**Topics: Normal distribution, Functions of Random Variables**

1. The time required for servicing transmissions is normally distributed with *μ* = 45 minutes and *σ* = 8 minutes. The service manager plans to have work begin on the transmission of a customer’s car 10 minutes after the car is dropped off and the customer is told that the car will be ready within 1 hour from drop-off. What is the probability that the service manager cannot meet his commitment?
2. 0.3875
3. 0.2676
4. 0.5
5. 0.6987

Ans) We have a normal distribution with = 45 and = 8.0. Let X be the amount of time it takes to complete the repair on a customer's car. To finish in one hour you must have X ≤ 50 so the question is to find Pr(X > 50).

Pr(X > 50) = 1 - Pr(X ≤ 50).

= (X - 45)/8.0

Thus the question can be answered by using the normal table to find

Pr(X ≤ 50) = Pr(Z ≤ (50 - 45)/8.0) = Pr(Z ≤ 0.625)=73.4%

Probability that the service manager will not meet his demand will be = 100-73.4 = 26.6% or 0.2676

Option B is correct answer

1. The current age (in years) of 400 clerical employees at an insurance claims processing center is normally distributed with mean *μ* = 38 and Standard deviation *σ* =6. For each statement below, please specify True/False. If false, briefly explain why.
2. More employees at the processing center are older than 44 than between 38 and 44.
3. A training program for employees under the age of 30 at the center would be expected to attract about 36 employees.

Ans) We have a normal distribution with = 38 and = 6. Let X be the number of employees. So according to question

a)Probabilty of employees greater than age of 44= Pr(X>44)

Pr(X > 44) = 1 - Pr(X ≤ 44).

Z = (X - )/ = (X - 38)/6

Thus the question can be answered by using the normal table to find

Pr(X ≤ 44) = Pr(Z ≤ (44 - 38)/6) = Pr(Z ≤ 1)=84.1345%

Probabilty that the employee will be greater than age of 44 = 100-84.1345=15.86%  
  
So the probability of number of employees between 38-44 years of age = Pr(X<44)-0.5=84.1345-0.5 = 34.13 %

Therefore, the statement that more employees at the processing centre are older than 44 than between 38 and 44 is TRUE

b) Probability of employees less than age of 30 = Pr(X<30)

Z=(30-38)/6

Thus the question can be answered by using the normal table to find

Pr(X ≤ 30) =Pr(Z ≤ (30-38)/6)=Pr(Z ≤ -1.33)=9.12%

So the number of employees with probability 0.912 of them being under age 30 = 0.0912\*400=36.48 = 36 employees.

Therefore, the statement B of the question is also TRUE.

1. If *X1* ~ *N*(μ, σ2) and *X*2 ~ *N*(μ, σ2) are *iid* normal random variables, then what is the difference between 2 *X*1 and *X*1 + *X*2? Discuss both their distributions and parameters.

Ans) As we know that if X ∼N(μ1, σ1^2 ), and Y ∼N(μ2, σ2^2 ) are two independent random variables then

X + Y ∼N(μ1 + μ2, σ1^2 + σ2^2 ) , and X − Y ∼N(μ1 − μ2, σ1^2 + σ2^2 ) .

Similarly if Z = aX + bY , where X and Y are as defined above, i.e Z is linear combination of X and Y , then Z ∼N(aμ1 + bμ2, a^2σ1^2 + b^2σ2^2 ).

Therefore in the question

2X1~ N(2 u,4 σ^2) and

X1+X2 ~ N(μ + μ, σ^2 + σ^2 ) ~ N(2 u, 2σ^2 )

2X1-(X1+X2) = N( 4μ,6 σ^2

1. Let X ~ N(100, 202). Find two values, *a* and *b*, symmetric about the mean, such that the probability of the random variable taking a value between them is 0.99.
2. 90.5, 105.9
3. 80.2, 119.8
4. 22, 78
5. 48.5, 151.5
6. 90.1, 109.9

Ans) Since we need to find out the values of a and b, which are symmetric about the mean, such that the probability of random variable taking a value between them is 0.99, we have to work out in reverse order.

The Probability of getting value between a and b should be 0.99.

So the Probability of going wrong, or the Probability outside the a and b area is 0.01 (ie. 1-0.99).

The Probability towards left from a = -0.005 (ie. 0.01/2).

The Probability towards right from b = +0.005 (ie. 0.01/2).

So since we have the probabilities of a and b, we need to calculate X, the random variable at a and b which has got these probabilities.

By finding the Standard Normal Variable Z (Z Value), we can calculate the X values.

Z=(X-μ) / σ

For Probability 0.005 the Z Value is -2.57 (from Z Table).

Z \* σ + μ = X

Z(-0.005)\*20+100 = -(-2.57)\*20+100 = 151.4

Z(+0.005)\*20+100 = (-2.57)\*20+100 = 48.6

So, option D is correct.

1. Consider a company that has two different divisions. The annual profits from the two divisions are independent and have distributions Profit1 ~ N(5, 32) and Profit2 ~ N(7, 42) respectively. Both the profits are in $ Million. Answer the following questions about the total profit of the company in Rupees. Assume that $1 = Rs. 45
2. Specify a Rupee range (centered on the mean) such that it contains 95% probability for the annual profit of the company.

Ans) 95% of the **probability** **lies**between 1.96 **standard deviations**of the **mean**.

Thus **range**is:

=(12-1.96x5,12+1.96x5)

=($2.2M,$22.8M)

=(Rs.99M,Rs.1026M)

1. Specify the 5th percentile of profit (in Rupees) for the company

Ans)  Fifth percentileis calculated as:



From p values of z score table, we get:



Thus at $3.78M dollars, or Rs. 170.1M amount, 5th percentile of profit lies.

Or 5th percentile of profit is Rs. 170.1 Million.

1. Which of the two divisions has a larger probability of making a loss in a given year?

Ans)  Loss is when profit < 0

Thus: p < 0

The first**division**of**company**, thus have**larger probability**of making a loss in a given year.