this year, because we could invest today’s $1,000 and earn 10 years worth of interest.
- Discounting reduces benefits (and costs) in future years to account for the time value of money.
Since many projects are evaluated by assessing their costs and benefits over some long time period, it is essential to understand both the mechanics of discounting and the major assumptions that underlie its use. Many projects will be characterized by a series of benefits ($B$) and costs ($C$) over time:

$$B_t + B_{t+1} + B_{t+2} + B_{t+3} + \ldots + B_n$$

and

$$C_t + C_{t+1} + C_{t+2} + C_{t+3} + \ldots + C_n$$

On occasion it is simply easier to speak about annual net benefits, which are really yearly benefits minus yearly costs:

$$(B_t - C_t) + (B_{t+1} - C_{t+1}) + (B_{t+2} - C_{t+2}) + (B_{t+3} - C_{t+3}) + \ldots + (B_n - C_n)$$

Any one of these yearly figures could be negative as well as positive. A typical public investment project ordinarily shows higher costs than benefits in the early years and higher benefits than costs in later years—or negative net benefits early and positive net benefits later. The one instance when you would not wish to compute net annual benefits before discounting would be if you wished to calculate a benefit-cost ratio. To do that, benefits and costs must be discounted separately. We will show this below.
### Figure 7-7 Basic Data for the Discounting Example

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<td>4%</td>
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<tr>
<td>Discount factor 1/(1 + r)^n</td>
<td>1.0</td>
<td>.9615</td>
<td>.9246</td>
<td>.8890</td>
<td>.8548</td>
<td>.8219</td>
</tr>
</tbody>
</table>

- **Initial construction cost**
- **Year 3 maintenance cost**
- **Annual benefits**
The most commonly encountered measure of the efficiency of a public investment project is its present worth, or net present value (NPV). NPV is the sum of all discounted benefits and discounted costs for the duration of the project. Thus:

\[ NPV = (B_t - C_t) + \frac{B_{t+1} - C_{t+1}}{(1 + r)^1} + \frac{B_{t+2} - C_{t+2}}{(1 + r)^2} + \ldots + \frac{B_n - C_n}{(1 + r)^n} \]

Let us illustrate the discounting procedure with an example. A project costs $15,000 to implement immediately (we won’t discount, and we will call this time zero). The project returns $4000 per year in benefits every year thereafter for the next five years and has only one remaining cost, a maintenance charge of $1223 in year three. The pattern of costs and benefits is shown in Figure 7-7.

Using, for example, a 4% discount rate, we can compute the net present value several ways. We will do it first by treating the cost and benefit streams separately, computing the discount factors using the formula \(1/(1 + r)^n\), which yields a discount factor of .9615 for year one and .9246 for year two, e.g. \(1/(1 + .04)^1\) and \(1/(1 + .04)^2\).

**Discounted benefits (DB)**
\[
= 0(1.0) + 4000(.9615) + 4000(.9246) + 4000(.8890) + 4000(.8548) + 4000(.8219)
= 4000(4.4518) = $17,807.20
\]

**Discounted costs (DC)**
\[
= -15,000(1.0) + 0(.9615) + 0(.9246) + (-1223)(.8890) + 0(.8548) + 0(.8219)
= -15,000 + (-1223)(.8890) = -15,000 + (-1087.25) = -$16,087.25
\]
Net present value thus is the simple sum of discounted benefits and costs. Note that for bookkeeping purposes, costs are expressed negatively. This convention can be helpful with larger problems that involve more extensive sets of figures.

\[
NPV = DB + DC = 17,807.20 + (-16,087.25) = +1,719.95
\]

Another method used to compute net present value first calculates the net annual benefits (benefits minus costs) and then discounts this number. In our example above this would be:

\[
NPV = (0 - 15,000)(1.0) + (4000 - 0)(.9615) + (4000 - 0)(.9246) + (4000 - 1223)(.8890) + (4000 - 0)(.8548) + (4000 - 0)(.8219) = -15,000 + 4000(.9615) + 4000(.9246) + 2777(.8890) + 4000(.8548) + 4000(.8219) = -15,000 + 3846.00 + 3698.40 + 2468.75 + 3419.20 + 3287.60 = -15,000 + 16,719.95 = +1719.95
\]

1. If NPV is positive, we should undertake the project.
2. Benefit cost ratio = 17,807.20 / 16,087.25 = 1.107

Begin with the projects with the highest BC ratios.
AICP Exam Review
Planning Methods Blitz

Study hard, and
Good luck on the exam!

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