INSTRUCTOR'S SOLUTIONS MANUAL

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BUSINESS STATISTICS: A FIRST COURSE

EIGHTH EDITION
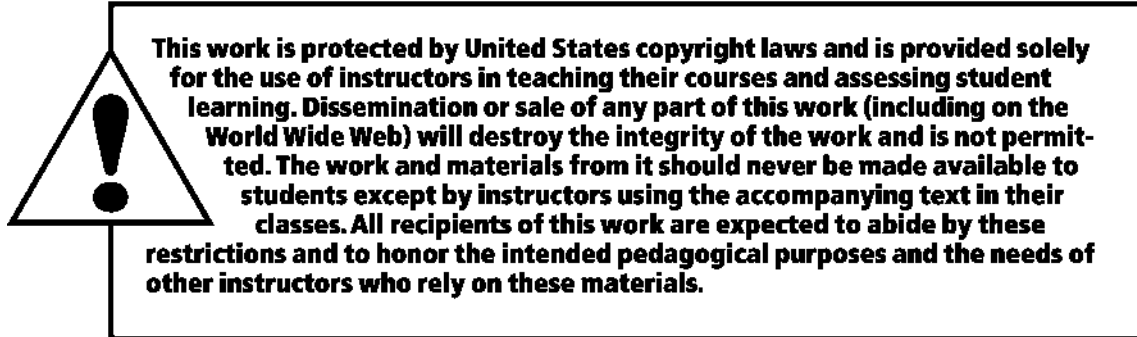
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Our Starting Point

Over a generation ago, advances in "data processing" led to new business opportunities as first centralized and then desktop computing proliferated. The Information Age was born. Computer science became much more than just an adjunct to a mathematics curriculum, and whole new fields of studies, such as computer information systems, emerged.

More recently, further advances in information technologies have combined with data analysis techniques to create new opportunities in what is more data *science* than data *processing* or *computer* science. The world of business statistics has grown larger, bumping into other disciplines. And, in a reprise of something that occurred a generation ago, new fields of study, this time with names such as informatics, data analytics, and decision science, have emerged.

This time of change makes what is taught in business statistics and how it is taught all the more critical. These new fields of study all share statistics as a foundation for further learning. We are accustomed to thinking about change, as seeking ways to continuously improve the teaching of business statistics have always guided our efforts. We actively participate in Decision Sciences Institute (DSI), American Statistical Association (ASA), and Making Statistics More Effective in Schools and Business (MSMESB) conferences. We use the ASA's Guidelines for Assessment and Instruction (GAISE) reports and combine them with our experiences teaching business statistics to a diverse student body at several large universities.

What to teach and how to teach it are particularly significant questions to ask during a time of change. As an author team, we bring a unique collection of experiences that we believe helps us find the proper perspective in balancing the old and the new. Our lead author, David M. Levine, was the first educator, along with Mark L. Berenson, to create a business statistics textbook that discussed using statistical software and incorporated "computer output" as illustrations—just the first of many teaching and curricular innovations in his many years of teaching business statistics. Kathryn A. Szabat has provided statistical advice to various business and non-business communities. Her background in statistics and operations research and her experiences interacting with professionals in practice have guided her, as departmental chair, in developing a new, interdisciplinary academic department, Business Systems and Analytics, in response to the technology- and data-driven changes in business today. David F. Stephan, developed courses and teaching methods in computer information systems and digital media during the information revolution, creating, and then teaching in, one of the first personal computer *classrooms* in a large school of business along the way. Early in his career, he introduced spreadsheet

applications to a business statistics faculty audience that included David Levine, an introduction that would eventually led to the inclusion of Microsoft Excel in this textbook. We also benefit from our many years teaching undergraduate and graduate business subjects and the diversity of interests and efforts of our past co-author, Timothy Krehbiel.

Educational Philosophy

As in prior editions of *Business Statistics: A First Course*, we are guided by these key learning principles:

1. **Help students see the relevance of statistics to their own careers by providing examples drawn from the functional areas in which they may be specializing.** Students need a frame of reference when learning statistics, especially when statistics is not their major. That frame of reference for business students should be the functional areas of business, such as accounting, finance, information systems, management, and marketing. Each statistics topic needs to be presented in an applied context related to at least one of these functional areas. The focus in teaching each topic should be on its application in business, the interpretation of results, the evaluation of the assumptions, and the discussion of what should be done if the assumptions are violated.

2. **Emphasize interpretation of statistical results over mathematical computation.** Introductory business statistics courses should recognize the growing need to *interpret* statistical results that computerized processes create. This makes the interpretation of results more important than knowing how to execute the tedious hand calculations required to produce them.

3. **Give students ample practice in understanding how to apply statistics to business.** Both classroom examples and homework exercises should involve actual or realistic data as much as possible. Students should work with data sets, both small and large, and be encouraged to look beyond the statistical analysis of data to the interpretation of results in a managerial context.

4. **Familiarize students with how to use statistical software to assist business decision-making.** Introductory business statistics courses should recognize that programs with statistical functions are commonly found on a business decision maker's desktop computer. Integrating statistical software into all aspects of an introductory statistics course allows the course to focus on interpretation of results instead of computations (see point 2).

5. **Provide clear instructions to students for using statistical applications.** Books should explain clearly how to use programs such as Microsoft Excel, JMP, and Minitab, with the study of statistics, without having those instructions dominate the book or distract from the learning of statistical concepts.

Getting Started: First Things First

In a time of change, you can never know exactly what knowledge and background students bring into an introductory business statistics classroom. Add that to the need to curb the fear factor about learning statistics that so many students begin with, and there's a lot to cover even before you teach your first statistical concept.

We created "First Things First" to meet this challenge. This unit sets the context for explaining what statistics is (not what students may think!) while ensuring that all students share an understanding of the forces that make learning business statistics critically important today. Especially designed for instructors teaching with course management tools, including those teaching hybrid or online courses, "Getting Started" has been developed to be posted online or otherwise distributed before the first class section.

We would argue that the most important class is the first class. First impressions are critically important. You have the opportunity to set the tone to create a new impression that the course will be important to the business education of your students. Make the following points:

- This course is not a math course.
- State that you will be learning analytical skills for making business decisions.
- Explain that the focus will be on how statistics can be used in the functional areas of business.

This book uses a systematic approach for meeting a business objective or solving a business problem. This approach goes across all the topics in the book and most importantly can be used as a framework in real world situations when students graduate. The approach has the acronym **DCOVA**, which stands for **D**efine, **C**ollect, **O**rganize, **V**isualize, and **A**nalyze.

- **D**efine the business objective or problem to be solved and then define the variables to be studied.
- **C**ollect the data from appropriate sources
- **O**rganize the data
- **V**isualize the data by developing charts
- **A**nalyze the data by using statistical methods to reach conclusions.

You can begin by emphasizing the importance of defining your objective or problem. Then, discuss the importance of operational definitions of variables to be considered and define variable, data, and statistics.

Just as computers are used not just in the computer course, students need to know that statistics is used not just in the statistics course. This leads you to a discussion of business analytics in which data is used to make decisions. Make the point that analytics should be part of the competitive strategy of every

organization especially since "big data", meaning data collected in huge volumes at very fast rates, needs to be analyzed.

1. Inform the students that there is an Excel Guide, a JMP Guide, and a Minitab Guide at the end of each chapter. Strongly encourage or require students to read the Excel Guide and/or the JMP Guide or Minitab Guide at the end of this chapter so that they will be ready to use Excel and/or JMP or Minitab with this book.

Chapter 1

You need to continue the discussion of the Define task by establishing the types of variables. Mention the importance of having an operational definition for each variable. Be sure to discuss the different types carefully since the ability to distinguish between categorical and numerical variables will be crucial later in the course. Go over examples of each type of variable and have students provide examples of each type. Then, if you wish, you can cover the different measurement scales.

Then move on to the C of the DCOVA approach, collecting data. Mention the different sources of data and make sure to cover the fact that data often needs to be cleaned of errors. Then, you could spend some time discussing sampling, even if it is just using the table of random numbers to select a random sample. You may want to take a bit more time and discuss the types of survey sampling methods and issues involved with survey sampling results. The *Think About This* essay discusses the important issue of the use of Web-based surveys.

There is also a section on Data Cleaning that discusses the issues that occur in data collection. This is followed by a section on data formatting that includes the important concepts of stacking and unstacking variables and recoding variables. The last section discusses the types of errors that occur in surveys.

The chapter also introduces three continuing cases -- the *Managing Ashland MultiComm Services*, *CardioGood Fitness*, and *Clear Mountain State Student Surveys* that appear at the end of many chapters. The Digital cases are introduced in this chapter also. In these cases, students visit Web sites related to companies and issues raised in the Using Statistics scenarios that start each chapter. The goal of the Digital cases is for students to develop skills needed to identify misuses of statistical information. As would be the situation with many real world cases, in Digital cases, students often need to sift through claims and assorted information in order to discover the data most relevant to a case task. They will then have to examine whether the conclusions and claims are supported by the data. (Instructional tips for using the *Managing Ashland MultiComm Services,* and Digital cases and solutions to the *Managing Ashland MultiComm Service,* CardioGood Fitness, Clear Mountain State Student Surveys, and Digital cases are included in this *Instructor's Solutions Manual*.).

Make sure that students read the Excel Guide and/or JMP Guide or Minitab Guide at the end of each chapter. The *In-Depth Excel* instructions provide step-by-step instructions and live worksheets that automatically update when data changes. The *PHStat add-in* instructions provide instructions for using the PHStat add-in. *Analysis ToolPak* instructions provide instructions for using the Analysis ToolPak, the Excel add-in package that is included with many versions of Excel.

Chapter 2

This chapter moves on to the organizing and visualizing steps of the DCOVA framework. If you are going to collect sample data to use in Chapters 2 and 3, you can illustrate sampling by conducting a survey of students in your class. Ask each student to collect his or her own personal data concerning the time it takes to get ready to go to class in the morning or the time it takes to get to school or home from school. First, ask the students to write down a definition of how they plan to measure this time. Then, collect the various answers and read them to the class. Then, a single definition could be provided (such as the time to get ready is the time measured from when you get out of bed to when you leave your home, recorded to the nearest minute). In the next class, select a random sample of students and use the data collected (depending on the sample size) in class when Chapters 2 and 3 are discussed. Then, move on to the Organize step that involves setting up your data in an Excel, JMP, Minitab, or Tableau. Show the summary worksheet and develop tables to help you prepare charts and analyze your data. Begin your discussion for categorical data with the example on p. 45 concerning the percentage of the time millennials use different devices for watching television and then if you wish, explain that you can sometimes organize the data into a two-way table that has one variable in the row and another in the column.

Continue with organizing data (but now for numerical data) by referring to the cost of a restaurant meal on p. 49. Show the simple ordered array and how a frequency distribution, percentage distribution, or cumulative distribution can summarize the raw data in a way that is more useful.

Now you are ready to tackle the Visualize step. A good way of starting this part of the chapter is to display the following quote.

"A picture is worth a thousand words."

Students will almost certainly be familiar with Microsoft® Word and may have already used Excel to construct charts that they have pasted into Word documents. Now you will be using Excel or JMP or Minitab or Tableau to construct many different types of charts. Return to the data previously discussed on what devices millennials use to watch television and illustrate how a bar chart and pie chart can be constructed. Mention their advantages and disadvantages. A good example is to show the data on incomplete ATM transactions on p. 60 and how the Pareto chart enables you to focus on the vital few categories. If time permits, you can discuss the side-by-side bar chart for a contingency table.

To examine charts for numerical variables you can either use the restaurant data previously mentioned or data that you have collected from your class. You may want to begin with a simple stem-and-leaf display that both organizes the data and shows a bar type chart. Then move on to the histogram and the various polygons, pointing out the advantages and disadvantages of each.

If time permits, you can discuss the scatter plot and the time-series plot for two numerical variables. Otherwise, you can wait until you get to regression analysis. Also, you may want to discuss how multidimensional tables allow you to see several variables simultaneously.

If the opportunity is available, we believe that it is worth the time to cover Section 2.9 on Pitfalls in Organizing and Visualizing Data. This is a topic that students very much enjoy since it allows for a great deal of classroom interaction. After discussing the fundamental principles of good graphs, try to illustrate the improper display shown in Figure 2.31. Ask students what is "bad" about this figure. Follow up with a homework assignment involving Problems 2.69 – 2.73 (*USA Today* is a great source).

You will find that the chapter review problems provide large data sets with numerous variables. Report writing exercises provide the opportunity for students to integrate written and/or oral presentation with the statistics they have learned.

The *Managing Ashland MultiComm Services* case enables students to examine the use of statistics in an actual business environment. The Digital case refers to the EndRun Financial Services and claims that have been made. The CardioGood Fitness case focuses on developing a customer profile for a market research team. The Choice *Is* Yours Follow-up expands on the chapter discussion of the mutual funds data. The Clear Mountain State Student Survey provides data collected from a sample of undergraduate students and a separate sample of graduate students.

The Excel Guide and the JMP and Minitab and Tableau Guides for this and the remaining chapters are organized according to the sections of the chapter. They are quite extensive since they cover both organizing and visualizing many different graphs. The Excel Guide includes instructions for In-Depth Excel, PHStat, and the Analysis ToolPak. Pick and allows you to choose the approaches that you prefer.

Chapter 3

This chapter on descriptive numerical statistical measures represents the initial presentation of statistical symbols in the text. Students who need to review arithmetic and algebraic concepts may wish to refer to Appendix A for a quick review or to appropriate texts (see **www.pearson.com**) or videos (**www.videoaidedinstruction.com**). Once again, as with the tables and charts constructed for numerical data, it is useful to provide an interesting set of data for classroom discussion. If a sample of students was selected earlier in the semester and data concerning student time to get ready or commuting time were collected (see Chapters 1 and 2), use these data in developing the numerous descriptive summary measures in this chapter. (If they have not been developed, use other data for classroom illustration.)

Discussion of the chapter begins with the property of central tendency. We have found that almost all students are familiar with the arithmetic mean (which they know as the average) and most students are familiar with the median. A good way to begin is to compute the mean for your classroom example. Emphasize the effect of extreme values on the arithmetic mean and point out that the mean is like the center of a seesaw -- a balance point. Note that you will return to this concept later when you discuss the variance and the standard deviation. You might want to introduce summation notation at this point and express the arithmetic mean in formula notation as in Equation (3.1). (Alternatively, you could wait until you cover the variance and standard deviation.) A classroom example in which summation notation is reviewed is usually worthwhile. Remind the students again that Appendix A includes a review of arithmetic and algebra and summation notation [or refer them to other text sources such as those found at **www.pearson.com** or videos (see **www. videoaidedinstruction.com**)].

The next statistic to compute is the median. Be sure to remind the students that the median as a measure of position must have all the values ranked in order from lowest to highest. Be sure to have the students compare the arithmetic mean to the median and explain that this tells us something about another property of data (skewness). Following the median, the mode can be briefly discussed. Once again, have the students compare this result to those of the arithmetic mean and median for your data set. If time permits, you can also discuss the geometric mean which is heavily used in finance.

The completion of the discussion of central tendency leads to the second characteristic of data, variability. Mention that all measures of variation have several things in common: (1) they can never be negative, (2) they will be equal to 0 when all values are the same, (3) they will be small when there isn't much variation, and (4) they will be large when there is a great deal of variation.

The first measure of variability to consider is the simplest one, the range. Be sure to point out that the range only provides information about the extremes, not about the distribution between the extremes.

Point out that the range lacks one important ingredient, the ability to take into account each data value. Bring up the idea of computing the differences around the mean, but then return to the fact that as

the balance point of the seesaw, these differences add up to zero. At that point, ask the students what they can do mathematically to remove the negative sign for some of the values. Most likely, they will answer by telling you to square them (although someone may realize that the absolute value could be taken). Next, you may want to define the squared differences as a sum of squares. Now you need to have the students realize that the number of values being considered affects the magnitude of the sum of squared differences. Therefore, it makes sense to divide by the number of values and compute a measure called the variance. If a population is involved, you divide by N, the population size, but if you are using a sample, you divide by $n - 1$, to make the sample result a better estimate of the population variance. You can finish the development of variation by noting that since the variance is in squared units, you need to take the square root to compute the standard deviation.

Another measure of variation that can be discussed is the coefficient of variation. Be sure to illustrate the usefulness of this as a measure of relative variation by using an example in which two data sets have vastly different standard deviations, but also vastly different means. A good example is one that involves the volatility of stock prices. Point out that the variation of the price should be considered in the context of the magnitude of the arithmetic mean. By changing values in the data provided, students can observe how the mean, median, and standard deviation are affected.

The final measure of variation is the Z score. Point out that this provides a measure of variation in standard deviation units. You can also say that you will return to Z scores in Chapter 6 when the normal distribution will be discussed.

You are now ready to move on to the third characteristic of data, shape. Be sure to clearly define and illustrate both symmetric and skewed distributions by comparing the mean and median. You may also want to briefly mention the property of kurtosis which is the relative concentration of values in the center of the distribution as compared to the tails. This statistic is provided by Excel through an Excel function or the Analysis Toolpak and by JMP or Minitab. Once these three characteristics have been discussed, you are ready to show how they can be computed using Excel or JMP or Minitab.

Now that these measures are understood, you can further explore data by computing the quartiles, the interquartile range, the five number summary, and constructing a boxplot. You begin by determining the quartiles. Reference here can be made to the standardized exams that most students have taken, and the quantile scores that they have received (97th percentile, 48th percentile, 12th percentile, …, etc.). Explain that the 1st and 3rd quartiles are merely two special quantiles -- the 25th and 75th, that unlike the median (the 2nd quartile), are not at the center of the distribution. Once the quartiles have been computed, the interquartile range can be determined. Mention that the interquartile range computes the variation in the center of the distribution as compared to the difference in the extremes computed by the range.

You can then discuss the five-number summary of minimum value, first quartile, median, third quartile, and maximum value. Then, you construct the boxplot. Present this plot from the perspective of serving as a tool for determining the location, variability, and symmetry of a distribution by visual inspection, and as a graphical tool for comparing the distribution of several groups. It is useful to display Figure 3.9 on page 142 that indicates the shape of the boxplot for four different distributions. Then, use PHStat or JMP or Minitab or Tableau to construct a boxplot. Note that you can construct the boxplot for a single group or for multiple groups.

If you desire, you can discuss descriptive measures for a population and introduce the empirical rule and the Chebyshev rule.

If time permits, and you have covered scatter plots in Chapter 2, you can briefly discuss the covariance and the coefficient of correlation as a measure of the strength of the association between two numerical variables. Point out that the coefficient of correlation has the advantage as compared to the covariance of being on a scale that goes from –1 to +1. Figure 3.11 on p. 157 is useful in depicting scatter plots for different coefficients of correlation.

Once again, you will find that the chapter review problems provide large data sets with numerous variables.

The *Managing Ashland MultiComm Services* case enables students to examine the use of descriptive statistics in an actual business environment. The Digital case continues the evaluation of the EndRun Financial Services discussed in the Digital case in Chapter 2. The CardioGood Fitness case focuses on developing a customer profile for a market research team. More Descriptive Choices Follow-up expands on the discussion of the mutual funds data. The Clear Mountain State Student Survey provides data collected from a sample of undergraduate students and a separate sample of graduate students.

The Excel Guide for the chapter includes instructions on using different Excel functions to compute various statistics. Alternatively, you can use PHStat or the Analysis ToolPak to compute a list of statistics. PHStat can be used to construct a boxplot. Or you can use JMP or Minitab. The Tableau guide covers the five number summary and the boxplot

Chapter 4

The chapter on probability represents a bridge between the descriptive statistics already covered and the topics of statistical inference and regression to be covered in subsequent chapters. In many traditional statistics courses, often a great deal of time is spent on probability topics that are of little direct applicability in basic statistics. The approach in this text is to cover only those topics that are of direct applicability in the remainder of the text.

You need to begin with a relatively concise discussion of some probability rules. Essentially, students really just need to know that (1) no probability can be negative, (2) no probability can be more than 1, and (3) the sum of the probabilities of a set of mutually exclusive events adds to 1.0. Students often understand the subject best if it is taught intuitively with a minimum of formulas, with an example that relates to a business application shown as a two-way contingency table (see the Using Statistics example). If desired, you can use In-Depth Excel or PHStat to compute probabilities from the contingency table.

Once these basic elements of probability have been discussed, if there is time and you desire, conditional probability and Bayes' theorem can be covered. The *Think About This* concerning email SPAM is a wonderful way of helping students realize the application of probability to everyday life. In addition, you may wish to spend a bit of time going over counting rules, especially if the binomial distribution will be covered in Chapter 5.

Be aware that in a one-semester course where time is particularly limited, these topics may be of marginal importance. The Digital case in this chapter extends the evaluation of the EndRun Financial Services to consider claims made about various probabilities. The CardioGood Fitness, More Descriptive Choices Follow-up, and Clear Mountain State Student Survey each involve developing contingency tables to be able to compute and interpret conditional and marginal probabilities.

Chapter 5

Now that the basic principles of probability have been discussed, the probability distribution is developed and the expected value and variance (and standard deviation) are computed and interpreted. Given that a probability distribution has been defined, you can now discuss some specific distributions. Although every introductory course undoubtedly covers the normal distribution to be discussed in Chapter 6, the decision about whether to cover the binomial or Poisson distributions is a matter of personal choice and depends on whether the course is part of a two-course sequence.

If the binomial distribution is covered, an interesting way of developing the binomial formula is to follow the Using Statistics example that involves an accounting information system. Note, in this example, the value for p is 0.10. (It is best not to use an example with $p = 0.50$ since this represents a special case). The discussion proceeds by asking how you could get three tagged order forms in a sample of 4. Usually a response will be elicited that provides three items of interest out of four selections in a particular order such as Tagged Tagged Not Tagged Tagged. Ask the class, what would be the probability of getting Tagged on the first selection? When someone responds 0.1, ask them how they found that answer and what would be the probability of getting Tagged on the second selection. When they answer 0.1 again, you will be able to make the point that in saying 0.1 again, they are assuming that the probability of Tagged stays constant from trial to trial. When you get to the third selection and the students respond 0.9, point out that this is a second assumption of the binomial distribution -- that only two outcomes are possible -- in this case Tagged and Not Tagged, and the sum of the probabilities of Tagged and Not Tagged must add to 1.0. Now you can compute the probability of three out of four in this order by multiplying (0.1)(0.1)(0.9)(0.1) to get 0.0036. Ask the class if this is the answer to the original question. Point out that this is just one way of getting three Tagged out of four selections in a specific order, and, that there are four ways to get three Tagged out of four selections This leads to the development of the binomial formula Equation (5.4). You might want to do another example at this point that calls for adding several probabilities such as three or more Tagged, less than three Tagged, etc. Complete the discussion of the binomial distribution with the computation of the mean and standard deviation of the distribution. Be sure to point out that for samples greater than five, computations can become unwieldy and the student should use PHStat, an Excel function, the binomial tables (See the Online **Binomial.pdf** tables), JMP, or Minitab.

Once the binomial distribution has been covered, if time permits, other discrete probability distributions can be presented. If you cover the Poisson distribution, point out the distinction between the binomial and Poisson distributions. Note that the Poisson is based on an area of opportunity in which you are counting occurrences within an area such as time or space. Contrast this with the binomial distribution in which each value is classified as of interest or not of interest. Point out the equations for the mean and

standard deviation of the Poisson distribution and indicate that the mean is equal to the variance. Since the computation of probabilities from these discrete probability distributions can become tedious for other than small sample sizes, it is important to discuss PHStat, an Excel function the Poisson tables (See the Online **Poisson.pdf** tables) or JMP or Minitab.

The *Managing Ashland MultiComm Services* case for this chapter relates to the binomial distribution. The Digital case involves the expected value and standard deviation of a probability distribution and applications of the covariance in finance.

Chapter 6

Now that probability and probability distributions have been discussed in Chapters 4 and 5, you are ready to introduce the normal distribution. We recommend that you begin by mentioning some reasons that the normal distribution is so important and discuss several of its properties. We would also recommend that you do not show Equation (6.1) in class as it will just intimidate some students. You might begin by focusing on the fact that any normal distribution is defined by its mean and standard deviation and display Figure 6.3 on p. 234. Then, an example can be introduced and you can explain that if you subtracted the mean from a particular value, and divided by the standard deviation, the difference between the value and the mean would be expressed as a standardized normal or Z score that was discussed in Chapter 3. Next, use Table E.2, the cumulative normal distribution, to find probabilities under the normal curve. In the text, the cumulative normal distribution is used since this table is consistent with results provided by Excel, JMP, and Minitab. Make sure that all the students can find the appropriate area under the normal curve in their cumulative normal distribution tables. If anyone cannot, show them how to find the correct value. Be sure to remind the class that since the total area under the curve adds to 1.0, the word area is synonymous with the word probability. Once this has been accomplished, a good approach is to work through a series of examples with the class, having a different student explain how to find each answer. The example that will undoubtedly cause the most difficulty will be finding the values corresponding to known probabilities. Slowly go over the fact that in this type of example, the probability is known and the Z value needs to be determined, which is the opposite of what the student has done in previous examples. Also point out that in cases in which the unknown X value is below the mean, the negative sign must be assigned to the Z value. Once the normal distribution has been covered, you can use PHStat, or various Excel functions or JMP or Minitab to compute normal probabilities. You can also use the Visual Explorations in Statistics Normal distribution procedure on p. 239. This will be useful if you intend to use examples that explore the effect on the probabilities obtained by changing the X value, the population mean, μ, or the standard deviation, σ. The *Think About This* essay provides a historical perspective of the application of the normal distribution.

If you have sufficient time in the course, the normal probability plot can be discussed. Be sure to note that all the data values need to be ranked in order from lowest to highest and that each value needs to be converted to a normal score. Again, you can either use PHStat to generate a normal probability plot, use Excel functions with Excel charts, or use JMP or Minitab.

The *Managing Ashland MultiComm Services* case for this chapter relates to the normal distribution. The Digital case involves the normal distribution and the normal probability plot. The CardioGood Fitness, More Descriptive Choices Follow-up, and Clear Mountain State Student Survey each involve developing normal probability plots.

Chapter 7

The coverage of the normal distribution in Chapter 6 flows into a discussion of sampling distributions. Point out the fact that the concept of the sampling distribution of a statistic is important for statistical inference. Make sure that students realize that problems in this section will find probabilities concerning the mean, not concerning individual values. It is helpful to display Figure 7.4 on p. 265 to show how the Central Limit Theorem applies to different shaped populations. A useful classroom or homework exercise involves using PHStat, Excel, or JMP or Minitab to form sampling distributions. This reinforces the concept of the Central Limit Theorem.

The *Managing Ashland MultiComm Services* case for this chapter relates to the sampling distribution of the mean. The Digital case also involves the sampling distribution of the mean.

You might want to have students experiment with using the Visual Explorations add-in workbook to explore sampling distributions. You can also use either Excel functions, the PHStat add-in, the Analysis ToolPak, or JMP or Minitab to develop sampling distribution simulations.

Chapter 8

You should begin this chapter by reviewing the concept of the sampling distribution covered in Chapter 7. It is important that the students realize that (1) an interval estimate provides a range of values for the estimate of the population parameter, (2) you can never be sure that the interval developed does include the population parameter, and (3) the proportion of intervals that include the population parameter within the interval is equal to the confidence level.

Note that the Using Statistics example for this chapter, which refers to the Ricknel Home Centers is actually a case study that relates to every part of the chapter. This scenario is a good candidate for use as the classroom example demonstrating an application of statistics in accounting. It also enables you to use the DCOVA approach of Define, Collect, Organize, Visualize, and Analyze in the context of statistical inference.

When introducing the *t* distribution for the confidence interval estimate of the population mean, be sure to point out the differences between the *t* and normal distributions, the assumption of normality, and the robustness of the procedure. It is useful to display Table E.3 in class to illustrate how to find the critical *t* value. When developing the confidence interval for the proportion, remind the students that the normal distribution may be used here as an approximation to the binomial distribution as long as the assumption of normality is valid [when $n\pi$ and $n(1-\pi)$ are at least 5].

Having covered confidence intervals, you can move on to sample size determination by turning the initial question of estimation around, and focusing on the sample size needed for a desired confidence level and width of the interval. In discussing sample size determination for the mean, be sure to focus on the need for an estimate of the standard deviation. When discussing sample size determination for the proportion, be sure to focus on the need for an estimate of the population proportion and the fact that a value of $\pi = 0.5$ can be used in the absence of any other estimate.

Since the formulas for the confidence interval estimates and sample sizes discussed in this chapter are straightforward, using PHStat or In-Depth Excel can remove much of the tedious nature of these computations or you can use JMP or Minitab.

The *Managing Ashland MultiComm Services* case for this chapter involves developing various confidence intervals and interpreting the results in a marketing context. The Digital case also relates to confidence interval estimation. This chapter marks the first appearance of the Sure Value Convenience Store case which places the student in the role of someone working in the corporate office of a nationwide c0nvenience store franchise. This case will appear in the next two chapters, Chapters 9 – 10. The CardioGood Fitness, More Descriptive Choices Follow-up, and Clear Mountain State Student Survey each involve developing confidence interval estimates.

You can use either Excel functions, the PHStat add-in, or JMP or Minitab to construct confidence intervals for means and proportions and either Excel functions or the PHStat add-in to determine the sample size for means and proportions.

Chapter 9

A good way to begin the chapter is to focus on the reasons that hypothesis testing is used. We believe that it is important for students to understand the logic of hypothesis testing before they delve into the details of computing test statistics and making decisions. If you begin with the Using Statistics example concerning the filling of cereal boxes, slowly develop the rationale for the null and alternative hypotheses. Ask the students what conclusion they would reach if a sample revealed a mean of 200 grams (They will all say that something is the matter) and if a sample revealed a mean of 367.99 grams (Almost all will say that the difference between the sample result and what the mean is supposed to be is so small that it must be due to chance). Be sure to make the point out that hypothesis testing allows you to take away the decision from a person's subjective judgment, and enables you to make a decision while at the same time quantifying the risks of different types of incorrect decisions. Be sure to go over the meaning of the Type I and Type II errors, and their associated probabilities α and β along with the concept of statistical power.

Set up an example of a sampling distribution such as Figure 9.1 on p. 317, and show the regions of rejection and nonrejection. Explain that the sampling distribution and the test statistic involved will change depending on the characteristic being tested. Focus on the situation where σ is unknown if you have numerical data. Emphasize that σ is virtually never known. It is also useful at this point to introduce the concept of the *p*-value approach as an alternative to the classical hypothesis testing approach. Define the *p*-value and use the phrase given in the text "If the *p*-value is low, H_0 must go." and the rules for rejecting the null hypothesis and indicate that the *p*-value approach is a natural approach when using Excel or JMP or Minitab, since the *p*-value can be determined by using PHStat, Excel functions, the Analysis Toolpak, or JMP or Minitab.

Once the initial example of hypothesis testing has been developed, you need to focus on the differences between the tests used in various situations. The Chapter 9 summary table is useful for this since it presents a roadmap for determining which test is used in which circumstance. Be sure to point out that one-tail tests are used when the alternative hypothesis involved is directional (e.g., $\mu > 368$, $\mu < 0.20$). Examine the effect on the results of changing the hypothesized mean or proportion.

The *Managing* Ashland *MultiComm Services* case, Digital case, and the Sure Value Convenience Store case each involves the use of the one-sample test of hypothesis for the mean.

You can use either Excel functions, the PHStat add-in, or JMP or Minitab to carry out the hypothesis tests for means and proportions.

Chapter 10

This chapter discusses tests of hypothesis for the differences between two or more groups. The chapter begins with t tests for the difference between the means, then covers the Z test for the difference between two proportions, the F test for the ratio of two variances. and concludes with one-way ANOVA.

The first test of hypothesis covered is usually the test for the difference between the means of two groups for independent samples. Point out that the test statistic involves pooling of the sample variances from the two groups and assumes that the population variances are the same for the two groups. Students should be familiar with the t distribution, assuming that the confidence interval estimate for the mean has been previously covered. Point out that a stem-and-leaf display, a boxplot, or a normal probability plot can be used to evaluate the validity of the assumptions of the t test for a given set of data. This allows you to once again use the DCOVA approach of Define, Collect, Organize, Visualize, and Analyze to meet a business objective.

Once the t test has been discussed, you can use the Excel worksheets provided with the In-Depth Excel approach, PHStat, the Analysis Toolpak, or JMP or Minitab to determine the test statistic and p-value. Mention that if the variances are not equal, a separate variance t test can be conducted. The *Think About This* essay is a wonderful example of how the two-sample t test was used to solve a business problem that a student had after she graduated and had taken the introductory statistics course.

At this point, having covered the test for the difference between the means of two independent groups, if you have time in your course, you can discuss a test that examines differences in the means of two paired or matched groups. The key difference is that the focus in this test is on differences between the values in the two groups, since the data have been collected from matched pairs or repeated measurements on the same individuals or items. Once the paired t test has been discussed, the In-Depth Excel approach, PHStat, the Analysis Toolpak, or JMP or Minitab can be used to determine the test statistic and p-value.

You can continue the coverage of differences between two groups by testing for the difference between two proportions. Be sure to review the difference between numerical and categorical data emphasizing the categorical variable used here classifies each observation as of interest or not of interest. Make sure that the students realize that the test for the difference between two proportions follows the normal distribution. A good classroom example involves asking the students if they enjoy shopping for clothing and then classifying the yes and no responses by gender. Since there will often be a difference between males and females, you can then ask the class how we might go about determining whether the results are statistically significant.

The F-test for the variances can be covered next. Be sure to carefully explain that this distribution, unlike the normal and t distributions, is not symmetric and cannot have a negative value

since the statistic is the ratio of two variances. Remind the students that the larger variance is in the numerator. Be sure to mention that a boxplot of the two groups and normal probability plots can be used to determine the validity of the assumptions of the F test. This is particularly important here since this test is sensitive to non-normality in the two populations. The In-Depth Excel approach, PHStat, the Analysis Toolpak, or JMP or Minitab can be used to determine the test statistic and p-value.

If the one-way ANOVA F test for the difference between c means is to be covered in your course, a good way to start is to go back to the sum of squares concept that was originally covered when the variance and standard deviation were introduced in Section 3.2. Explain that in the one-way Analysis of Variance, the sum of squared differences around the overall mean can be divided into two other sums of squares that add up to the total sum of squares. One of these measures differences among the means of the groups and thus is called sum of squares among groups (SSA), while the other measures the differences within the groups and is called the sum of squares within the groups (SSW). Be sure to remind the students that, since the variance is a sum of squares divided by degrees of freedom, a variance among the groups and a variance within the groups can be computed by dividing each sum of squares by the corresponding degrees of freedom. Make the point that the terminology used in the Analysis of Variance for variance is Mean Square, so the variances computed are called MSA, MSW, and MST. This will lead to the development of the F statistic as the ratio of two variances. A useful approach at this point when all formulas are defined, is to set up the ANOVA summary table. Try to minimize the focus on the computations by reminding students that the Analysis of Variance computations can be done using In-Depth Excel, PHStat, the Analysis Toolpak, or JMP or Minitab. It is also useful to show how to obtain the critical F value by either referring to Table E.5 or the Excel or JMP or Minitab results. Be sure to mention the assumptions of the Analysis of Variance and that the boxplot and normal probability plot can be used to evaluate the validity of these assumptions for a given set of data. Levene's test can be used to test for the equality of variances.

Once the Analysis of Variance has been covered, if time permits (which it may not in a one-semester course), you will want to determine which means are different. Although many approaches are available, this text uses the Tukey-Kramer procedure that involves the Studentized range statistic shown in Table E.7. Be sure that students compare each paired difference between the means to the critical range. Note that you can use In-Depth Excel, PHStat, or JMP or Minitab to compute Tukey-Kramer multiple comparisons.

Be aware that the *Managing Ashland MultiComm Services* case, since it contains both independent sample and matched sample aspects, involves all the sections of the chapter except the test for the difference between two proportions. The Digital case is based on two independent samples and on one-way ANOVA. The Sure Value Convenience Store case now involves a decision between two prices

for coffee and also between four prices of coffee. The CardioGood Fitness, More Descriptive Choices Follow-up, and Clear Mountain State Student Survey each involve the determination of differences between two or more groups on both numerical and categorical variables.

You can use either Excel functions, the PHStat add-in, the Analysis ToolPak, or JMP or Minitab to carry out the hypothesis tests for the differences between means and variances for the paired t test, and one-way ANOVA. You can also use Excel functions, the PHStat add-in, or JMP or Minitab to carry out the hypothesis test for the differences between two proportions.

Chapter 11

This chapter covers chi-square tests. The Using Statistics example concerning hotels relates to the first three sections of the chapter.

If you covered the Z test for the difference between two proportions in Chapter 10, you can return to the example you used there and point out that the chi-square test can be used as an alternative. A good classroom example involves asking the students if they enjoy shopping for clothing and then classifying the yes and no responses by gender. Since there will often be a difference between males and females, you can then ask the class how they might go about determining whether the results are statistically significant. The expected frequencies are computed by finding the mean proportion of items of interest (enjoying shopping) and items not of interest (not enjoying shopping) and multiplying by the sample sizes of males and females respectively. This leads to the computation of the test statistic. Once again as with the case of the normal, t, and F distribution, be sure to set up a picture of the chi-square distribution with its regions of rejection and non-rejection and critical values. In addition, go over the assumptions of the chi square test including the requirement for an expected frequency of at least five in each cell of the 2×2 contingency table.

Now you are ready to extend the chi-square test to more than two groups. Be sure to discuss the fact that with more than two groups, the number of degrees of freedom will change and the requirements for minimum cell expected frequencies will be somewhat less restrictive. If you have time, you can develop the Marascuilo procedure to determine which groups differ.

The discussion of the chi-square test concludes with the test of independence in the r by c table. Be sure to go over the interpretation of the null and alternative hypotheses and how they differ from the situation in which there are only two rows.

The *Managing Ashland MultiComm Services* case extends the survey discussed in Chapter 8 to analyze data from contingency tables. The Digital case also involves analyzing various contingency tables. The Sure Value Convenience Store case and the CardioGood Fitness case now involve using the Kruskal-Wallis test instead of the one-way ANOVA, The More Descriptive Choices Follow-up and Clear Mountain State Student Survey cases involve both contingency tables and nonparametric tests.

You can use In-Depth Excel, PHStat, JMP, or Minitab for testing differences between the proportions and for tests of independence.

Chapter 12

Regression analysis is probably the most widely used and misused statistical method in business and economics. In an era of easily available statistical and spreadsheet applications, we believe that the best approach is one that focuses on the interpretation of regression results obtained from such applications, the assumptions of regression, how those assumptions can be evaluated, and what can be done if they are violated. Although we also feel that might be useful for students to work out at least one *small* example with the aid of a hand calculator, we believe that there should be minimal focus on hand calculations.

A good way to begin the discussion of regression analysis is to focus on developing a model that can provide a better prediction of a variable of interest. The Using Statistics example, which forecasts sales for a clothing store, is useful for this purpose. You can extend the DCOVA approach discussed earlier by defining the business objective, discussing data collection, and data organization before moving on to the visualization and analysis in this chapter. Be sure to clearly define the dependent variable and the independent variable at this point.

Once the two types of variables have been defined, the example should be introduced. Explain the goal of the analysis and how regression can be useful. Follow this with a scatter plot of the two variables. Before developing the Least Squares method, review the straight-line formula and note that different notation is used in statistics for the intercept and the slope than in mathematics. At this point, you need to develop the concept of how the straight line that best fits the data can be found. One approach involves plotting several lines on a scatter plot and asking the students how they can determine which line fits the data better than any other. This usually leads to a criterion that minimizes the differences between the actual *Y* value and the value that would be predicted by the regression line. Remind the class that when you computed the mean in Chapter 3, you found out that the sum of the differences around the mean was equal to zero. Tell the class that the regression line in two dimensions is similar to the mean in one dimension, and that the differences between the actual *Y* value and the value that would be predicted by the regression line will sum to zero. Students at this point, having covered the variance, will usually tell you just to square the differences. At this juncture, you might want to substitute the regression equation for the predicted value, and tell the students that since you are minimizing a quantity, derivatives are used. We discourage you from doing the actual proof, but mentioning derivatives may help some students realize that the calculus they may have learned in mathematics courses is actually used to develop the theory behind the statistical method. The least-squares concepts discussed can be reinforced by using the Visual Explorations in Statistics Simple Linear Regression procedure on p. 493. This procedure produces a scatter plot with an unfitted line of regression and a floating control panel of controls with which to adjust the line. The spinner buttons can be used to change the values of the slope and *Y* intercept to

change the line of regression. As these values are changed, the difference from the minimum *SSE* changes.

The solution obtained from the Least Squares method allows you to find the slope and *Y* intercept. In this text, since the emphasis is on the interpretation of computer output, focus is now on finding the regression coefficients on the output shown in Figure 12.4 on p. 455. Once this has been done, carefully review the meaning of these regression coefficients in the problem involved. The coefficients can now be used to predict the *Y* value for a given *X* value. Be sure to discuss the problems that occur if you try to extrapolate beyond the range of the *X* variable. Now you can show how to use either the In-Depth Excel, the Analysis ToolPak, PHStat, JMP, or Minitab to obtain the regression output.

Tell the students that now you need to determine the usefulness of the regression model by subdividing the total variation in *Y* into two component parts, explained variation or regression sum of squares (*SSR*) and unexplained variation or error sum of squares (*SSE*). Once the sum of squares has been determined and the coefficient of determination r^2 computed, be sure to focus on the interpretation. Having computed the error sum of squares (*SSE*), the standard error of the estimate can be computed. Make the analogy that the standard error of the estimate has the same relationship to the regression line that the standard deviation had to the arithmetic mean.

The completion of this initial model development phase allows you to begin focusing on the validity of the model fitted. First, go over the assumptions and emphasize the fact that unless the assumptions are evaluated, a correct regression analysis has not been carried out. Reiterate the point that this is one of the things that people are most likely to do incorrectly when they carry out a regression analysis.

Once the assumptions have been discussed, you are ready to begin evaluating whether they are true for the model that has been fit. This leads into a discussion of residual analysis. Emphasize that Excel, JMP, or Minitab can be used to determine the residuals and that in determining whether there is a pattern in the residuals, you look for gross patterns that are obvious on the plot, *not* minor patterns that are not obvious. Be sure to note that the residual plot can also be used to evaluate the assumption of equal variance along with whether there is a pattern in the residuals over time if the data have been collected in sequential order. Point out that finding no pattern (i.e., a random pattern) means that the model fit is an appropriate one. However, it does not mean that other alternative models involving additional variables should not be considered. Mention also, that a normal probability plot of the residuals can be helpful in determining the validity of the normality assumption. If time permits, the discussion of the Anscombe data in Section 12.9 serves as a strong reinforcement of the importance of residual analysis.

If time is available, you may wish to discuss the Durbin-Watson statistic for autocorrelation. Be sure to discuss how to find the critical values from the table of the *D* statistic and the fact that sometimes the results will be inconclusive.

Once the model fit has been found to be appropriate, inferences in regression can be made. First cover the *t* or *F* test for the slope by referring to the Excel, JMP, or Minitab results. Here, the *p*-value approach is usually beneficial. Then, if time permits, you can discuss the confidence interval estimate for the mean and the prediction interval for the individual value.

The *Managing Ashland MultiComm Services* case, the Digital case, and the Brynne Packaging case each involves a simple linear regression analysis of a set of data.