

Econ 311: Statistics for Business and Economics



Chapter 1

Describing Data: Graphical



Chapter Goals

After completing this chapter, you should be able to:

- Explain how decisions are often based on incomplete information
- Explain key definitions:
 - ◆ Population vs. Sample
 - ◆ Parameter vs. Statistic
 - ◆ Descriptive vs. Inferential Statistics
- Describe random sampling
- Explain the difference between Descriptive and Inferential statistics
- Identify types of data and levels of measurement



Chapter Goals

(continued)

After completing this chapter, you should be able to:

- Create and interpret graphs to describe categorical variables:
 - frequency distribution, bar chart, pie chart, Pareto diagram
- Create a line chart to describe time-series data
- Create and interpret graphs to describe numerical variables:
 - frequency distribution, histogram, ogive, stem-and-leaf display
- Construct and interpret graphs to describe relationships between variables:
 - Scatter plot, cross table
- Describe appropriate and inappropriate ways to display data graphically

Dealing with Uncertainty

Everyday decisions are based on incomplete information

Consider:

- Will the job market be strong when I graduate?
- Will the price of Yahoo stock be higher in six months than it is now?
- Will interest rates remain low for the rest of the year if the federal budget deficit is as high as predicted?



Dealing with Uncertainty

(continued)

Numbers and data are used to assist decision making

- **Statistics** is a tool to help process, summarize, analyze, and interpret data

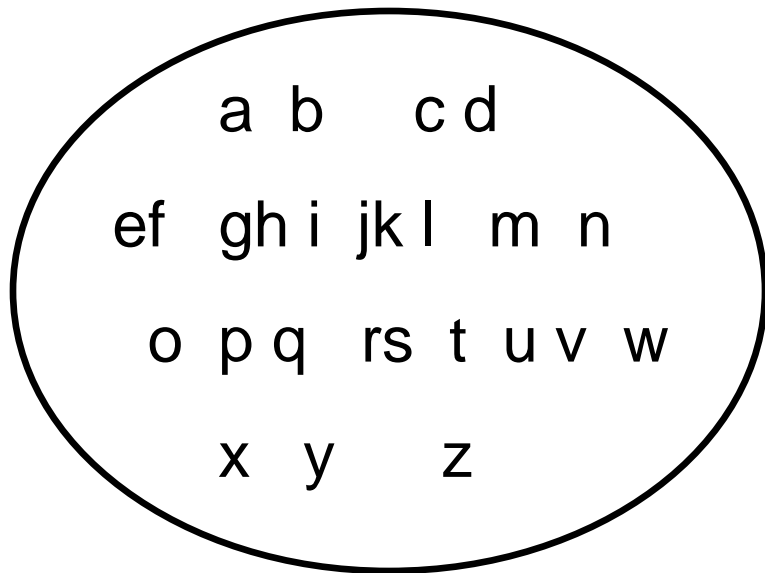
Key Definitions

- A **population** is the collection of all items of interest or under investigation
 - N represents the population size
- A **sample** is an observed subset of the population
 - n represents the sample size
- A **parameter** is a specific characteristic of a population
- A **statistic** is a specific characteristic of a sample



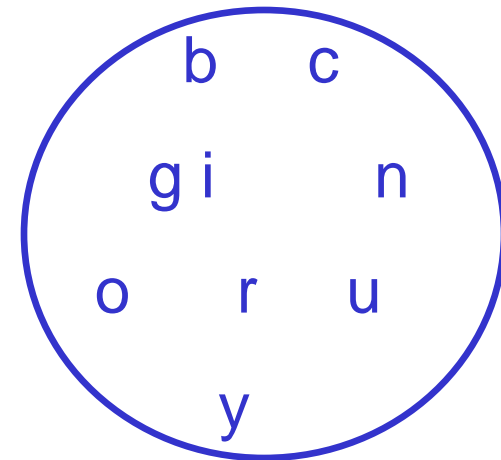
Population vs. Sample

Population



Values calculated using population data are called **parameters**

Sample



Values computed from sample data are called **statistics**



Examples of Populations

- Names of all registered voters in the United States
- Incomes of all families living in Daytona Beach
- Annual returns of all stocks traded on the New York Stock Exchange
- Grade point averages of all the students in your university



Random Sampling

Simple random sampling is a procedure in which

- each member of the population is chosen strictly by chance,
- each member of the population is equally likely to be chosen,
- every possible sample of n objects is equally likely to be chosen

The resulting sample is called a **random sample**



Descriptive and Inferential Statistics

Two branches of statistics:

- **Descriptive statistics**

- Graphical and numerical procedures to summarize and process data

- **Inferential statistics**

- Using data to make predictions, forecasts, and estimates to assist decision making

Descriptive Statistics

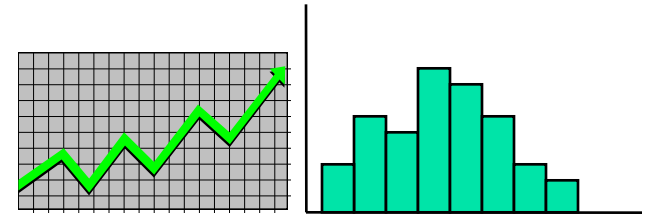
- Collect data

- e.g., Survey



- Present data

- e.g., Tables and graphs



- Summarize data

- e.g., Sample mean = $\frac{\sum X_i}{n}$

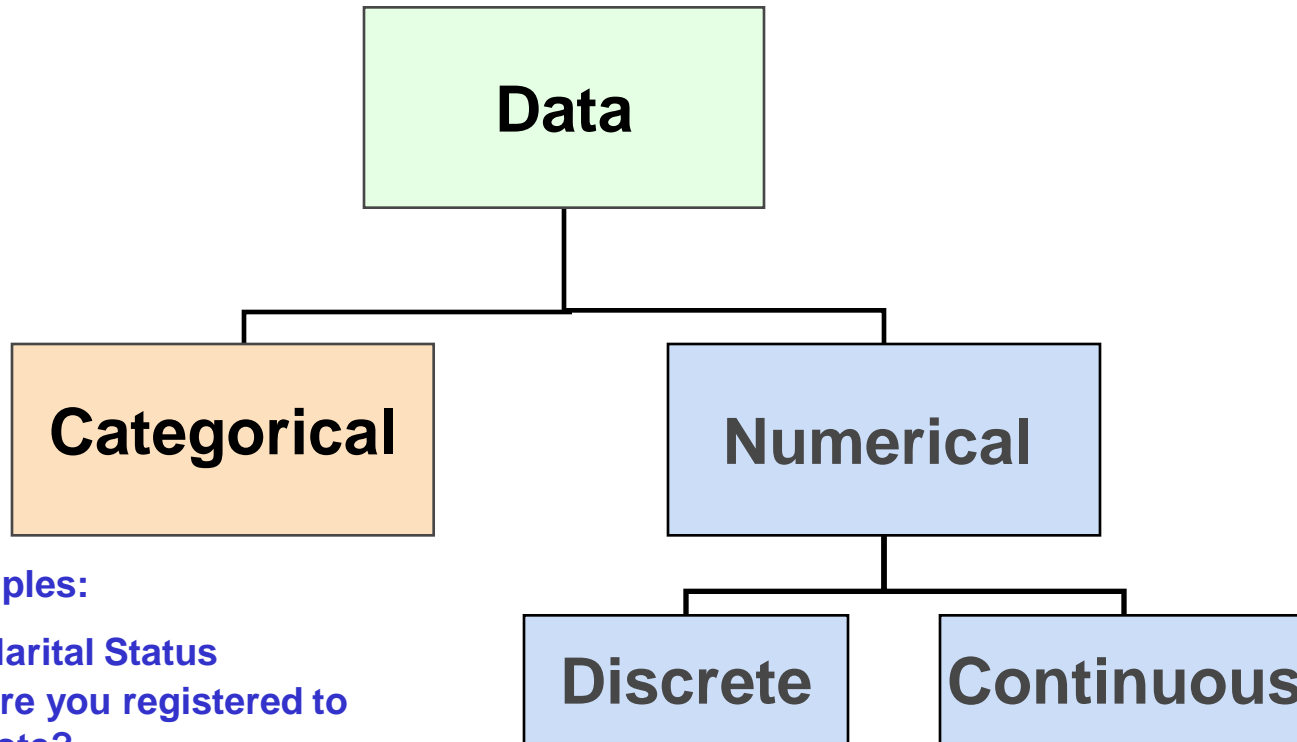
Inferential Statistics

- Estimation
 - e.g., Estimate the population mean weight using the sample mean weight
- Hypothesis testing
 - e.g., Test the claim that the population mean weight is 140 pounds



Inference is the process of drawing conclusions or making decisions about a population based on sample results

Types of Data



Examples:

- **Marital Status**
 - **Are you registered to vote?**
 - **Eye Color**
- (Defined categories or groups)**

Examples:

- **Number of Children**
 - **Defects per hour**
- (Counted items)**

Examples:

- **Weight**
 - **Voltage**
- (Measured characteristics)**



Measurement Levels

Differences between measurements, true zero exists

Ratio Data

Quantitative Data

Differences between measurements but no true zero

Interval Data

Ordered Categories (rankings, order, or scaling)

Ordinal Data


Qualitative Data

Categories (no ordering or direction)

Nominal Data

Graphical Presentation of Data

- Data in **raw form** are usually not easy to use for decision making
- Some type of organization is needed
 - Table
 - Graph
- The type of graph to use depends on the variable being summarized



Graphical Presentation of Data

(continued)

- Techniques reviewed in this chapter:

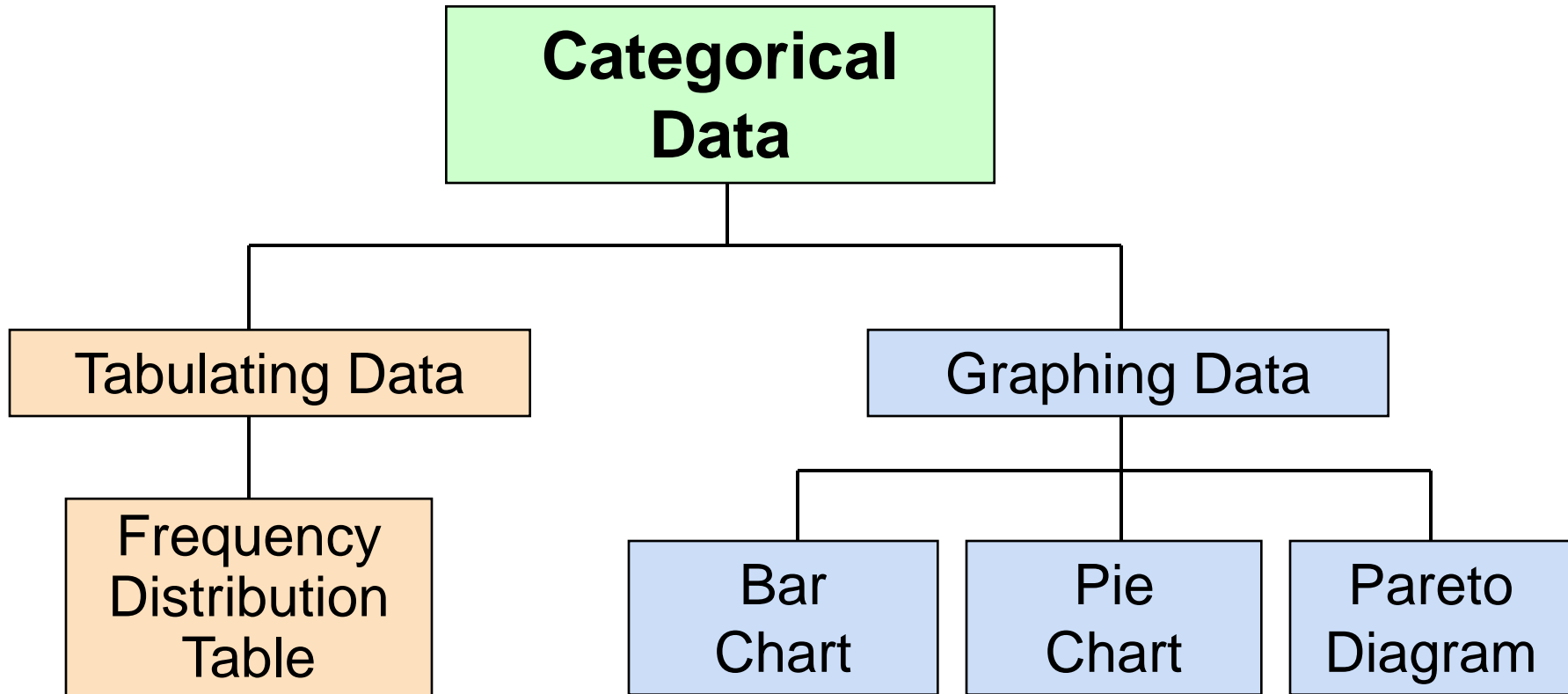
Categorical Variables

- Frequency distribution
- Bar chart
- Pie chart
- Pareto diagram

Numerical Variables

- Line chart
- Frequency distribution
- Histogram and ogive
- Stem-and-leaf display
- Scatter plot

Tables and Graphs for Categorical Variables





The Frequency Distribution Table

Summarize data by category

Example: Hospital Patients by Unit

| Hospital Unit | Number of Patients |
|----------------|--------------------|
| Cardiac Care | 1,052 |
| Emergency | 2,245 |
| Intensive Care | 340 |
| Maternity | 552 |
| Surgery | 4,630 |

(Variables are categorical)

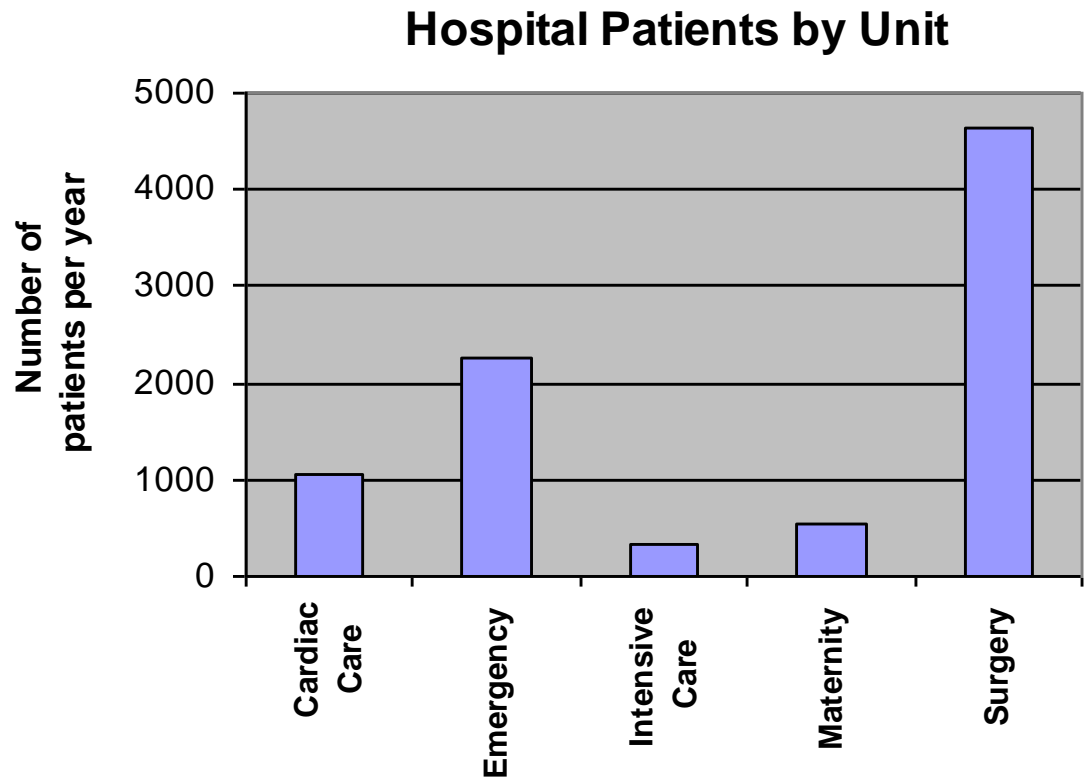
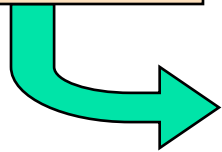


Bar and Pie Charts

- **Bar charts** and **Pie charts** are often used for qualitative (category) data
- Height of bar or size of pie slice shows the frequency or percentage for each category

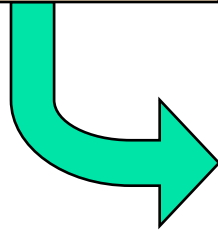
Bar Chart Example

| Hospital Unit | Number of Patients |
|----------------|--------------------|
| Cardiac Care | 1,052 |
| Emergency | 2,245 |
| Intensive Care | 340 |
| Maternity | 552 |
| Surgery | 4,630 |



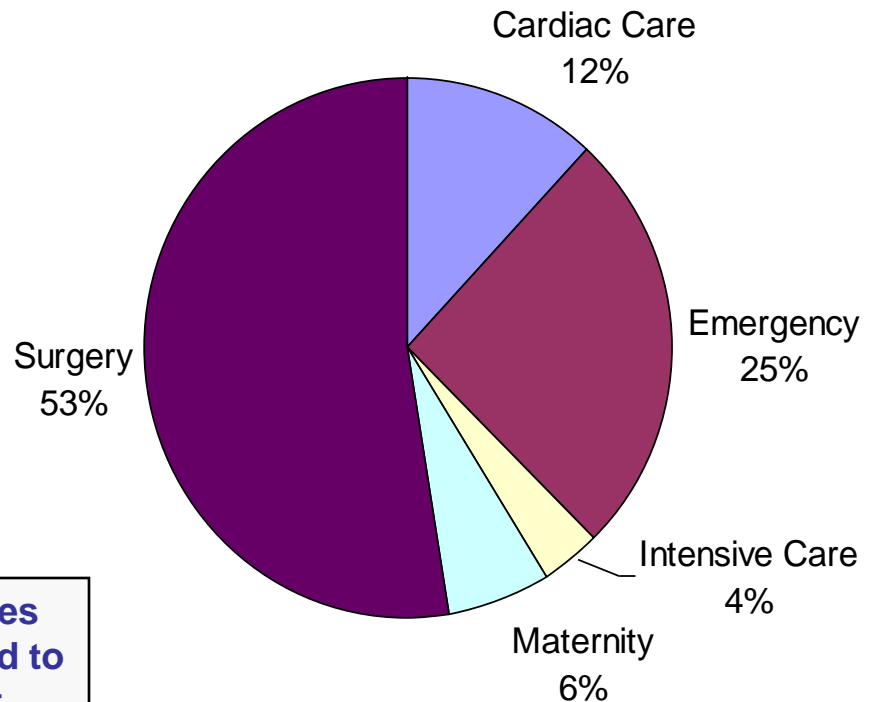
Pie Chart Example

| Hospital Unit | Number of Patients | % of Total |
|----------------|--------------------|------------|
| Cardiac Care | 1,052 | 11.93 |
| Emergency | 2,245 | 25.46 |
| Intensive Care | 340 | 3.86 |
| Maternity | 552 | 6.26 |
| Surgery | 4,630 | 52.50 |



(Percentages are rounded to the nearest percent)

Hospital Patients by Unit





Pareto Diagram

- Used to portray categorical data
- A bar chart, where categories are shown in descending order of frequency
- A cumulative polygon is often shown in the same graph
- Used to separate the “vital few” from the “trivial many”



Pareto Diagram Example

Example: 400 defective items are examined for cause of defect:

| Source of Manufacturing Error | Number of defects |
|-------------------------------|-------------------|
| Bad Weld | 34 |
| Poor Alignment | 223 |
| Missing Part | 25 |
| Paint Flaw | 78 |
| Electrical Short | 19 |
| Cracked case | 21 |
| Total | 400 |



Pareto Diagram Example

(continued)

Step 1: Sort by defect cause, in descending order

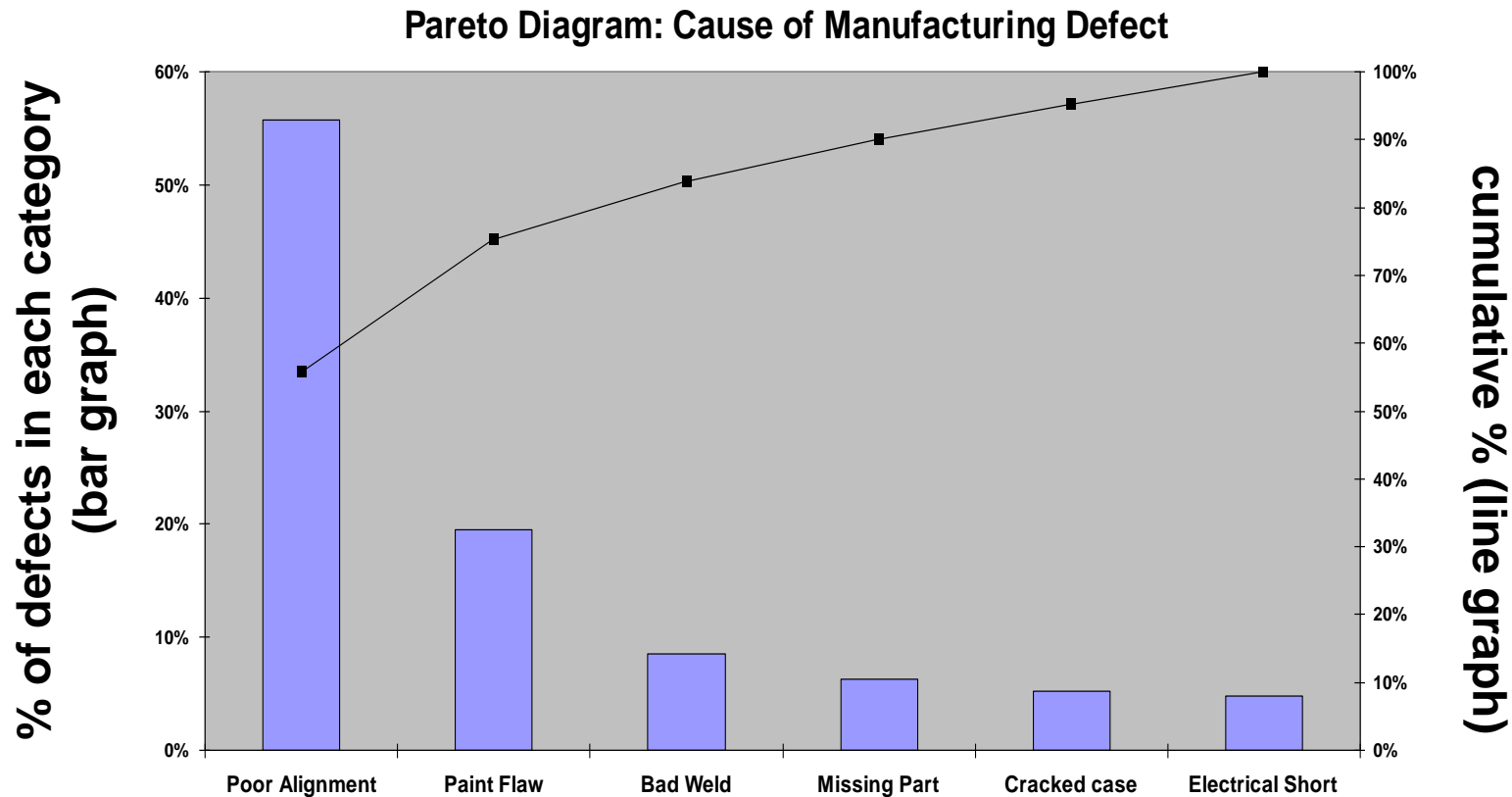
Step 2: Determine % in each category

| Source of Manufacturing Error | Number of defects | % of Total Defects |
|-------------------------------|-------------------|--------------------|
| Poor Alignment | 223 | 55.75 |
| Paint Flaw | 78 | 19.50 |
| Bad Weld | 34 | 8.50 |
| Missing Part | 25 | 6.25 |
| Cracked case | 21 | 5.25 |
| Electrical Short | 19 | 4.75 |
| Total | 400 | 100% |

Pareto Diagram Example

(continued)

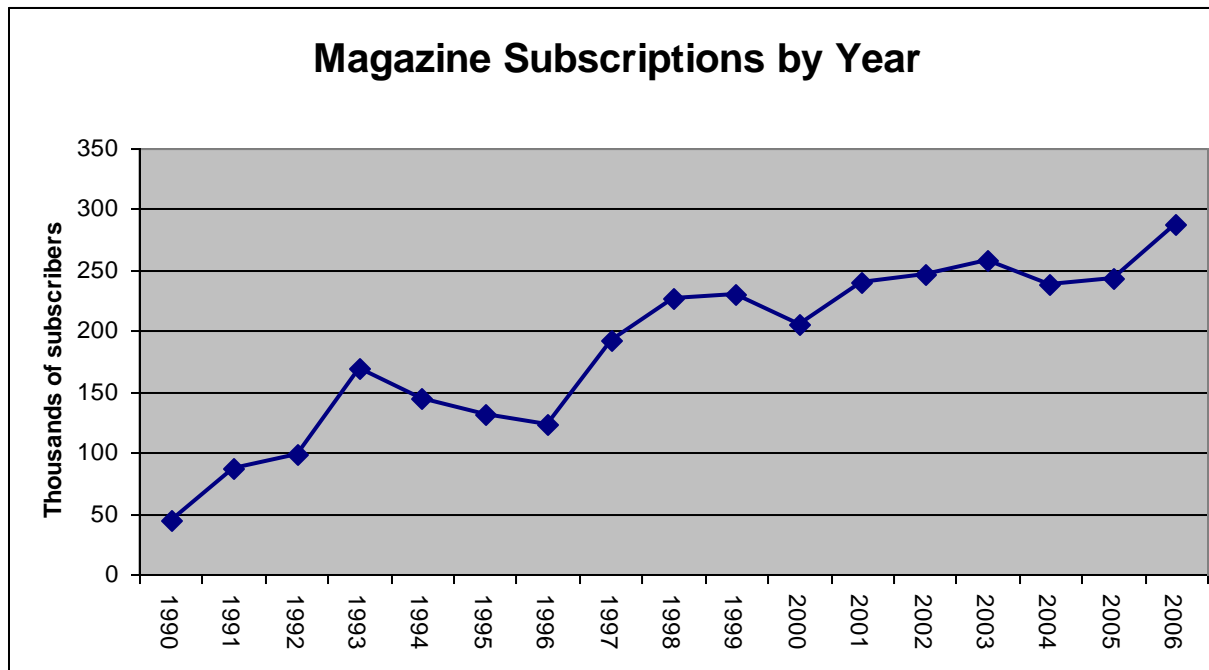
Step 3: Show results graphically



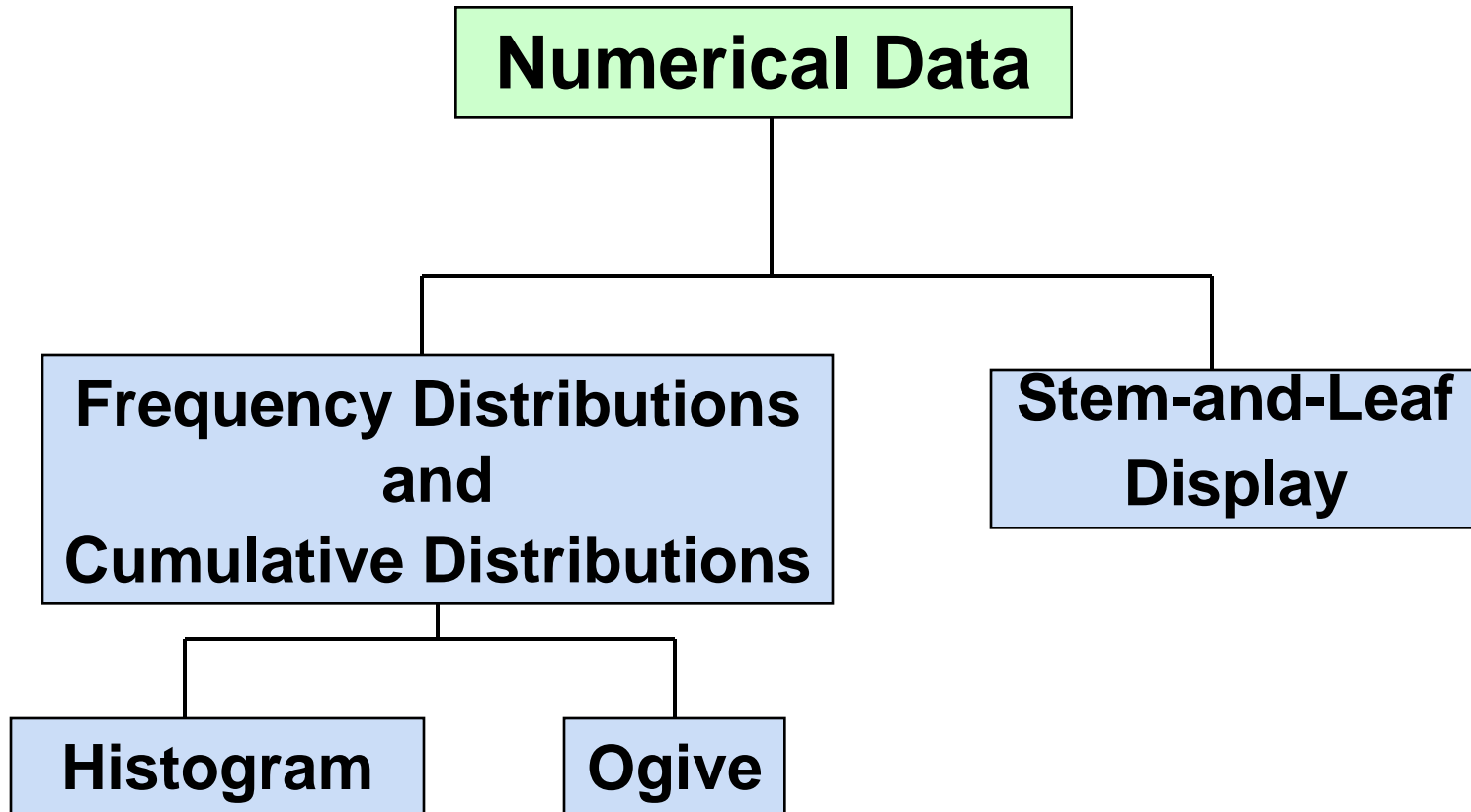
Graphs for Time-Series Data

- A **line chart** (time-series plot) is used to show the values of a variable over time
- Time is measured on the horizontal axis
- The variable of interest is measured on the vertical axis

Line Chart Example



Graphs to Describe Numerical Variables





Frequency Distributions

What is a Frequency Distribution?

- A frequency distribution is a **list or a table** ...
- containing **class groupings** (categories or ranges within which the data fall) ...
- and the **corresponding frequencies** with which data fall within each class or category



Why Use Frequency Distributions?

- A frequency distribution is a way to summarize data
- The distribution condenses the raw data into a more useful form...
- and allows for a quick visual interpretation of the data



Class Intervals and Class Boundaries

- Each class grouping has the same width
- Determine the width of each interval by

$$w = \text{interval width} = \frac{\text{largest number} - \text{smallest number}}{\text{number of desired intervals}}$$

- Use at least 5 but no more than 15-20 intervals
- Intervals never overlap
- Round up the interval width to get desirable interval endpoints



Frequency Distribution Example

Example: A manufacturer of insulation randomly selects 20 winter days and records the **daily high temperature**

**24, 35, 17, 21, 24, 37, 26, 46, 58, 30,
32, 13, 12, 38, 41, 43, 44, 27, 53, 27**



Frequency Distribution Example

(continued)

- Sort raw data in ascending order:

12, 13, 17, 21, 24, 24, 26, 27, 27, 30, 32, 35, 37, 38, 41, 43, 44, 46, 53, 58

- Find range: $58 - 12 = 46$
- Select number of classes: **5 (usually between 5 and 15)**
- Compute interval width: **10** ($46/5$ then round up)
- Determine interval boundaries: **10 but less than 20, 20 but less than 30, . . . , 60 but less than 70**
- Count observations & assign to classes



Frequency Distribution Example

(continued)

Data in ordered array:

12, 13, 17, 21, 24, 24, 26, 27, 27, 30, 32, 35, 37, 38, 41, 43, 44, 46, 53, 58

| Interval | Frequency | Relative Frequency | Percentage |
|----------------------------|------------------|---------------------------|-------------------|
| 10 but less than 20 | 3 | .15 | 15 |
| 20 but less than 30 | 6 | .30 | 30 |
| 30 but less than 40 | 5 | .25 | 25 |
| 40 but less than 50 | 4 | .20 | 20 |
| 50 but less than 60 | 2 | .10 | 10 |
| Total | 20 | 1.00 | 100 |

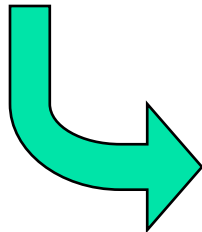


Histogram

- A graph of the data in a frequency distribution is called a **histogram**
- The **interval endpoints** are shown on the horizontal axis
- the **vertical axis** is either **frequency, relative frequency, or percentage**
- Bars of the appropriate heights are used to represent the number of observations within each class

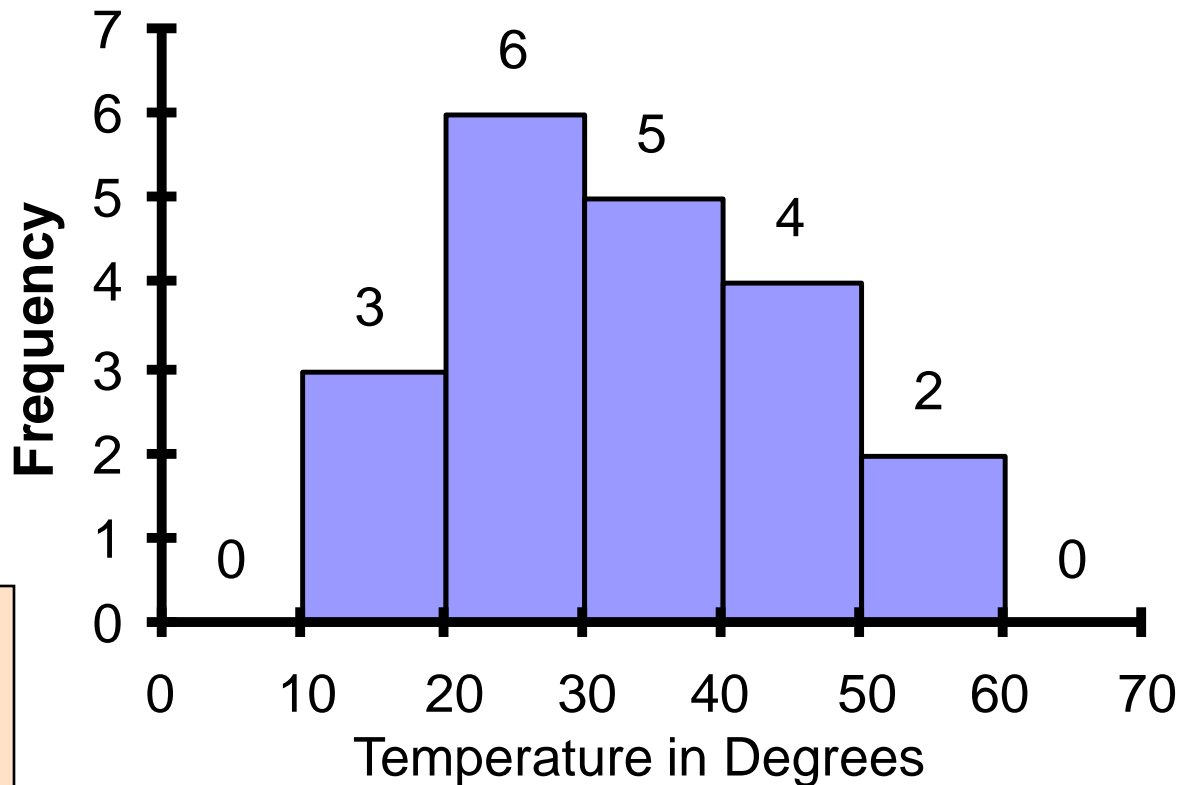
Histogram Example

| Interval | Frequency |
|---------------------|-----------|
| 10 but less than 20 | 3 |
| 20 but less than 30 | 6 |
| 30 but less than 40 | 5 |
| 40 but less than 50 | 4 |
| 50 but less than 60 | 2 |



(No gaps between bars)

Histogram: Daily High Temperature



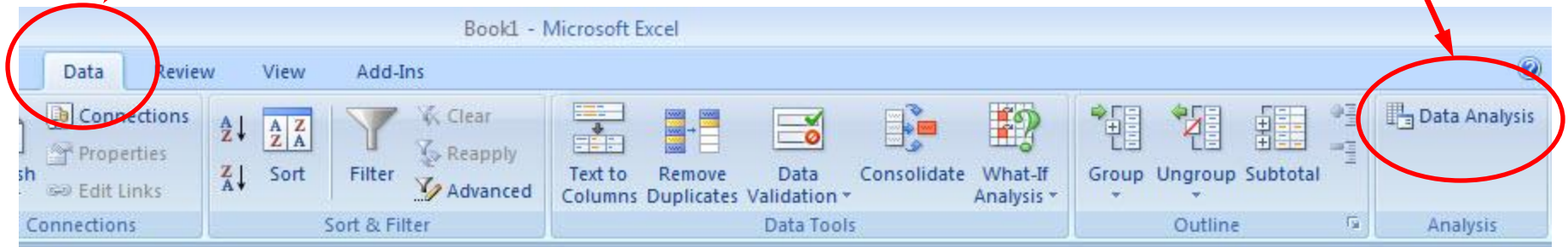
Histograms in Excel

1

Select **Data** Tab

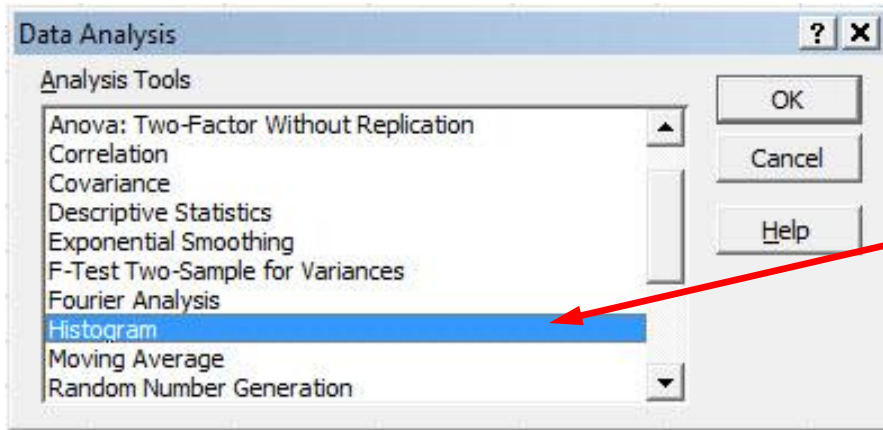
2

Click on **Data Analysis**



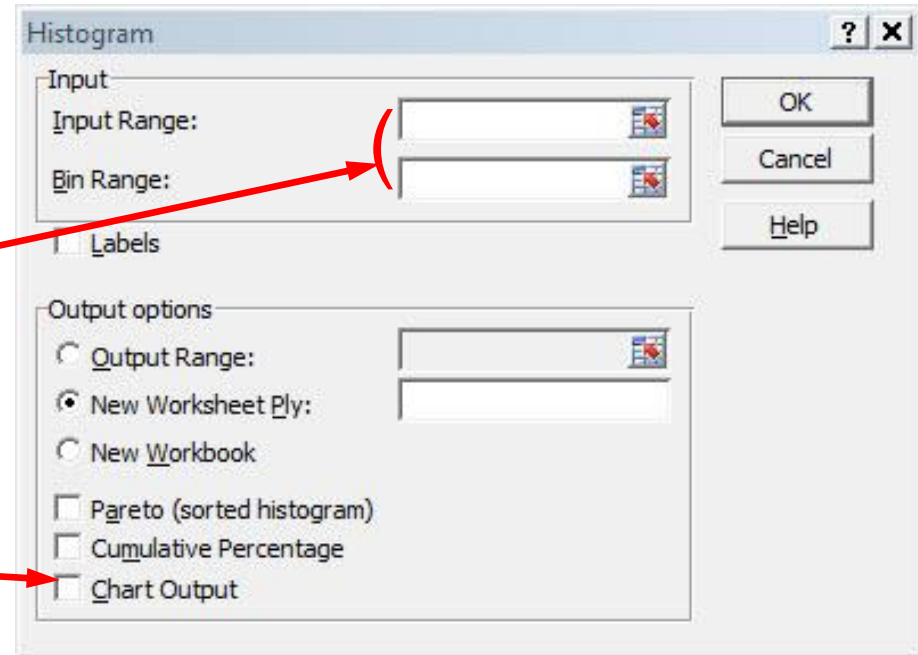
Histograms in Excel

(continued)



3

Choose Histogram



4

Input data range and bin range (bin range is a cell range containing the upper interval endpoints for each class grouping)

Select Chart Output and click "OK"



Questions for Grouping Data into Intervals

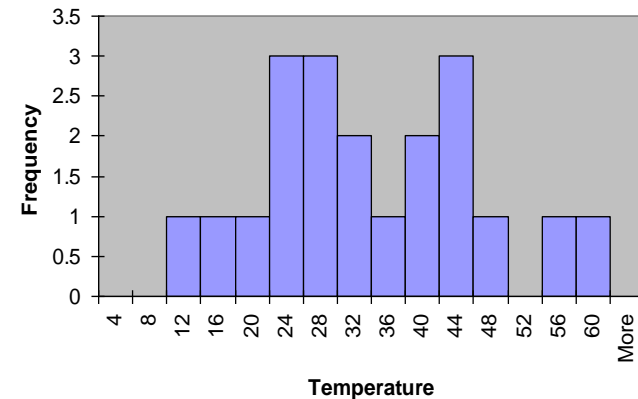
- 1. How wide should each interval be?
(How many classes should be used?)

- 2. How should the endpoints of the intervals be determined?
 - Often answered by trial and error, subject to user judgment
 - The goal is to create a distribution that is neither too "jagged" nor too "blocky"
 - Goal is to appropriately show the pattern of variation in the data

How Many Class Intervals?

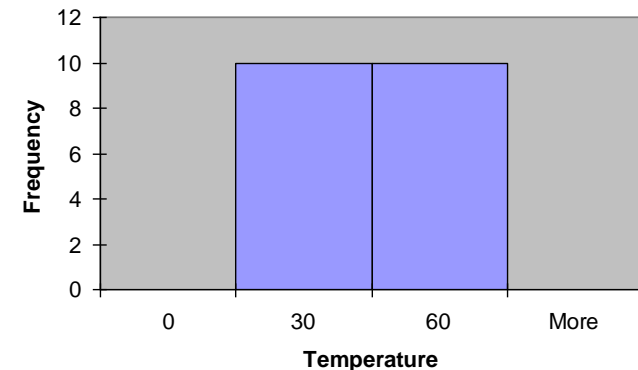
■ Many (Narrow class intervals)

- may yield a very jagged distribution with gaps from empty classes
- Can give a poor indication of how frequency varies across classes



■ Few (Wide class intervals)

- may compress variation too much and yield a blocky distribution
- can obscure important patterns of variation.



(X axis labels are upper class endpoints)



The Cumulative Frequency Distribution

Data in ordered array:

12, 13, 17, 21, 24, 24, 26, 27, 27, 30, 32, 35, 37, 38, 41, 43, 44, 46, 53, 58

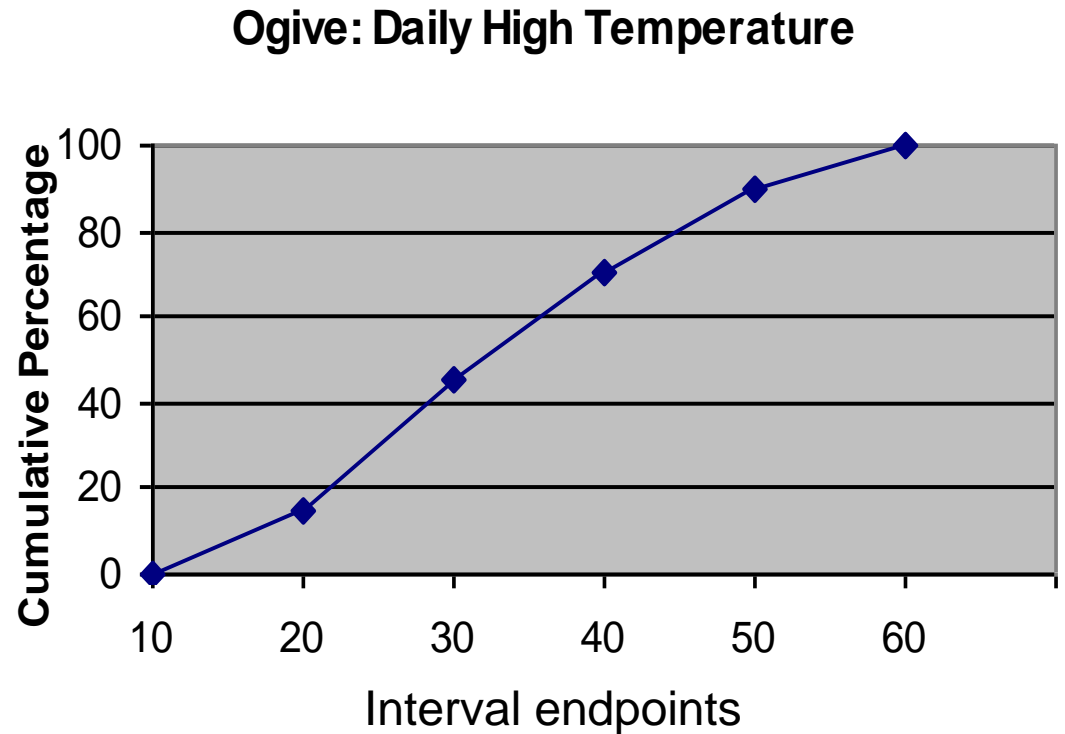
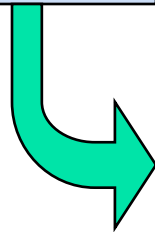
| Class | Frequency | Percentage | Cumulative Frequency | Cumulative Percentage |
|----------------------------|------------------|-------------------|-----------------------------|------------------------------|
| 10 but less than 20 | 3 | 15 | 3 | 15 |
| 20 but less than 30 | 6 | 30 | 9 | 45 |
| 30 but less than 40 | 5 | 25 | 14 | 70 |
| 40 but less than 50 | 4 | 20 | 18 | 90 |
| 50 but less than 60 | 2 | 10 | 20 | 100 |
| Total | 20 | 100 | | |

The Ogive

Graphing Cumulative Frequencies



| Interval | Upper interval endpoint | Cumulative Percentage |
|---------------------|-------------------------|-----------------------|
| Less than 10 | 10 | 0 |
| 10 but less than 20 | 20 | 15 |
| 20 but less than 30 | 30 | 45 |
| 30 but less than 40 | 40 | 70 |
| 40 but less than 50 | 50 | 90 |
| 50 but less than 60 | 60 | 100 |





Stem-and-Leaf Diagram

- A simple way to see distribution details in a data set

METHOD: Separate the sorted data series into leading digits (the **stem**) and the trailing digits (the **leaves**)

Example

Data in ordered array:

21, 24, 24, 26, 27, 27, 30, 32, 38, 41

- Here, use the 10's digit for the stem unit:

- 21 is shown as

- 38 is shown as

| Stem | Leaf |
|------|------|
| 2 | 1 |
| 3 | 8 |



Example

(continued)

Data in ordered array:

21, 24, 24, 26, 27, 27, 30, 32, 38, 41

- Completed stem-and-leaf diagram:

| Stem | Leaves |
|------|-------------|
| 2 | 1 4 4 6 7 7 |
| 3 | 0 2 8 |
| 4 | 1 |



Using other stem units

- Using the 100's digit as the stem:
 - Round off the 10's digit to form the leaves

| | Stem | Leaf |
|----------------------|------|------|
| ■ 613 would become → | 6 | 1 |
| ■ 776 would become → | 7 | 8 |
| ■ . . . | | |
| ■ 1224 becomes → | 12 | 2 |

Using other stem units

(continued)

- Using the 100's digit as the stem:
 - The completed stem-and-leaf display:

Data:

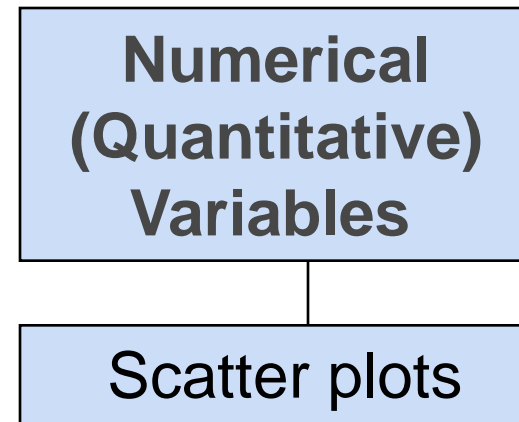
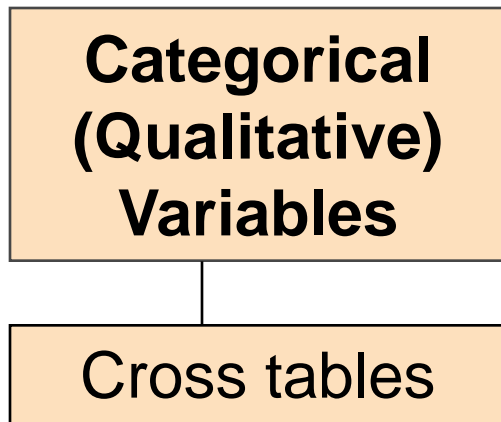
613, 632, 658, 717,
722, 750, 776, 827,
841, 859, 863, 891,
894, 906, 928, 933,
955, 982, 1034,
1047, 1056, 1140,
1169, 1224



| Stem | Leaves |
|------|-------------|
| 6 | 1 3 6 |
| 7 | 2 2 5 8 |
| 8 | 3 4 6 6 9 9 |
| 9 | 1 3 3 6 8 |
| 10 | 3 5 6 |
| 11 | 4 7 |
| 12 | 2 |

Relationships Between Variables

- Graphs illustrated so far have involved only a single variable
- When **two variables** exist other techniques are used:





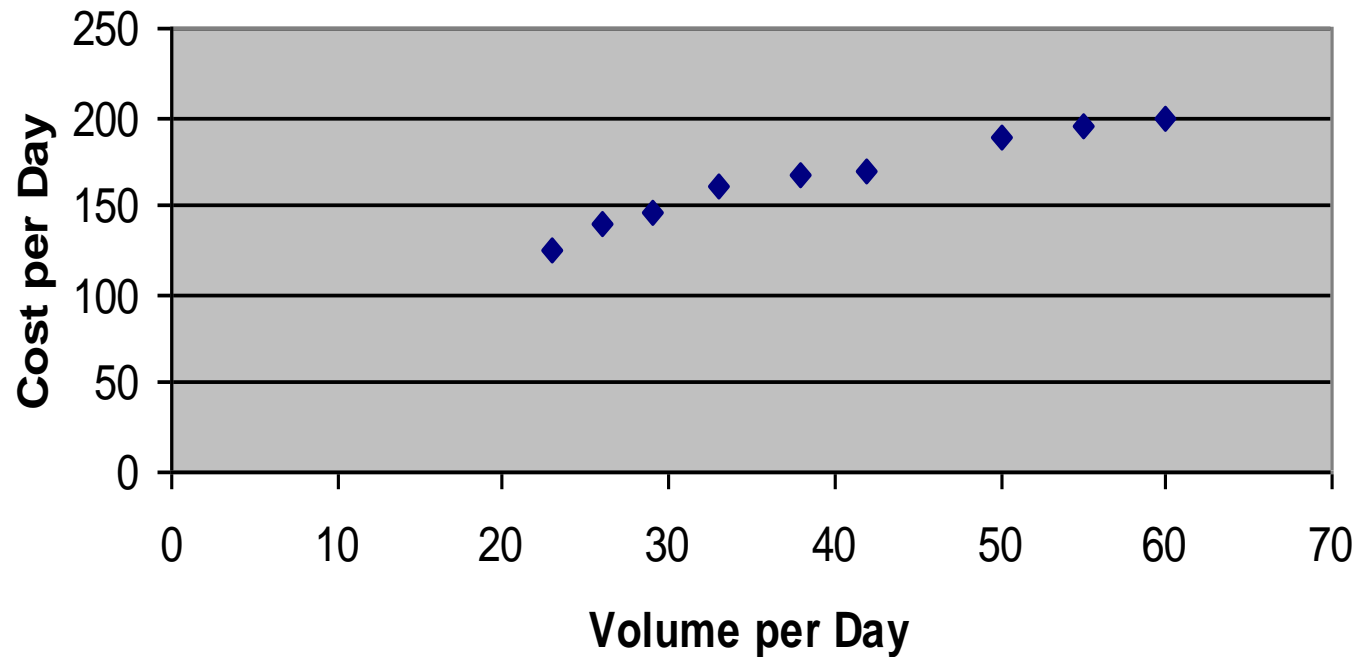
Scatter Diagrams

- **Scatter Diagrams** are used for paired observations taken from two numerical variables
- The Scatter Diagram:
 - one variable is measured on the vertical axis and the other variable is measured on the horizontal axis

Scatter Diagram Example

| Volume per day | Cost per day |
|----------------|--------------|
| 23 | 125 |
| 26 | 140 |
| 29 | 146 |
| 33 | 160 |
| 38 | 167 |
| 42 | 170 |
| 50 | 188 |
| 55 | 195 |
| 60 | 200 |

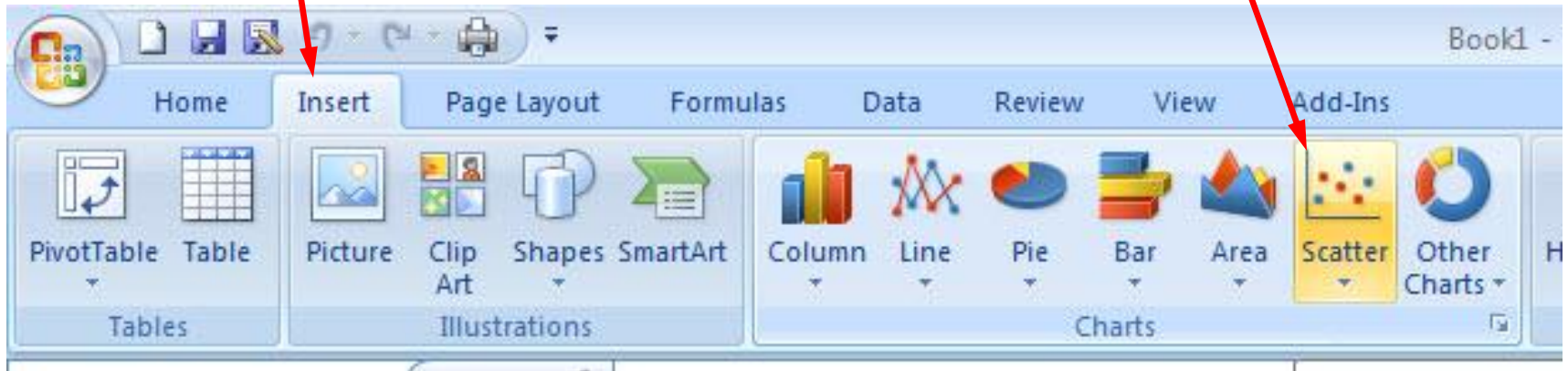
Cost per Day vs. Production Volume



Scatter Diagrams in Excel

1 Select the **Insert** tab

2 Select **Scatter** type from the Charts section



3 When prompted, enter the data range, desired legend, and desired destination to complete the scatter diagram



Cross Tables

- **Cross Tables** (or contingency tables) list the number of observations for every combination of values for two categorical or ordinal variables
- If there are r categories for the first variable (rows) and c categories for the second variable (columns), the table is called an $r \times c$ cross table



Cross Table Example

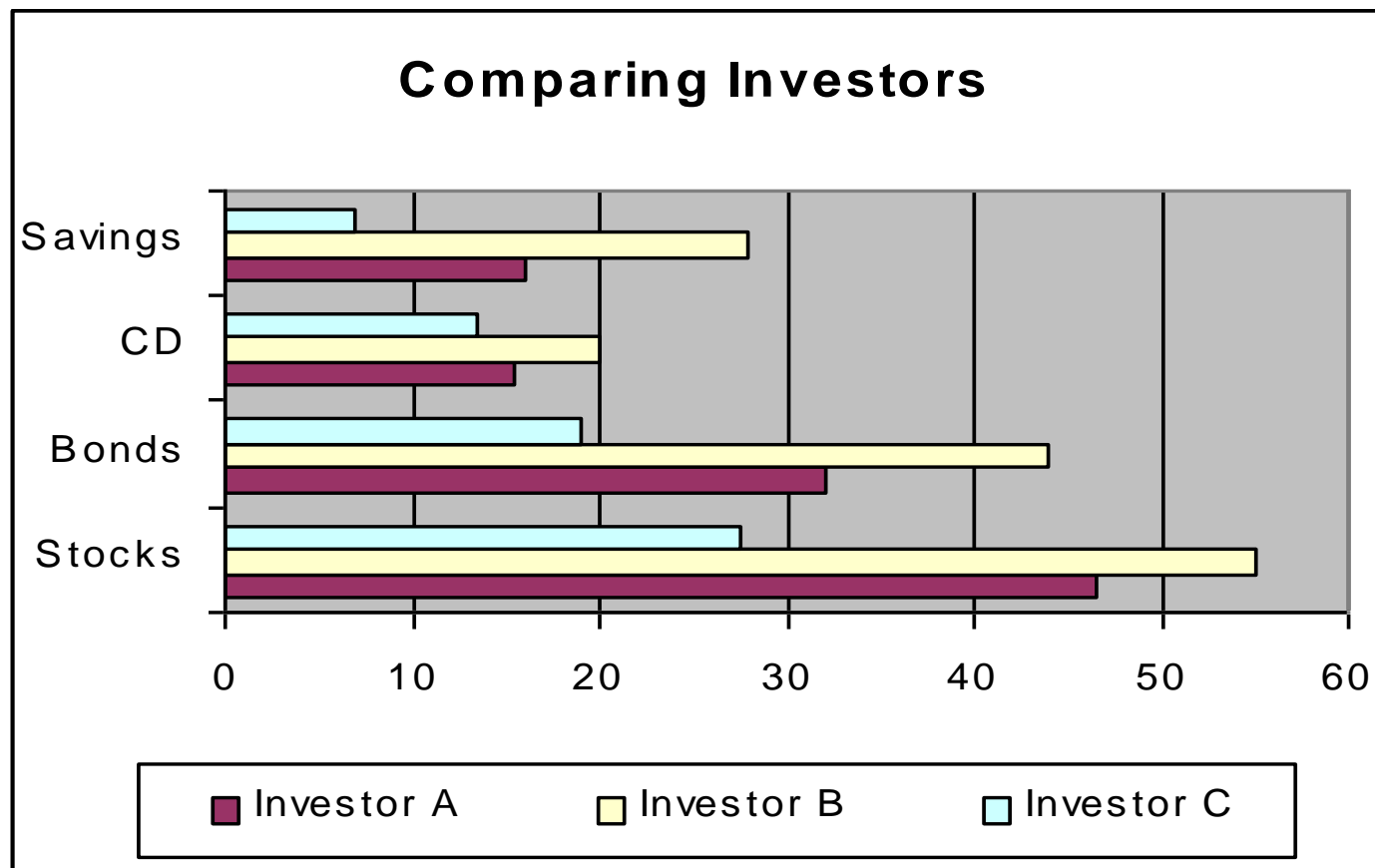
- **4 x 3 Cross Table** for Investment Choices by Investor
(values in \$1000's)

| Investment Category | Investor A | Investor B | Investor C | Total |
|----------------------------|-------------------|-------------------|-------------------|--------------|
| Stocks | 46.5 | 55 | 27.5 | 129 |
| Bonds | 32.0 | 44 | 19.0 | 95 |
| CD | 15.5 | 20 | 13.5 | 49 |
| Savings | 16.0 | 28 | 7.0 | 51 |
| Total | 110.0 | 147 | 67.0 | 324 |

Graphing Multivariate Categorical Data

(continued)

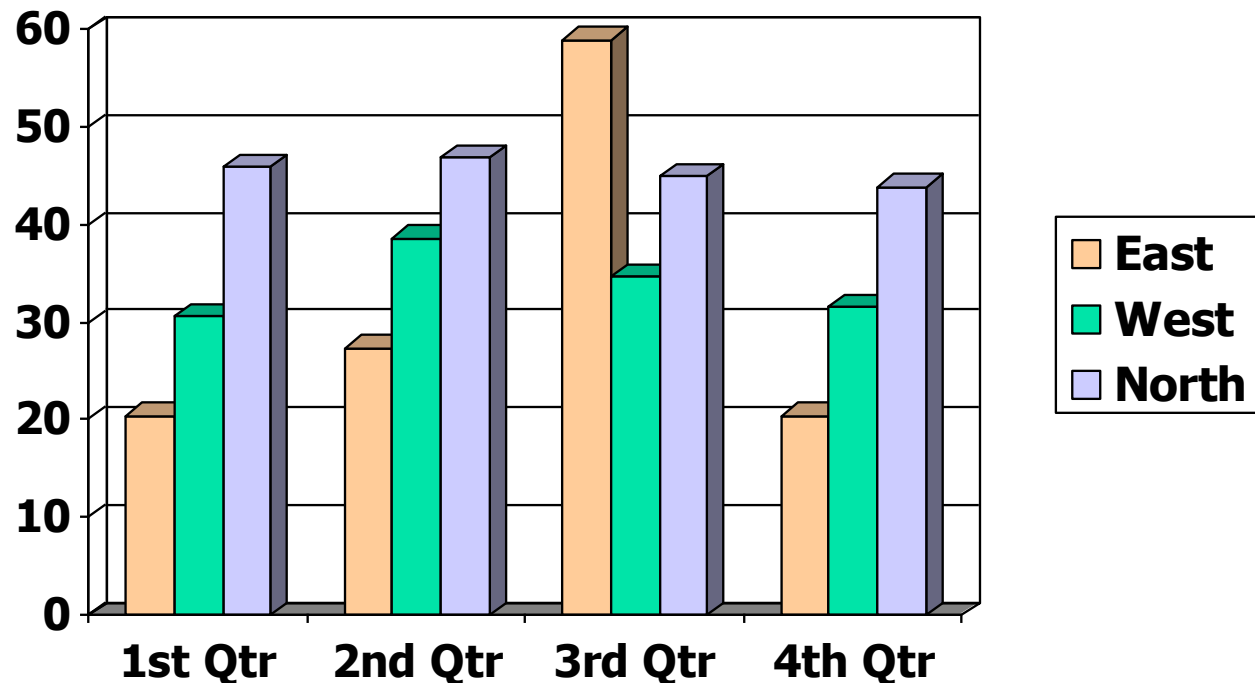
- Side by side bar charts



Side-by-Side Chart Example

- Sales by quarter for three sales territories:

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|-------|---------|---------|---------|---------|
| East | 20.4 | 27.4 | 59 | 20.4 |
| West | 30.6 | 38.6 | 34.6 | 31.6 |
| North | 45.9 | 46.9 | 45 | 43.9 |



Data Presentation Errors

Goals for effective data presentation:

- Present data to display essential information
- Communicate complex ideas clearly and accurately
- Avoid distortion that might convey the wrong message

Data Presentation Errors

(continued)

- Unequal histogram interval widths
- Compressing or distorting the vertical axis
- Providing no zero point on the vertical axis
- Failing to provide a relative basis in comparing data between groups





Chapter Summary

- Reviewed incomplete information in decision making
- Introduced key definitions:
 - Population vs. Sample
 - Parameter vs. Statistic
 - Descriptive vs. Inferential statistics
- Described random sampling
- Examined the decision making process



Chapter Summary

(continued)

- Reviewed types of data and measurement levels
- Data in raw form are usually not easy to use for decision making -- Some type of organization is needed:
 - ◆ Table
 - ◆ Graph
- Techniques reviewed in this chapter:
 - Frequency distribution
 - Bar chart
 - Pie chart
 - Pareto diagram
 - Line chart
 - Frequency distribution
 - Histogram and ogive
 - Stem-and-leaf display
 - Scatter plot
 - Cross tables and side-by-side bar charts