**Topics: Descriptive Statistics and Probability**

1. Look at the data given below. Plot the data, find the outliers and find out

|  |  |
| --- | --- |
| **Name of company** | **Measure X** |
| Allied Signal | 24.23% |
| Bankers Trust | 25.53% |
| General Mills | 25.41% |
| ITT Industries | 24.14% |
| J.P.Morgan & Co. | 29.62% |
| Lehman Brothers | 28.25% |
| Marriott | 25.81% |
| MCI | 24.39% |
| Merrill Lynch | 40.26% |
| Microsoft | 32.95% |
| Morgan Stanley | 91.36% |
| Sun Microsystems | 25.99% |
| Travelers | 39.42% |
| US Airways | 26.71% |
| Warner-Lambert | 35.00% |

Ans: There is one outlier in the above data, I.e., 91.36.

Mean = 0.3371

Standard Deviation = 0.16945

Variance = 0.0287146



Answer the following three questions based on the box-plot above.

1. What is inter-quartile range of this dataset? (please approximate the numbers) In one line, explain what this value implies.
2. What can we say about the skewness of this dataset?
3. If it was found that the data point with the value 25 is actually 2.5, how would the new box-plot be affected?

Ans: i) IQR is the range between upper quartile(Q3) and lower quartile(Q1)

IQR = Q3-Q1 = 12-5 = 7

50% of data lies between IQR.

ii) Skewness = positive

iii)There will be no outlier if the value of 25 was actually 2.5. subsequently, mean and median needs to be calculated to see if there is any shift in the data.



Answer the following three questions based on the histogram above.

1. Where would the mode of this dataset lie?
2. Comment on the skewness of the dataset.
3. Suppose that the above histogram and the box-plot in question 2 are plotted for the same dataset. Explain how these graphs complement each other in providing information about any dataset.

Ans: i)The mode can lie between 3 and 10 because majority of the entry in this range. To find the actual mode, we need to analyse the data.

ii)Skewness = positive

Iii)There is an outlier of the value 25 and both has positive skewness.

1. AT&T was running commercials in 1990 aimed at luring back customers who had switched to one of the other long-distance phone service providers. One such commercial shows a businessman trying to reach Phoenix and mistakenly getting Fiji, where a half-naked native on a beach responds incomprehensibly in Polynesian. When asked about this advertisement, AT&T admitted that the portrayed incident did not actually take place but added that this was an enactment of something that “could happen.” Suppose that one in 200 long-distance telephone calls is misdirected. What is the probability that at least one in five attempted telephone calls reaches the wrong number? (Assume independence of attempts.)

Ans: x = probability of one call misdirected out of 200

Probability of occurring of x = 1/200

P(x) = 1/200

Probability of atleast one successful call will be 1-p(x)

= 1-1/200 = 199/200 = 0.967

As every event is independent of other event the probability will be

1-(0.967)^5 = 0.02475 = 2% chance.

1. Returns on a certain business venture, to the nearest $1,000, are known to follow the following probability distribution

|  |  |
| --- | --- |
| x | P(x) |
| -2,000 | 0.1 |
| -1,000 | 0.1 |
| 0 | 0.2 |
| 1000 | 0.2 |
| 2000 | 0.3 |
| 3000 | 0.1 |

1. What is the most likely monetary outcome of the business venture?
2. Is the venture likely to be successful? Explain
3. What is the long-term average earning of business ventures of this kind? Explain
4. What is the good measure of the risk involved in a venture of this kind? Compute this measure

Ans: i) $2000 as it has the highest probability of occurrence.

ii)success = positive returns as a measure

Then there is 60% chance that the venture likely to get successful

(0.3+0.2+0.1=0.6 = 60%)

iii)(-2000\*0.1)+(-1000\*0.1)+(0\*0.2)+(1000\*0.2)+(2000\*0.3)+(3000\*0.1)=800

The long-term earning of this kind of business ventures would be $800.

iv) A good measure to evaluate the risk would be variance and standard deviation of the variable x

Var = 3500000

Sd = 1870.83

The larger value of standard deviation of $1870 is considered along with the average returns of $800 indicates that this venture is highly risky.