**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?

**Ans:**

We have a normal distribution with = 45 and = 8.0. Let X be the amount of time it takes to complete the servicing 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).

Z = (X -*μ*)/ *σ* = (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

1. 0.3875
2. 0.2676
3. 0.5
4. 0.6987
5. 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.
6. More employees at the processing center are older than 44 than between 38 and 44.

**Ans:** Probability of employees greater than age of 44= Pr(X>44)

Pr(X > 44) = 1 -Pr(X ≤ 44).

Z = (X -μ)/σ = (X -38)/6

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

Probability 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= 34.1345%

Therefore the statement that “More employees at the processing center are older than 44 than

between 38 and 44” is TRUE.

1. A training program for employees under the age of 30 at the center would be expected to attract about 36 employees.

**Ans:** Probabilty of employees less than age of 30 = Pr(X<30).

Z = (X -μ)/σ = (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 ≤ -1.333)=9.12%

So the number of employees with probability 0.912 of them being under age 30 = 0.0912\*400=36.48( or 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 = XZ(-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.
3. Specify the 5th percentile of profit (in Rupees) for the company
4. Which of the two divisions has a larger probability of making a loss in a given year?

**Ans:**

As given,

$1 = Rs. 45



Thus, Company's profit:



**A):**

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

Thus, **range**is:

= (12-1.96\*5, 12+1.96\*5)

= ($2.2M, $22.8M)

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

**B):**

5th Percentile is calculated as:

P(Z< (p-12)/5)=0.05

From p values of z score table, we get;

(p-12)/5= -1.644

p= 12-8.22=3.78

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

**C):**

Loss is when profit < 0

Probability of loss for Division1 = P (<0)

Cumulative Distribution Function reference to (0,5,3), probability of loss for Division1 = 0.04779

Probability of loss for Division2 = P (<0)

Cumulative Distribution Function reference to (0,7,4), probability of loss for Division2 = 0.04005

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