ACCT 420: Course Logistics + R Refresh

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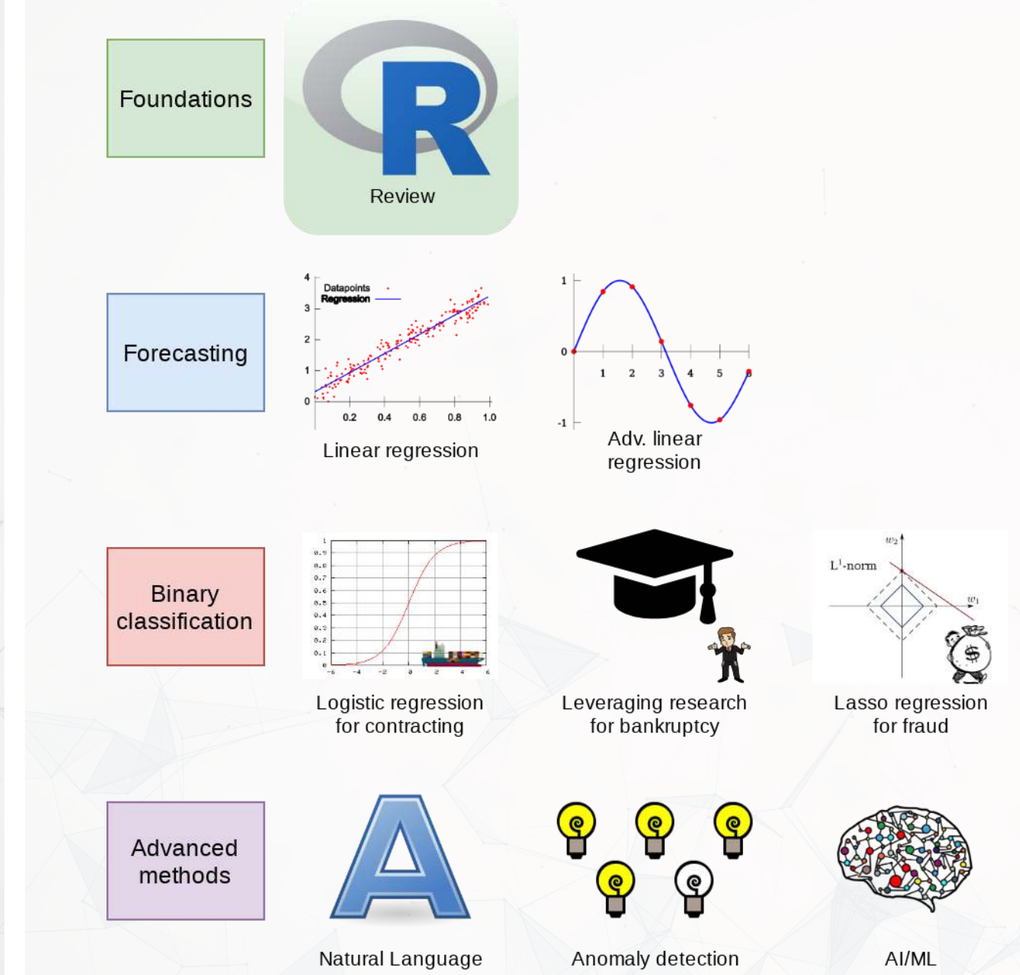
https://rmc.link/

Front Matter

Learning objectives



- **Theory:**
  - What is analytics?
- **Application:**
  - Who uses analytics? (and why?)
- **Methodology:**
  - Review of **R**
- Almost every class will touch on each of these three aspects

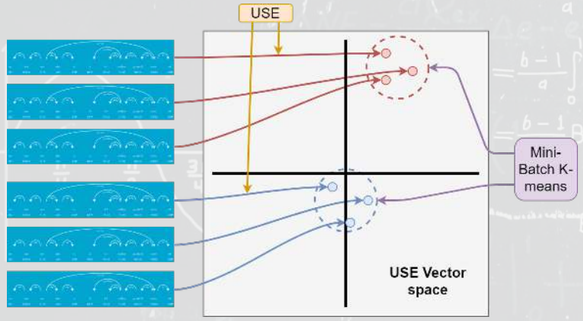
About Me

Teaching

- At SMU since 2016
- Teaching:
  - IDIS 700, Machine Learning for Social Science
    - A country-wide PhD course on *empirical* machine learning
  - ACCT 703, Analytical Methods in Accounting
    - Theory of accounting through the lenses of economics, history, and philosophy
  - ACCT 420, Forecasting and Forensic Analytics
    - Your are here!
  - ACCT 101, Financial Accounting
- Before SMU: Completed my PhD at University of Illinois Urbana-Champaign

Research

- Accounting disclosure: What companies say, and why it matters
  - Focus on social media and regulatory filings
- Approach this using AI/ML techniques



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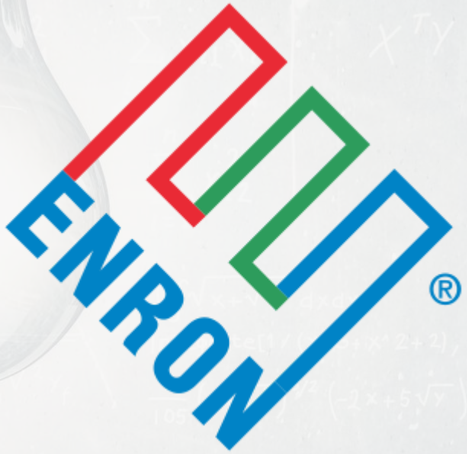


FTSE Straits Times Index

STI

OVERVIEW HISTORICAL PRICES ADVANCED CHARTING MAJOR U.S. STOCK INDEXES MAJOR INTERNATIONAL STOCK INDEXES

Chart Range

1D 5D 10D 1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y All Custom

Frequency

Daily

Display

Line

Indicators

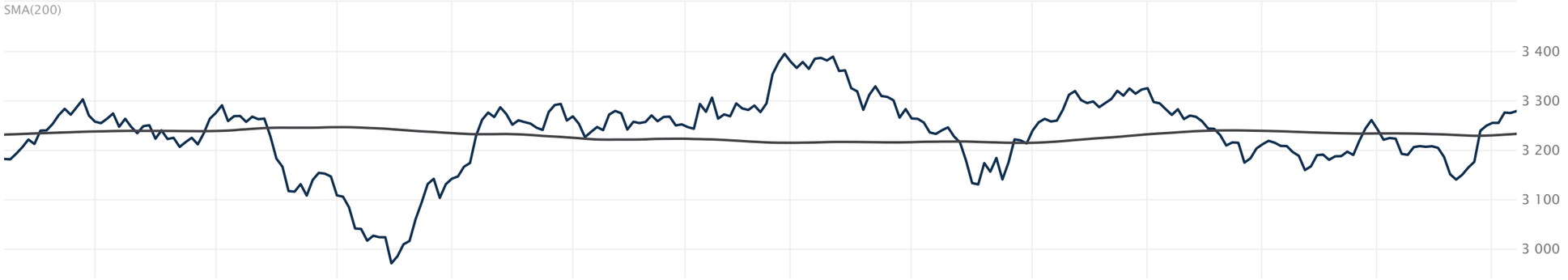
Chart Overlays Lower Charts Events News

Compare

Symbol ADD

Clear Settings

SG:STI Simple Moving Average Edit | ×



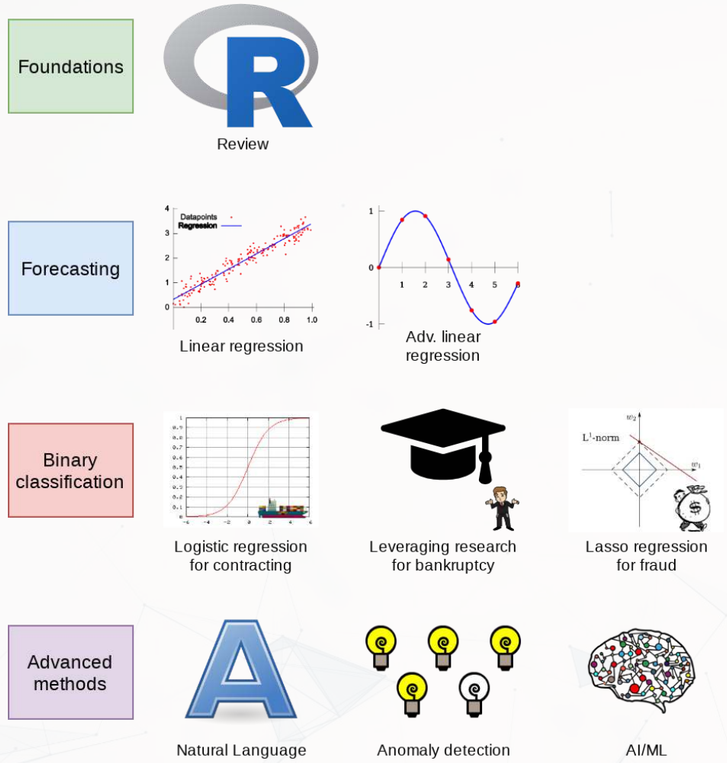
Research highlights

1. An advanced model for detecting financial misreporting using annual report text.
2. Multiple projects on Twitter showcasing:
    1. How companies disclose when financials are not normal or expected
    2. That executives' disclosures are as important on Twitter as their firms' disclosures
    3. That ESG disclosure on Twitter is not credible
3. Newer work on
    - Misinformation laws (e.g., POFMA)
    - Foundational problems of text-based sentiment in accounting and finance
    - COVID-19 reactions worldwide

> ⓘ **What is the common thread?**
>
> All of the above use text-based data paired with AI/ML algorithms. A secondary thread is the importance of *content*, while some papers also push for better *causality* in research.

About this course

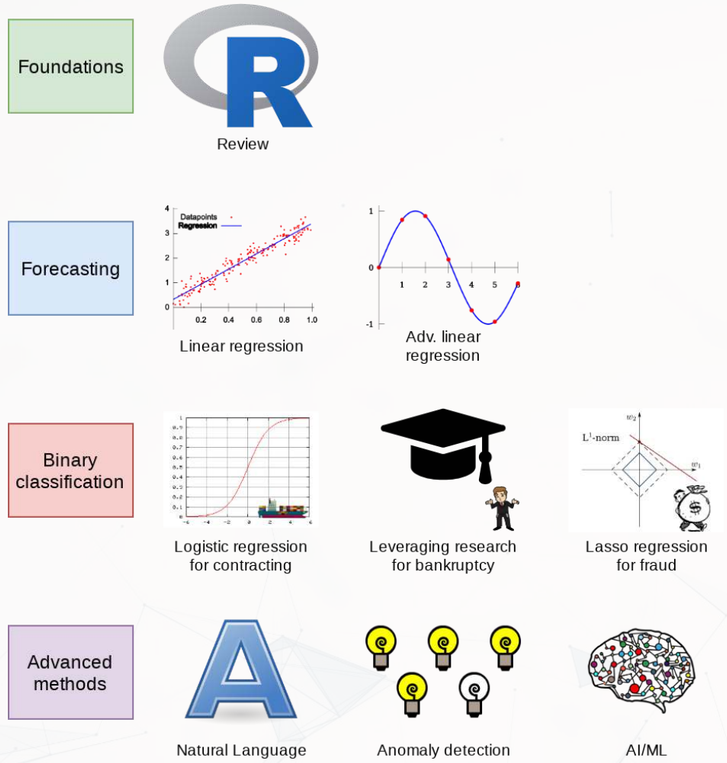
What will this course cover?



1. Foundations (*today*)
   - Thinking about analytics
   - In class: Setting a foundation for the course
   - Outside: Practice and refining skills on Datacamp
     - Pick any R course, any level, and try it out!
2. Financial forecasting
   - Predict financial outcomes
   - Linear models

> Getting familiar with forecasting using **real** data and R

What will this course cover?



3. Binary classification
   - Event prediction
   - Classification & detection
4. Advanced methods
   - Non-numeric data (text)
   - Clustering
   - AI/Machine learning (AI/ML)
     - Ethics of AI
     - Current developments, including LLMs (e.g., ChatGPT)

> Higher level financial forecasting, detection, and AI/ML

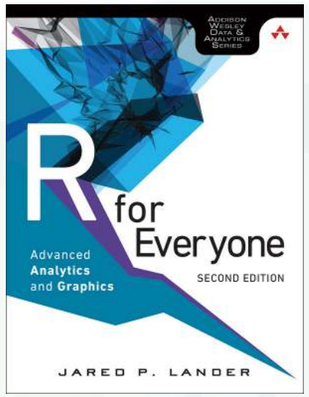
Datacamp

- Datacamp is providing *free* access to their *full* library of analytics and coding online tutorials
  - You will have free access for 6 months (Usually $25 USD/mo)
- Online tutorials include short exercises and videos to help you learn R
- I have suggested some limited materials via a Datacamp class
  - These are entirely optional
  - If you are struggling with coding, do make use of this resource!
    - Sign up through the link on eLearn
    - Make sure you sign up in the *first week* of the class!
- You are encouraged to go beyond the assigned materials

> Datacamp's tutorials teach R from the ground up, and are mandatory unless you can already code in R.

Textbook

- There is no required textbook
  - Datacamp is taking the place of the textbook
- If you prefer having a textbook…
  - R for Everyone by Jared Lander is a good one on R



- Other course materials (slides and articles) are available at:
  - eLearn
  - https://rmc.link/acct420
    - This includes html versions of the slides with interactive content
- Announcements will be only on eLearn

Teaching philosphy

1. Analytics is best learned by doing it
    - Less lecture, more thinking
2. Working with others greatly extends learning
    - If you are ahead:
        - The best sign that you've mastered a topic is if you can explain it to others
    - If you are lost:
        - Gives you a chance to get help the help you need

Grading

- Standard SMU grading policy
- Participation @ 10%
- Individual work @ 20%
- Group project @ 30%
- Final exam @ 40%

Participation

- Come to class
  - If you have a conflict, email me
    - Excused classes do not impact your participation grade
- Ask questions to *extend* **or** *clarify*
- Answer questions and explain answers
  - Give it your best shot!
- Help those in your group to understand concepts
- Present your work to the class
  - Come up with effective and creative solutions to the problems!

Outside of class

- Verify your understanding of the material
- Apply to other real world data
  - Techniques and code will be useful after graduation
- Answers are expected to be your own work, unless otherwise stated
  - No sharing answers (unless otherwise stated)
- Submit on eLearn
- I will provide snippets of code to help you with trickier parts

Group project

- Data science competition format, hosted on Kaggle
  - Multiple options for the project will be available
- The project will start on session 7
- The project will finish on session 12 with group presentations

Final exam

- Why?
  - Ex post indicator of attainment
- How?
  - 2 hours long
  - Most of it is lLong format: problem solving oriented
  - A small amount of MCQ focused on techniques

Expectations

In class

- Participate
  - Ask questions
    - Clarify
    - Add to the discussion
  - Answer questions
  - Work with classmates

Out of class

- Check eLearn for course announcements
- Do the assigned tutorials on Datacamp
  - This will make the course much easier!
- Do individual work on your own (unless otherwise stated)
  - Submit on eLearn
- Office hours are there to help!
  - Short questions can be emailed instead

Tech use

- Laptops and other tech are OK!
  - Use them for learning, not messaging
  - Furthermore, you will *need* a computer for this class
    - If you do not have access to one, I can provide you a laptop loan
- Examples of good tech use:
  - Taking notes
  - Viewing slides
  - Working out problems
  - Group work
- Avoid during class:
  - Messaging your friends on Telegram
  - Working on homework for the class in a few hours
  - Watching livestreams of pandas or Hearthstone

Office hours

- Prof office hours:
  - Bookable at rmc.link/420OH
- **Short** questions can be emailed
  - I try to respond within 24 hours

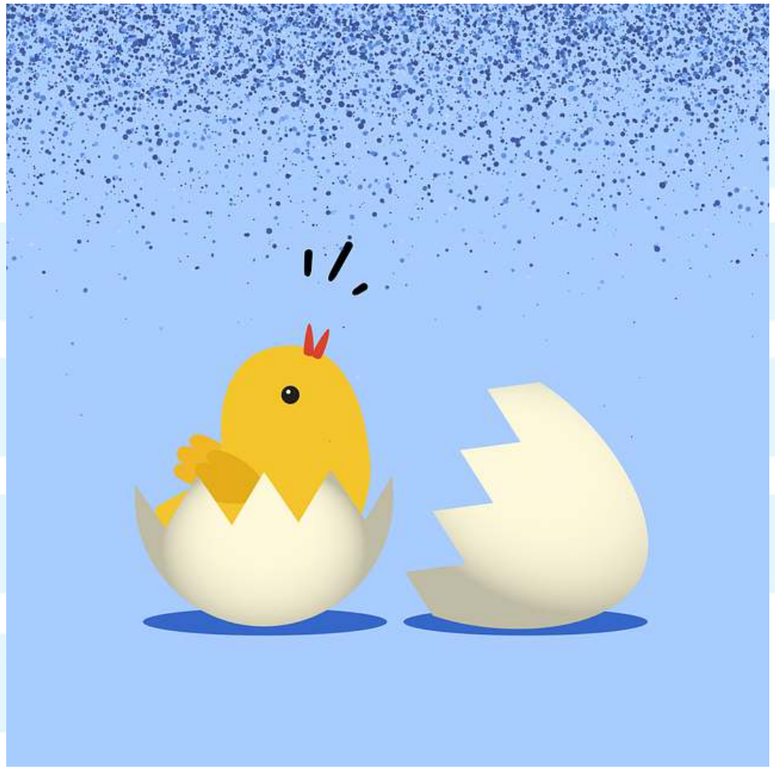
Lastly…

- I don’t expect everything to run 100% smoothly on either side, and there will be leniency to account for this as needed
  - If you will miss an in-person session, let me know the reason in advance, and then work with your peers to catch up
  - If you will miss a Zoom session, please let me know the reason in advance, and then work through the recording on your own
- I always provide a survey at the end of each class session that allows you to anonymously voice anything you liked or didn’t like about a session. Do use this channel if you encounter any difficulties. Common agreed-upon problems will be addressed within 1-2 class sessions.
  - The survey link is on eLearn (under the session’s folder) and will be on the last slide I present each week.

Likely schedule adjustment

Expect one class session to be cancelled in mid-to-late October

- Some class session may be moved to Zoom as well, as needed



About this course: Online version addendum

General Zoom etiquette

- Keep your mic muted when you are not speaking
  - 20+ mics all on at once creates **a lot** of background noise
- You are welcome to leave your video on – seeing your reactions helps me to gauge your learning of the course content
  - If you are uncomfortable doing so, please have a profile photo of yourself
    - To do this, click yourself in the participants window, click “more” or “…” and then “Edit Profile Picture”
- Feel free to use Zoom’s built in functionality for backgrounds
  - Just be mindful that this is considered a professional environment and that the class sessions are recorded

> All sessions will be recorded to provide flexibility for anyone missing class to still see the material. It also allows you to easily review the class material.

Asking questions

- If you have a question, use the *Raise Hand* function
  - Where to find it:
    - Desktop: Click *Reactions* and then *Raise hand*
    - Mobile: Under *More* in the toolbar
  - When called on:
    1. Unmute yourself.
    2. Turn on your video if you are comfortable with it
    3. Ask your question.
    4. You are always welcome to ask follow up questions or clarifications in succession
    5. After your question is answered, **mute your mic**.

Group work on Zoom

- I will make use of the Breakout room functionality
- Your group can use the “Share screen function” to emulate crowding around one laptop
- If your group is stuck or needs clarification, you can use the *Ask for help* function to get my attention
- I will drop by each group from time to time to check in and see how you are doing with the problem
- I may also ask your group to present something to the class after a breakout session is finished.

> Before project groups are settled, groups will be randomized each class session to encourage you to meet each other. Once group project groups are set, breakout sessions will be with your group project group.

About you

About you

- Survey at rmc.link/aboutyou
- Results are anonymous
- We will go over the survey next week at the start of class

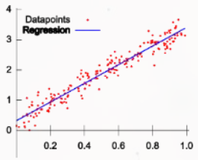
Analytics

Learning objectives

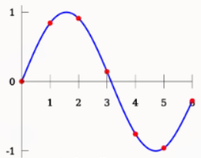
Foundations

Review

Forecasting

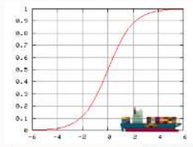


Linear regression



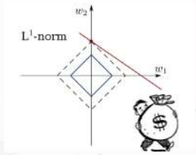
Adv. linear regression

Binary classification



Logistic regression for contracting

Leveraging research for bankruptcy



Lasso regression for fraud

Advanced methods

Natural Language

Anomaly detection

AI/ML

- **Theory:**
  - What is analytics?
- **Application:**
  - Who uses analytics? (and why?)
- **Methodology:**
  - Review of **R**

*Almost every class will touch on each of these three aspects

What is analytics?

What is analytics?

> Oxford: The systematic computational analysis of data or statistics

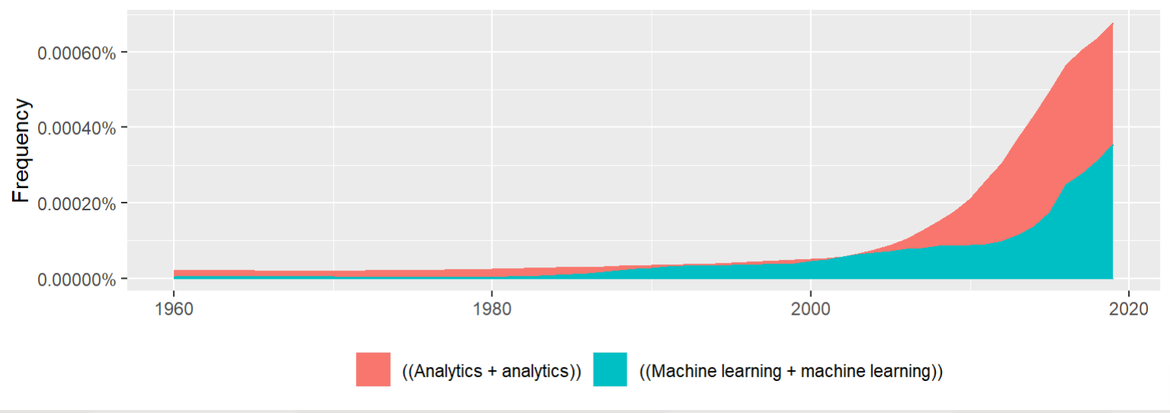
> Webster: The method of logical analysis

> Gartner: catch-all term for a variety of different business intelligence […] and application-related initiatives

What is analytics?

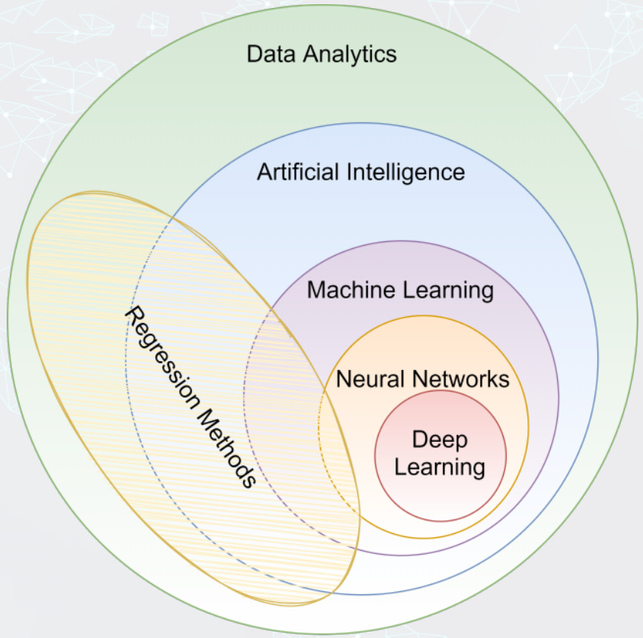
> Simply put: Answering questions using data

- Additional layers we can add to the definition:
  - Answering questions using *a lot of* data
  - Answering questions using data *and statistics*
  - Answering questions using data *and computers*



Made using ngramr

Analytics vs AI/machine learning



- In class reading:
  - AI Will Enhance Us, Not Replace Us
  - By DataRobot's VP of AI Strategy
  - Short link: *rmc.link/420class1*

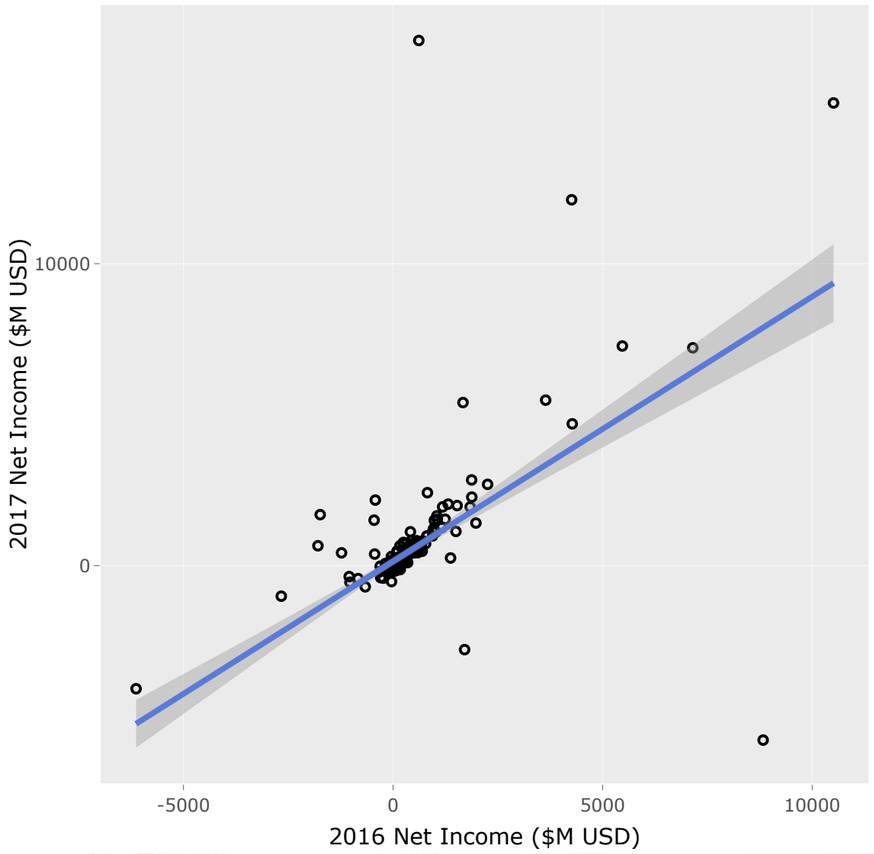
How will Analytics/AI/ML change society and the accounting profession?

What are forecasting analytics?

- Forecasting is about making an educated guess of events to come in the future
  - Who will win the next soccer game?
  - What stock will have the best (risk-adjusted) performance?
  - What will Singtel's earnings be next quarter?
- Leverage *past* information
  - Implicitly assumes that the past and the future predictably related

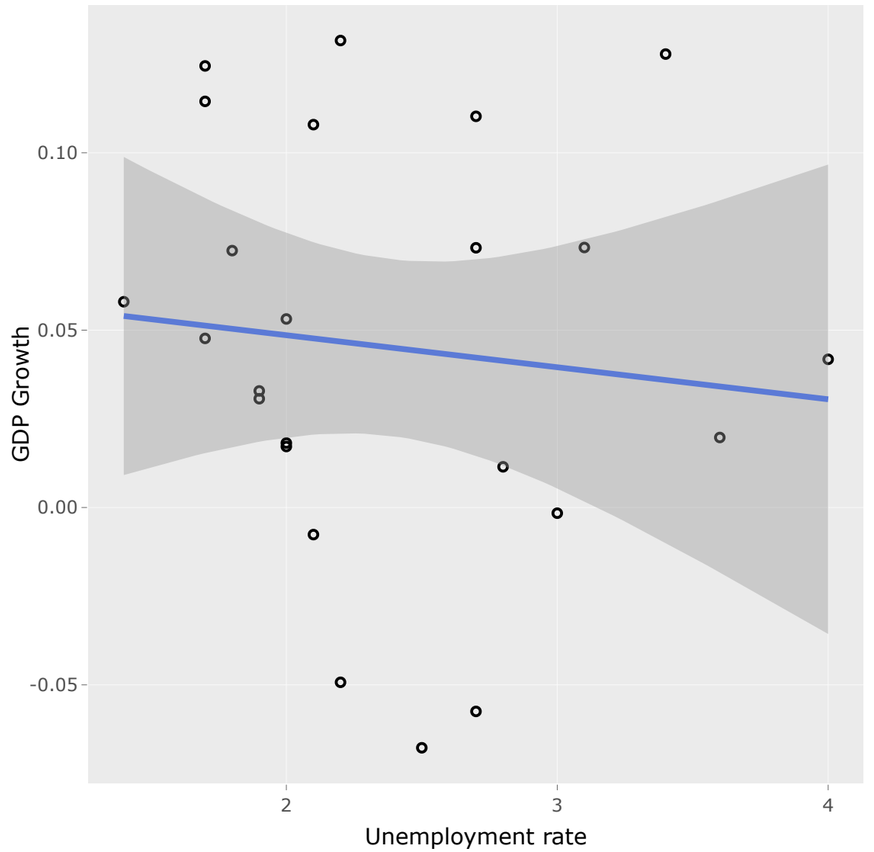
Past and future examples

- Past company earnings predicts future company earnings
  - Some earnings are stable over time (Ohlsson model)
  - Correlation: 0.7400142



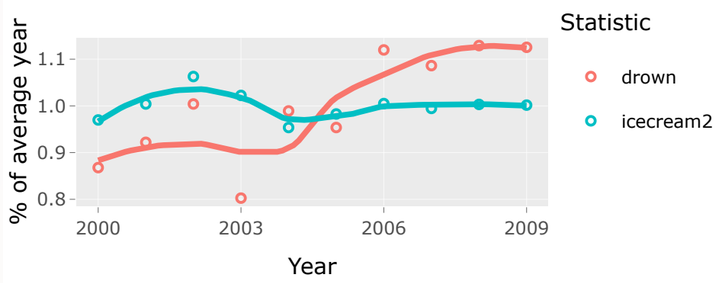
Past and future examples

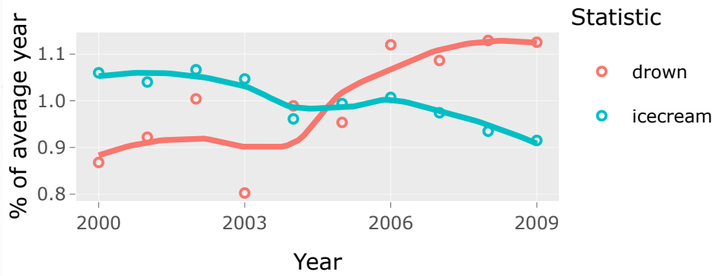
- Job reports predicts GDP growth in Singapore
  - Economic relationship
  - More unemployment in a year is related to lower GDP growth
    - Correlation of -0.1047259

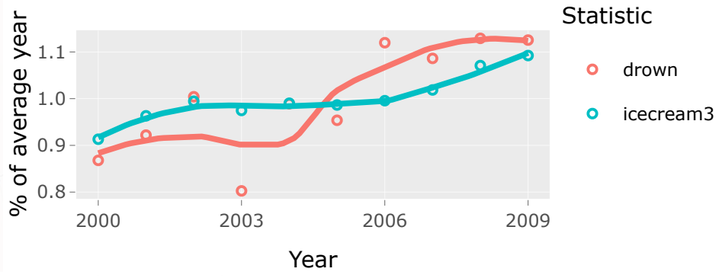


Past and future examples

- Ice cream revenue predicts pool drownings in the US
  - ???
  - Correlation is… only 0.0502886
- What about units sold?
  - Correlation is negative!!!
  - -0.720783
- What about price?
  - Correlation is 0.7872958



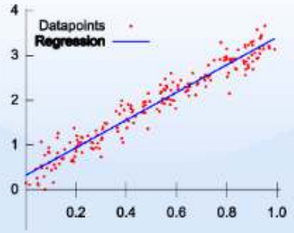




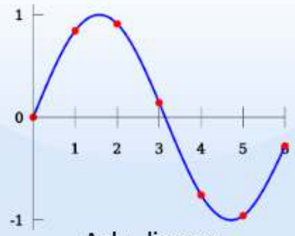
> This is where the “educated” comes in

Forecasting analytics in this class

- Revenue/sales
- Shipping delays
- Bankruptcy
- Machine learning applications



Linear regression



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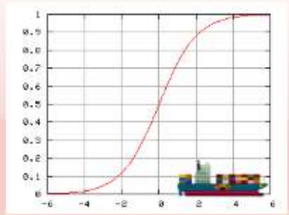


Logistic regression for contracting

Leveraging research for bankruptcy

AI/ML

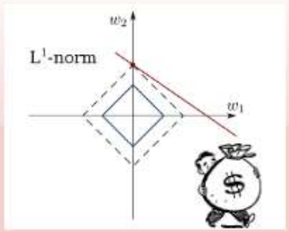
What are forensic analytics?

- Forensic analytics focus on *detection*
  - Detecting crime such as bribery
  - Detecting fraud within companies
  - Looking at a lot of dog pictures to identify features unique to each breed

Forensic analytics in this class

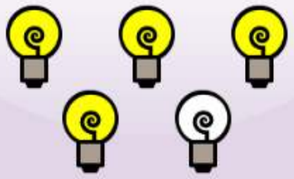
- Fraud detection
- Working with textual data
- Detecting changes
- Machine learning applications

Leveraging research for bankruptcy



Lasso regression for fraud

Natural Language



Anomaly detection

AI/ML

Forecasting vs forensic analytics

- Forecasting analytics requires a time dimension
  - Predicting *future* events
- Forensic analytics is about understanding or detecting something
  - Doesn’t need a time dimension, but it can help

> These are not mutually exclusive. Forensic analytics can be used for forecasting!

Who uses analytics?

In general

- Companies
  - Finance
  - Manufacturing
  - Transportation
  - Computing
  - …
- Governments
  - AI.Singapore
  - Big data office
  - “Smart” initiatives
- Academics
- Individuals!

> 53% of companies were using big data in a 2017 survey!

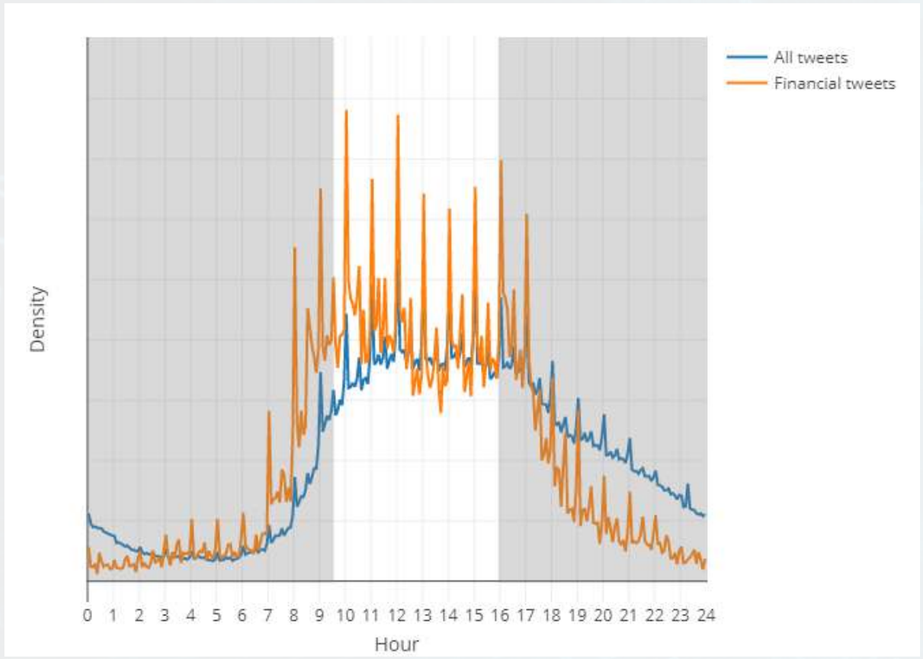
What do companies use analytics for?

- Customer service
  - Royal Bank of Scotland
    - Understanding customer complaints
- Improving products
  - Siemens' Internet of Trains
    - Improving train reliability
- Their business
  - $18.3B USD market in 2017
    - Just a small portion of overall IT spending ($3.7T USD)

What do governments use analytics for?

- Govtech
- Open data
  - Data.gov.sg
  - City of New York
- AI Singapore
  - Talent matching
    - 100 Experiments
  - Grand Challenges

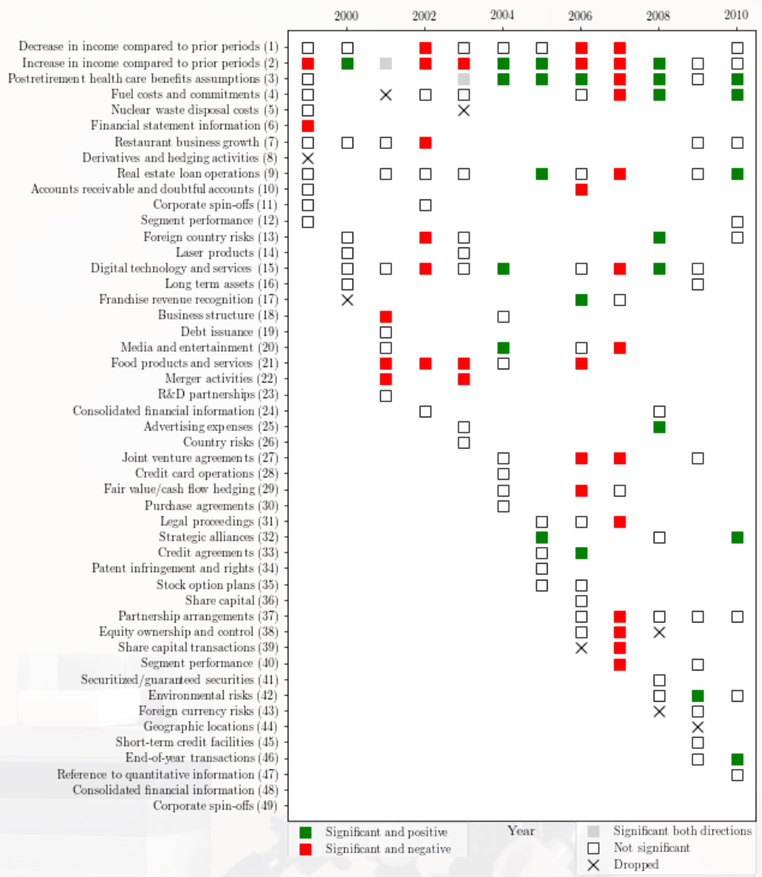
What do academics use analytics for?



- Tweeting frequency by S&P 1500 companies (paper)
- Aggregates every tweet from 2012 to 2016
- Shows frequency in 5 minute chunks
  - Note the spikes every hour!
- The white part is the time the NYSE is open

What do academics use analytics for?

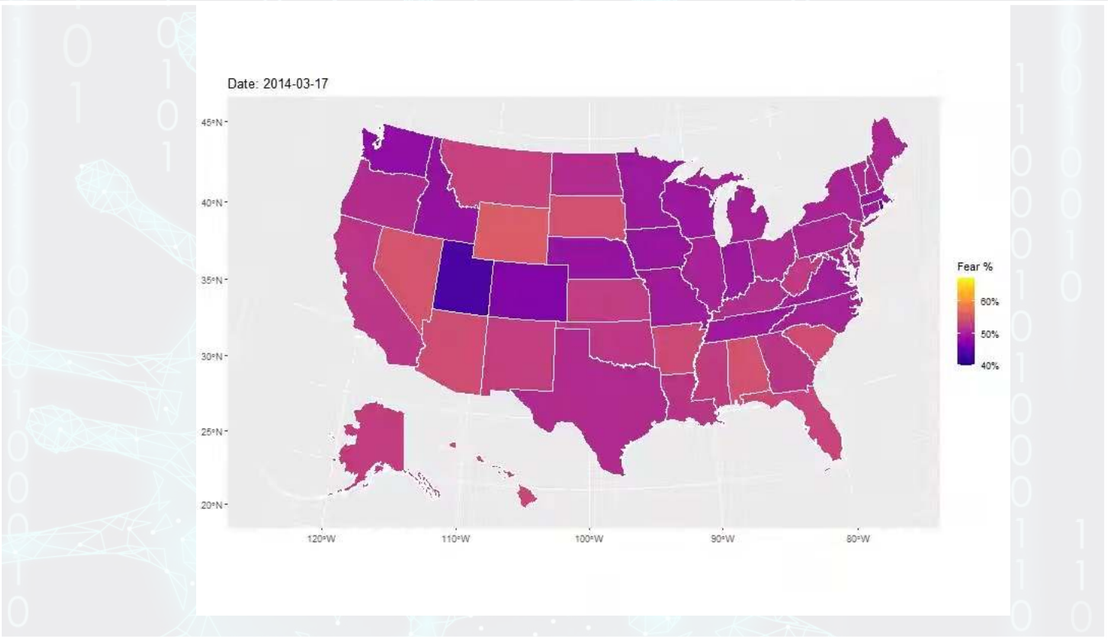
- Annual report content that predicts fraud (paper)
- For instance, discussing income is useful
  - first row is decreases, second is increases
  - But if it's good or bad depends on the year
  - For instance, in 1999 it is a red flag
    - And one that Enron is flagged for



What do academics use analytics for?

- COVID-19 fear on Twitter, 2020 Mar to Oct
- Helps us to understand socieconomic reactions to events

> What do the spikes indicate?



> To learn more, check out these slides

What do individuals use analytics for?

- Consulting
  - Radim Rehurek: Maintainer of gensim, freelance consultant
- Investing
  - Quantnet discussions
- Health
  - Smart watches and other wearables

Why should you learn analytics?

- Important skill for understanding the world
  - Good timing to learn it, too!
- Gives you an edge over many others
  - Particularly useful for your career
- Jobs for “Management analysts” are expected to expand by 14% from 2016 to 2026
  - Accountants and auditors: 10%
  - Financial analysts: 11%
  - Average industry: 7%
  - All figures from US Bureau of Labor Statistics

Review of R

What is R?

- R is a “statistical programming language”
  - Focused on data handling, calculation, data analysis, and visualization
- We will use R for all work in this course

Why do we need R?

- Analytics deals with more data than we can process by hand
  - We need to ask a computer to do the work!
- R is one of the de facto standards for analytics work
  - Third most popular language for data analytics and machine learning (source)
  - Fastest growing of all mainstream languages
  - Free and open source, so you can use it anywhere
  - It can do most any analytics
  - Not a general programming language

> Programming in R provides a way of talking with the computer to make it do what you want it to do

Alternatives to R

- Extremely popular
- Free and open source
- Very strong AI/ML support

- Fast and free
- Mathematics oriented
- Still young though

- Fast and free
- Focused on scalability, basis of Apache Spark

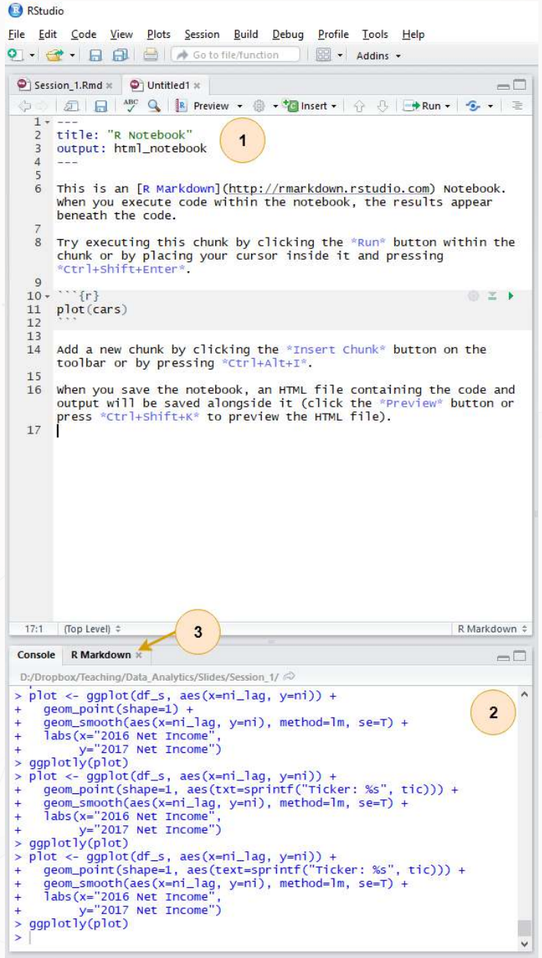
Setup for R

Setup

- For this class, I will assume you are using RStudio with the default R installation
  - RStudio downloads
  - R for Windows
  - R for (Max) OS X (Download R-4.1.1.pkg)
  - R for Linux
- For the most part, everything will work the same across all computer types
- Everything in these slides was tested on R 4.1 and 4.3 on Windows and Linux

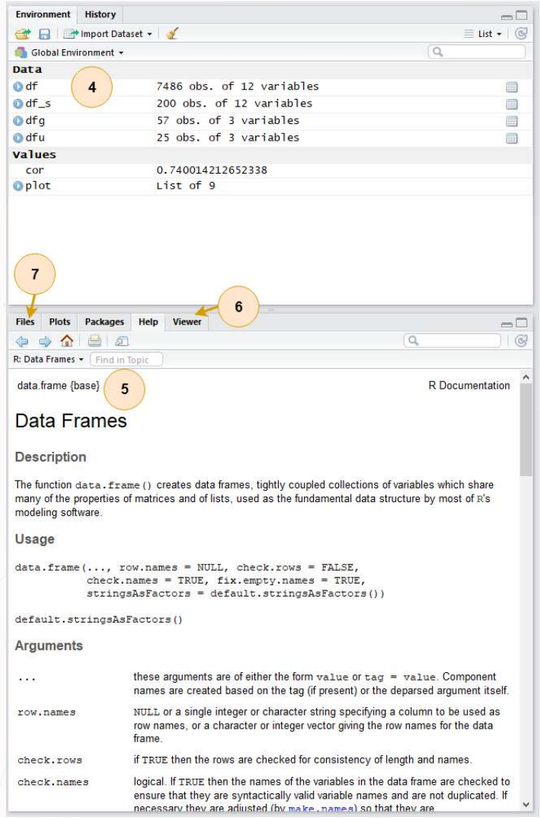
How to use R Studio

1. R markdown or Quarto file
    - You can write out reports with embedded analytics
2. Console
    - Useful for testing code and exploring your data
    - Enter your code one line at a time
3. R Markdown console
    - Shows if there are any errors when preparing your report



How to use R Studio

4. Environment
    - Shows all the values you have stored
5. Help
    - Can search documentation for instructions on how to use a function
6. Viewer
    - Shows any output you have at the moment.
7. Files
    - Shows files on your computer



Basic R commands

Arithmetic

- Anything in boxes like those on the right in my slides are R code
- The slides themselves are made in R, so you could copy and paste any code in the slides right into R to use it yourself
- Blue boxes: Code
  - Lines starting with # are comments
    - They only explain what the code does
- White boxes: Output

```
# Addition uses '+'
1 + 1
```

```
[1] 2
```

```
# Subtraction uses '-'
2 - 1
```

```
[1] 1
```

```
# Multiplication uses '*'
3 * 3
```

```
[1] 9
```

```
# Division uses '/'
4 / 2
```

```
[1] 2
```

Arithmetic

- Exponentiation
  - Write x^y as `x ^ y`
- Modulus
  - The remainder after division
  - Ex.: $46 \bmod 6 = 4$
    1. $6 \times 7 = 42$
    2. $46 - 42 = 4$
    3. $4 < 6$, so 4 is the remainder
- Integer division (not used often)
  - Like division, but it drops any decimal

```
# Exponentiation uses '^'
5 ^ 5
```

```
[1] 3125
```

```
# Modulus (aka the remainder) uses '%%'
46 %% 6
```

```
[1] 4
```

```
# Integer division uses '%/%'
46 %/% 6
```

```
[1] 7
```

Variable assignment

- Variable assignment lets you give something a name
  - This lets you easily reuse it
- In R, we can name almost anything that we create
  - Values
  - Data
  - Functions
  - etc…
- We will name things using the `<-` operator

```
# Store 2 in 'x'
x <- 2

# Check the value of x
x
```

```
[1] 2
```

```
# Store arithmetic in y
y <- x * 2

# Check the value of y
y
```

```
[1] 4
```

Variable assignment

- Note that values are calculated at the time of assignment
- We previously set `y <- 2 * x`
- If we change the values of `x` and `y` remain unchanged!

```r
# Previous value of x and y
cat(x, y)
```

```
2 4
```

```r
# Change x, then recheck the value
# of x and y
x <- 200

cat(x, y)
```

```
200 4
```

Application: Singtel's earnings growth

> Set a variable `growth` to the amount of Singtel's earnings growth percent in 2018

```
# Data from Singtel's earnings reports, in Millions of SGD
singtel_2017 <- 3831.0
singtel_2018 <- 5430.3

# Compute growth
growth <- singtel_2018 / singtel_2017 - 1

# Check the value of growth
growth
```

```
[1] 0.4174628
```

Recap

- So far, we are using R as a glorified calculator
- The key to using R is that we can scale this up with little effort
  - Calculating *every* public companies' earnings growth isn't much harder than calculating Singtel's!

> Scaling this up will give use a lot more value

- How to scale up:
  1. Use data structures to hold collections of data
     - Could calculate growth for **all** companies instead of just Singtel, using the same basic structure
  2. Leverage **functions** to automate more complex operations
     - There are many functions built in, and **many** more freely available

Data structures

Data types

- Numeric: Any number
  - Positive or negative
  - With or without decimals
- Boolean: TRUE or FALSE
  - Capitalization matters!
  - Shorthand is T and F
- Character: “text in quotes”
  - More difficult to work with
  - You can use either single or double quotes
- Factor: Converts text into numeric data
  - Categorical data

```r
company_name <- "Google"  # character
company_name
```

```
[1] "Google"
```

```r
company_name <- 'Google'  # character
company_name
```

```
[1] "Google"
```

```r
tech_firm <- TRUE  # boolean
tech_firm
```

```
[1] TRUE
```

```r
earnings <- 12662  # numeric, $M USD
earnings
```

```
[1] 12662
```

Scaling up…

- We already have some data entered, but it's only a small amount
- We can scale this up using …
  - Vectors using `c()` – holds only 1 type
  - Matrices using `matrix()` – holds only 1 type
  - Lists using `list()` – holds anything (including other structures)
  - Data frames using `data.frame()` – holds different types by column

Vectors: What are they?

- Remember back to linear algebra…

Examples:

$$\begin{pmatrix} 1 \\ 2 \\ 3 \\ 4 \end{pmatrix} \quad \text{or} \quad \begin{pmatrix} 1 & 2 & 3 & 4 \end{pmatrix}$$

> A row (or column) of data

Vector example: Profit margin for tech firms

```r
# Calculating profit margin for all public US tech firms
# 715 tech firms in Compustat with >1M sales in 2017

# Data:
#    earnings_2017: vector of earnings, $M USD
#    revenue_2017: vector of revenue, $M USD
#    names_2017: a vector of tickers (strings)

# Naming the vectors
names(earnings_2017) <- names_2017
names(revenue_2017) <- names_2017

earnings_2017[1:6]
```

```
             AVX CORP        BK TECHNOLOGIES ADVANCED MICRO DEVICES
                4.910                -3.626                43.000
ASM INTERNATIONAL NV SKYWORKS SOLUTIONS INC         ANALOG DEVICES
              543.878              1010.200               727.259
```

```r
revenue_2017[1:6]
```

```
             AVX CORP        BK TECHNOLOGIES ADVANCED MICRO DEVICES
             1562.474                39.395              5329.000
ASM INTERNATIONAL NV SKYWORKS SOLUTIONS INC         ANALOG DEVICES
              886.503              3651.400              5107.503
```

Vector example: Profit margin for tech firms

```r
# Summarizing vectors
summary(earnings_2017)
```

```
    Min.  1st Qu.   Median     Mean  3rd Qu.     Max.
-4307.49   -15.98     1.84   296.84    91.36 48351.00
```

```r
summary(revenue_2017)
```

```
     Min.   1st Qu.    Median      Mean   3rd Qu.      Max.
     1.06    102.62    397.57   3023.78   1531.59 229234.00
```

```r
# Calculating profit margin
margin <- earnings_2017 / revenue_2017
summary(margin)
```

```
     Min.   1st Qu.    Median      Mean   3rd Qu.      Max.
-13.97960  -0.10253   0.01353  -0.10967   0.09295   1.02655
```

```r
# Worst, midpoint, and best profit margin firms in 2017. Our names carried over :)
margin[order(margin)][c(1, length(margin) / 2, length(margin))]
```

```
HELIOS AND MATHESON ANALYTIC                    NLIGHT INC
               -13.97960161                    0.01325588
          CCUR HOLDINGS INC
                 1.02654899
```

Matrices: What are they?

- Remember back to linear algebra…

Example:

$$\begin{pmatrix} 1 & 2 & 3 & 4 \\ 5 & 6 & 7 & 8 \\ 9 & 10 & 11 & 12 \end{pmatrix}$$

> A rows *and* columns of data

Selecting from matrices

- Select using 2 indexes instead of 1:
  - `matrix_name[rows,columns]`
  - To select all rows or columns, leave that index blanks

```
columns <- c("Google", "Microsoft", "Goldma
rows <- c("Earnings","Revenue")

firm_data <- matrix(data=c(12662, 21204, 42
  110855, 89950, 42254), nrow=2)
# Equivalent:
# matrix(data=c(12662, 21204, 4286,
#   110855, 89950, 42254), ncol=3)

# Apply names
rownames(firm_data) <- rows
colnames(firm_data) <- columns

# Print the matrix
firm_data
```

```
          Google Microsoft Goldman
Earnings  12662      4286   89950
Revenue   21204    110855   42254
```

```
firm_data[2, 3]
```

```
[1] 42254
```

```
firm_data[, c("Google", "Microsoft")]
```

```
          Google Microsoft
Earnings  12662      4286
Revenue   21204    110855
```

```
firm_data[1,]
```

```
   Google Microsoft   Goldman
    12662      4286     89950
```

```
firm_data["Revenue", "Goldman"]
```

```
[1] 42254
```

Combining matrices

- Matrices are combined top to bottom as rows with `rbind()`
- Matrices are combined side-by-side as columns with `cbind()`

```
# Preloaded: industry codes as indcode (vector)
#     - GICS codes: 40=Financials, 45=Information Technology
#     - See: https://en.wikipedia.org/wiki/Global_Industry_Classification_Standard
# Preloaded: JPMorgan data as jpdata (vector)

mat <- rbind(firm_data,indcode)  # Add a row
rownames(mat)[3] <- "Industry"  # Name the new row
mat
```

```
          Google Microsoft Goldman
Earnings   12662      4286   89950
Revenue    21204    110855   42254
Industry      45        45      40
```

```
mat <- cbind(firm_data,jpdata)  # Add a column
colnames(mat)[4] <- "JPMorgan"  # Name the new column
mat
```

```
          Google Microsoft Goldman JPMorgan
Earnings   12662      4286   89950    17370
Revenue    21204    110855   42254   115475
```

Lists: What are they?

- Like vectors, but with mixed types
- Generally not something we will create
- Often returned by analysis functions in R

```r
# Ignore this code for now...
model <- summary(lm(earnings ~ revenue, data=tech_df))
#Note that this function is hiding something...
model
```

```
Call:
lm(formula = earnings ~ revenue, data = tech_df)

Residuals:
     Min       1Q   Median       3Q      Max
-16045.0     20.0    141.6    177.1  12104.6

Coefficients:
             Estimate Std. Error t value Pr(>|t|)
(Intercept) -1.837e+02  4.491e+01  -4.091 4.79e-05 ***
revenue      1.589e-01  3.564e-03  44.585  < 2e-16 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 1166 on 713 degrees of freedom
```

Looking into lists

- Lists generally use double square brackets, `[[index]]`
  - Used for pulling individual elements out of a list
- `[[c()]]` will drill through lists, as opposed to pulling multiple values
- Single square brackets pull out elements as is
- Double square brackets extract just the element
- For 1 level, we can also use `$`

```
model["r.squared"]
```

```
$r.squared
[1] 0.7360059
```

```
model[["r.squared"]]
```

```
[1] 0.7360059
```

```
model$r.squared
```

```
[1] 0.7360059
```

```
earnings <- c(12662, 21204, 4286)
company <- c("Google", "Microsoft", "Goldma
names(earnings) <- company
earnings["Google"]
```

```
Google
 12662
```

```
earnings[["Google"]]
```

```
[1] 12662
```

```
#Can't use $ with vectors
```

Structure of a list

- `str()` will tell us what's in this list

```
str(model)
```

```
List of 11
 $ call          : language lm(formula = earnings ~ revenue, data = tech_df)
 $ terms         :Classes 'terms', 'formula'  language earnings ~ revenue
  .. ..- attr(*, "variables")= language list(earnings, revenue)
  .. ..- attr(*, "factors")= int [1:2, 1] 0 1
  .. .. ..- attr(*, "dimnames")=List of 2
  .. .. .. ..$ : chr [1:2] "earnings" "revenue"
  .. .. .. ..$ : chr "revenue"
  .. ..- attr(*, "term.labels")= chr "revenue"
  .. ..- attr(*, "order")= int 1
  .. ..- attr(*, "intercept")= int 1
  .. ..- attr(*, "response")= int 1
  .. ..- attr(*, ".Environment")=<environment: R_GlobalEnv>
  .. ..- attr(*, "predvars")= language list(earnings, revenue)
  .. ..- attr(*, "dataClasses")= Named chr [1:2] "numeric" "numeric"
```

What are data frames?

- Data frames are like a hybrid between lists and matrices

Like a matrix:

- 2 dimensional like matrices
- Can access data with [ ]
- All elements in a column must be the same data type

Like a list:

- Can have different data types for different columns
- Can access data with $

> Columns ≈ variables, e.g., earnings

> Rows ≈ observations, e.g., Google in 2017

Three schools of thought on data handling

1. Use *Base R* functions (i.e., what's built in)
    - Tends to be tedious
2. Use *tidy* methods (from tidyverse)
    - Almost always cleaner and more readable
    - Usually faster, sometimes slower
    - This creates a structure called a `tibble`
3. Use *data.table* (from data.table)
    - Very structured syntax, but difficult to read
    - Almost always fastest and memory efficient – use when speed is needed
    - This creates a structure called a `data.table`

title.optional

You can case `tibble` and `data.table` objects to a `data.frame` using `as.data.frame()`

Data in Base R

> Note: Base R methods are explained in the R Supplement

```r
library(tidyverse)  # Imports most tidy packages
# Base R data import -- stringsAsFactors is important here
df <- read.csv("../../Data/Session_1-2.csv", stringsAsFactors=FALSE)
df <- subset(df, fyear == 2017 & !is.na(revt) & !is.na(ni) &
             revt > 1 & gsector == 45)
df$margin = df$ni / df$revt
summary(df)
```

```
     gvkey           datadate            fyear         indfmt
Min.   :  1072   Min.   :20170630   Min.   :2017   Length:715
1st Qu.: 20231   1st Qu.:20171231   1st Qu.:2017   Class :character
Median : 33232   Median :20171231   Median :2017   Mode  :character
Mean   : 79699   Mean   :20172029   Mean   :2017
3rd Qu.:148393   3rd Qu.:20171231   3rd Qu.:2017
Max.   :315629   Max.   :20180430   Max.   :2017

   consol             popsrc            datafmt             tic
Length:715         Length:715         Length:715         Length:715
Class :character   Class :character   Class :character   Class :character
Mode  :character   Mode  :character   Mode  :character   Mode  :character
```

Data the tidy way

```r
# Tidy import
df <- read_csv("../../Data/Session_1-2.csv") %>%
  filter(fyear == 2017,       # fiscal year
         !is.na(revt),        # revenue not missing
         !is.na(ni),          # net income not missing
         revt > 1,            # at least 1M USD in revenue
         gsector == 45) %>%   # tech firm
  mutate(margin = ni/revt)    # profit margin
summary(df)
```

```
    gvkey              datadate            fyear         indfmt
 Length:715         Min.   :20170630   Min.   :2017   Length:715
 Class :character   1st Qu.:20171231   1st Qu.:2017   Class :character
 Mode  :character   Median :20171231   Median :2017   Mode  :character
                    Mean   :20172029   Mean   :2017
                    3rd Qu.:20171231   3rd Qu.:2017
                    Max.   :20180430   Max.   :2017
    consol             popsrc            datafmt              tic
 Length:715         Length:715         Length:715         Length:715
 Class :character   Class :character   Class :character   Class :character
 Mode  :character   Mode  :character   Mode  :character   Mode  :character



     conm               curcd                 ni                revt
```

Other important tidy methods

- Sorting: use `arrange()`
- Grouping for calculations:
  - Group using `group_by()`
  - Ungroup using `ungroup()` once you are done
- Keep only a subset of variables using `select()`
- We'll see many more along the way!

A note on syntax: Piping

> Pipe notation is never necessary and not built in to R

- Piping comes from magrittr
  - The %>% pipe is loaded with tidyverse
- Pipe notation is done using %>%
  - `Left %>% Right(arg2, ...)` is the same as `Right(Left, arg2, ...)`

Why Pipes?

Piping can drastically improve code readability. Piped code tells you the list of operations applied to a single starting object, such as a data frame.

- magrittr has other interesting pipes, such as %<>%
  - `Left %<>% Right(arg2, ...)` is `Left <- Right(Left, arg2, ...)`
  - To load these other pipes, you need to explicitly load magrittr

Tidy example without piping

```r
df <- mutate(
        filter(
          read_csv("../../Data/Session_1-2.csv"),
          fyear == 2017,       # fiscal year
          !is.na(revt),        # revenue not missing
          !is.na(ni),          # net income not missing
          revt > 1,            # at least 1M USD in revenue
          gsector == 45),  # tech firm
        margin = ni/revt)    # profit margin
summary(df)
```

```
    gvkey              datadate            fyear         indfmt
 Length:715         Min.   :20170630   Min.   :2017   Length:715
 Class :character   1st Qu.:20171231   1st Qu.:2017   Class :character
 Mode  :character   Median :20171231   Median :2017   Mode  :character
                    Mean   :20172029   Mean   :2017
                    3rd Qu.:20171231   3rd Qu.:2017
                    Max.   :20180430   Max.   :2017
    consol             popsrc             datafmt              tic
 Length:715         Length:715         Length:715         Length:715
 Class :character   Class :character   Class :character   Class :character
 Mode  :character   Mode  :character   Mode  :character   Mode  :character



     conm               curcd                ni                revt
 Length:715         Length:715         Min.   :-4207.40   Min.   :   1.06
```

Practice: Data types and structures

- This practice is to make sure you understand data types
- Do exercises 1 through 3 on today's R practice file:
  - R Practice
  - Short link: rmc.link/420r1

Useful functions

Reference

> Many useful functions are highlighted in the R Supplement

1. Installing and loading packages

```r
# Install the tidyverse package from inside R
install.packages("tidyverse")

# Load the package
library(tidyverse)
```

2. Help functions

```r
# To see a help page for a function (such as data.frame()) run either of:
help(data.frame)
?data.frame
```

```r
# To see the arguments a function takes, run:
args(data.frame)
```

```
function (..., row.names = NULL, check.rows = FALSE, check.names = TRUE,
    fix.empty.names = TRUE, stringsAsFactors = FALSE)
NULL
```

Making your own functions!

- Use the `function()` function!
  - `my_func <- function(agruments) {code}`

> Simple function: Add 2 to a number

```r
add_two <- function(n) {
  n + 2
}

add_two(500)
```

```
[1] 502
```

Slightly more complex function example

```r
mult_together <- function(n1, n2=0, square=FALSE) {
  if (!square) {
    n1 * n2
  } else {
    n1 * n1
  }
}

mult_together(5,6)
```

```
[1] 30
```

```r
mult_together(5,6,square=TRUE)
```

```
[1] 25
```

```r
mult_together(5,square=TRUE)
```

```
[1] 25
```

Example: Currency conversion function

```
FXRate <- function(from="USD", to="SGD", dt=Sys.Date()) {
  options("getSymbols.warning4.0"=FALSE)
  if (!require(quantmod)) return("Install the quantmod package for this function to work")
  data <- getSymbols(paste0(from, "/", to), from=dt-3, to=dt, src="oanda", auto.assign=F)
  return(data[[1]])
}
date()
```

```
[1] "Sat Jul 22 17:20:43 2023"
```

```
FXRate(from="USD", to="SGD")  # Today's SGD to USD rate
```

```
[1] 1.32522
```

```
FXRate(from="SGD", to="CNY")  # Today's SGD to CNY rate
```

```
[1] 5.44584
```

```
FXRate(from="USD", to="SGD", dt=Sys.Date()-90)  # Last quarter's SGD to USD rate
```

```
[1] 1.33312
```

Practice: Functions

- This practice is to make sure you understand functions and their construction
- Do exercises 4 and 5 on today's R practice file:
  - R Practice
  - Short link: rmc.link/420r1

End Matter

Wrap up

- For next week:
  - Take a look at Datacamp!
    - Be sure to complete the assignment there
    - A complete list of assigned modules over the course is on eLearn
  - We'll start in on some light analytics next week
- Survey on the class session at this QR code:

Packages used for these slides

- DT
- downlit
- kableExtra
- knitr
- ngramr
- plotly
- quantmod
- quarto
- revealjs
- `RColorBrewer`
- tidyverse

Appendix: Getting data from WRDS

Data Sources

- WRDS
  - WRDS is a provider of business data for academic purposes
  - Through your class account, you can access vast amounts of data
  - We will be particularly interested in:
    - Compustat (accounting statement data since 1950)
    - CRSP (stock price data, daily since 1926)
- We will use other public data from time to time
  - Singapore's big data repository
  - US Government data
  - Other public data collected by the Prof

Wharton University of Pennsylvania wrds WHARTON RESEARCH DATA SERVICES

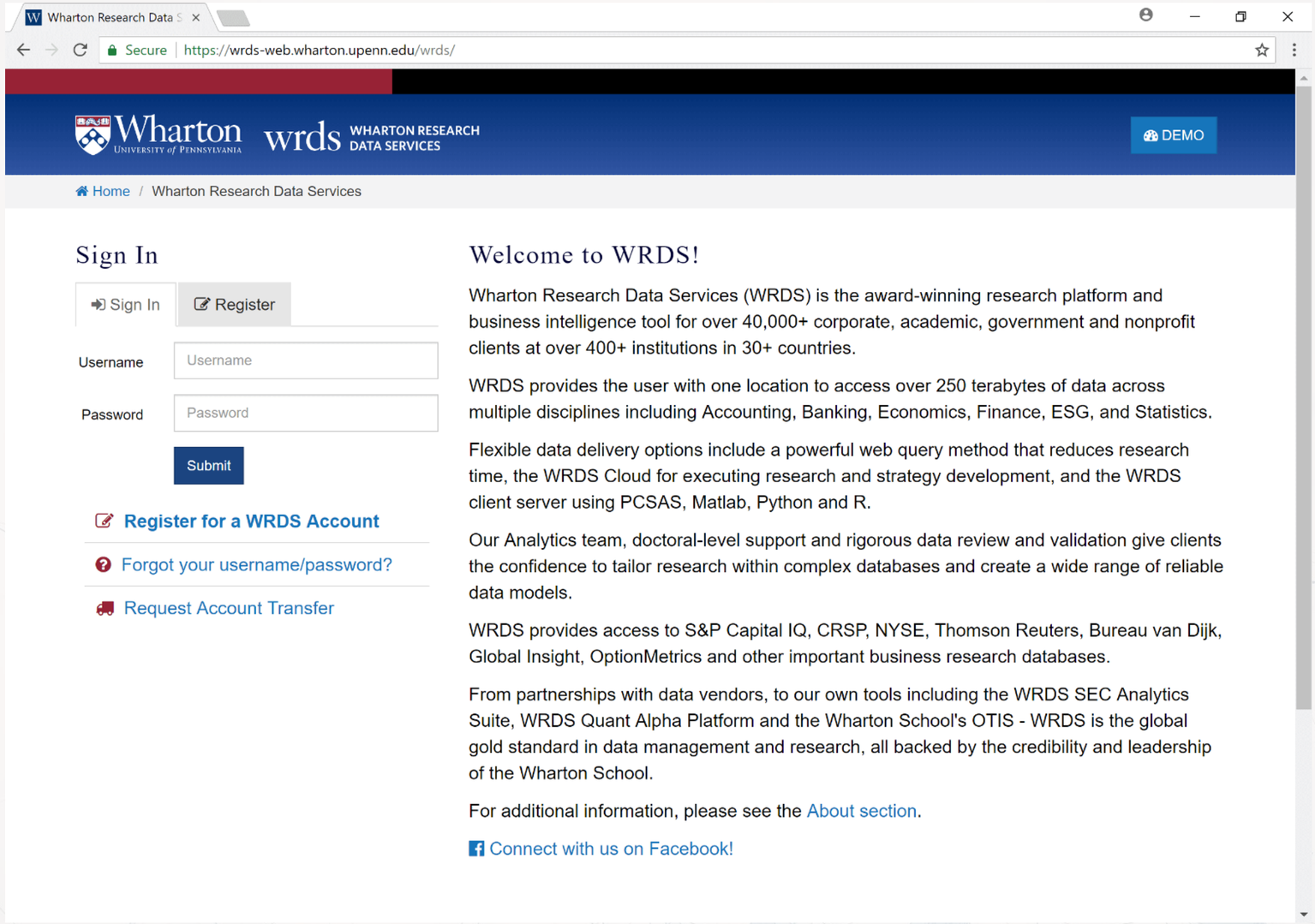
DATA.GOV

How to download from WRDS

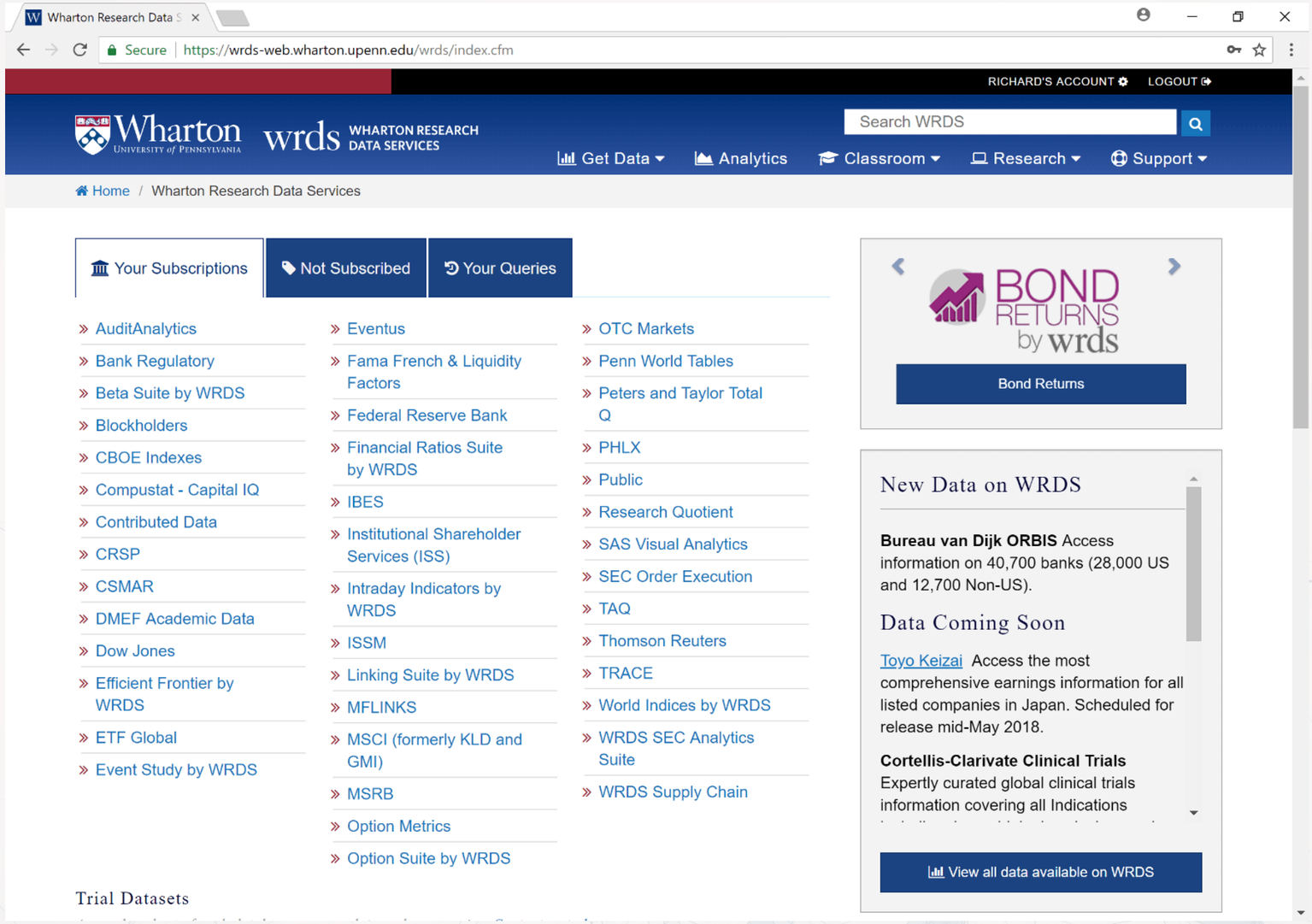
1. Log in using a class account (posted on eLearn)
2. Pick the data provider that has your needed data
3. Select the data set you would like (some data sets only)
4. Apply any needed conditional restrictions (years, etc.)
    - These can help keep data sizes manageable
        - CRSP without any restrictions is >10 GB
5. Select the specific variables you would like export
6. Export as a csv file, zipped csv file (or other format)

> A picture walkthrough is on the next set of slides

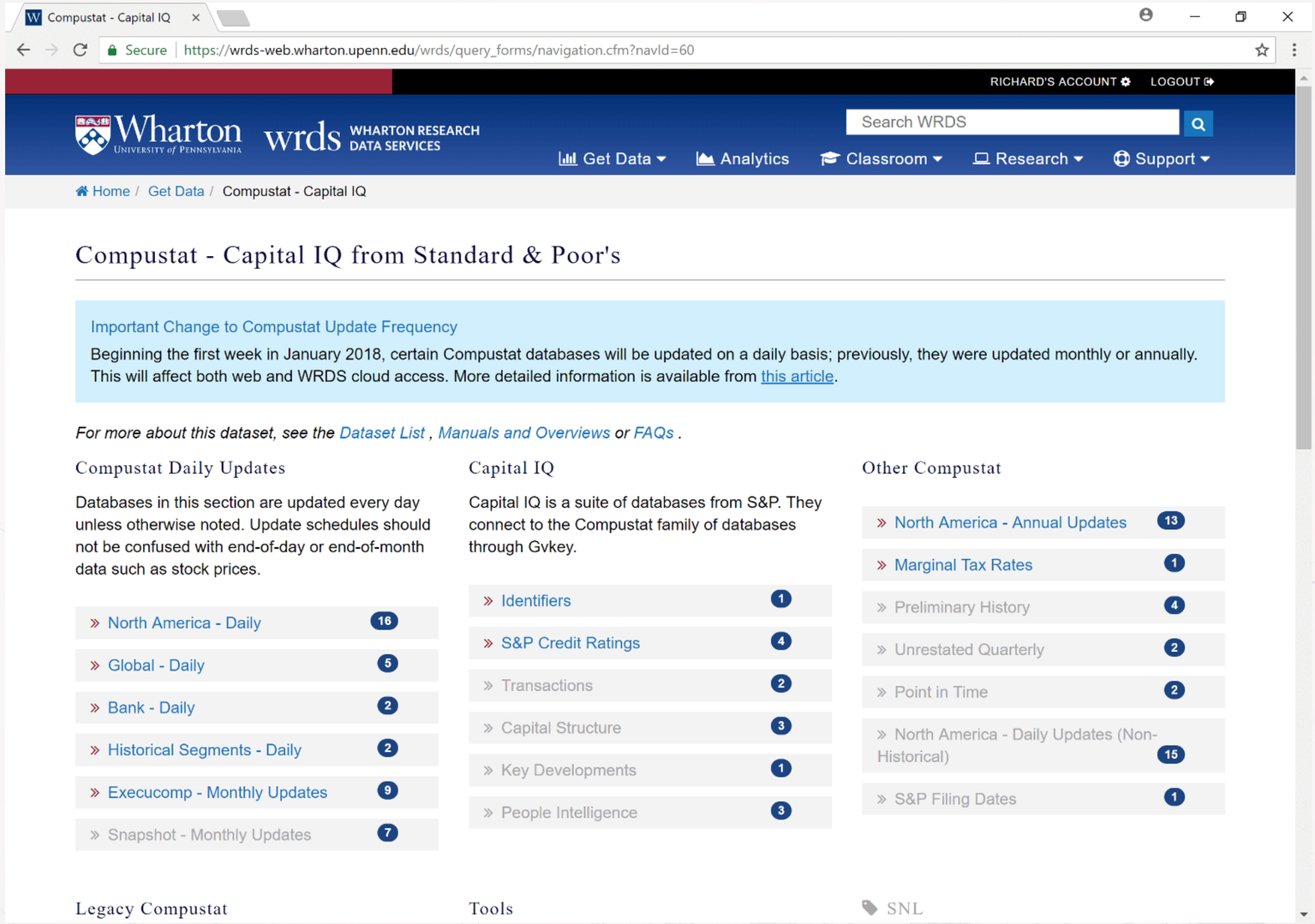
Go to WRDS and sign in



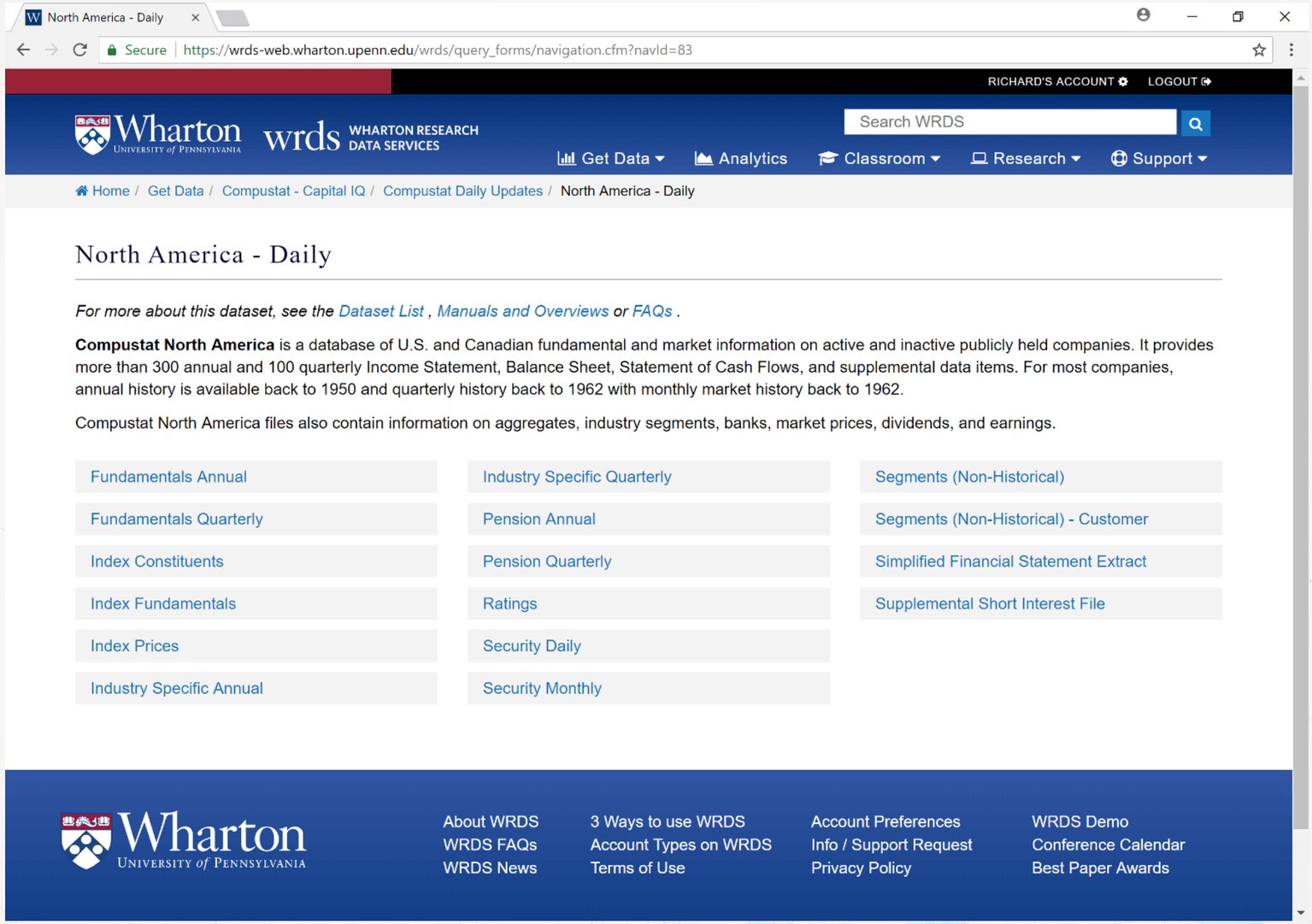
Pick a data provider, e.g. “Compustat - Capital IQ”



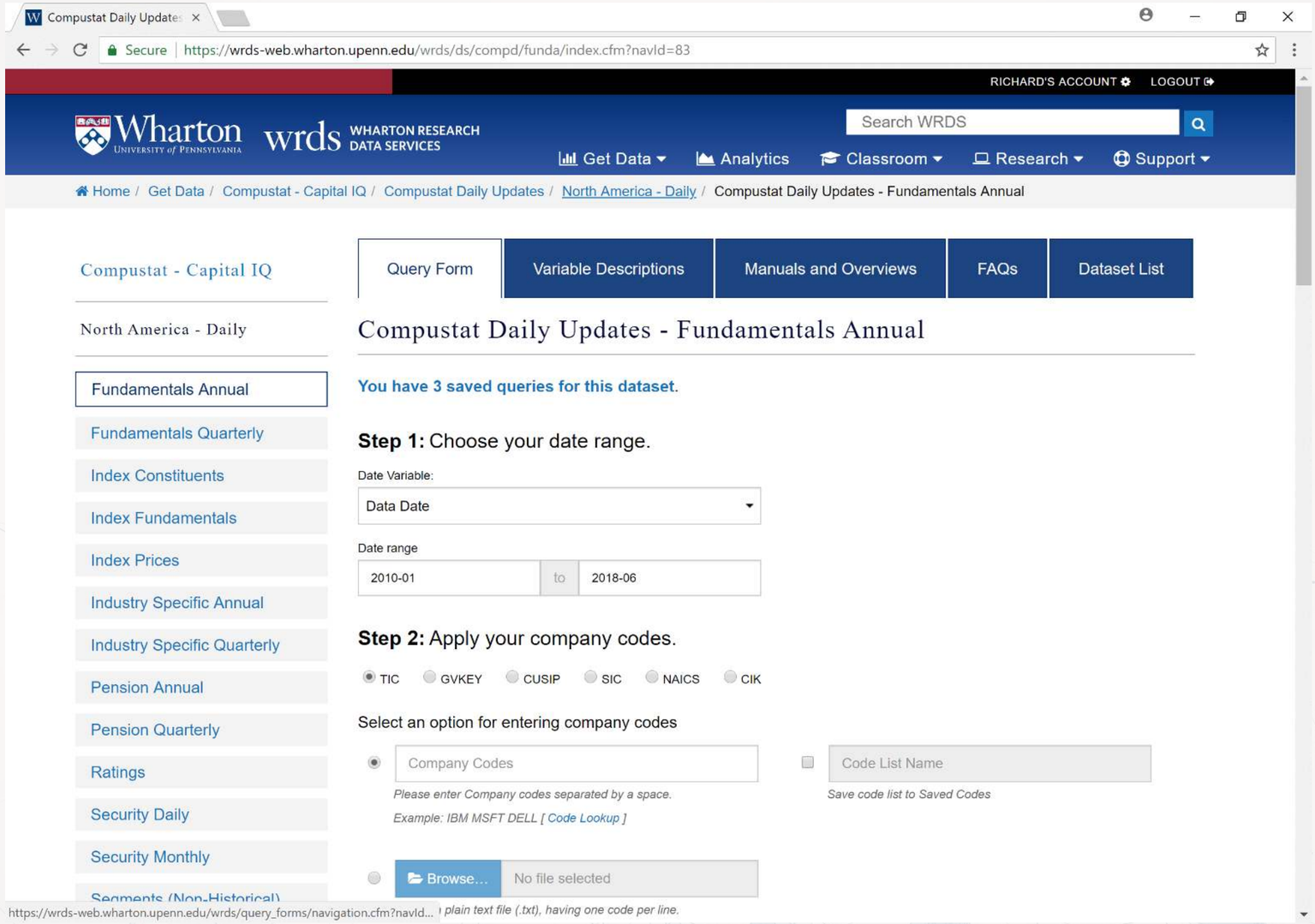
Pick a data set, e.g. “North America - Daily”



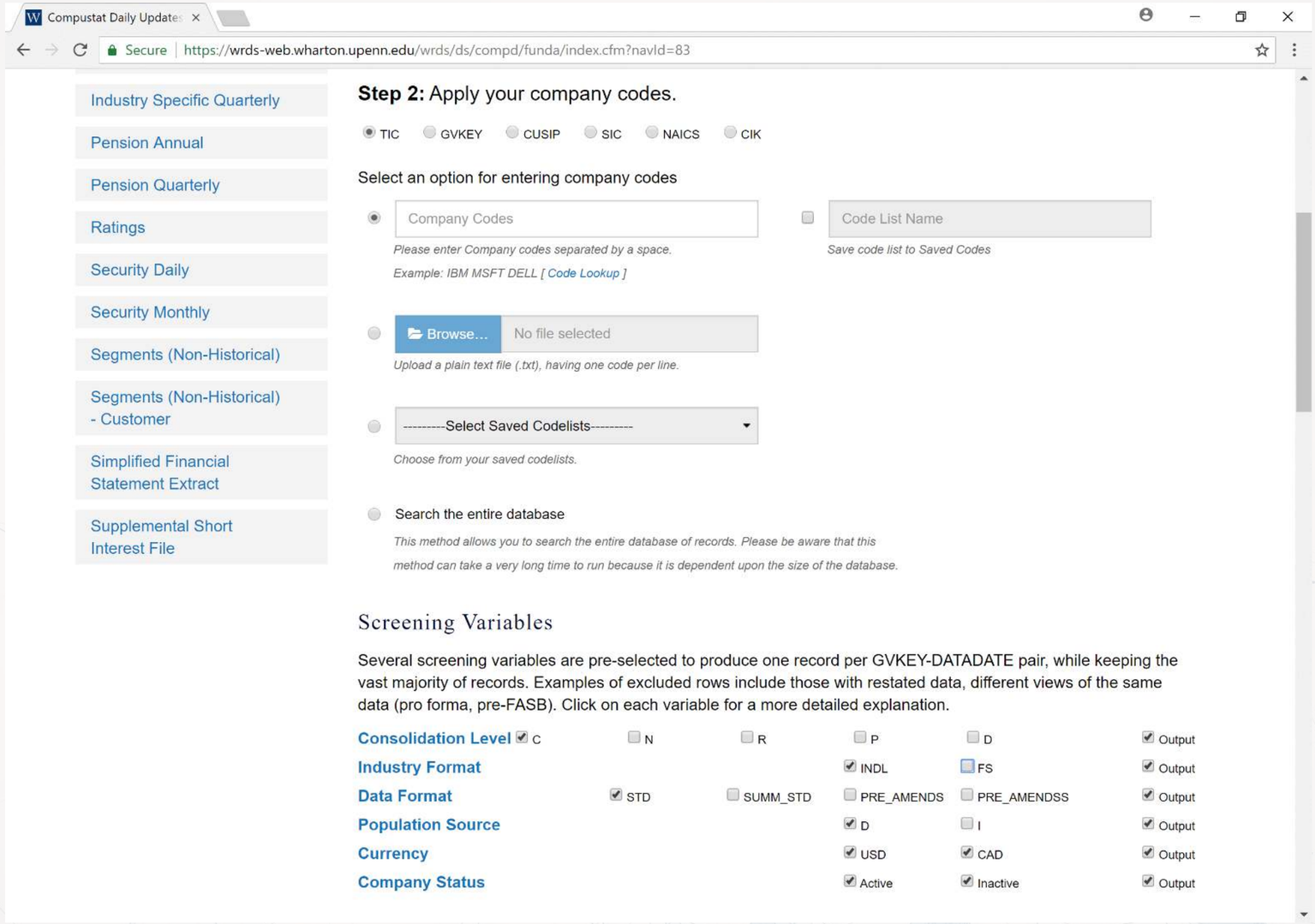
Pick a data set, e.g. “Fundamentals Annual”



Selecting data: Time range



Selecting data: Companies and data format



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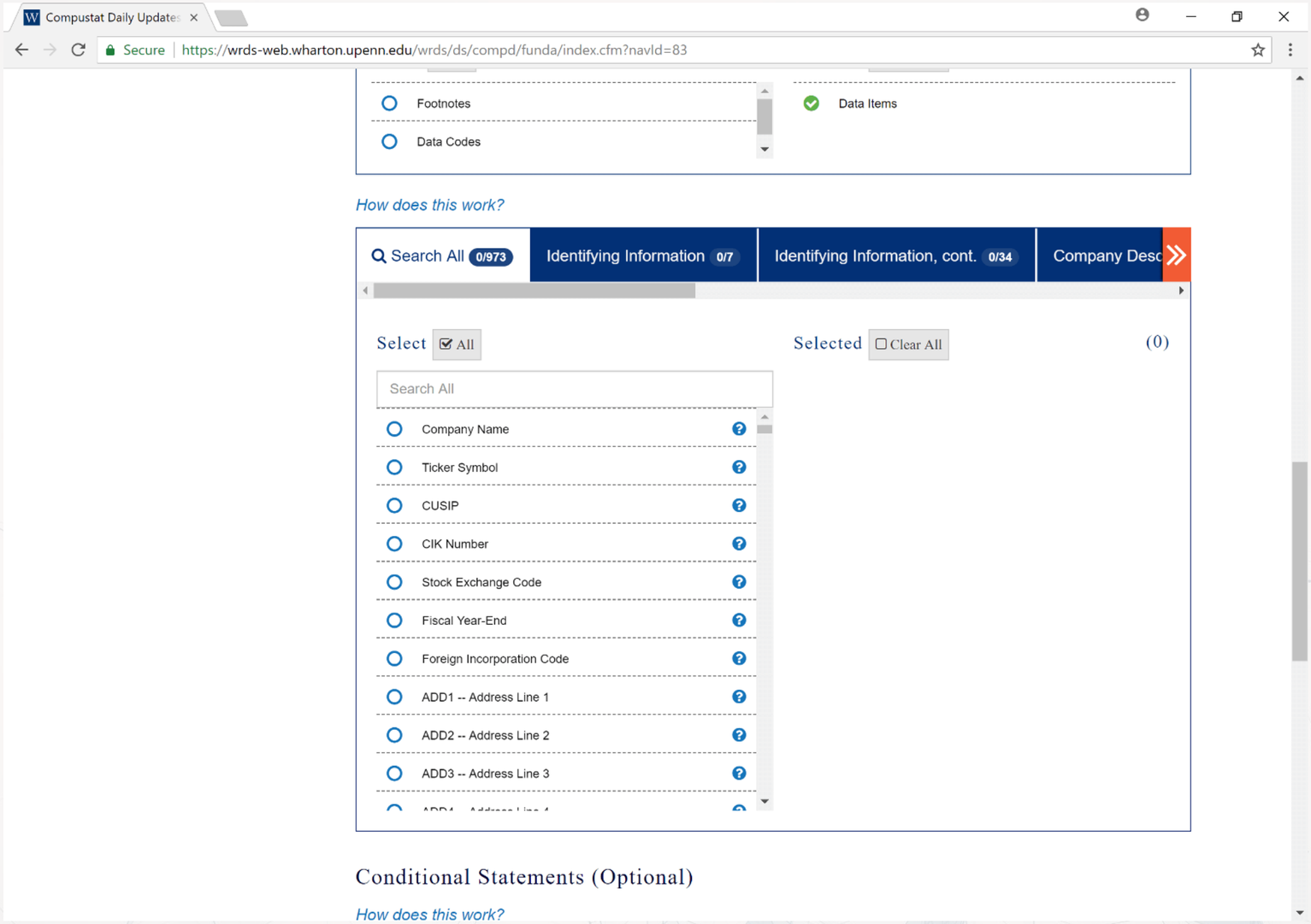
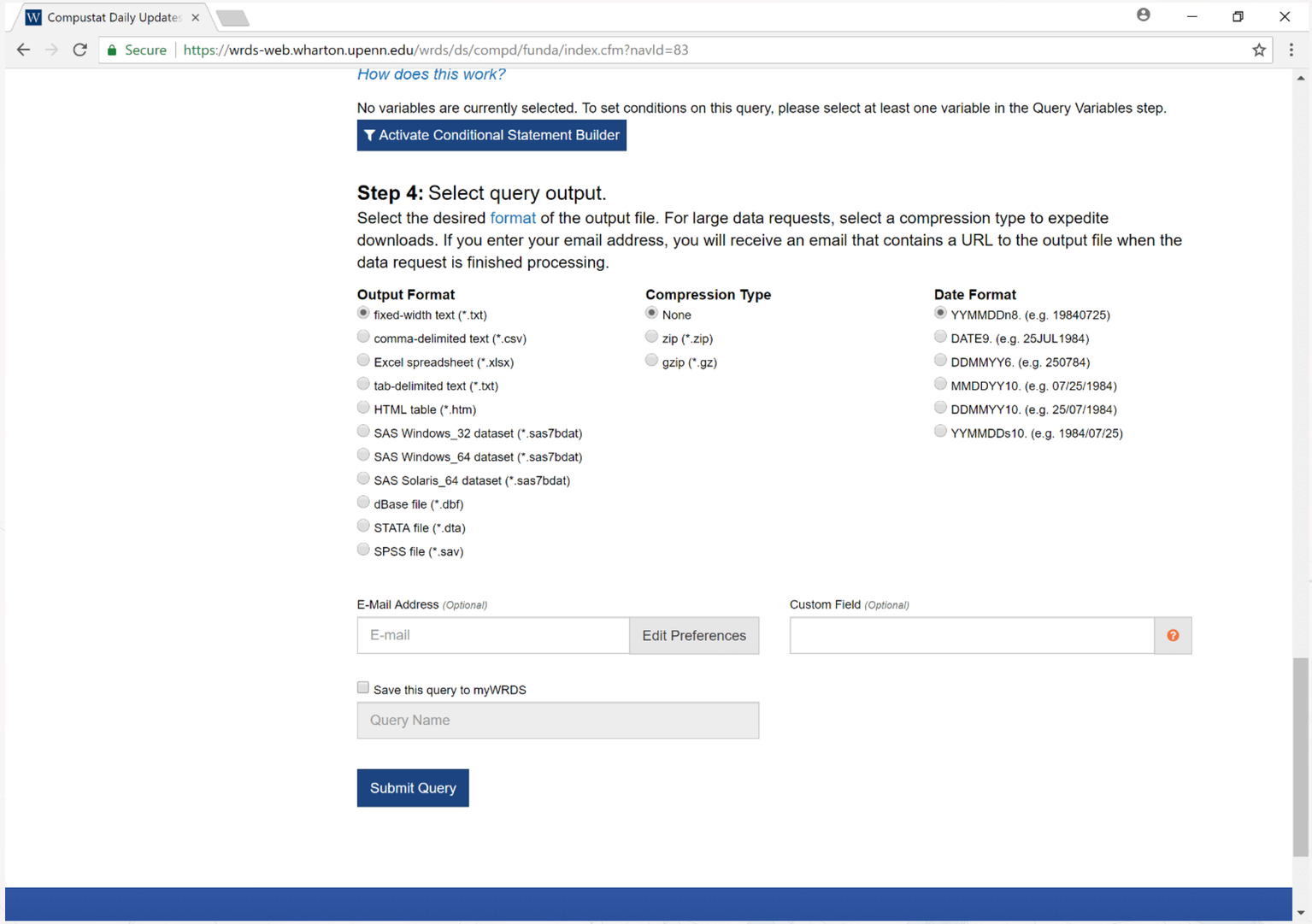
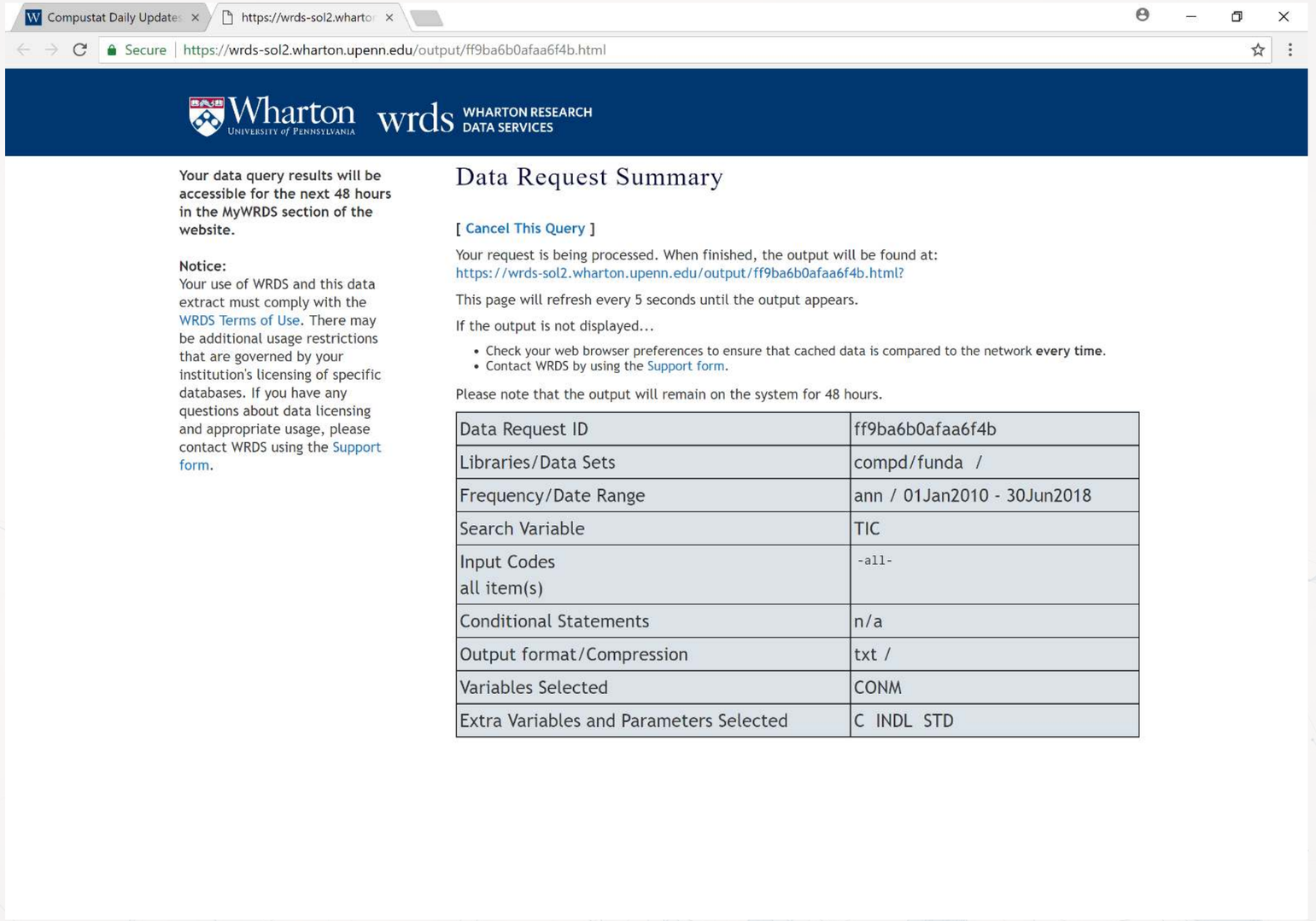
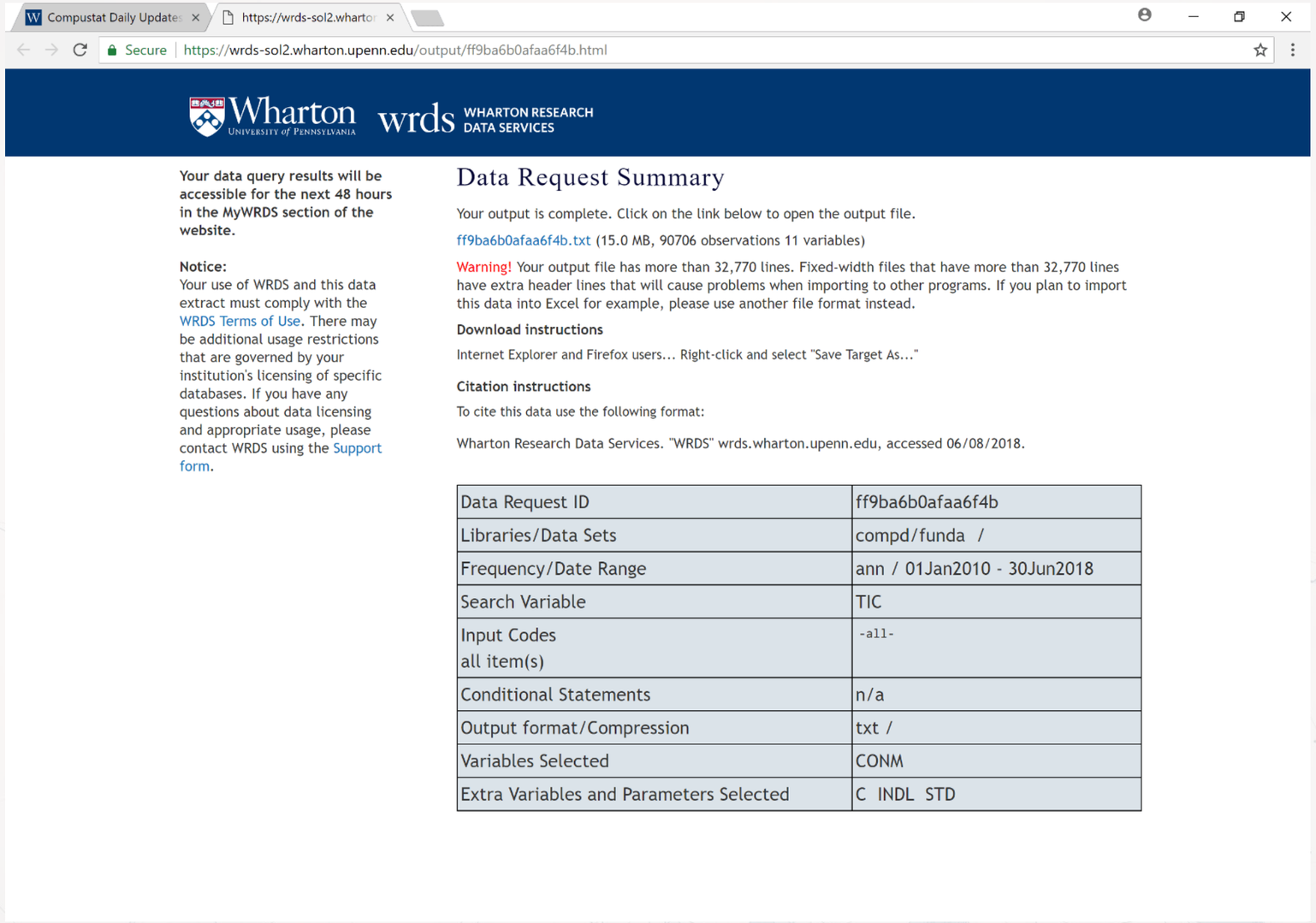


Select output formats



Wait for the data to be prepared



Download the data!