**Business Statistics –– Continuous Probability Distributions**

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| Continuous Distributions, Empirical, Normal, Exponential |
| Central Limit Theorem, CLT |

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| **For Discrete Distributions.**For X~P(X), properties are (1) 0<=P(X)<=1; and (2) P(X)=1.Expectation of X, E[X] = X\*P(X) = . **For Continuous Distributions.**If X~f(X), then ∫ f(X) dX = 1, E[X]= = P[a<X<b] =  |

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|  | **Normal Probability Distribution** |  |

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| **Normal Probability Distribution. X ~ N(  , 2 )** |
| Let the random variable, X, follow the Normal probability distribution with a mean of  and a variance of 2 .E[X] =  . Var[X] = 2 This is represented by X ~ N(  , 2 ) .Probability measure of X is the area under the Normal distribution. |

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|  X  X X  X~N(  ,  

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|  = ProbabilityX = Normal Random VariableX = X1- = Normal Variate = Population Mean2 = Population Variance = Population Standard Deviation |
| P[X < X ] = P[X < X ] = P[X <  ] = 0.5 | P[X > X ] = P[X > X ] = P[X >  ] = 0.5 |
| P[ X < X < X ] = 2P[X =  ] = 0P[X = X ] = 0P[X = X ] = 0 |

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|  | **Standard Normal Probability Distribution** |  |

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| **Standard Normal Probability Distribution. Z ~ N( 0 , 1 )** |
| Consider the transformation, Z = ( X –  ) / sqrt( 2 )(Note: “sqrt” represents “square root”, thus, sqrt(2)= )Rearranging Z=(X–)/sqrt(2) for X, we obtain, X =  + Z \* sqrt( 2 )The variable, Z, is called the Standard Normal random variable.Z follows the Standard Normal probability distribution with a mean of 0 and a variance of 1 .This is represented by Z ~ N( 0 , 1 ) . |

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|  X  X X  X~N(  ,    |
|   |  |  |   |
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|  Z  Z ZZ~N(  , =1or Z~N(  ,  |

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|  = ProbabilityZ = Standard Normal Random VariableZ = Z1- = Standard Normal Variate = 0 = Population Mean = 1 = Population Standard Deviation2 = 1 = Population Variance | Specifically,P[ Z < Z ] = P[ Z < Z1- ] = 1-P[ Z > Z1- ] = P[ Z <  ] =  , thus, =X0.5P[ Z > Z1- ] = P[ Z < Z < Z1- ] = 1-2 |

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| Since  and 2 are constants, and Z=(X–)/ note:E[ (X –  ) /  ] = (E[X] –  ) /  ] = (  –  ) /  ] = 0Var[ (X –  ) /  ] = Var( X /  ) = Var[X]/ 2 = 2 / 2 = 1Thus, since Z=(X–)/ , E[Z]=0 and Var[Z]=1.Therefore, Z ~ N( 0 , 1 ) |

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|  | **Normal Probability Calculations** |  |

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|  Z  ZZ~N(  , 1 |
|  X  X X X~N(  ,   |

Calculations using Excel.

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| For Normal Distribution, X~N(  ,  For Normal Probability, “=normdist(x,mean,standard\_dev,cumulative)”For Normal Variate, “=norminv(probability,mean,standard\_dev)” (will use cumulative probability) |
| For Standard Normal Distribution, Z~N(  , 1For Standard Normal Probability, “=normsdist(z)” (will return cumulative probability)For Standard Normal Variate, “=normsinv(probability)” (will use cumulative probability) |

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| Probability Calculations | normsdist(z)=normdist(x,0,1,1) |
| P[ Z < 0 ] = P[ Z > 0 ] = 0.5 | =normsdist(0) |
| P[ Z < 1 ] = P[ Z > –1 ] ≈ 0.8413 | =normsdist(1), =1–normsdist(–1) |
| P[ Z>1 ] = P[ Z< –1 ] ≈ 1 – 0.8413 ≈ 0.1587 | =1–normsdist(1), =normsdist(–1) |
| P[ 0.2 < Z < 0.5 ] = P[ –0.5 < Z < –0.2 ]  | =normsdist(0.5) – normsdist(0.2) |
|  ≈ 0.6915 – 0.5793 ≈ 0.1122 | =normsdist(–0.2) – normsdist(–0.5) |
| P[ –0.2 < Z < 0.5 ] = P[ –0.5 < Z < 0.2 ] | =normsdist(0.5) – normsdist(–0.2) |
|  ≈ 0.6915 + 0.5793 – 1 ≈ 0.2708 | =normsdist(0.2) – normsdist(–0.5) |
| P[ Z < 1.23 ] ≈ 0.8907 | =normsdist(1.23) |
| P[ Z > 1.23 ] ≈ 1 – 0.8907 ≈ 0.1093 | =1–normsdist(1.23) |
| Note that for continuous distributions, P[Z=1.23]=0. Therefore, P[Z<1.23]=P[Z<=1.23]≈0.8907 |
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| Variate Calculations. (Percentile Calculations.) | normsinv(probability)=norminv(probability,0,1) |
| P[Z<Z]=0.791, Z≈0.81 | =normsinv(0.791) |
| P[Z>Z]=0.209, Z(1–0.209)=Z≈0.81 | =normsinv(1–.209) |
| P[Z>Z]=1–P[Z<Z]≈1–0.791≈0.209 |  |
| thus, Z in the expression is same as Z791≈0.81 |  |

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| **Empirical Rule:**P[ - < X < +] = P[ –1 < Z < +1]≈0.6826P[ -2 < X < +2] = P[ –2 < Z < +2]≈0.9544P[ -3 < X < +3] = P[ –3 < Z < +3]≈0.9974 |

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|  | **Normal Probability Examples** |  |

1. A manufacturer produces bearings with diameters required to be 1.2 centimeters (cm). Because of variability in the production process, bearings will have different diameters. The diameters have a normal distribution with a mean of 1.2 cm and standard deviation of 0.02 cm.

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| a. If only diameters in the range of 1.16 to 1.24 cm are acceptable, what proportion of all bearings fall in this acceptable range? ANSWER: The acceptable percentage is 95.45%. Assume X~N(1.2,0.022), where =1.2 and =0.02. P[1.16 < X < 1.24]=P[(1.16-1.2)/0.02 < (X-)/ < (1.24-1.2)/0.02 ] =P[ –2 < Z < +2 ]= P[ Z < +2 ] – P[ Z < –2 ]≈ 0.97725 – 0.02275 ≈ 0.9545 =normsdist(+2)–normsdist(–2) = normdist(1.24,1.2,0.02,1)–normdist(1.16,1.2,0.02,1) ≈ 0.9545 |
| b. What symmetric range about the mean includes 90% of all bearings? Assume X~N(1.2,0.022), where =1.2 and =0.02.  The 5th and 95th percentiles of X will define the range.  X0.05= –  Z0.95 ≈ 1.2 – (0.02)\*(1.645) ≈ 1.17 X0.95= +  Z0.95 ≈ 1.2 + (0.02)\*(1.645) ≈ 1.23 Where Z0.95 = – Z0.05 = normsinv(1–0.05)=normsinv(0.95)≈1.645 |

2. A local department store wants to investigate the average age of the adults in its existing marketing area to help target its advertising. The store assumes the age follows a normal distribution with a mean of 35 years and a standard deviation of 4 years.

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| a. What percentage of adults will be older than 40 years?P[X>40| =35, =4] = P[(X–)/>(40–35)/4] = P[Z>1.25]≈1–0.89435 ≈ 0.10565There are 10.565% of the population greater than 40 years old. |
| b. What ages represent the 5th and 95th percentiles? X0.05= –  Z0.95 ≈ 35 – (4)\*(1.645) ≈ 28.42 X0.95= +  Z0.95 ≈ 35 + (4)\*(1.645) ≈ 41.58 |

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|  | **Common Standard Normal Variates** |  |

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| Normal Distribution X~N( ,  2 )Standard Normal Distribution, Z~N(=0,  2=1)Standard Normal Variates, Z , where  = P[ Z < Z ]

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|  | 0.1 | 0.05 | 0.025 | 0.01 | 0.005 |
|  | 0.90 | 0.95 | 0.975 | 0.99 | 0.995 |
| Z | 1.282 | 1.645 | 1.960 | 2.326 | 2.576 |

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|  | 0.1587 | 0.0668 | 0.0228 | 0.0062 | 0.0013 |
|  | 0.8413 | 0.9332 | 0.9772 | 0.9938 | 0.9987 |
| Z | 1.0 | 1.5 | 2.0 | 2.5 | 3.0 |

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