Quiz 3 Probability and Statistics	(section AI-3B)	Solution	24th Nov.2023

A survey found that the average hotel room rate in New Orleans is \$88.42 and the average room rate in Phoenix is \$80.61. Assume that the data were obtained from two samples of 50 hotels each and that the standard deviations of the populations are \$5.62 and \$4.83, respectively. At $\alpha = 0.05$, can it be concluded that there is a significant difference in the rates?

Find the 95% confidence interval for the difference between the means for the data in

Solution

Substitute in the formula, using $z_{\alpha/2} = 1.96$.

$$(\bar{X}_1 - \bar{X}_2) - z_{\alpha/2}\sqrt{\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2}} < \mu_1 - \mu_2 < (\bar{X}_1 - \bar{X}_2) + z_{\alpha/2}\sqrt{\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2}}$$

$$(88.42 - 80.61) - 1.96\sqrt{\frac{5.62^2}{50} + \frac{4.83^2}{50}} < \mu_1 - \mu_2 < (88.42 - 80.61) + 1.96\sqrt{\frac{5.62^2}{50} + \frac{4.83^2}{50}}$$

$$7.81 - 2.05 < \mu_1 - \mu_2 < 7.81 + 2.05$$

$$5.76 < \mu_1 - \mu_2 < 9.86$$

Step 1 State the hypotheses and identify the claim.

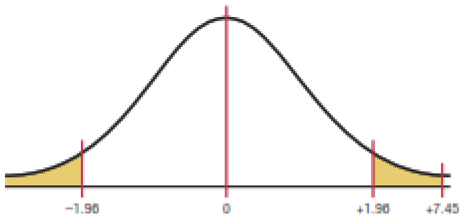
H_0: $\mu_1 = \mu_2$ and H_1: $\mu_1 \neq \mu_2$ (claim)

Step 2 Find the critical values. Since $\alpha = 0.05$, the critical values are $+1.96$ and -1.96.

Step 3 Compute the test value.

$$z = \frac{(\bar{X}_1 - \bar{X}_2) - (\mu_1 - \mu_2)}{\sqrt{\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2}}} = \frac{(88.42 - 80.61) - 0}{\sqrt{\frac{5.62^2}{50} + \frac{4.83^2}{50}}} = 7.45$$

Step 4 Make the decision. Reject the null hypothesis at $\alpha = 0.05$, since $7.45 > 1.96$.



Step 5 Summarize the results. There is enough evidence to support the claim that the means are not equal. Hence, there is a significant difference in the rates.

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