

Contents

Part I Introduction and Descriptive Statistics

1	Introduction	3
1.1	The Role of Statistics in Business and Economics	3
1.2	Descriptive Versus Inferential Statistics	5
1.3	Deductive Versus Inductive Analysis in Statistics	10
1.4	Summary	10
	Questions and Problems	11
2	Data Collection and Presentation	15
2.1	Introduction	16
2.2	Data Collection	16
2.3	Data Presentation: Tables	19
2.4	Data Presentation: Charts and Graphs	19
2.5	Applications	24
2.6	Summary	30
	Questions and Problems	30
	Appendix 1: Using Microsoft Excel to Draw Graphs	45
	Appendix 2: Stock Rates of Return and Market Rates of Return	47
	Appendix 3: Financial Statements and Financial Ratio Analysis	51
3	Frequency Distributions and Data Analyses	65
3.1	Introduction	65
3.2	Tally Table for Constructing a Frequency Table	66
3.3	Three Other Frequency Tables	70
3.4	Graphical Presentation of Frequency Distribution	72
3.4.1	Histograms	72
3.4.2	Stem-and-Leaf Display	76
3.4.3	Frequency Polygon	80
3.4.4	Pie Chart	81

3.5	Further Economic and Business Applications	82
3.5.1	Lorenz Curve	82
3.5.2	Stock and Market Rate of Return	84
3.5.3	Interest Rates	85
3.5.4	Quality Control	88
3.6	Summary	89
	Questions and Problems	89
4	Numerical Summary Measures	95
4.1	Introduction	96
4.2	Measures of Central Tendency	96
4.2.1	The Arithmetic Mean	97
4.2.2	The Geometric Mean	98
4.2.3	The Median	99
4.2.4	The Mode	101
4.3	Measures of Dispersion	102
4.3.1	The Variance and the Standard Deviation	102
4.3.2	The Mean Absolute Deviation	105
4.3.3	The Range	107
4.3.4	The Coefficient of Variation	107
4.4	Measures of Relative Position	109
4.4.1	Percentiles, Quartiles, and Interquartile Range	109
4.4.2	Box and Whisker Plots: Graphical Descriptions Based on Quartiles	111
4.4.3	Z Scores	112
4.5	Measures of Shape	113
4.5.1	Skewness	113
4.5.2	Kurtosis	116
4.6	Calculating Certain Summary Measures from Grouped Data (Optional)	117
4.6.1	The Mean	117
4.6.2	The Median	119
4.6.3	The Mode	119
4.6.4	Variance and Standard Deviation	120
4.6.5	Percentiles	120
4.7	Applications	122
4.8	Summary	129
	Questions and Problems	129
	Project I: Project for Descriptive Statistics	146
	Appendix 1: Shortcut Formulas for Calculating Variance and Standard Deviation	147
	Appendix 2: Shortcut Formulas for Calculating Group Variance and Standard Deviation	148
	Appendix 3: Financial Ratio Analysis for Two Pharmaceutical Firms	148

Part II Probability and Important Distributions

5	Probability Concepts and Their Analysis	157
5.1	Introduction	158
5.2	Random Experiment, Outcomes, Sample Space, Event, and Probability	158
5.2.1	Properties of Random Experiments	159
5.2.2	Sample Space of an Experiment and the Venn Diagram	159
5.2.3	Probabilities of Outcomes	161
5.2.4	Subjective Probability	165
5.3	Alternative Events and Their Probabilities	166
5.3.1	Probabilities of Union and Intersection of Events	166
5.3.2	Partitions, Complements, and Probability of Complements	171
5.3.3	Using Combinatorial Mathematics to Determine the Number of Simple Events	173
5.4	Conditional Probability and Its Implications	174
5.4.1	Basic Concept of Conditional Probability	174
5.4.2	Multiplication Rule of Probability	176
5.5	Joint Probability and Marginal Probability	177
5.5.1	Joint Probability	177
5.5.2	Marginal Probabilities	179
5.6	Independent, Dependent, and Mutually Exclusive Events	182
5.7	Bayes' Theorem	183
5.8	Business Applications	185
5.9	Summary	193
	Questions and Problems	193
	Appendix 1: Permutations and Combinations	204
6	Discrete Random Variables and Probability Distributions	211
6.1	Introduction	212
6.2	Discrete and Continuous Random Variables	212
6.3	Probability Distributions for Discrete Random Variables	213
6.3.1	Probability Distribution	213
6.3.2	Probability Function and Cumulative Distribution Function	216
6.4	Expected Value and Variance for Discrete Random Variables	217
6.5	The Bernoulli Process and the Binomial Probability Distribution	221
6.5.1	The Bernoulli Process	221
6.5.2	Binomial Distribution	222
6.5.3	Probability Function	224
6.5.4	Mean and Variance	228

6.6	The Hypergeometric Distribution (Optional)	229
6.6.1	The Hypergeometric Formula	230
6.6.2	Mean and Variance	231
6.7	The Poisson Distribution and Its Approximation to the Binomial Distribution	232
6.7.1	The Poisson Distribution	233
6.7.2	The Poisson Approximation to the Binomial Distribution	235
6.8	Jointly Distributed Discrete Random Variables (Optional)	237
6.8.1	Joint Probability Function	237
6.8.2	Marginal Probability Function	238
6.8.3	Conditional Probability Function	239
6.8.4	Independence	240
6.9	Expected Value and Variance of the Sum of Random Variables (Optional)	242
6.9.1	Covariance and Coefficient of Correlation Between Two Random Variables	242
6.9.2	Expected Value and Variance of the Summation of Random Variables X and Y	244
6.9.3	Expected Value and Variance of Sums of Random Variables	247
6.10	Summary	250
	Questions and Problems	250
	Appendix 1: The Mean and Variance of the Binomial Distribution	259
	Appendix 2: Applications of the Binomial Distribution to Evaluate Call Options	260
7	The Normal and Lognormal Distributions	271
7.1	Introduction	271
7.2	Probability Distributions for Continuous Random Variables	272
7.2.1	Continuous Random Variables	272
7.2.2	Probability Distribution Functions for Discrete and Continuous Random Variables	273
7.3	The Normal and Standard Normal Distribution	278
7.3.1	The Normal Distribution	278
7.3.2	Areas Under the Normal Curve	279
7.3.3	How to Use the Normal Area Table	282
7.4	The Lognormal Distribution and Its Relationship to the Normal Distribution (Optional)	286
7.4.1	The Lognormal Distribution	286
7.4.2	Mean and Variance of Lognormal Distribution	286
7.5	The Normal Distribution as an Approximation to the Binomial and Poisson Distributions	290

7.5.1	Normal Approximation to the Binomial Distribution	290
7.5.2	Normal Approximation to the Poisson Distribution	292
7.6	Business Applications	293
7.7	Summary	303
	Questions and Problems	304
	Appendix 1: Mean and Variance for Continuous Random Variables	315
	Appendix 2: Cumulative Normal Distribution Function and the Option Pricing Model	321
	Appendix 3: Lognormal Distribution Approach to Derive the Option Pricing Model	326
8	Sampling and Sampling Distributions	331
8.1	Introduction	331
8.2	Sampling from a Population	332
8.2.1	Sampling Error and Nonsampling Error	333
8.2.2	Selection of a Random Sample	334
8.3	Sampling Cost Versus Sampling Error	337
8.3.1	Sampling Size and Accuracy	338
8.3.2	Time Constraints	339
8.4	Sampling Distribution of the Sample Mean	339
8.4.1	All Possible Random Samples and Their Mean	340
8.4.2	Mean and Variance for a Sample Mean	345
8.4.3	Sample Without Replacement from a Finite Sample	346
8.5	Sampling Distribution of the Sample Proportion	352
8.6	The Central Limit Theorem	354
8.7	Other Business Applications	357
8.8	Summary	360
	Questions and Problems	360
	Appendix 1: Sampling Distribution from a Uniform Population Distribution	373
9	Other Continuous Distributions and Moments for Distributions	381
9.1	Introduction	382
9.2	The Uniform Distribution	382
9.3	Student's t Distribution	385
9.4	The Chi-Square Distribution and the Distribution of Sample Variance	388
9.4.1	The Chi-Square Distribution	388
9.4.2	The Distribution of Sample Variance	392

9.5	The F Distribution	393
9.6	The Exponential Distribution (Optional)	396
9.7	Moments and Distributions (Optional)	398
9.7.1	The Second Moment and the Coefficient of Variation	398
9.7.2	The Third Moment and the Coefficient of Skewness	399
9.7.3	Kurtosis and the Coefficient of Kurtosis	401
9.7.4	Skewness and Kurtosis for Normal and Lognormal Distributions	401
9.8	Analyzing the First Four Moments of Rates of Return of the 30 DJI Firms	403
9.9	Summary	405
	Questions and Problems	405
	Project II: Project for Probability and Important Distributions	412
	Appendix 1: Derivation of the Mean and Variance for a Uniform Distribution	413
	Appendix 2: Derivation of the Exponential Density Function	415
	Appendix 3: The Relationship Between the Moment About the Origin and the Moment About the Mean	418
	Appendix 4: Derivations of Mean, Variance, Skewness, and Kurtosis for the Lognormal Distribution	418
	Appendix 5: Noncentral χ^2 and the Option Pricing Model	420

Part III Statistical Inferences Based on Samples

10	Estimation and Statistical Quality Control	425
10.1	Introduction	426
10.2	Point Estimation	426
10.2.1	Point Estimate, Estimator, and Estimation	426
10.2.2	Four Important Properties of Estimators	428
10.2.3	Mean Squared Error for Choosing Point Estimator	432
10.3	Interval Estimation	433
10.4	Interval Estimates for μ When σ_X^2 Is Known	434
10.5	Confidence Intervals for μ When σ_X^2 Is Unknown	440
10.6	Confidence Intervals for the Population Proportion	445
10.7	Confidence Intervals for the Variance	447
10.8	An Overview of Statistical Quality Control	449
10.8.1	The Sample Size of an Inspection	450
10.8.2	Acceptance Sampling and Its Alternative Plans	450
10.8.3	Process Control	452

10.9	Control Charts for Quality Control	452
10.9.1	\bar{X} -Chart	453
10.9.2	\bar{R} -Chart and S -Chart	456
10.9.3	Control Charts for Proportions	462
10.10	Further Applications	464
10.11	Summary	468
	Questions and Problems	468
	Appendix 1: Control Chart Approach for Cash Management	480
	Appendix 2: Using MINITAB to Generate Control Charts	483
11	Hypothesis Testing	487
11.1	Introduction	488
11.2	Concepts and Errors of Hypothesis Testing	488
11.2.1	Concepts	488
11.2.2	Type I and Type II Errors	490
11.3	Hypothesis Test Construction and Testing Procedure	490
11.3.1	Two Types of Hypothesis Tests	490
11.3.2	The Trade-off Between Type I and Type II Errors	493
11.3.3	The P -Value Approach to Hypothesis Testing	495
11.4	One-Tailed Tests of Means for Large Samples	496
11.4.1	One-Sample Tests of Means	496
11.4.2	The z_{α} -Value Approach	498
11.4.3	The \bar{x}_{α} -Value Approach	499
11.4.4	The p -Value Approach	499
11.4.5	Two-Samples Tests of Means	500
11.5	Two-Tailed Tests of Means for Large Samples	504
11.5.1	One-Sample Tests of Means	504
11.5.2	Confidence Intervals and Hypothesis Testing	506
11.5.3	Two-Samples Tests of Means	507
11.6	Small-Sample Tests of Means with Unknown Population Standard Deviations	509
11.6.1	One-Sample Tests of Means	509
11.6.2	Two-Samples Tests of Means	510
11.7	Hypothesis Testing for a Population Proportion	513
11.8	Chi-Square Tests of the Variance of a Normal Distribution	516
11.9	Comparing the Variances of Two Normal Populations	518
11.10	Business Applications	518
11.11	Summary	523
	Questions and Problems	524
	Appendix 1: The Power of a Test, the Power Function, and the Operating-Characteristic Curve	536

12	Analysis of Variance and Chi-Square Tests	543
12.1	Introduction	544
12.2	One-Way Analysis of Variance	544
12.2.1	Defining One-Way ANOVA	545
12.2.2	Specifying the Hypotheses	545
12.2.3	Generalizing the One-Way ANOVA	546
12.2.4	Between-Treatments and Within-Treatment Sums of Squares	548
12.2.5	Between-Treatments and Within-Treatment Mean Squares	551
12.2.6	The Test Statistic	552
12.2.7	Population Model for One-Way ANOVA	553
12.3	Simple and Simultaneous Confidence Intervals	554
12.3.1	Simple Comparison	554
12.3.2	Scheffé's Multiple Comparison	556
12.4	Two-Way ANOVA with One Observation in Each Cell, Randomized Blocks	557
12.4.1	Basic Concept	557
12.4.2	Specifying the Hypotheses	558
12.4.3	Between and Residual Sum of Squares	558
12.4.4	Between Variance, Error Variance, and F-Test	560
12.4.5	Population Model for Two-Way ANOVA with One Observation in Each Cell	561
12.5	Two-Way ANOVA with More than One Observation in Each Cell	563
12.5.1	Basic Concept and Hypothesis Testing	563
12.5.2	Generalizing the Two-Way ANOVA	566
12.6	Chi-Square as a Test of Goodness of Fit	568
12.7	Chi-Square as a Test of Independence	572
12.8	Business Applications	574
12.9	Summary	582
	Questions and Problems	582
	Project III: Project for Statistical Inferences Based on Samples	606
	Appendix 1: ANOVA and Statistical Quality Control	607

Part IV Regression and Correlation: Relating Two or More Variables

13	Simple Linear Regression and the Correlation Coefficient	615
13.1	Introduction	616
13.2	Population Parameters and the Regression Models	616
13.2.1	Data Description	617
13.2.2	Building the Population Regression Model	618
13.2.3	Sample Versus Population Regression Model	621

13.3	The Least-Squares Estimation of α and β	622
13.3.1	Scatter Diagram	622
13.3.2	The Method of Least Squares	624
13.3.3	Estimation of Intercept and Slope	625
13.4	Standard Assumptions for Linear Regression	629
13.5	The Standard Error of Estimate and the Coefficient of Determination	631
13.5.1	Variance Decomposition	632
13.5.2	Standard Error of Residuals (Estimate)	635
13.5.3	The Coefficient of Determination	635
13.6	The Bivariate Normal Distribution and Correlation Analysis	636
13.6.1	The Sample Correlation Coefficient	638
13.6.2	The Relationship Between r and b	639
13.6.3	The Relationship Between r and R^2	639
13.7	Summary	646
	Questions and Problems	646
	Appendix 1: Derivation of Normal Equations and Optimal Portfolio Weights	659
	Appendix 2: The Derivation of Equation 13.20	661
	Appendix 3: The Bivariate Normal Density Function	661
	Appendix 4: American Call Option and the Bivariate Normal CDF	664
14	Simple Linear Regression and Correlation: Analyses and Applications	675
14.1	Introduction	675
14.2	Tests of the Significance of α and β	676
14.2.1	Hypothesis Testing and Confidence Interval for β and α	677
14.2.2	The F -Test Versus the t -Test	682
14.3	Test of the Significance of ρ	685
14.3.1	t -Test for Testing $\rho = 0$	686
14.3.2	z -Test for Testing $\rho = 0$ or $\rho = \text{Constant}$	687
14.4	Confidence Interval for the Mean Response and Prediction Interval for the Individual Response	688
14.4.1	Point Estimates of the Mean Response and the Individual Response	688
14.4.2	Interval Estimates of Forecasts under Three Cases of Estimated Variance	689
14.4.3	Calculating Standard Errors	691
14.4.4	Confidence Interval for the Mean Response and Prediction Interval for the Individual Response	693
14.4.5	Using MINITAB to Calculate Confidence Interval and Interval	696
14.5	Business Applications	700

14.6	Using Computer Programs to Do Simple Regression Analysis	713
14.7	Summary	714
	Questions and Problems	717
	Appendix 1: Impact of Measurement Error and Proxy Error on Slope Estimates	734
	Appendix 2: The Relationship Between the F -Test and the t -Test	736
	Appendix 3: Derivation of Variance for Alternative Forecasts	736
15	Multiple Linear Regression	739
15.1	Introduction	740
15.2	The Model and Its Assumptions	740
15.2.1	The Multiple Regression Model	740
15.2.2	The Regression Plane for Two Explanatory Variables	741
15.2.3	Assumptions for the Multiple Regression Model	742
15.3	Estimating Multiple Regression Parameters	744
15.4	The Residual Standard Error and the Coefficient of Determination	747
15.4.1	The Residual Standard Error	747
15.4.2	The Coefficient of Determination	748
15.5	Tests on Sets and Individual Regression Coefficients	750
15.5.1	Test on Sets of Regression Coefficients	750
15.5.2	Hypothesis Tests for Individual Regression Coefficients	752
15.6	Confidence Interval for the Mean Response and Prediction Interval for the Individual Response	756
15.6.1	Point Estimates of the Mean and the Individual Responses	756
15.6.2	Interval Estimates of Forecasts	756
15.7	Business and Economic Applications	759
15.8	Using Computer Programs to Do Multiple Regression Analyses	766
15.8.1	SAS Program for Multiple Regression Analysis	766
15.8.2	MINITAB Program for Multiple Regression Prediction	771
15.8.3	Stepwise Regression Analysis	772
15.9	Summary	776
	Questions and Problems	777
	Appendix 1: Derivation of the Sampling Variance of the Least-Squares Slope Estimations	788
	Appendix 2: Derivation of Equation 15.30	791

16 Other Topics in Applied Regression Analysis	793
16.1 Introduction	794
16.2 Multicollinearity	794
16.2.1 Definition and Effect	794
16.2.2 Rules of Thumb in Determining the Degree of Collinearity	796
16.3 Heteroscedasticity	798
16.3.1 Definition and Concept	798
16.3.2 Evaluating the Existence of Heteroscedasticity	800
16.4 Autocorrelation	804
16.4.1 Basic Concept	804
16.4.2 The Durbin–Watson Statistic	805
16.5 Model Specification and Specification Bias (Optional)	810
16.6 Nonlinear Models (Optional)	816
16.6.1 The Quadratic Model	816
16.6.2 The Log-Linear and the Log-Log-Linear Model	819
16.7 Lagged Dependent Variables (Optional)	822
16.8 Dummy Variables	832
16.9 Regression with Interaction Variables	837
16.10 Regression Approach to Investigating the Effect of Alternative Business Strategies	840
16.11 Summary	841
Questions and Problems	841
Project IV: Project for Regression and Correlation Analyses	859
Appendix 1: Dynamic Ratio Analysis	869
Appendix 2: Term Structure of Interest Rate	870

Part V Selected Topics in Statistical Analysis for Business and Economics

17 Nonparametric Statistics	877
17.1 Introduction	878
17.2 The Matched-Pairs Sign Test	879
17.3 The Wilcoxon Matched-Pairs Signed-Rank Test	881
17.4 Mann–Whitney U Test (Wilcoxon Rank-Sum Test)	884
17.5 Kruskal–Wallis Test for m Independent Samples	889
17.6 Spearman Rank Correlation Test	892
17.7 The Number-of-Runs Test	894
17.8 Business Applications	896
17.9 Summary	905
Questions and Problems	905

18 Time Series: Analysis, Model, and Forecasting	927
18.1 Introduction	928
18.2 The Classical Time-Series Component Model	928
18.2.1 The Trend Component	929
18.2.2 The Seasonal Component	929
18.2.3 The Cyclical Component and Business Cycles	929
18.2.4 The Irregular Component	932
18.3 Moving Average and Seasonally Adjusted Time Series	934
18.3.1 Moving Averages	934
18.3.2 Seasonal Index and Seasonally Adjusted Time Series	935
18.4 Linear and Log-Linear Time Trend Regressions	941
18.5 Exponential Smoothing and Forecasting	943
18.5.1 Simple Exponential Smoothing and Forecasting	943
18.5.2 The Holt–Winters Forecasting Model for Nonseasonal Series	947
18.6 Autoregressive Forecasting Model	952
18.7 Summary	956
Questions and Problems	956
Appendix 1: The Holt–Winters Forecasting Model for Seasonal Series	968
19 Index Numbers and Stock Market Indexes	973
19.1 Introduction	974
19.2 Price Indexes	974
19.2.1 Simple Aggregative Price Index	974
19.2.2 Simple Average of Price Relatives	976
19.2.3 Weighted Relative Price Index	977
19.2.4 Weighted Aggregative Price Index	979
19.3 Quantity Indexes	982
19.3.1 Laspeyres Quantity Index	982
19.3.2 Paasche Quantity Index	983
19.3.3 Fisher’s Ideal Quantity Index	985
19.3.4 FRB Index of Industrial Production	985
19.4 Value Index	986
19.5 Stock Market Indexes	986
19.5.1 Market-Value-Weighted Index	987
19.5.2 Price-Weighted Index	988
19.5.3 Equally Weighted Index	990
19.5.4 Wilshire 5000 Equity Index	991
19.6 Business and Economic Applications	993
19.7 Summary	1002
Questions and Problems	1002
Appendix 1: Options on Stock Indices and Currencies	1013
Appendix 2: Index Futures and Hedge Ratio	1016

20	Sampling Surveys: Methods and Applications	1019
20.1	Introduction	1019
20.2	Sampling and Nonsampling Errors	1020
20.3	Simple and Stratified Random Sampling	1021
20.3.1	Designing the Sampling Study	1021
20.3.2	Statistical Inferences in Terms of Simple Random Sampling	1022
20.3.3	Stratified Random Sampling	1027
20.4	Determining the Sample Size	1030
20.4.1	Sample Size for Simple Random Sampling	1030
20.4.2	Sample Size for Stratified Random Sampling	1034
20.5	Two-Stage Cluster Sampling	1036
20.6	Ratio Estimates Versus Regression Estimates	1040
20.6.1	Ratio Method	1040
20.6.2	Regression Method	1042
20.6.3	Comparison of the Ratio and Regression Methods	1043
20.7	Business and Economic Applications	1043
20.8	Summary	1046
	Questions and Problems	1046
	Appendix 1: The Jackknife Method for Removing Bias from a Sample Estimate	1059
21	Statistical Decision Theory: Methods and Applications	1065
21.1	Introduction	1066
21.2	Four Key Elements of a Decision	1067
21.3	Decisions Based on Extreme Values	1068
21.3.1	Maximin Criterion	1068
21.3.2	Minimax Regret Criterion	1069
21.4	Expected Monetary Value and Utility Analysis	1070
21.4.1	The Expected Monetary Value Criterion	1071
21.4.2	Utility Analysis	1073
21.5	Bayes' Strategies	1078
21.6	Decision Trees and Expected Monetary Values	1080
21.7	Mean and Variance Trade-Off Analysis	1085
21.7.1	The Mean–Variance Rule and the Dominance Principle	1085
21.7.2	The Capital Market Line	1089
21.7.3	The Capital Asset Pricing Model	1090
21.8	The Mean and Variance Method for Capital Budgeting Decisions	1096
21.8.1	Statistical Distribution of Cash Flow	1097
21.9	Summary	1100
	Questions and Problems	1101
	Project V: Project for Selected Topics in Statistical Analysis	1115

Appendix 1: Using the Spreadsheet in Decision-Tree Analysis	1116
Appendix 2: Graphical Derivation of the Capital Market Line	1119
Appendix 3: Present Value and Net Present Value	1121
Appendix 4: Derivation of Standard Deviation for NPV	1123
Appendix A Statistical Tables	1125
Table A.1 Probability function of the binomial distribution	1125
Table A.2 Poisson probabilities	1130
Table A.3 The standardized normal distribution	1135
Table A.4 Critical values of t	1137
Table A.5 Critical values of χ^2	1138
Table A.6 Critical values of F	1140
Table A.7 Exponential function	1147
Table A.8 Random numbers	1148
Table A.9 Cutoff points for the distribution of the Durbin-Watson test statistics	1149
Table A.10 Lower and upper critical values R for the runs test	1152
Table A.11 Critical values of W in the Wilcoxon Matched-Pairs Signed-Rank test	1153
Table A.12 Lower and upper critical values R_{n_1} and R_{n_2} of the Wilcoxon Rank-Sum test	1153
Table A.13 Factors for control chart	1154
Table A.14 Present value of $\$/l$	1155
Appendix B Description of Data Sets	1157
Appendix C Introduction to MINITAB 16	1161
Appendix D Introduction to SAS: Microcomputer Version	1165
Appendix E Useful Formulas in Statistics	1171
Appendix F Important Finance and Accounting Topics	1193
Index	1195

Statistics for Business and Financial Economics

Lee, C.-F.; Lee, J.C.; Lee, A.C.

2013, XLVIII, 1206 p. 313 illus., 189 illus. in color.,

Hardcover

ISBN: 978-1-4614-5896-8