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Applications of Neural Networks in Data Mining

Gati Krushna Nayak1, Jagannath Ray2, Yogo Maya Mahapatra3
[1,2]*Associate Professor, Department of Computer Science Engineering, Gandhi Institute For Technology (GIFT), Bhubaneswar*
[3] *Assistant Professor, Department of Computer Science Engineering, Gandhi Engineering College, Bhubaneswar*

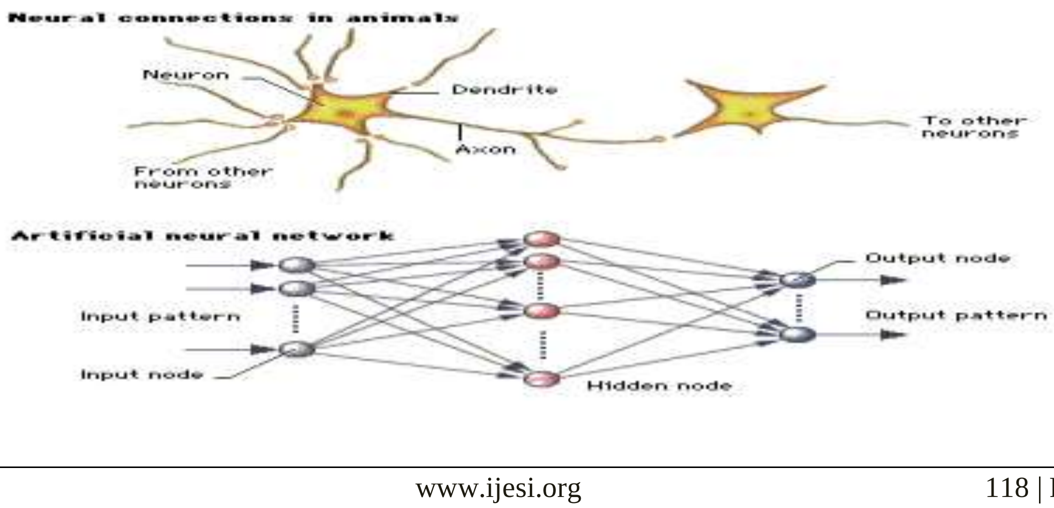
Abstract: *Companies have been collecting data for decades, building massive data warehouses in which to store it. Even though this data is available, very few companies have been able to realize the actual value stored in it. The question these companies are asking is how to extract this value. The answer is Data mining. There are many technologies available to data mining practitioners, including Artificial Neural Networks, Regression, and Decision Trees. Many practitioners are wary of Neural Networks due to their black box nature, even though they have proven themselves in many situations. This paper is an overview of artificial neural networks and questions their position as a preferred tool by data mining practitioners.*

I. Introduction:

Data mining is the term used to describe the process of extracting value from a database. A data-warehouse is a location where information is stored. The type of data stored depends largely on the type of industry and the company. Many companies store every piece of data they have collected, while others are more ruthless in what they deem to be “important”. Consider the following example of a financial institution failing to utilize their data-warehouse. Income is a very important socio-economic indicator. If a bank knows a person’s income, they can offer a higher credit card limit or determine if they are likely to want information on a home loan or managed investments. Even though this financial institution had the ability to determine a customer’s income in two ways, from their credit card application, or through regular direct deposits into their bank account, they did not extract and utilize this information. Another example of where this institution has failed to utilize its data-warehouse is in cross-selling insurance products (e.g. home, life and motor vehicle insurance). By using transaction information they may have the ability to determine if a customer is making payments to another insurance broker. This would enable the institution to select prospects for their insurance products. These are simple examples of what could be achieved using data mining.
Four things are required to data-mine effectively: high-quality data, the “right” data, an adequate sample size and the right tool. There are many tools available to a data mining practitioner. These include decision trees, various types of regression and neural networks.

II. Artificial Neural Networks:

An **artificial neural network** (ANN), often just called a "neural network" (NN), is a mathematical model or computational model based on biological neural networks, in other words, is an emulation of biological neural system. It consists of an interconnected group of artificial neurons and processes information using a connectionist approach to computation. In most cases an ANN is an adaptive system that changes its structure based on external or internal information that flows through the network during the learning phase.



2.1 Neural Network Topologies:
Feedforward neural network: The feedforward neural network was the first and arguably simplest type of artificial neural network devised. In this network, the information moves in only one direction, forward, from the input nodes, through the hidden nodes (if any) and to the output nodes. There are no cycles or loops in the network. The data processing can extend over multiple (layers of)units, but no feedback connections are present, that is, connections extending from outputs of units to inputs of units in the same layer or previous layers.

Recurrent network: Recurrent neural networks that do contain feedback connections. Contrary to feedforward networks, recurrent neural networks (RNs) are models with bi-directional data flow. While a feedforward network propagates data linearly from input to output, RNs also propagate data from later processing stages to earlier stages.

2.2 Training Of Artificial Neural Networks:
A **neural network** has to be configured such that the application of a set of inputs produces (either 'direct' or via a relaxation process) the desired set of outputs. Various methods to set the strengths of the connections exist. One way is to set the weights explicitly, using a priori knowledge. Another way is to **'train' the neural network** by feeding it teaching patterns and letting it change its weights according to some learning rule. We can categorize the learning situations as follows:

• **Supervised learning** or Associative learning in which the network is trained by providing it with input and matching output patterns. These input-output pairs can be provided by an external teacher, or by the system which contains the neural network (self-supervised).

• **Unsupervised learning** or Self-organization in which an (output) unit is trained to respond to clusters of pattern within the input. In this paradigm the system is supposed to discover statistically salient features of the input population. Unlike the supervised learning paradigm, there is no a priori set of categories into which the patterns are to be classified; rather the system must develop its own representation of the input stimuli.

Reinforcement Learning This type of learning may be considered as an intermediate form of the above two types of learning. Here the learning machine does some action on the environment and gets a feedback response from the environment. The learning system grades its action good (rewarding) or bad (punishable) based on the environmental response and accordingly adjusts its parameters.

III. Neural Networks In Data Mining:

In more practical terms neural networks are non-linear statistical data modeling tools. They can be used to model complex relationships between inputs and outputs or to find patterns in data. Using neural networks as a tool, data warehousing firms are harvesting information from datasets in the process known as data mining. The difference between these data warehouses and ordinary databases is that there is actual anipulation and cross-fertilization of the data helping users makes more informed decisions. Neural networks essentially comprise three pieces: the architecture or model; the learning algorithm; and the activation functions. Neural networks are programmed or “trained” to “. . . store, recognize, and associatively retrieve patterns or database entries; to solve combinatorial optimization problems; to filter noise from measurement data; to control ill-defined problems; in summary, to estimate sampled functions when we do not know the form of the functions.” It is precisely these two abilities (pattern recognition and function estimation) which make artificial neural networks (ANN) so prevalent a utility in data mining. As data sets grow to massive sizes, the need for automated processing becomes clear. With their “model-free” estimators and their dual nature, neural networks serve data mining in a myriad of ways. Data mining is the business of answering questions that you’ve not asked yet. Data mining reaches deep into databases. Data mining tasks can be classified into two categories: Descriptive and predictive data mining. Descriptive data mining provides information to understand what is happening inside the data without a predetermined idea. Predictive data mining allows the user to submit records with unknown field values, and the system will guess the unknown values based on previous patterns discovered form the database. Data mining models can be categorized according to the tasks they perform: Classification and Prediction, Clustering, Association Rules. Classification and prediction is a predictive model, but clustering and association rules are descriptive models.

The most common action in data mining is classification. It recognizes patterns that describe the group to which an item belongs. It does this by examining existing items that already have been classified and inferring a set of rules. Similar to classification is clustering. The major difference being that no groups have been predefined. Prediction is the construction and use of a model to assess the class of an unlabeled object or to assess the value or value ranges of a given object is likely to have. The next application is forecasting. This is different from predictions because it estimates the future value of continuous variables based on patterns within the data. Neural networks, depending on the architecture, provide associations, classifications, clusters, prediction and forecasting to the data mining industry.

Financial forecasting is of considerable practical interest. Due to neural networks can mine valuable information from a mass of history information and be efficiently used in financial areas, so the applications of neural networks to financial forecasting have been very popular over the last few years. Some researches show that neural networks performed better than conventional statistical approaches in financial forecasting and are an excellent data mining tool. In data warehouses, neural networks are just one of the tools used in data mining. ANNs are used to find patterns in the data and to infer rules from them. Neural networks are useful in providing information on associations, classifications, clusters, and forecasting. The back propagation algorithm performs learning on a feed-forward neural network.

3.1. Feedforward Neural Network:

One of the simplest feed forward neural networks (FFNN), such as in Figure, consists of three layers: an input layer, hidden layer and output layer. In each layer there are one or more processing elements (PEs). PEs is meant to simulate the neurons in the brain and this is why they are often referred to as neurons or nodes. A PE receives inputs from either the outside world or the previous layer. There are connections between the PEs in each layer that have a weight (parameter) associated with them. This weight is adjusted during training. Information only travels in the forward direction through the network - there are no feedback loops.

The simplified process for training a FFNN is as follows:

1. Input data is presented to the network and propagated through the network until it reaches the output layer. This forward process produces a predicted output.
2. The predicted output is subtracted from the actual output and an error value for the networks is calculated.
3. The neural network then uses supervised learning, which in most cases is back propagation, to train the network. Back propagation is a learning algorithm for adjusting the weights. It starts with the weights between the output layer PE's and the last hidden layer PE's and works backwards through the network.
4. Once back propagation has finished, the forward process starts again, and this cycle is continued until the error between predicted and actual outputs is minimized.

3.2. The Back Propagation Algorithm: Backpropagation, or **propagation of error**, is a common method of teaching artificial neural networks how to perform a given task.The back propagation algorithm is used in layered feedforward ANNs. This means that the artificial neurons are organized in layers, and send their signals "forward", and then the errors are propagated backwards. The back propagation algorithm uses supervised learning, which means that we provide the algorithm with examples of the inputs and outputs we want the network to compute, and then the error (difference between actual and expected results) is calculated. The idea of the back propagation algorithm is to reduce this error, until the ANN learns the training data.

Summary of the technique:

1. Present a training sample to the neural network.
2. Compare the network's output to the desired output from that sample. Calculate the error in each output neuron.
3. For each neuron, calculate what the output should have been, and a scaling factor, how much lower or higher the output must be adjusted to match the desired output. This is the local error.
4. Adjust the weights of each neuron to lower the local error.
5. Assign "blame" for the local error to neurons at the previous level, giving greater responsibility to neurons connected by stronger weights.
6. Repeat the steps above on the neurons at the previous level, using each one's "blame" as its error..

Actual Algorithm:

1. Initialize the weights in the network (often randomly)
2. repeat * for each example e in the training set do
1. O = neural-net-output(network, e) ; forward pass
2. T = teacher output for e
3. Calculate error (T - O) at the output
units
4. Compute delta_wi for all weights from hidden layer to output layer ; backward pass
5. Compute delta_wi for all weights from input layer to hidden layer ; backward pass continued
6. Update the weights in the network * end
3. until all examples classified correctly or stopping criterion satisfied

4. return(network)

IV. Conclusion:

There is rarely one right tool to use in data mining; it is a question as to what is available and what gives the “best” results. Many articles, in addition to those mentioned in this paper, consider neural networks to be a promising data mining tool.

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