What Is Statistics?

Learning Objectives

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

LO 1-1 List ways that statistics is used.

LO 1-2 Know the differences between descriptive and inferential statistics.

LO 1-3 Understand the differences between a sample and a population.

LO 1-4 Explain the difference between qualitative and quantitative variables.

LO 1-5 Compare discrete and continuous variables.

LO 1-6 Recognize the levels of measurement in data.

Barnes & Noble recently began selling an electronic book reader called the Nook Color. With this device, you can download from a selection of over two million ebooks, newspapers, and magazines. It displays downloaded materials in full color. Assume you know the number of Nook Color units sold each day for the last month at the Barnes & Noble store at the Market Commons Mall in Riverside, California. Describe a condition in which this information could be considered a sample. Illustrate a second situation in which the same data would be regarded as a population. (See Exercise 11 and LO 1-3.)

1.1 Introduction

More than 100 years ago, H. G. Wells, an English author and historian, suggested that one day quantitative reasoning will be as necessary for effective citizenship as the ability to read. He made no mention of business because the Industrial Revolution was just beginning. Mr. Wells could not have been more correct. While "business experience," some "thoughtful guesswork," and "intuition" are key attributes of successful managers, today's business problems tend to be too complex for this type of decision making alone.

One of the tools used to make decisions is statistics. Statistics is used not only by businesspeople; we all also apply statistical concepts in our lives. For example, to start the day you turn on the shower and let it run for a few moments. Then you put your hand in the shower to sample the temperature and decide to add more hot water or more cold water, or determine that the temperature is just right and then enter the shower. As a second example, suppose you are at Costco Wholesale and wish to buy a frozen pizza. One of the pizza makers has a stand, and they offer a small wedge of their pizza. After sampling the pizza, you decide whether to purchase the pizza or not. In both the shower and pizza examples, you make a decision and select a course of action based on a sample.

Businesses face similar situations. The Kellogg Company must ensure that the mean amount of Raisin Bran in the 25.5-gram box meets label specifications. To do so, it sets a "target" weight somewhat higher than the amount specified on the label. Each box is then weighed after it is filled. The weighing machine reports a distribution of the content weights for each hour as well as the number "kicked-out" for being under the label specification during the hour. The Quality Inspection Department also randomly selects samples from the production line and checks the quality of the product and the weight of the contents of the box. If the mean product weight differs significantly from the target weight or the percent of kick-outs is too large, the process is adjusted.

As a student of business or economics, you will need basic knowledge and skills to organize, analyze, and transform data and to present the information. In this text, we will show you basic statistical techniques and methods that will develop your ability to make good personal and business decisions.

LO 1-1 List ways that statistics is used.

1.2 Why Study Statistics?

If you look through your university catalog, you will find that statistics is required for many college programs. Why is this so? What are the differences in the statistics courses taught in the Engineering College, the Psychology or Sociology Departments in the Liberal Arts College, and the College of Business? The biggest difference is the examples used. The course content is basically the same. In the College of Business we are interested in such things as profits, hours worked, and wages. Psychologists are interested in test scores, and engineers are interested in how many units are manufactured on a particular machine. However, all three are interested in what is a typical value and how much variation there is in the data. There may also be a difference in the level of mathematics required. An engineering statistics course usually requires calculus. Statistics courses in colleges of business and education usually teach the course at a more applied level. You should be able to handle the mathematics in this text if you have completed high school algebra.

So why is statistics required in so many majors? The first reason is that numerical information is everywhere. Look in the newspapers *(USA Today),* news magazines *(Time, Newsweek, U.S. News and World Report),* business magazines *(Bloomberg Businessweek, Forbes),* general interest magazines *(People),* women's

Examples of why we study statistics

magazines *(Ladies Home Journal* or *Elle),* or sports magazines *(Sports Illustrated, ESPN The Magazine),* and you will be bombarded with numerical information.
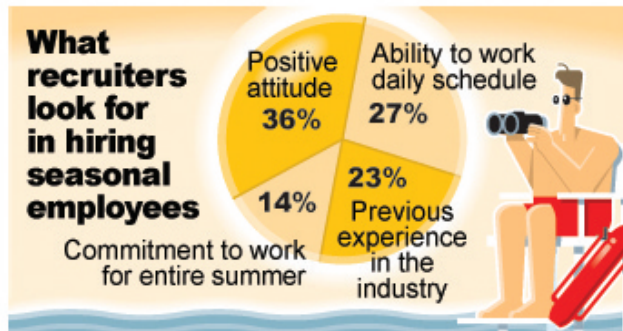
Here are some examples:

- Adjusting for inflation, the average hourly wage in May 2011 decreased $0.17 to $10.22 from the May 2010 average of $10.39.
- The average credit card debt per household is $9,858. The Federal Reserve Board estimates that 75% of Americans own at least one credit card.
- The following table summarizes the number of commercial aircraft ordered by Boeing Inc. customers between 2006 and 2010.

Orders for Boeing Aircraft						
Type of Aircraft						
Year	737	747	767	777	787	Total
2006	733	72	8	77	160	1,050
2007	850	25	36	143	369	1,423
2008	488	4	29	54	94	669
2009	197	5	7	30	24	263
2010	508	1	3	76	37	625

- **Go to the following website:** www.youtube.com/watch?v=pMcfrLYDm2U. It provides interesting numerical information about countries, business, geography, and politics.
- *USA Today* (www.usatoday.com) prints "Snapshots" that are the result of surveys conducted by various research organizations, foundations, and the federal government. The following chart summarizes what recruiters look for in hiring seasonal employees.

USA TODAY Snapshot

Recruiters look for positive attitude the most when hiring seasonal workers.

What recruiters look for in hiring seasonal employees

Positive attitude 36%
Ability to work daily schedule 27%
Previous experience in the industry 23%
Commitment to work for entire summer 14%

By Jae Yang and Paul Trap, USA TODAY
Source: SnagAJob.com
Reprinted with permission (April 29, 2010) USA TODAY.

A second reason for taking a statistics course is that statistical techniques are used to make decisions that affect our daily lives. That is, they affect our personal welfare. Here are a few examples:

- Insurance companies use statistical analysis to set rates for home, automobile, life, and health insurance. Tables are available showing estimates that a 20-year-old female has 60.25 years of life remaining, an 87-year-old woman 4.56 years remaining, and a 50-year-old man 27.85 years remaining. Life insurance premiums are established based on these estimates of life expectancy. These tables are available at www.ssa.gov/OACT/STATS/table4cb.html. [This site is sensitive to capital letters.]

- The Environmental Protection Agency is interested in the water quality of Lake Erie as well as other lakes. They periodically take water samples to establish the level of contamination and maintain the level of quality.
- Medical researchers study the cure rates for diseases using different drugs and different forms of treatment. For example, what is the effect of treating a certain type of knee injury surgically or with physical therapy? If you take an aspirin each day, does that reduce your risk of a heart attack?

A third reason for taking a statistics course is that the knowledge of statistical methods will help you understand how decisions are made and give you a better understanding of how they affect you.

No matter what career you select, you will find yourself faced with decisions where an understanding of statistics is helpful. In order to make an informed decision, you will need to:

1. Determine whether the existing information is adequate or additional information is required.
2. Gather additional information, if it is needed, in such a way that it does not provide misleading results.
3. Summarize the information in a useful and informative manner.
4. Analyze the available information.
5. Draw conclusions and make inferences while assessing the risk of an incorrect conclusion.

The statistical methods presented in the text will provide you with a framework for the decision-making process.

In summary, there are at least three reasons for studying statistics: (1) data are everywhere, (2) statistical techniques are used to make many decisions that affect our lives, and (3) no matter what your career, you will make professional decisions that involve data. An understanding of statistical methods will help you make these decisions more effectively.

1.3 What Is Meant by Statistics?

How do we define the word *statistics?* We encounter it frequently in our everyday language. It really has two meanings. In the more common usage, statistics refers to numerical information. Examples include the average starting salary of college graduates, the number of missed working days per year due to illness, the change in the Dow Jones Industrial Average from yesterday to today, and the number of home runs hit by the Chicago Cubs during the 2011 season. In these examples, statistics are a value or a percentage. Other examples include:

- The typical automobile in the United States travels 11,099 miles per year, the typical bus 9,353 miles per year, and the typical truck 13,942 miles per year. In Canada, the corresponding information is 10,371 miles for automobiles, 19,823 miles for buses, and 7,001 miles for trucks.
- The mean time waiting for technical support is 17 minutes.
- The unemployment rate for June 2011 is 9.2%.

These are all examples of **statistics.** A collection of numerical information is called **statistics** (plural).

We frequently present statistical information in a graphical form. A graph is often useful for capturing reader attention and to portray a large amount of information. For example, Chart 1–1 shows Frito-Lay volume and market share for the major snack and potato chip categories in supermarkets in the United States. It requires only a quick glance to discover there were nearly 800 million pounds of potato chips sold and that Frito-Lay sold 64% of that total. Also note that Frito-Lay has 82% of the corn chip market.
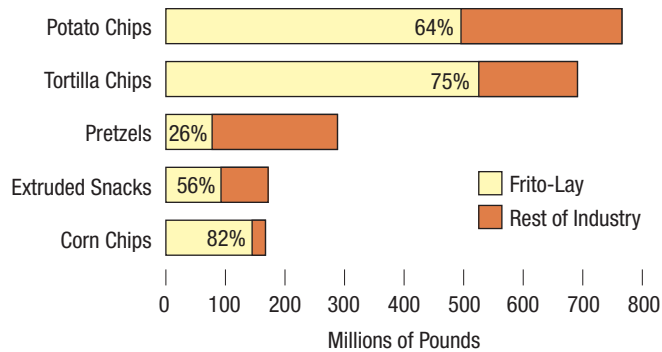
CHART 1–1 Frito-Lay Volume and Share of Major Snack Chip Categories in U.S. Supermarkets

The subject of statistics, as we will explore it in this text, has a much broader meaning than just collecting and publishing numerical information. We define statistics as:

> **STATISTICS** The science of collecting, organizing, presenting, analyzing, and interpreting data to assist in making more effective decisions.

As the definition suggests, the first step in using statistics is to collect relevant data. Only after the data have been organized and presented, such as in Chart 1–1, can we start to analyze and interpret them. Here are some examples of using statistics to support business decisions.

- Research analysts for Merrill Lynch evaluate many facets of a particular 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 the projected worldwide demand for the company's products, the strength of the competition, and the effect of the new union–management contract, are also considered before making a recommendation.
- The marketing department at Colgate-Palmolive Co., a manufacturer of soap products, has the responsibility of making recommendations regarding the potential profitability of a newly developed group of face soaps having fruit smells, such as grape, orange, and pineapple. Before making a final decision, the marketers will test it in several markets. That is, they may advertise and sell it in Topeka, Kansas, and Tampa, Florida. On the basis of test marketing in these two regions, Colgate-Palmolive will make a decision whether to market the soaps in the entire country.
- Managers must make decisions about the quality of their product or service. For example, customers call software companies for technical advice when they are not able to resolve an issue regarding the software. One measure of the quality of customer service is the time a customer must wait for a technical consultant to answer the call. A software company might set a target of one minute as the typical response time. The company would then collect and analyze data on the response time. Does the typical response time differ by day of the week or time of day? If the response times are increasing, managers might decide to increase the number of technical consultants at particular times of the day or week.

1.4 Types of Statistics

The study of statistics is usually divided into two categories: descriptive statistics and inferential statistics.

Descriptive Statistics

The definition of statistics given earlier referred to "organizing, presenting, analyzing . . . data." This facet of statistics is usually referred to as **descriptive statistics.**

> **DESCRIPTIVE STATISTICS** Methods of organizing, summarizing, and presenting data in an informative way.

For instance, the United States government reports the population of the United States was 179,323,000 in 1960; 203,302,000 in 1970; 226,542,000 in 1980; 248,709,000 in 1990; 265,000,000 in 2000; and 308,400,000 in 2010. This information is descriptive statistics. It is descriptive statistics if we calculate the percentage growth from one decade to the next. However, it would *not* be descriptive statistics if we used these to estimate the population of the United States in the year 2020 or the percentage growth from 2010 to 2020. Why? The reason is these statistics are not being used to summarize past populations but to estimate future populations. The following are some other examples of descriptive statistics.

- There are a total of 46,837 miles of interstate highways in the United States. The interstate system represents only 1% of the nation's total roads but carries more than 20% of the traffic. The longest is I-90, which stretches from Boston to Seattle, a distance of 3,099 miles. The shortest is I-878 in New York City, which is 0.70 of a mile in length. Alaska does not have any interstate highways, Texas has the most interstate miles at 3,232, and New York has the most interstate routes with 28.
- The average person spent $103.00 on traditional Valentine's Day merchandise in 2010. This is an increase of $0.50 from 2009. As in previous years, men will spend nearly twice the amount women spend on the holiday. The average man spent $135.35 to impress the people in his life while women only spent $72.28. Family pets will also feel the love, the average person spending $3.27 on their furry friends, up from $2.17 last year.

Masses of unorganized data—such as the census of population, the weekly earnings of thousands of computer programmers, and the individual responses of 2,000 registered voters regarding their choice for president of the United States—are of little value as is. However, statistical techniques are available to organize this type of data into a meaningful form. Data can be organized into a **frequency distribution.** (This procedure is covered in Chapter 2.) Various **charts** may be used to describe data; several basic chart forms are also presented in Chapter 4.

Specific measures of central location, such as the mean, describe the central value of a group of numerical data. A number of statistical measures are used to describe how closely the data cluster about an average. These measures of central tendency and dispersion are discussed in Chapter 3.

Inferential Statistics

The second type of statistics is **inferential statistics**—also called **statistical inference.** Our main concern regarding inferential statistics is finding something about a population from a sample taken from that population. For example, a recent survey showed only 46% of high school seniors can solve problems involving fractions,

decimals, and percentages; and only 77% of high school seniors correctly totaled the cost of a salad, burger, fries, and a cola on a restaurant menu. Since these are inferences about a population (all high school seniors) based on sample data, we refer to them as inferential statistics. You might think of inferential statistics as a "best guess" of a population value based on sample information.

> **INFERENTIAL STATISTICS** The methods used to estimate a property of a population on the basis of a sample.

Note the words *population* and *sample* in the definition of inferential statistics. We often make reference to the population of 308.8 million people living in the United States or the 1,336.1 million people living in China. However, in statistics the word *population* has a broader meaning. A **population** may consist of *individuals*—such as all the students enrolled at Utah State University, all the students in Accounting 201, or all the CEOs from the Fortune 500 companies. A population may also consist of *objects,* such as all the Cobra G/T tires produced at Cooper Tire and Rubber Company in the Findlay, Ohio, plant; the accounts receivable at the end of October for Lorrange Plastics, Inc.; or auto claims filed in the first quarter of 2010 at the Northeast Regional Office of State Farm Insurance. The *measurement* of interest might be the scores on the first examination of all students in Accounting 201, the tread wear of the Cooper Tires, the dollar amount of Lorrange Plastics's accounts receivable, or the amount of auto insurance claims at State Farm. Thus, a population in the statistical sense does not always refer to people.

> **POPULATION** The entire set of individuals or objects of interest or the measurements obtained from all individuals or objects of interest.

To infer something about a population, we usually take a **sample** from the population.

> **SAMPLE** A portion, or part, of the population of interest.
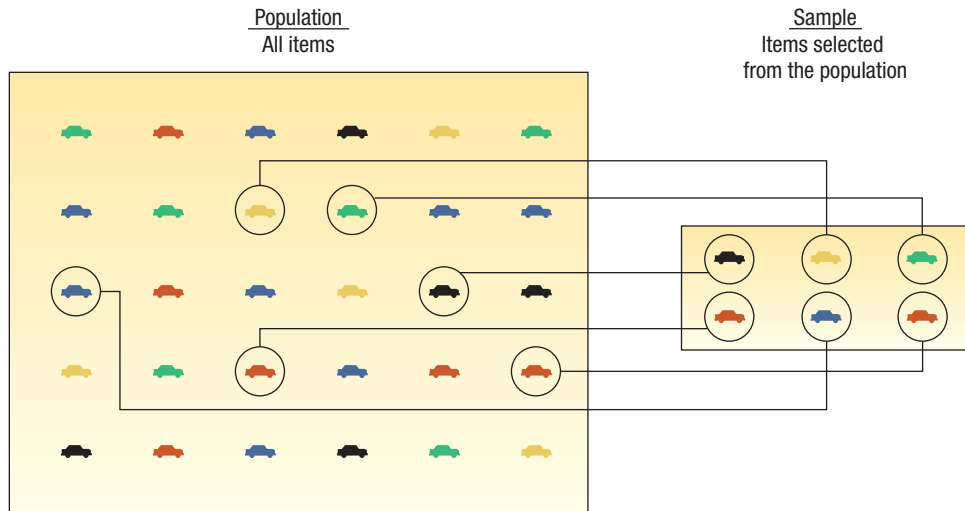
Reasons for sampling

Why take a sample instead of studying every member of the population? There are several reasons illustrated by the following examples. A sample of registered voters is necessary because of the prohibitive cost of contacting millions of voters before an election. Testing wheat for moisture content destroys the wheat, thus making a sample imperative. If the wine tasters tested all the wine, none would be available for sale. It would be physically impossible for a few marine biologists to capture and tag all the seals in the ocean. (These and other reasons for sampling are discussed in Chapter 8.)

As noted, using a sample to learn something about a population is done extensively in business, agriculture, politics, and government, as cited in the following examples:

- Television networks constantly monitor the popularity of their programs by hiring Nielsen and other organizations to sample the preferences of TV viewers. For example, in a sample of 800 prime-time viewers, 320, or 40%, indicated they watched *American Idol* on Fox last week. These program ratings are used to set advertising rates or to cancel programs.
- Gamous and Associates, a public accounting firm, is conducting an audit of Pronto Printing Company. To begin, the accounting firm selects a random sample of 100 invoices and checks each invoice for accuracy. There is at least one error on five of the invoices; hence, the accounting firm estimates that 5% of the population of invoices contain at least one error.

- A random sample of 1,260 marketing graduates from four-year schools showed their mean starting salary was $42,694. We therefore estimate the mean starting salary for all marketing graduates of four-year institutions to be $42,694.

The relationship between a sample and a population is portrayed below. For example, we wish to estimate the mean miles per gallon of SUVs. Six SUVs are selected from the population. The mean MPG of the six is used to estimate MPG for the population.

Following is a self-review problem. There are a number of them interspersed throughout each chapter. They test your comprehension of the preceding material. The answer and method of solution are given at the end of the chapter. You can find the answer to the following Self-Review on page 20. We recommend that you solve each one and then check your answer.

We strongly suggest you do the Self-Review exercise.

Self-Review 1–1

The answers are at the end of the chapter.
The Atlanta-based advertising firm Brandon and Associates asked a sample of 1,960 consumers to try a newly developed chicken dinner by Boston Market. Of the 1,960 sampled, 1,176 said they would purchase the dinner if it is marketed.
(a) What could Brandon and Associates report to Boston Market regarding acceptance of the chicken dinner in the population?
(b) Is this an example of descriptive statistics or inferential statistics? Explain.

1.5 Types of Variables

Qualitative variable

LO 1-4 Explain the difference between qualitative and quantitative variables.

There are two basic types of variables: (1) qualitative and (2) quantitative (see Chart 1–2). When the characteristic being studied is nonnumeric, it is called a **qualitative variable** or an **attribute.** Examples of qualitative variables are gender, religious affiliation, type of automobile owned, state of birth, and eye color. When the data are qualitative, we are usually interested in how many or what percent fall in each category. For example, what percent of the population has blue eyes? What percent of the total number of cars sold last month were SUVs? Qualitative data are often summarized in charts and bar graphs (Chapter 2).
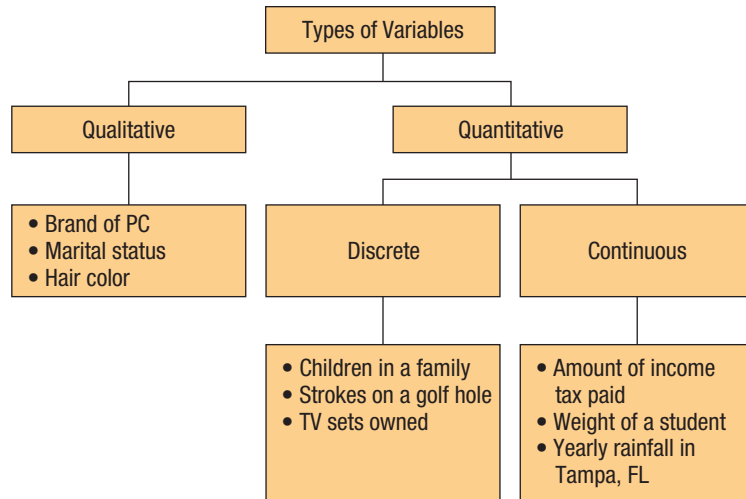
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                    ┌─────────────────────┐
                    │  Types of Variables │
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      ┌───────────────┐         ┌───────────────┐
      │  Qualitative  │         │ Quantitative  │
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   ┌──────────────────┐  ┌──────────┐  ┌──────────────┐
   │ • Brand of PC    │  │ Discrete │  │  Continuous  │
   │ • Marital status │  └──────────┘  └──────────────┘
   │ • Hair color     │       │               │
   └──────────────────┘  ┌─────────────────────┐  ┌─────────────────────┐
                         │ • Children in a family │ │ • Amount of income   │
                         │ • Strokes on a golf hole│ │   tax paid          │
                         │ • TV sets owned         │ │ • Weight of a student│
                         └─────────────────────┘  │ • Yearly rainfall in │
                                                   │   Tampa, FL          │
                                                   └─────────────────────┘
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CHART 1–2 Summary of the Types of Variables

Quantitative variable

When the variable studied can be reported numerically, the variable is called a **quantitative variable.** Examples of quantitative variables are the balance in your checking account, the ages of company presidents, the life of an automobile battery (such as 42 months), and the number of children in a family.

LO 1-5 Compare discrete and continuous variables.

Quantitative variables are either discrete or continuous. **Discrete variables** can assume only certain values, and there are "gaps" between the values. Examples of discrete variables are the number of bedrooms in a house (1, 2, 3, 4, etc.), the number of cars arriving at Exit 25 on I-4 in Florida near Walt Disney World in an hour (326, 421, etc.), and the number of students in each section of a statistics course (25 in section A, 42 in section B, and 18 in section C). We count, for example, the number of cars arriving at Exit 25 on I-4, and we count the number of statistics students in each section. Notice that a home can have 3 or 4 bedrooms, but it cannot have 3.56 bedrooms. Thus, there is a "gap" between possible values. Typically, discrete variables result from counting.

Observations of a **continuous variable** can assume any value within a specific range. Examples of continuous variables are the air pressure in a tire and the weight of a shipment of tomatoes. Other examples are the amount of raisin bran in a box and the duration of flights from Orlando to San Diego. Grade point average (GPA) is a continuous variable. We could report the GPA of a particular student as 3.2576952. The usual practice is to round to 3 places—3.258. Typically, continuous variables result from measuring.

LO 1-6 Recognize the levels of measurement in data.

1.6 Levels of Measurement

Data can be classified according to levels of measurement. The level of measurement of the data dictates the calculations that can be done to summarize and present the data. It will also determine the statistical tests that should be performed. For example, there are six colors of candies in a bag of M&M's. Suppose we assign brown a value of 1, yellow 2, blue 3, orange 4, green 5, and red 6. For the bag of candies, we add the assigned color values and divide by the number of candies and report that the mean color is 3.56. Does this mean that the average color is blue or orange? Of course not! As a second example, in a high school track meet there are eight competitors in the 400-meter run. We

report the order of finish and that the mean finish is 4.5. What does the mean finish tell us? Nothing! In both of these instances, we have not properly used the level of measurement.

There are actually four levels of measurement: nominal, ordinal, interval, and ratio. The lowest, or the most primitive, measurement is the nominal level. The highest, or the level that gives us the most information about the observation, is the ratio level of measurement.

Nominal-Level Data

For the **nominal level** of measurement, observations of a qualitative variable can only be classified and counted. There is no particular order to the labels. The classification of the six colors of M&M's milk chocolate candies is an example of the nominal level of measurement. We simply classify the candies by color. There is no natural order. That is, we could report the brown candies first, the orange first, or any of the colors first. Gender is another example of the nominal level of measurement. Suppose we count the number of students entering a football game with a student ID and report how many are men and how many are women. We could report either the men or the women first. For the nominal level, the only measurement involved consists of counts. Sometimes, for better reader understanding, we convert these counts to percentages. The following "Snapshot" from *USA Today* shows the results from a survey of workers. The variable of interest is "Perks" and there are five possible outcomes: "More money," "Better healthcare," "Better retirement," "Work/family balance," and, we will assume, "Other." The outcome "Other" is not shown on the chart, but is necessary to make the percent of respondents total 100%. There is no natural order to the outcomes. We could have put "Better healthcare" first instead of "More money."

To process the data, such as the information regarding worker perks, or information on gender, employment by industry, or state of birth of a student, we often numerically code the information. That is, we assign students from Alabama a code of 1, Alaska a code of 2, Arizona as 3, and so on. Using this procedure, Wisconsin is coded 49 and Wyoming 50. This coding facilitates counting by a computer. However, because we have assigned numbers to the various categories, this does not give us license to manipulate the numbers. To explain, $1 + 2$ does not equal 3; that is, Alabama + Alaska does *not* yield Arizona.

To summarize, the nominal level has the following properties:

1. The variable of interest is divided into categories or outcomes.
2. There is no natural order to the outcomes.

USA TODAY Snapshot

03/15/2007-updated 11:51 PM ET

Workers say they prefer higher salaries to any other perks.

By Anne R. Carey and Chad Palmer, USA Today
Source: hudson-index.com
Reprinted with permission (March 15, 2007) USA TODAY.

Ordinal-Level Data

The next higher level of data is the **ordinal level.** Table 1–1 lists the student ratings of Professor James Brunner in an Introduction to Finance course. Each student in the class answered the question "Overall, how did you rate the instructor in this class?" The variable rating illustrates the use of the ordinal scale of measurement. One classification is "higher" or "better" than the next one. That is, "Superior" is better than "Good," "Good" is better than "Average," and so on. However, we are not able to distinguish the magnitude of the differences between groups. Is the difference between "Superior" and "Good" the same as the difference between "Poor" and "Inferior"? We cannot tell. If we substitute a 5 for "Superior" and a 4 for "Good," we can conclude that the rating of "Superior" is better than the rating of "Good," but we cannot add a ranking of "Superior" and a ranking of "Good," with the result being meaningful. Further, we cannot conclude that a rating of "Good" (rating is 4) is necessarily twice as high as a "Poor" (rating is 2). We can only conclude that a rating of "Good" is better than a rating of "Poor." We cannot conclude how much better the rating is.

TABLE 1–1 Rating of a Finance Professor

Rating	Frequency
Superior	6
Good	28
Average	25
Poor	12
Inferior	3

Best Business Climate
1. TEXAS
2. VIRGINIA
3. UTAH
4. SOUTH CAROLINA
5. TENNESSEE
6. NORTH CAROLINA
7. FLORIDA
8. LOUISIANA
9. SOUTH DAKOTA
10. WYOMING

Ordinal level data is also used to rank items in a list. For example, many businesses make decisions about where to locate their facilities, in other words, where is the best place for their business? Businesses rely on both qualitative and quantitative economic data to support these decisions. In fact, Business Facilities (www.businessfacilities.com) publishes a list of the top 10 states for the "best business climate." The 2010 rankings are shown to the left. It is based on their evaluation of 20 different factors, including the cost of labor, business tax climate, quality of life, transportation infrastructure, educated workforce, and economic growth potential.

This is an example of an ordinal scale, because we know the relative order of the states. For example, in 2010 Texas had the best business climate. Tennessee was fifth, and that was better than Florida but not as good as Utah. Notice that we cannot say that Texas's business climate is five times better than Tennessee's business climate, because the magnitude of the differences between the states is not known.

In summary, the properties of an ordinal level of measurement are:

1. Data are represented by an attribute. A student's rating of a professor and a state's "business climate" are examples.
2. The data can only be ranked or ordered, because the ordinal level of measurement assigns relative values such as high, medium, or low; or good, better, or best.

Interval-Level Data

The **interval level** of measurement is the next highest level. It includes all the characteristics of the ordinal level, but in addition, the difference between values is a constant size. The Fahrenheit temperature scale is an example of the interval level of measurement. Suppose the high temperatures on three consecutive winter days in Boston are 28, 31, and 20 degrees Fahrenheit. These temperatures can be easily ranked, but we can also determine the difference between temperatures. This is possible because 1 degree Fahrenheit represents a constant unit of measurement. Equal differences between two temperatures are the same, regardless of their position on the scale. That is, the difference between 10 degrees Fahrenheit and

15 degrees is 5, the difference between 50 and 55 degrees is also 5 degrees. It is also important to note that 0 is just a point on the scale. It does not represent the absence of the condition. Zero degrees Fahrenheit does not represent the absence of heat, just that it is cold! In fact 0 degrees Fahrenheit is about -18 degrees on the Celsius scale.

Another example of the interval scale of measurement is women's dress sizes. Listed below is information on several dimensions of a standard U.S. women's dress.

Size	Bust (in)	Waist (in)	Hips (in)
8	32	24	35
10	34	26	37
12	36	28	39
14	38	30	41
16	40	32	43
18	42	34	45
20	44	36	47
22	46	38	49
24	48	40	51
26	50	42	53
28	52	44	55

Why is the "size" scale an interval measurement? Observe as the size changes by 2 units (say from size 10 to size 12 or from size 24 to size 26) each of the measurements increases by 2 inches. To put it another way, the intervals are the same.

There is no natural zero point for dress size. A "size 0" dress does not have "zero" material. Instead, it would have a 24-inch bust, 16-inch waist, and 27-inch hips. Moreover, the ratios are not reasonable. If you divide a size 28 by a size 14, you do not get the same answer as dividing a size 20 by 10. Neither ratio is equal to two as the "size" number would suggest. In short, if the distances between the numbers make sense, but the ratios do not, then you have an interval scale of measurement.

The properties of the interval-level data are:

1. Data classifications are ordered according to the amount of the characteristic they possess.
2. Equal differences in the characteristic are represented by equal differences in the measurements.

Ratio-Level Data

Practically all quantitative data are recorded on the ratio level of measurement. The **ratio level** is the "highest" level of measurement. It has all the characteristics of the interval level, but in addition, the 0 point is meaningful and the ratio between two numbers is meaningful. Examples of the ratio scale of measurement include wages, units of production, weight, changes in stock prices, distance between branch offices, and height. Money is a good illustration. If you have zero dollars, then you have no money. Weight is another example. If the dial on the scale of a correctly calibrated device is at 0, then there is a complete absence of weight. The ratio of two numbers is also meaningful. If Jim earns $40,000 per year selling insurance and Rob earns $80,000 per year selling cars, then Rob earns twice as much as Jim.

Table 1–2 illustrates the use of the ratio scale of measurement. It shows the incomes of four father-and-son combinations.

TABLE 1–2 Father–Son Income Combinations

Name	Father	Son
Lahey	$80,000	$ 40,000
Nale	90,000	30,000
Rho	60,000	120,000
Steele	75,000	130,000

Observe that the senior Lahey earns twice as much as his son. In the Rho family, the son makes twice as much as the father.

In summary, the properties of the ratio-level data are:

1. Data classifications are ordered according to the amount of the characteristics they possess.
2. Equal differences in the characteristic are represented by equal differences in the numbers assigned to the classifications.
3. The zero point is the absence of the characteristic and the ratio between two numbers is meaningful.

Chart 1–3 summarizes the major characteristics of the various levels of measurement.
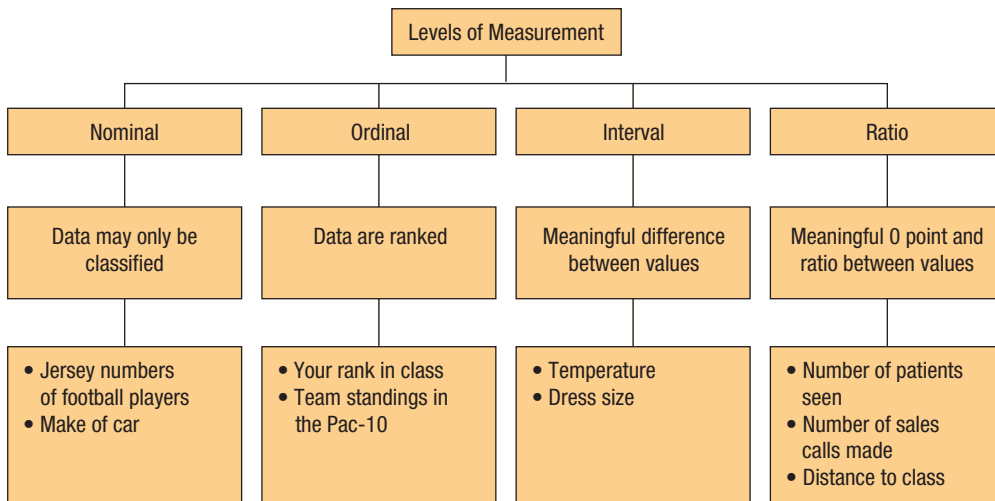
CHART 1–3 Summary of the Characteristics for Levels of Measurement

What is the level of measurement reflected by the following data?
(a) The age of each person in a sample of 50 adults who listen to one of the 1,230 talk radio stations in the United States is:

35	29	41	34	44	46	42	42	37	47
30	36	41	39	44	39	43	43	44	40
47	37	41	27	33	33	39	38	43	22
44	39	35	35	41	42	37	42	38	43
35	37	38	43	40	48	42	31	51	34

(b) In a survey of 200 luxury-car owners, 100 were from California, 50 from New York, 30 from Illinois, and 20 from Ohio.

Exercises

The answers to the odd-numbered exercises are at the end of the book.

1. What is the level of measurement for each of the following variables?
   a. Student IQ ratings.
   b. Distance students travel to class.
   c. The jersey numbers of a sorority soccer team.
   d. A student's state of birth.
   e. A student's academic class—that is, freshman, sophomore, junior, or senior.
   f. Number of hours students study per week.

2. The *San Francisco Chronicle* is a large newspaper published daily. What is the level of measurement for each of the following variables?
   a. The number of papers sold each Sunday during 2011.
   b. The departments, such as editorial, advertising, sports, etc.
   c. The number of papers sold by county.
   d. The number of years with the paper for each employee.

3. Look in the latest edition of *USA Today* or your local newspaper and find examples of each level of measurement. Write a brief memo summarizing your findings.

4. For each of the following, determine whether the group is a sample or a population.
   a. The participants in a study of a new cholesterol drug.
   b. The drivers who received a speeding ticket in Kansas City last month.
   c. Those on welfare in Cook County (Chicago), Illinois.
   d. The 30 stocks that make up the Dow Jones Industrial Average.

2. **a.** Ratio
      b. Nominal
      c. Ratio
      d. Ratio

4. **a.** Sample
      b. Population
      c. Population
      d. Sample

1.7 Ethics and Statistics

Following events such as Wall Street money manager Bernie Madoff's Ponzi scheme, which swindled billions from investors, and financial misrepresentations by Enron and Tyco, business students need to understand that these events were based on the misrepresentation of business and financial data. In each case, people within each organization reported financial information to investors that indicated the companies were performing much better than the actual situation. When the true financial information was reported, the companies were worth much less than advertised. The result was many investors lost all or nearly all of the money they put into these companies.

The article "Statistics and Ethics: Some Advice for Young Statisticians," in *The American Statistician* 57, no. 1 (2003), offers guidance. The authors advise us to practice statistics with integrity and honesty, and urge us to "do the right thing" when collecting, organizing, summarizing, analyzing, and interpreting numerical information. The real contribution of statistics to society is a moral one. Financial analysts need to provide information that truly reflects a company's performance so as not to mislead individual investors. Information regarding product defects that may be harmful to people must be analyzed and reported with integrity and honesty. The authors of *The American Statistician* article further indicate that when we practice statistics, we need to maintain "an independent and principled point-of-view."

As you progress through this text, we will highlight ethical issues in the collection, analysis, presentation, and interpretation of statistical information. We also hope that, as you learn about using statistics, you will become a more informed consumer of information. For example, you will question a report based on data that do not fairly represent the population, a report that does not include all relevant statistics, one that includes an incorrect choice of statistical measures, or a presentation that introduces the writer's bias in a deliberate attempt to mislead or misrepresent.

1.8 Computer Applications

Computers are now available to students at most colleges and universities. Spreadsheets, such as Microsoft Excel, and statistical software packages, such as Minitab, are available in most computer labs. The Microsoft Excel package is

bundled with many home computers. In this text, we use both Excel and Minitab for the applications. We also use an Excel add-in called MegaStat. This add-in gives Excel the capability to produce additional statistical reports.

The following example shows the application of computers in statistical analysis. In Chapters 2, 3, and 4, we illustrate methods for summarizing and describing data. An example used in these chapters refers to profit, as well as other variables, on each of the 180 vehicles sold last month by the Applewood Auto Group. The following Excel output reveals, among other things, (1) there were 180 vehicles sold, the mean (average) profit per vehicle was $1,843.17, and the amount of profit ranged from $294 to $3,292.

APPLEWOOD AUTO GROUP 2011

	A	B	C	D	E	F	G	H
	Age	Profit	Location	Vehicle-Type	Previous		Profit	
1								
2	33	$1,889	Olean	SUV	1			
3	47	$1,461	Kane	Sedan	0		Mean	1843.17
4	44	$1,532	Tionesta	SUV	3		Standard Error	47.97
5	53	$1,220	Olean	Sedan	0		Median	1882.50
6	51	$1,674	Sheffield	Sedan	1		Mode	1915.00
7	41	$2,389	Kane	Truck	1		Standard Deviation	643.63
8	58	$2,058	Kane	SUV	1		Sample Variance	414256.61
9	35	$1,919	Tionesta	SUV	1		Kurtosis	-0.22
10	45	$1,266	Olean	Sedan	0		Skewness	-0.24
11	54	$2,991	Tionesta	Sedan	0		Range	2998
12	56	$2,695	Kane	Sedan	2		Minimum	294
13	41	$2,165	Tionesta	SUV	0		Maximum	3292
14	38	$1,766	Sheffield	SUV	0		Sum	331770
15	48	$1,952	Tionesta	Compact	1		Count	180

The following output is from the Minitab system. It contains much of the same information.
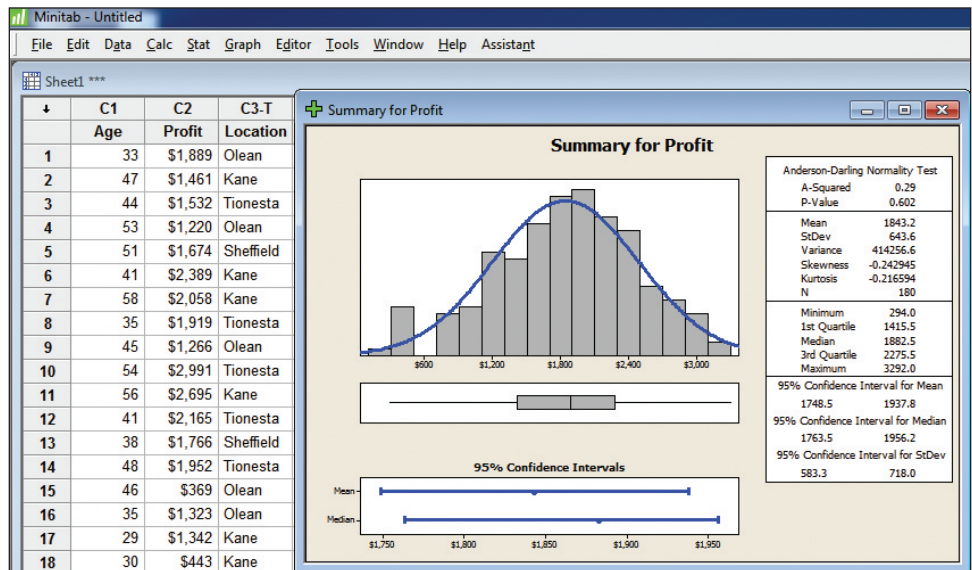
Had we used a calculator to arrive at these measures and others needed to fully analyze the selling prices, hours of calculation would have been required. The

likelihood of an error in arithmetic is high when a large number of values are concerned. On the other hand, statistical software packages and spreadsheets can provide accurate information in seconds.

At the option of your instructor, and depending on the software system available, we urge you to apply a computer package to the exercises in the **Data Set Exercises** section in each chapter. It will relieve you of the tedious calculations and allow you to concentrate on data analysis.

Chapter Summary

I. Statistics is the science of collecting, organizing, presenting, analyzing, and interpreting data to assist in making more effective decisions.
II. There are two types of statistics.
  A. Descriptive statistics are procedures used to organize and summarize data.
  B. Inferential statistics involve taking a sample from a population and making estimates about a population based on the sample results.
    1. A population is an entire set of individuals or objects of interest or the measurements obtained from all individuals or objects of interest.
    2. A sample is a part of the population.
III. There are two types of variables.
  A. A qualitative variable is nonnumeric.
    1. Usually we are interested in the number or percent of the observations in each category.
    2. Qualitative data are usually summarized in graphs and bar charts.
  B. There are two types of quantitative variables and they are usually reported numerically.
    1. Discrete variables can assume only certain values, and there are usually gaps between values.
    2. A continuous variable can assume any value within a specified range.
IV. There are four levels of measurement.
  A. With the nominal level, the data are sorted into categories with no particular order to the categories.
  B. The ordinal level of measurement presumes that one classification is ranked higher than another.
  C. The interval level of measurement has the ranking characteristic of the ordinal level of measurement plus the characteristic that the distance between values is a constant size.
  D. The ratio level of measurement has all the characteristics of the interval level, plus there is a 0 point and the ratio of two values is meaningful.

Chapter Exercises

connect™

6. Population—entire group; Sample—subset of population
8. See IM*

5. Explain the difference between qualitative and quantitative variables. Give an example of qualitative and quantitative variables.
6. Explain the difference between a sample and a population.
7. Explain the difference between a discrete and a continuous variable. Give an example of each not included in the text.
8. For the following questions, would you collect information using a sample or a population? Why?
  a. Statistics 201 is a course taught at a university. Professor Rauch has taught nearly 1,500 students in the course over the past 5 years. You would like to know the average grade for the course.
  b. As part of a research project, you need to report the average profit as a percentage of revenue for the #1-ranked corporation in the Fortune 500 for each of the last 10 years.
  c. You are looking forward to graduation and your first job as a salesperson for one of five large pharmaceutical corporations. Planning for your interviews, you will need to know about each company's mission, profitability, products, and markets.

*"See IM" means see the Instructor's Manual. We will use this throughout the Instructor's Edition when the answer is graphic or too large to fit here.

d. You are shopping for a new MP3 music player such as the Apple iPod. The manufacturers advertise the number of music tracks that can be stored in the memory. Usually, the advertisers assume relatively short, popular songs to estimate the number of tracks that can be stored. You, however, like Broadway musical tunes and they are much longer. You would like to estimate how many Broadway tunes will fit on your MP3 player.

9. Exits along interstate highways were formerly numbered successively from the western or southern border of a state. However, the Department of Transportation has recently changed most of them to agree with the numbers on the mile markers along the highway.
   a. What level of measurement were data on the consecutive exit numbers?
   b. What level of measurement are data on the milepost numbers?
   c. Discuss the advantages of the newer system.

10. Nominal, ratio, ordinal

10. A poll solicits a large number of college undergraduates for information on the following variables: the name of their cell phone provider (AT&T, Verizon, and so on), the numbers of minutes used last month (200, 400, for example), and their satisfaction with the service (Terrible, Adequate, Excellent, and so forth). What is the data scale for each of these three variables?

11. Barnes & Noble recently began selling an electronic book reader called the Nook Color. With this device, you can download over two million ebooks and newpapers and magazines. It displays downloaded materials in full color. Assume you know the number of Nook Color units sold each day for the last month at the Barnes & Noble store at the Market Commons Mall in Riverside, California. Describe a condition in which this information could be considered a sample. Illustrate a second situation in which the same data would be regarded as a population.

12. See IM

12. Utilize the concepts of sample and population to describe how a presidential election is unlike an "exit" poll of the electorate.

13. Place these variables in the following classification tables. For each table, summarize your observations and evaluate if the results are generally true. For example, salary is reported as a continuous quantitative variable. It is also a continuous ratio-scaled variable.
   a. Salary
   b. Gender
   c. Sales volume of MP3 players
   d. Soft drink preference
   e. Temperature
   f. SAT scores
   g. Student rank in class
   h. Rating of a finance professor
   i. Number of home computers

	Discrete Variable	**Continuous Variable**
Qualitative		
Quantitative		a. Salary

	Discrete	**Continuous**
Nominal		
Ordinal		
Interval		
Ratio		a. Salary

14. Using data from such publications as the *Statistical Abstract of the United States, The World Almanac, Forbes,* or your local newspaper, give examples of the nominal, ordinal, interval, and ratio levels of measurement.

15. The Struthers Wells Corporation employs more than 10,000 white collar workers in its sales offices and manufacturing facilities in the United States, Europe, and Asia. A sample of 300 United States workers revealed 120 would accept a transfer to a location outside the United States. On the basis of these findings, write a brief memo to Ms. Wanda Carter, Vice President of Human Services, regarding all white collar workers in the firm and their willingness to relocate.

16. AVX Stereo Equipment, Inc., recently began a "no-hassles" return policy. A sample of 500 customers who recently returned items showed 400 thought the policy was fair, 32 thought it took too long to complete the transaction, and the rest had no opinion. On the basis of this information, make an inference about customer reaction to the new policy.

17. The following table reports the number of cars and light duty trucks sold by the eight largest automakers in the first two months of 2010 compared to the first two months of 2009.

	Year-to-Date Sales	
Manufacturer	**Through February 2010**	**Through February 2009**
General Motors Corp.	287,242	252,701
Ford Motor Company	249,514	185,825
Chrysler LLC	141,592	146,207
Toyota Motor Sales USA Inc.	198,823	226,870
American Honda Motor Co. Inc.	148,150	142,606
Nissan North America Inc.	132,761	108,133
Hyundai Motor America	64,507	55,133
Mazda Motor of America Inc.	32,748	31,821

a. Compare the total sales for the eight automakers. Has there been an increase or a decrease in sales for 2010 compared to the same period in 2009?

b. Compute the market share for each of the companies. Has there been a large change in the market share for any of the companies?

c. Compute the percentage change in sales for each of the eight companies. Which companies had a significant change in sales?
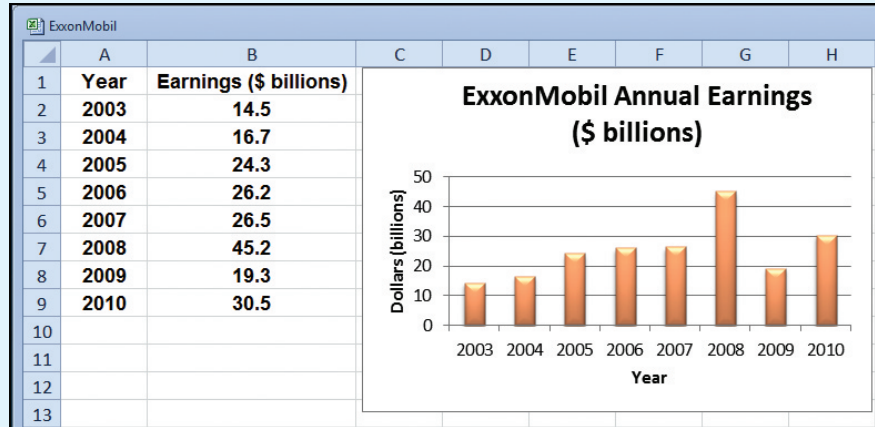
18. The following chart depicts the average amounts spent by consumers on holiday gifts.
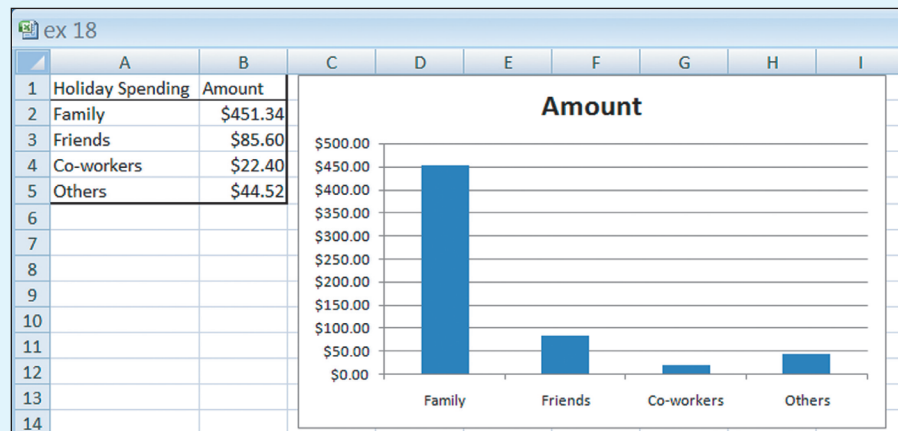
Write a brief report summarizing the amounts spent during the holidays. Be sure to include the total amount spent, and the percent spent by each group.

19. The following chart depicts the earnings in billions of dollars for ExxonMobil for the period 2003 until 2010. Write a brief report discussing the earnings at ExxonMobil during the period. Was one year higher than the others? Did the earnings increase, decrease, or stay the same over the period?

	A	B	C	D	E	F	G	H
		ExxonMobil						
1	Year	Earnings ($ billions)						
2	2003	14.5			ExxonMobil Annual Earnings ($ billions)			
3	2004	16.7						
4	2005	24.3						
5	2006	26.2						
6	2007	26.5						
7	2008	45.2						
8	2009	19.3						
9	2010	30.5						
10								
11								
12								
13								

Data Set Exercises

(The data for these exercises are available at the text website www.mhhe.com/lindbasic8e).

20. Refer to the Real Estate data which report information on homes sold in the Goodyear, Arizona, area last year. Consider the following variables: selling price, number of bedrooms, township, and distance from the center of the city.
  a. Which of the variables are qualitative and which are quantitative?
  b. Determine the level of measurement for each of the variables.

21. Refer to the Baseball 2010 data, which report information on the 30 Major League Baseball teams for the 2010 season. Consider the following variables: number of wins, payroll, season attendance, whether the team is in the American or National League, and the number of home runs hit.
  a. Which of these variables are quantitative and which are qualitative?
  b. Determine the level of measurement for each of the variables.

22. Refer to the Buena School District bus data, which report information on the school district's bus fleet.
  a. Which of the variables are qualitative and which are quantitative?
  b. Determine the level of measurement for each variable.

20. a. Township is qualitative, the others are quantitative
  b. Township is nominal, the others are ratio

22. a. Bus number, bus type, and bus manufacturer are qualitative; the others are quantitative
  b. Bus number, bus type, and bus manufacturer are nominal; the others are ratio

Practice Test

There is a practice test at the end of each chapter. The tests are in two parts. The first part includes 10 to 15 objective questions, usually in a fill-in-the-blank format. The second part includes problems. In most cases, it should take 30 to 45 minutes to complete the test. The problems will require a calculator. Check your answers against those provided in Appendix C in the back of the book.

Part 1—Objective

1. The science of collecting, organizing, presenting, analyzing, and interpreting data to assist in making more effective decisions is referred to as _____ .

2. Methods of organizing, summarizing, and presenting data in an enlightening way are called _____ .

3. The methods used to estimate a value of a population on the basis of a sample are called _____ .

4. A portion, or part, of the group of interest is referred to as a _____ .

5. The entire set of individuals or objects of interest or the measurements obtained from all individuals or objects of interest is known as a _____ .
6. With the _____ level of measurement, the data are sorted into categories with no particular order to the categories.
7. The _____ level of measurement has a significant zero point.
8. The _____ level of measurement presumes that one classification is ranked higher than another.
9. The _____ level of measurement has the characteristic that the distance between values is a constant size.
10. Is the number of bedrooms in a house a discrete or continuous variable? _____ .
11. The jersey numbers on baseball uniforms is an example of the level _____ of measurement.
12. What level of measurement is used when students are classified by eye color? _____ .

Part 2—Problems

1. Thirty million pounds of snack food were eaten during a recent Super Bowl Sunday. The chart below describes this information.
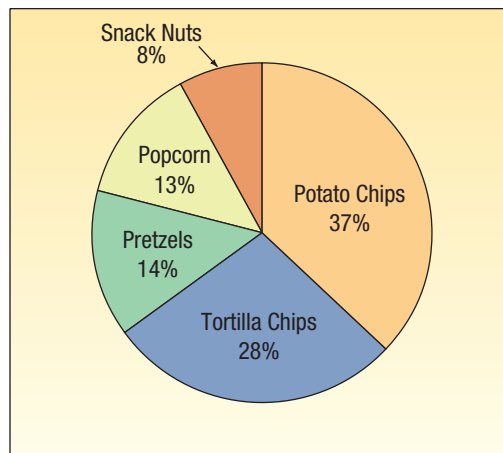
   a. Estimate, in millions of pounds, the amount of potato chips eaten during the game.
   b. Calculate approximately the ratio of potato chips consumed to popcorn consumed (twice as much, half as much, three times as much, etc.).
   c. What percent of the total consists of potato chips and tortilla chips?
2. There are 14 freshmen, 18 sophomores, 10 juniors, and 6 seniors enrolled in an introductory finance class. Answer the following questions.
   a. What is the level of measurement for this student data?
   b. What percent of the students are either freshmen or sophomores?

Chapter 1   Answers to Self-Review

1–1 a. On the basis of the sample of 1,960 consumers, we estimate that, if it is marketed, 60% of all consumers will purchase the chicken dinner (1,176/1,960) × 100 = 60%.
     b. Inferential statistics, because a sample was used to draw a conclusion about how all consumers in the population would react if the chicken dinner was marketed.

1–2 a. Age is a ratio-scale variable. A 40-year-old is twice as old as someone 20 years old.
     b. Nominal scale. We could arrange the states in any order.