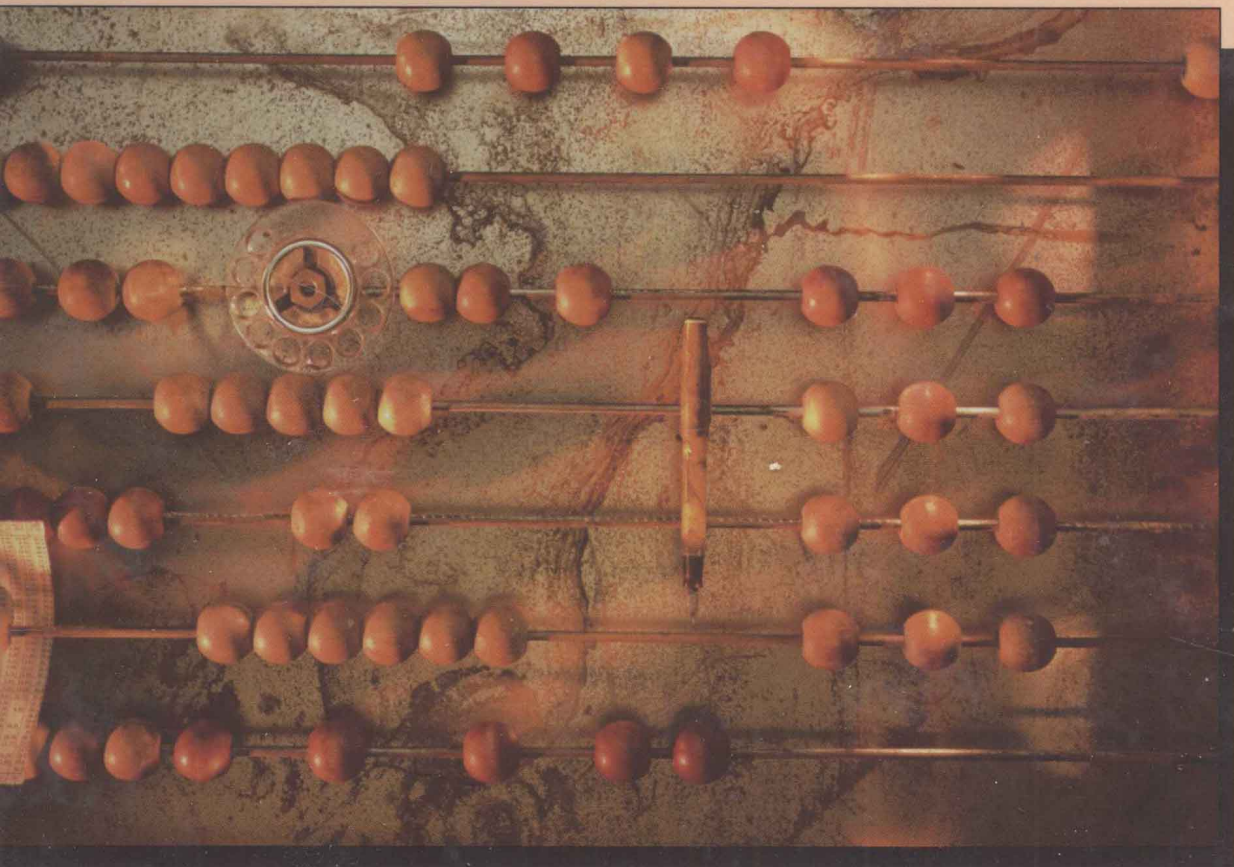


BASIC STATISTICS

FOR BUSINESS AND ECONOMICS



LIND • MASON

BASIC STATISTICS FOR BUSINESS AND ECONOMICS

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Preface to the Student

As the name implies, the purpose of *Basic Statistics for Business and Economics* is to provide students in marketing, accounting, finance, international trade, management, and other fields of business administration and economics with a sound introduction to the many applications of descriptive and inferential statistics. The book, however, is also appropriate for use in other subject areas, such as the various social sciences. You will find that the text provides excellent preparation for decision-making problems in various facets of business and economics and a good background for advanced courses involving statistical techniques.

LEARNING AIDS

We have designed the text to assist you in approaching this course without the anxiety often associated with statistics. This teaching-learning orientation has resulted in a large number of very effective learning aids.

Goals. Each chapter opens with a set of goals. They indicate what you should be able to do after completing the chapter.

Examples and solutions. After the discussion of a concept in a chapter, there is at least one example and its solution. Any numbers involved are kept manageable so that you can concentrate on the technique and solution.

Self-review problems. A large number of self-review problems are interspersed throughout each chapter. They are designed to give you an opportunity to work problems similar to the preceding examples. They serve to reinforce understanding of the material just covered. The answers and the method of solution is presented at the end of the chapter.

Exercises. There are exercises within chapters and at the end of the chapters. Usually, the first few chapter exercises stress computations, and the remaining incorporate interesting real-world data. The answer and method of solution to every odd-numbered exercise can be found at the end of the text.

Definitions. The definitions of new terms, such as the coefficient of correlation, are boxed and highlighted in color for emphasis.

Marginal notes. There are nearly 500 concise notes in the margin. Each is aimed at reemphasizing an important concept or facet immediately adjacent to it.

Chapter summary. At the end of the chapter discussion is an outline, including formulas, that brings together in brief form the material covered in the chapter.

Formulas. Formulas in a chapter are numbered starting with 1. Reference is made in the chapter to these formula numbers, giving you quick access to the appropriate formula.

COMPUTER DATA EXERCISE

The last few exercises in most chapters are based on two large data sets found at the end of the book. The first set contains data on 75 homes sold in Sarasota, Florida, during the year. Included for each home is the selling price, the size of the home, the number of bedrooms, and other data. The second set gives the number of games won, team batting average, and other statistics for each of the 26 major league baseball teams for the 1992 season. Since the data sets are large, a computer and software, such as MINITAB, are needed to answer such questions as: What are the mean and median team salary? Can we conclude that the mean selling price for homes with a swimming pool is different from the mean selling price for homes without a swimming pool? What is the relationship between team salary and games won?

SUPPLEMENTS

The **Study Guide** that accompanies the text is written by the authors. Each chapter includes the chapter goals, an introduction, a discussion of the important concepts and terms, a glossary, chapter problems with solutions, student exercises with answers in the back of the guide, and chapter assignments that may be assigned at the option of the instructor. The Study Guide can be purchased from your campus bookstore, or they can order it for you.

A **Data Disk** is also available. This diskette contains the two large data sets and data for many of the examples and exercises. The data are included in both ASCII and MINITAB formats. Ask your instructor for details.

Doug Lind
Bob Mason

Acknowledgments

Basic *Statistics in Business and Economics* is the product of many people—students, colleagues, reviewers, and the staff at Richard D. Irwin, Inc. We thank them all. The reviewers include: Phillip Beckman, Black Hawk College/Quad Cities; Darrell Christie, University of Wisconsin/Stevens Point; Michael Hanna, University of Houston/Clear Lake; John Ogle, Pace University; Richard Quindley, Bridgewater State College; Andrew Seila, University of Georgia; and Mark Wilson, University of Charleston.

We also wish to express our gratitude to those reviewers of the eighth edition of our book, *Statistical Techniques in Business and Economics*, whose suggestions are incorporated here: Diane L. Stehman, Northeastern Illinois University; Jonas Falik, Queensborough Community College; Louis A. Patille, University of Phoenix; Wendy J. McGuire, Santa Fe Community College; J. B. Orris, Butler University; David R. Hoffman, University of Phoenix; Joseph F. Kearney, Davenport College; Robert J. Miller, Missouri Southern State College; Bob McManus, Algonquin College; Leonard Gaston, Central State University; Linda Stroh, Sacramento City College; John Shannon, Suffolk University; Blake L. Friesen, Saskatchewan Institute of Applied Science and Technology—Palliser Campus.

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Many of the tables in the appendix were computer-generated for greater accuracy. We are indebted to Goldstein Software, Inc., for the program *GoldSpread Statistical*, which was used to generate these tables.

D.A.L.
R.D.M.

Contents in Brief

CHAPTER _____

1. Introduction to Basic Statistics 1
2. Summarizing Data: Frequency Distributions and Graphic Presentation 21
3. Describing Data—Measures of Central Tendency and Dispersion 57
4. A Survey of Probability Concepts 115
5. Discrete Probability Distributions 147
6. The Normal Probability Distribution 179
7. Sampling Methods and Sampling Distributions 203
8. Tests of Hypotheses: Large Samples 247
9. Student's t Test: Small Samples 281
10. Testing for Differences of Variances 307
11. Correlation and Regression Analysis 327
12. Multiple Regression and Correlation 361
13. Analysis of Nominal-Level Data: The Chi-Square Distribution 389
14. Nonparametric Methods: Analysis of Ranked Data 415
15. Statistical Quality Control 437

APPENDIXES _____

Tables and Data Sets 463

ANSWERS _____

Odd-Numbered Chapter Exercises 483

INDEX _____ 501

Contents

CHAPTER ONE

Introduction to Basic Statistics 1

Goals	1	Nominal Level	12
What Is Meant by Statistics?	2	Ordinal Level	13
Another Definition of Statistics	3	Interval Level	14
Who Uses Statistics?	4	Ratio Level	14
Types of Statistics	5	Learning Aids	16
Descriptive Statistics	5	Computer Applications	16
Inferential Statistics	7	Chapter Summary	17
Types of Variables	11	Exercises	17
Levels of Measurement	12	Self-Review Answers	19

CHAPTER TWO

Summarizing Data: Frequency Distributions and Graphic Presentation 21

Goals	21	Exercises	39
Construction of a Frequency Distribution	22	Cumulative Frequency Polygons	40
Stated and True Class Limits	25	Less-than Cumulative Frequency Polygon	41
Midpoints	26	More-than Cumulative Frequency Polygon	43
Class Interval	26	Exercises	44
Construction of a Frequency Distribution	26	Graphic Representation of Data	45
Relative Frequency Distribution	29	Simple Line Charts and Simple Bar Charts	46
Exercises	30	Pie Charts	47
Stem-and-Leaf Displays	30	Exercises	49
Exercises	34	Chapter Summary	49
Portraying a Frequency Distribution Graphically	35	Exercises	50
Histogram	35	Computer Data Exercises	54
Frequency Polygon	37	Self-Review Answers	55

CHAPTER THREE

Describing Data—Measures of Central Tendency and Dispersion 57

Goals	57	Weighted Mean	62
What Is a Measure of Central Tendency?	58	Exercises	63
Arithmetic Mean	59	The Median	64
The Population Mean	60	Properties of the Median	66
The Properties of the Arithmetic Mean	61	The Mode	67
Exercises	62	A Computer Example	68
		Exercises	68

The Geometric Mean	70	Range	90
Exercises	72	Standard Deviation	91
The Mean, Median, and Mode of Grouped Data	72	Exercises	93
The Arithmetic Mean	72	Interpretation and Uses of the Standard Deviation	94
Exercises	74	Chebyshev's Theorem	94
The Median	75	The Empirical Rule	95
The Mode	78	Exercises	97
Exercises	79	Other Measures of Dispersion	97
Selecting an Average for Data in a Frequency Distribution	79	Interquartile Range	97
Why Study Dispersion	81	Quartile Deviation	100
Measures of Dispersion—Ungrouped Data	82	Exercises	100
Range	82	Relative Dispersion	101
Mean Deviation	83	Exercises	102
Exercises	84	Skewness	102
Variance and Standard Deviation	85	A Computer Application	103
Exercises	87	Exercises	104
Exercises	90	Chapter Summary	104
Measures of Dispersion for Data Grouped into a Frequency Distribution	90	Exercises	107
		Computer Data Exercises	111
		Self-Review Answers	112

CHAPTER FOUR

A Survey of Probability Concepts 115

Goals	115	Rules of Multiplication	129
Definition of Probability	116	Tree Diagrams	134
Exercises	119	Exercises	135
Types of Probability	119	Bayes' Theorem	136
Exercises	123	Exercises	140
Some Basic Rules of Probability	123	Chapter Summary	140
Rules of Addition	124	Exercises	141
Exercises	126	Computer Data Exercises	144
Exercises	129	Self-Review Answers	145

CHAPTER FIVE

Discrete Probability Distributions 147

Goals	147	Binomial Probability Distribution	154
What Is a Probability Distribution?	148	Constructing a Binomial Probability Distribution	155
Random Variables	150	Exercises	158
Discrete Random Variable	150	Using Binomial Probability Tables	158
Continuous Random Variable	150	Exercises	163
The Mean, Variance, and Standard Deviation of a Discrete Probability Distribution	151	Cumulative Probability Distributions	163
Mean	151	Exercises	165
Variance and Standard Deviation	151	Hypergeometric Distribution	165
Exercises	154	Exercises	168

The Poisson Probability Distribution	169	Exercises	173
Exercises	172	Computer Data Exercises	176
Chapter Summary	172	Self-Review Answers	177

CHAPTER SIX

The Normal Probability Distribution 179

Goals	179	Exercises	188
Characteristics of a Normal Probability Distribution	180	The Normal Approximation to the Binomial	194
The Family of Normal Probability Distributions	181	Continuity Correction Factor	194
The Standard Normal Probability Distribution	182	Exercises	197
Determining Probabilities Using the Normal Curve	184	Chapter Summary	197
Exercises	186	Exercises	198
Applications of the Standard Normal Distribution	186	Computer Data Exercises	201
		Self-Review Answers	202

CHAPTER SEVEN

Sampling Methods and Sampling Distributions 203

Goals	203	Constructing the 95 Percent and the 99 Percent Confidence Intervals	227
Why Sample the Population?	205	Computer Simulation 3	228
What Is a Probability Sample?	206	Exercises	230
Methods of Probability Sampling	206	Confidence Interval for a Population Proportion	231
Simple Random Sampling	207	Exercises	232
Systematic Random Sampling	209	Finite-Population Correction Factor	232
Exercises	210	Exercises	234
Stratified Random Sampling	211	Selecting a Sample Size	234
Exercises	212	Degree of Confidence	235
Cluster Sampling	212	Maximum Error Allowed	235
Sampling Error	213	Variation in the Population	236
Sampling Distribution of the Means	213	Exercises	238
Exercises	217	Sample Size for Proportions	238
Central Limit Theorem	217	Exercises	239
Computer Simulation 1	219	Chapter Summary	240
Computer Simulation 2	221	Exercises	241
Point Estimates and Interval Estimates	222	Computer Data Exercises	244
Point Estimate	223	Self-Review Answers	245
Interval Estimate	225		
Standard Error of the Mean	226		

CHAPTER EIGHT

Tests of Hypotheses: Large Samples 247

Goals	247	Five-Step Procedure for Testing a Hypothesis	249
What Is a Hypothesis?	248		
What Is Hypothesis Testing?	249		

Step 1: Identify the Null Hypothesis and the Alternative Hypothesis	249	Exercises	261
Step 2: Determine the Level of Significance	250	Hypothesis Testing: Two Population Means	262
Step 3: Find the Test Statistic	252	Exercises	265
Step 4: Determine the Decision Rule	252	A Test Involving One Population Proportion	266
Step 5: Make a Decision	253	A One-Tailed Test	267
One-Tailed and Two-Tailed Tests of Significance	254	Exercises	269
Testing for the Population Mean: Large Sample, Population Standard Deviation Known	255	A Test Involving the Difference between Two Population Proportions	270
A Two-Tailed Test	256	A Two-Tailed Test	271
A One-Tailed Test	258	Exercises	273
p -values in Hypothesis Testing	259	Chapter Summary	274
Exercises	259	Exercises	275
Testing for the Population Mean: Large Sample, Population Standard Deviation Unknown	260	Computer Data Exercise	278
		Self-Review Answers	279

CHAPTER NINE

Student's t Test: Small Samples 281

Goals	281	Exercises	294
Characteristics of Student's t Distribution	282	Hypothesis Testing Involving Paired Observations	295
A Test for the Population Mean	284	Exercises	298
Exercises	287	Chapter Summary	298
A Computer Solution	289	Exercises	300
Exercises	290	Computer Data Exercises	303
Comparing Two Population Means	291	Self-Review Answers	305

CHAPTER TEN

Testing for Differences of Variances 307

Goals	307	Inferences about Treatment Means	318
The F Distribution	308	Exercises	320
Comparing Two Population Variances	308	Chapter Summary	322
Validating Assumptions	309	Exercises	323
ANOVA: Underlying Assumptions	311	Computer Data Exercises	325
The ANOVA Test	312	Self-Review Answers	326

CHAPTER ELEVEN

Correlation and Regression Analysis 327

Goals	327	The Coefficient of Determination	332
What Is Simple Correlation Analysis?	328	A Word of Caution	333
Scatter Diagram	329	Exercises	333
The Coefficient of Correlation	330		

Testing the Significance of the Coefficient of Correlation 335	Exercises 347
Small Samples 335	Confidence-Interval Estimates 348
An Application Using the MINITAB System 336	Exercises 351
Exercises 338	The Relationship among the Coefficient of Correlation, the Coefficient of Determination, and the Standard Error of Estimate 351
Regression Analysis 338	Chapter Summary 354
Least Squares Principle 339	Exercises 355
Drawing the Line of Regression 341	Computer Data Exercises 359
Exercises 343	Self-Review Answers 360
The Standard Error of Estimate 344	
Assumptions Underlying Linear Regression 346	

CHAPTER TWELVE

Multiple Regression and Correlation 361

Goals 361	Evaluating Individual Regression Coefficients 374
Multiple Regression Analysis 362	Qualitative Variables in Regression 376
Exercises 365	Stepwise Regression 378
Multiple Standard Error of Estimate 366	Chapter Summary 380
Assumptions about Multiple Regression and Correlation 368	Exercises 381
The ANOVA Table 369	Computer Data Exercises 386
Correlation Matrix 372	Self-Review Answers 388
Global Test: Testing Whether or Not the Multiple Regression Model Is Valid 372	

CHAPTER THIRTEEN

Analysis of Nominal-Level Data: The Chi-Square Distribution 389

Goals 389	Using the Goodness-of-Fit Test to Test for Normality 401
Chi-Square Goodness-of-Fit Test: Equal Expected Frequencies 390	Exercises 405
Characteristics of the Chi-Square Distribution 394	Contingency Table Analysis 405
Goodness-of-Fit Test: Unequal Expected Frequencies 395	Exercises 409
Limitations of Chi-Square 398	Chapter Summary 409
Exercises 399	Exercises 410
	Computer Data Exercises 412
	Self-Review Answers 413

CHAPTER FOURTEEN

Nonparametric Methods: Analysis of Ranked Data 415

Goals 415	The Wilcoxon Rank-Sum Test 419
Testing a Hypothesis about a Median 416	Exercises 421
A MINITAB Solution 417	Kruskal-Wallis Test: Analysis of Variance by Ranks 422
Exercises 418	Exercises 426

Wilcoxon Matched-Pair Signed Rank Test of Differences	427	Exercises	432
Exercises	430	Computer Data Exercise	435
Chapter Summary	431	Self-Review Answers	436

CHAPTER FIFTEEN

Statistical Quality Control 437

Goals	437	Charts for Attributes	448
Causes of Variation	439	Exercises	451
Purposes and Types of Quality-Control Charts	439	Acceptance Sampling	454
Charts for Variables	440	Exercises	458
Some In-Control and Out-of-Control Situations	446	Chapter Summary	458
Exercises	448	Exercises	459
		Self-Review Answers	462

APPENDICES

Tables and Data Sets 463

Appendix A Binomial Probability Distribution	464	Appendix F Student's <i>t</i> Distribution	476
Appendix B Factors for Control Charts	472	Appendix G Critical Values of the <i>F</i> Distribution	477
Appendix C Poisson Distribution: Probability of Exactly <i>X</i> Occurrences	473	Appendix H Critical Values of Chi-Square	479
Appendix D Areas under the Normal Curve	474	Appendix I Wilcoxon <i>T</i> Values	480
Appendix E Table of Random Numbers	475	Appendix J Data Set 1—Real Estate	481
		Appendix K Data Set 2—1992 Major League Baseball	482

ANSWERS

Odd-Numbered Chapter Exercises 483

Chapter 1 Introduction to Basic Statistics	483	Samples	492
Chapter 2 Summarizing Data—Frequency Distributions and Graphic Presentation	483	Chapter 9 Student's <i>t</i> Test: Small Samples	493
Chapter 3 Describing Data—Measures of Central Tendency and Dispersion	486	Chapter 10 Testing for Differences of Variances	494
Chapter 4 A Survey of Probability Concepts	487	Chapter 11 Correlation and Regression Analysis	495
Chapter 5 Discrete Probability Distributions	488	Chapter 12 Multiple Regression and Correlation	497
Chapter 6 The Normal Probability Distribution	489	Chapter 13 Analysis of Nominal-Level Data: The Chi-Square Distribution	498
Chapter 7 Sampling Methods and Sampling Distributions	490	Chapter 14 Nonparametric Methods: Analysis of Ranked Data	498
Chapter 8 Tests of Hypotheses: Large		Chapter 15 Statistical Quality Control	500

INTRODUCTION TO BASIC STATISTICS



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GOALS

When you have completed this chapter, you will be able to:

1. Define what is meant by statistics.
2. Cite some uses of statistics in business and other areas.
3. Explain what is meant by descriptive statistics and inferential statistics.
4. Distinguish between nominal, ordinal, interval, and ratio levels of measurement.

About 100 years ago H. G. Wells noted that “statistical thinking will one day be as necessary for efficient citizenship as the ability to read and write.” He made no mention of business simply because the Industrial Revolution was still in its infancy. Were he to comment on statistical thinking today he would probably say that “statistical thinking is necessary not only for efficient citizenship, but also for effective decision making in various facets of business.”

A recent article in the *Washington Post* by Michael Schrage emphasizes the importance of statistics.¹ He states that America is not going to have a quality revolution until its managers and workers get some grasp of probability and statistics.

¹Michael Schrage, “If Statistics Are the Key to Quality, Our Students Need Some Chance Encounters,” *Washington Post* (March 15, 1991).

Unfortunately, corporate statistical literacy is abysmally low, Schrage points out. Brian Joyner, a Wisconsin-based consultant, agrees. To his dismay, he finds that much of his consulting time is spent on remedial statistics. Andrea Gabor, commenting on education in high schools, pointed out that “Japanese students are inundated with statistics in high school. You realize that statistics is now part of their culture. Just as our bookstores have sections on science and technology, their bookstores have sections on quality control and statistics.” No doubt the emphasis on quality control, statistics, and probability has played a major part in the huge success of their Toyotas, Hondas, Sonys, Minoltas, and other consumer products.

W. Edwards Deming, noted statistician and quality control expert, insists that we should start statistics education before high school. He likes to tell the story of an 11-year-old who devised a quality control chart to track the on-time performance of his school bus. Deming commented, “He’s got a good start in life.” It is hoped that this book will give you a solid foundation in statistics for your future life in marketing, accounting, management, or some other facet of business.

WHAT IS MEANT BY STATISTICS?

Do you read *The USA Today*, the *New York Times*, *Sports Illustrated*, or the local newspaper? Did you watch the World Series, the Super Bowl, or any of the college basketball games on ESPN? If so, no doubt you were aware of a constant barrage of figures commonly called *statistics*. Examples of statistics are the number of yards gained by the Dallas Cowboys in the football game against the Denver Broncos, the Dow Jones Average, the number of shares that changed hands during the day, and the price of a can of Campbell’s tomato soup. Some diverse statistics from various sources are:

- *Sales and price statistics:* Hewlett-Packard introduced several models of their new HP 486 series starting at \$1,200. Third-quarter sales of Chevron were \$10,970 million. The dividend on the Blair Corporation stock this year is \$2.30 per share.
- *Sports-related statistics:* In the second-round AFC playoff game, held before a record Three Rivers Stadium crowd of 60,407, the Buffalo Bills defeated the Pittsburgh Steelers 24–3. The average annual salary for the Toronto Blue Jays is \$1,494,012. Sales of tennis rackets increased from 2.2 million in 1985 to 4.0 million last year.
- *Financial statistics:* *The USA Today* reported that the three largest retailers, ranked according to their annual revenues, in billions of dollars, were Wal-Mart with \$43.4, Kmart with \$34.6, and Sears with \$31.4.
- *Other assorted statistics:* The U.S. Department of Justice reported that 12.5 percent of the personnel in sheriffs’ departments are women, 7.6 percent of local police are women, and 4.2 percent of state police are women. Barbara Franklin is paid \$315,600 as the director of seven major corporations. About 5.5 million children in the United States are hungry, and another 6 million are not getting enough to eat. The typical child in the United States watches 42 hours of TV per week. From *The Wall Street Journal*: Florists’ Transworld Delivery Association handled 55,200 orders for flowers last Father’s Day, up from 49,600 the previous year. The number of people who consider flowers appropriate for men has risen to 63 percent from just 44 percent in 1982.

Statistic

Statistics

One figure is called a **statistic** (singular). The closing price of Boeing common stock ($44\frac{1}{2}$) is a statistic. Your cumulative grade point average (4.0) is a statistic. The total retail sales for May, \$131.88 billion, is a statistic. A collection of figures or facts is referred to as **statistics** (plural). For example, a collection of data such as 55,200 flower orders for Father's Day, 30,000 travel agencies in the United States, 2.2 percent of the labor force employed in farming, and \$10,000 for a fly rod is commonly referred to as statistics.

ANOTHER DEFINITION OF STATISTICS

The subject of statistics as we will explore it in this text has a much broader meaning than just collecting and publishing numerical facts and figures. Statistics is defined as:

Statistics defined

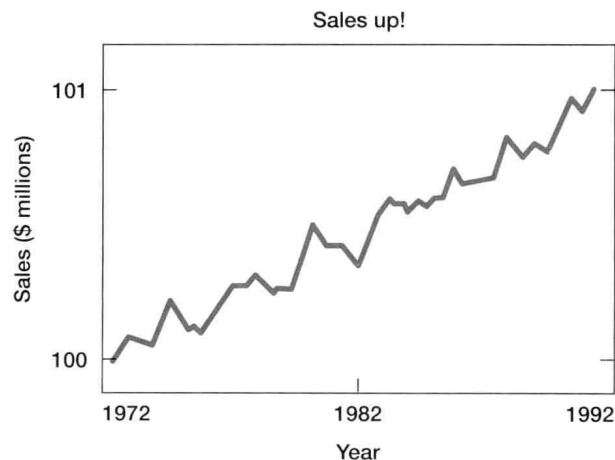
Statistics The science of collecting, organizing, presenting, analyzing, and interpreting numerical data for the purpose of assisting in making a more effective decision.

Just as attorneys have "rules of evidence" and accountants have "commonly accepted practices," persons dealing with numerical data follow some standard guidelines. Some of the basic statistical techniques they use in decision problems are presented in the following chapters.

Many first approach the application of numerical data to solve a problem with some trepidation. They have heard such often-quoted phrases as "statistics lie," and they might have seen a book in the bookstore entitled *How to Lie with Statistics*. Statistics "lie" only if they are not applied correctly. For illustration, suppose the sales of Carter Marine for the past 20 years were depicted as in Chart 1–1. Initially, you might conclude that sales increased at a very rapid rate since 1972 (the lie).

CHART 1–1

Sales of Carter Marine since 1972



However, a closer look reveals that sales increased only about 1 percent—from \$100 million to \$101 million (the truth). The designer of the chart—intentionally or unintentionally—scaled the vertical (sales) axis incorrectly, leaving us with the wrong impression regarding the trend of sales since 1972.

Our objectives in this book are many. One, of course, is to alert you of possible misuses of charts, averages, correlation and regression techniques, and other statistical tools. Another is to introduce you to the usefulness of statistical techniques in marketing, accounting, finance, international trade, economics, law enforcement, and other fields. Specifically, who uses statistics?

WHO USES STATISTICS?

Use in business and other fields

As noted, statistical techniques are used extensively by marketing, accounting, quality control, and other departments; consumers; professional sports people; hospital administrators; educators; political parties; physicians; and others involved in making decisions. The following examples suggest the wide use of statistics in decision problems.

Some specific uses of statistics in problem solving

1. The research analysts for such firms as Merrill Lynch evaluate many facets of a stock before making a “buy” or “sell” recommendation. They collect the past sales data of the company and estimate future earnings. Other factors, such as projected worldwide demand for the company’s products, the strength of the competition, and the effect of the new management-union contract, are also considered before a recommendation is made.
2. The Republican party wants to determine its chances of winning at least five of the seven contested seats in the Senate. How can the chances of challenger A. J. Farley in Oklahoma be assessed? A sample survey of potential voters in the state could be conducted. The party could hire pollsters, such as Gallup or Harris; or the party could undertake the survey. Scientifically selecting, say, 2,000 registered voters in Oklahoma and evaluating the results require a knowledge of the techniques of probability and sampling (covered in Chapters 4–7).
3. Management must make decisions on the quality of current production. For example, automatic drill presses do not produce a perfect hole 1.3000 inches in diameter each time a hole is drilled (because of drill wear, vibration of the machine, and other factors). Slight tolerances are permitted, but when the hole is too small or too large, production is considered defective (not usable). The quality assurance department is charged with continually monitoring production using sampling and other standard statistical techniques (covered in Chapter 15).
4. The hospital administrator must act on a proposal that a new wing be added to alleviate crowded conditions. To determine whether or not a new wing is actually needed, the administrator must gather and evaluate data such as bed occupancy rates. Then data must be collected on the cost of the wing, sources of financing, and projected income, in order to justify the construction to the board of directors.
5. Internally, the controller and the accounting department of a firm are charged with the accuracy of various financial documents. Since it is physically impossible to check every document for accuracy, a sampling of the invoices

Statistics imperative in quality assurance