Statistics for IT Managers
95-796, Fall 2012

Module 2: Hypothesis Testing and Statistical Inference (5 lectures)

Reading: Statistics for Business and Economics, Ch. 5-7

Confidence intervals

Given the sample mean $\overline{x}$ and standard deviation s, we want to draw conclusions about the population mean μ, of the form: "There is a 95% chance that μ is between ____ and ____."

Example: We want to know the average amount of money μ that a Pittsburgh household spends yearly on Internet purchases. For a random sample of N = 36 households, we compute a mean of $350 and standard deviation of $180. What can we conclude about μ?

Intuitively, μ is likely to be close to $350, but unlikely to be exactly $350.

To estimate how close μ is to $350, we use the Central Limit Theorem.

If the population has <u>any distribution</u> with mean μ and standard deviation σ, **and if N ≥ 30**, then the sample mean $\overline{x}$ is normally distributed, with mean μ and standard deviation $\sigma / \sqrt{N}$.

Large-sample confidence intervals

Given the sample mean $\bar{x}$ and standard deviation s, we want to draw conclusions about the population mean μ, of the form: "There is a 95% chance that μ is between ____ and ____."

Step 1: Using an inverse table lookup, we know that 95% of the area under a normal curve lies between μ – **1.96**σ and μ + **1.96**σ.

$$0.95 = 2*F(z_c) \longrightarrow z_c = F^{-1}(.475) = 1.96$$

Step 2: Assuming N ≥ 30, we know that $\bar{x}$ is normally distributed with mean $\mu_{\bar{x}} = \mu$ and standard deviation $\sigma_{\bar{x}} = \sigma / \sqrt{N} \approx s / \sqrt{N}$.

$$Pr(\mu_{\bar{x}} - 1.96\sigma_{\bar{x}} \le \bar{x} \le \mu_{\bar{x}} + 1.96\sigma_{\bar{x}}) = 0.95$$

$$Pr(\mu - 1.96(s / \sqrt{N}) \le \bar{x} \le \mu + 1.96(s / \sqrt{N})) = 0.95$$

$$Pr(\bar{x} - 1.96(s / \sqrt{N}) \le \mu \le \bar{x} + 1.96(s / \sqrt{N})) = 0.95$$

"There is a 95% chance that μ is between $\bar{x}$ – 1.96(s / $\sqrt{N}$) and $\bar{x}$ + 1.96(s / $\sqrt{N}$)."

Large-sample confidence intervals

Example: We want to know the average amount of money μ that a Pittsburgh household spends yearly on Internet purchases. For a random sample of N = 36 households, we compute a mean of $350 and standard deviation of $180. What can we conclude about μ?

Answer: There is a 95% chance that μ is between $291.20 and $408.80.

$$350 \pm 1.96(180 / 6)$$

What if we sampled 10,000 households, and obtained the same $\overline{x}$ and s?

Answer: There is a 95% chance that μ is between $346.47 and $353.53.

$$350 \pm 1.96(180 / 100)$$

"There is a 95% chance that μ is between $\overline{x} - 1.96(s / \sqrt{N})$ and $\overline{x} + 1.96(s / \sqrt{N})$."

Large-sample confidence intervals

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$$350 \pm 1.96(180 / 6)$$

How many households must we sample to be 95% certain that μ is within a range of $5 of the sample mean?

$$1.96(s / \sqrt{N}) = 5 \longrightarrow N = (1.96s / 5)^2 = 4,979$$

"There is a 95% chance that μ is between $\bar{x} - 1.96(s / \sqrt{N})$ and $\bar{x} + 1.96(s / \sqrt{N})$."

Large-sample confidence intervals

Example: We want to know the average amount of money μ that a Pittsburgh household spends yearly on Internet purchases. For a random sample of N = 36 households, we compute a mean of $350 and standard deviation of $180. What can we conclude about μ?

What if we would like to be **99%** certain of the value of μ?

Step 1: Using an inverse table lookup, we know that proportion **c** of the area under a normal curve lies between $\mu - \mathbf{z_c}\sigma$ and $\mu + \mathbf{z_c}\sigma$, where:

$$c = 2*F(z_c) \longrightarrow z_c = F^{-1}(c / 2)$$

z_c is the <u>confidence threshold</u> corresponding to the <u>confidence interval</u> c.

Step 2: Assuming N $\geq$ 30, we know that $\bar{x}$ is normally distributed with mean $\mu_{\bar{x}} = \mu$ and standard deviation $\sigma_{\bar{x}} = \sigma / \sqrt{N} \approx s / \sqrt{N}$.

"There is a probability c that μ is between $\bar{x} - z_c(s / \sqrt{N})$ and $\bar{x} + z_c(s / \sqrt{N})$."

Small-sample confidence intervals

Example: We want to know the average amount of money μ that a Pittsburgh household spends yearly on Internet purchases. For a random sample of **N = 16** households, we compute a mean of $350 and standard deviation of $180. What can we conclude about μ?

When the sample size is small (N < 30), we must deal with two problems:

1. The Central Limit Theorem does not guarantee that the sample mean $\overline{x}$ is normally distributed.

2. The sample standard deviation s may not be a good estimate of the population standard deviation σ.

The first problem means that we can only do small-sample inference when we believe that the population is approximately normally distributed.

Small to moderate deviations from normality are ok, but for highly skewed distributions we must use a **non-parametric test** (see McClave, Ch. 14).

Small-sample confidence intervals

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When the sample size is small (N < 30), we must deal with two problems:

1. The Central Limit Theorem does not guarantee that the sample mean $\overline{x}$ is normally distributed.

2. The sample standard deviation s may not be a good estimate of the population standard deviation σ.

The second problem means that we must use a confidence threshold based on the **t-distribution** rather than the normal distribution.

The t-score is calculated and interpreted just like the z-score, but it accounts for the error in using s to estimate σ.

Small-sample confidence intervals

Example: We want to know the average amount of money μ that a Pittsburgh household spends yearly on Internet purchases. For a random sample of **N = 16** households, we compute a mean of $350 and standard deviation of $180. What can we conclude about μ?

"There is a probability c that μ is between $\overline{x} - t_c(s / \sqrt{N})$ and $\overline{x} + t_c(s / \sqrt{N})$."

We obtain the value of t_c from a **t-score table**, using two values: the confidence interval c, and the number of degrees of freedom df = N − 1.

For example, for a 95% confidence interval, and N − 1 = 15 degrees of freedom, we have t_c = 2.131 (instead of z_c = 1.96).
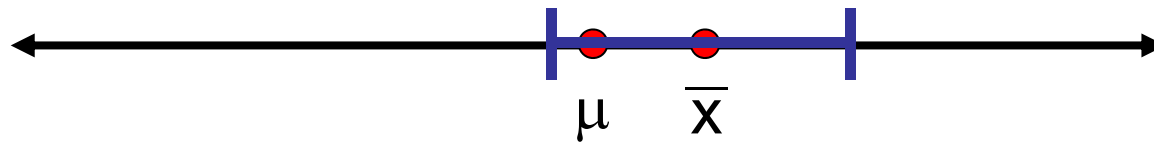
In our example, there is a 95% probability that μ is between $254.10 and $445.90.

For small samples, the uncertainty about σ leads to a wider range for μ.

$$350 \pm 2.131(180 / 4)$$

Understanding confidence intervals

"There is a 95% probability that μ is between $250 and $300."

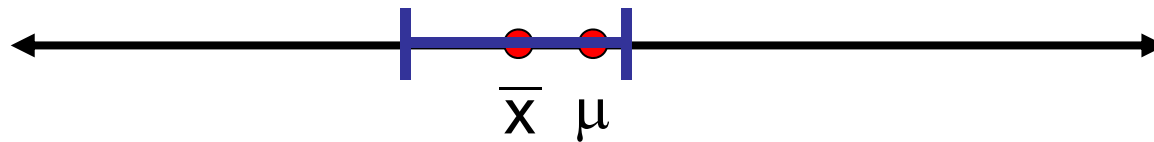μ is a <u>fixed quantity</u> that we are trying to estimate.

To do so, we choose N samples from the population and calculate their sample mean $\overline{x}$ and standard deviation s.

This lets us calculate a 95% confidence interval from $\overline{x} - \varepsilon$ to $\overline{x} + \varepsilon$.
For large samples, $\varepsilon = 1.96s / \sqrt{N}$.

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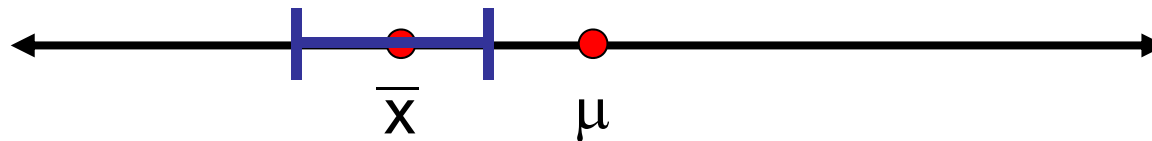To do so, we choose N samples from the population and calculate their sample mean $\overline{x}$ and standard deviation s.

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If we had chosen a different sample, we would have calculated a different confidence interval.

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If we had chosen a different sample, we would have calculated a different confidence interval.

95% of the time, the interval will contain μ, and 5% of the time it will not.
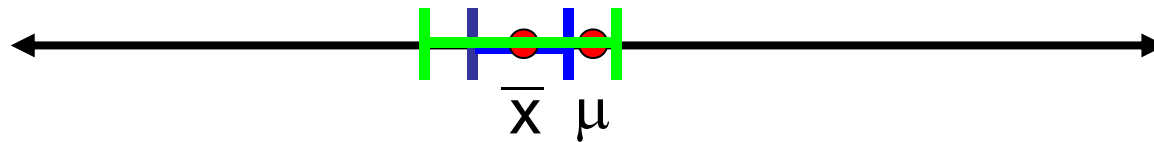
Understanding confidence intervals
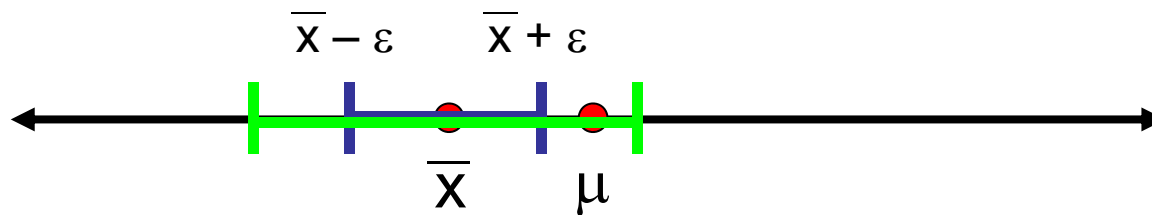
We must carefully consider the tradeoffs between the number of samples N, the length of the interval 2ε, and the confidence level c.

For a fixed number of samples N, a higher confidence level means a larger interval for μ. For example, you may be 90% certain that μ is between 250 and 350, and 99.9% certain that μ is between 200 and 400.

Understanding confidence intervals

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For a fixed number of samples N, a higher confidence level means a larger interval for μ. For example, you may be 90% certain that μ is between 250 and 350, and 99.9% certain that μ is between 200 and 400.

If we increase the number of samples, we can do one of two things:
1. Keep the confidence level constant, and shorten the interval.
   "90% certain that μ is between 275 and 325."
2. Keep the interval length constant, and increase the confidence.
   "99.9% certain that μ is between 250 and 350."

<u>Disadvantage</u>: taking more samples may be expensive or infeasible.

Confidence intervals for proportions

In a random sample of 400 U.S. college students, 40% were in favor of the president's domestic policy decisions, and 60% opposed. What can we conclude about p, the proportion of students that support the president's domestic policy?

Define x_i = 1 if the ith individual supports the president's policy, and x_i = 0 if the individual opposes his policy.

$$\mu = p$$
$$\sigma = \sqrt{p(1-p)}$$

Then the sample mean $\overline{x} = \sum x_i / N$ is the proportion of the sampled individuals supporting the president's policy.

According to the Central Limit Theorem, $\overline{x}$ will be normally distributed for $N \geq 30$, with mean p and std. dev. $\sqrt{p(1-p)} / N$.

$$Pr(p - 1.96\sqrt{p(1-p)} / N \leq \overline{x} \leq p + 1.96\sqrt{p(1-p)} / N) = 0.95$$

$$Pr(\overline{x} - 1.96\sqrt{p(1-p)} / N \leq p \leq \overline{x} + 1.96\sqrt{p(1-p)} / N) = 0.95$$

$$Pr(\overline{x} - 1.96\sqrt{\overline{x}(1-\overline{x})} / N \leq p \leq \overline{x} + 1.96\sqrt{\overline{x}(1-\overline{x})} / N) = 0.95$$

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According to the Central Limit Theorem, $\bar{x}$ will be normally distributed for $N \geq 30$, with mean p and std. dev. $\sqrt{p(1-p)} / N$.

"There is a probability c that p is between $\bar{x} - z_c(\sqrt{\bar{x}(1-\bar{x})} / N)$ and $\bar{x} + z_c(\sqrt{\bar{x}(1-\bar{x})} / N)$."

Note: this method is not accurate for very small or very large $\bar{x}$. See McClave, Section 5.4, for more details.

Confidence intervals for proportions

In a random sample of 400 U.S. college students, 40% were in favor of the president's domestic policy decisions, and 60% opposed. What can we conclude about p, the proportion of students that support the president's domestic policy?

<u>Answer</u>: There is a 95% probability that p is between 0.352 and 0.448.

"40% of students support the president's policy, with a sampling error of +/- 4.8%."

$0.4 \pm 1.96(\sqrt{(0.4)(0.6) / 400})$

How many samples would we need to estimate p within +/- 1%?

$1.96 \sqrt{(0.4)(0.6) / N} = 0.01 \longrightarrow N = (0.4)(0.6)(1.96 / 0.01)^2 = 9{,}220$

"There is a probability c that p is between $\bar{x} - z_c(\sqrt{\bar{x}(1-\bar{x}) / N})$ and $\bar{x} + z_c(\sqrt{\bar{x}(1-\bar{x}) / N})$."

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$$0.4 \pm 1.96(\sqrt{(0.4)(0.6) / 400})$$

How many samples would we need to estimate p within +/- 1%?
(if we didn't know in advance that $\overline{x}$ = 0.4)

Use a conservative bound: $\overline{x}(1-\overline{x})$ is maximized at $\overline{x}$ = 0.5.

$$1.96 \sqrt{(0.5)(0.5) / N} = 0.01 \longrightarrow N = (0.5)(0.5)(1.96 / 0.01)^2 = 9{,}604$$

Hypothesis testing

We have been drawing inferences about μ using **confidence intervals**:
"There is a 95% chance that μ is between ____ and ____."

What if we want to test a <u>specific claim</u> about the value of μ?

In each case, we want to decide which of two possible hypotheses is true:

$H_1 : \mu > \$40,000$
$H_0 : \mu \leq \$40,000$

$H_1 : \mu \neq \mu_0$
$H_0 : \mu = \mu_0$

where μ is some objective measure of productivity, and μ_0 is its historical average

"Is the mean income μ of Pittsburgh steelworkers over $40,000?"

Does our new integrated development environment affect programmer productivity?

Hypothesis testing

We want to test the <u>alternative hypothesis</u> $H_1 : \mu \neq 1000$ against the <u>null hypothesis</u> $H_0 : \mu = 1000$.

Let us assume that we want to measure productivity in terms of lines of production-quality code written, and that historically we have achieved an average of $\mu_0 = 1000$ lines of code per day.

Generally, the alternative hypothesis H_1 indicates that there is an <u>effect</u> (e.g. significant increase or decrease in some quantity) while the null hypothesis H_0 indicates that there is <u>no effect</u> (e.g. the quantity has not changed significantly).

<u>Our test will give one of two possible outcomes</u>:

1. We can <u>reject</u> the null hypothesis, and thus the alternative hypothesis is true.
2. We cannot reject the null hypothesis. This does not necessarily mean that the null is true!

____ "We can conclude that $\mu \neq 1000$."

____ "We do not have sufficient evidence to conclude that $\mu \neq 1000$."

Hypothesis testing

We want to test the <u>alternative hypothesis</u> $H_1 : \mu \neq 1000$ against the <u>null hypothesis</u> $H_0 : \mu = 1000$.

Let us assume that we want to measure productivity in terms of lines of production-quality code written, and that historically we have achieved an average of $\mu_0 = 1000$ lines of code per day.

<u>Key idea</u>: the sample evidence must strongly contradict the null hypothesis for us to reject it in favor of the alternative.

<u>Our test will give one of two possible outcomes</u>:

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_____ "We can conclude that $\mu \neq 1000$."

_____ "We do not have sufficient evidence to conclude that $\mu \neq 1000$."

Identifying H_1 and H_0

A <u>statistical hypothesis</u> is an assumption about some parameter of a population, such as the population mean μ or population proportion p.

The <u>alternative hypothesis</u> H_1 is some claim about a parameter that you want to demonstrate.

The <u>null hypothesis</u> H_0 is the assumption about this parameter that you must reject in order to show that H_1 is true.

"Support for the new billing system is less than 50%."

"The community's average yearly expenditure on computing supplies is greater than $40."

"The company's charitable giving rate did not equal the historical mean of 0.2% of net equity."

Two-sided hypothesis tests

We want to test $H_1: \mu \neq \mu_0$ against $H_0: \mu = \mu_0$.

<u>Solution</u>: use the sample mean $\bar{x}$ and sample standard deviation s, and reject the null hypothesis if $\bar{x}$ is sufficiently far from μ_0.

Assume $\mu = \mu_0$. Then if $N \geq 30$, $\bar{x}$ is normally distributed with mean μ_0 and standard deviation $\sigma / \sqrt{N} \approx s / \sqrt{N}$. Thus the z-score of $\bar{x}$ is $z = (\bar{x} - \mu_0) / (s / \sqrt{N})$.
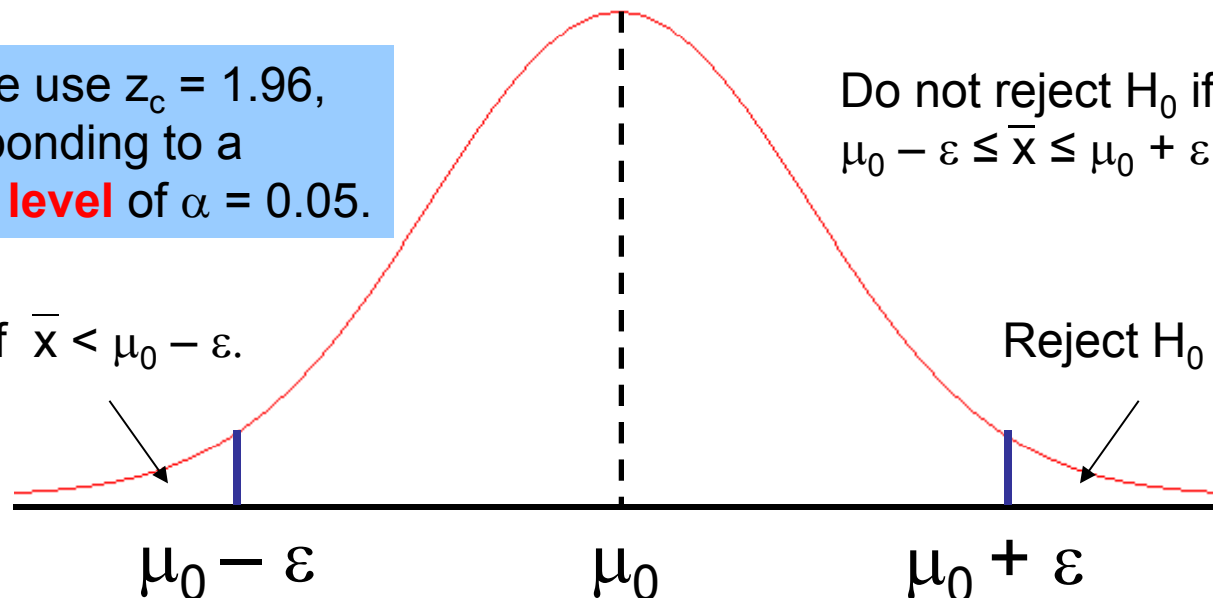
Reject H_0 if $z < -z_c$ or $z > z_c$.

Typically we use $z_c = 1.96$, corresponding to a **significance level** of $\alpha = 0.05$.

Do not reject H_0 if $\mu_0 - \varepsilon \leq \bar{x} \leq \mu_0 + \varepsilon$.

Reject H_0 if $\bar{x} < \mu_0 - \varepsilon$.

Reject H_0 if $\bar{x} > \mu_0 + \varepsilon$.

$\mu_0 - \varepsilon$ μ_0 $\mu_0 + \varepsilon$

Two-sided hypothesis tests

Based on historical data, our team of programmers produces an average of 1000 lines of production-quality code per day. In the last 36 days, our team has used a new integrated development environment, producing a mean of 1100 lines of production-quality code and standard deviation of 300 lines. Can we conclude that the new environment affects programmer productivity?

$H_1 : \mu \neq 1000$
$H_0 : \mu = 1000$

If H_0 was true, $\bar{x}$ would be normally distributed with mean 1000 and standard deviation $300 / \sqrt{36} = 50$.

The z-score corresponding to $\bar{x} = 1100$ is $z = (1100 - 1000) / 50 = 2$.

We can reject H_0 since $z < -1.96$ or **z > 1.96**.

Assuming a significance level of $\alpha = 0.05$ and the corresponding threshold $z_c = 1.96$ for a two-sided test, we can reject the null hypothesis and conclude that $\mu \neq 1000$. The new environment does affect productivity!
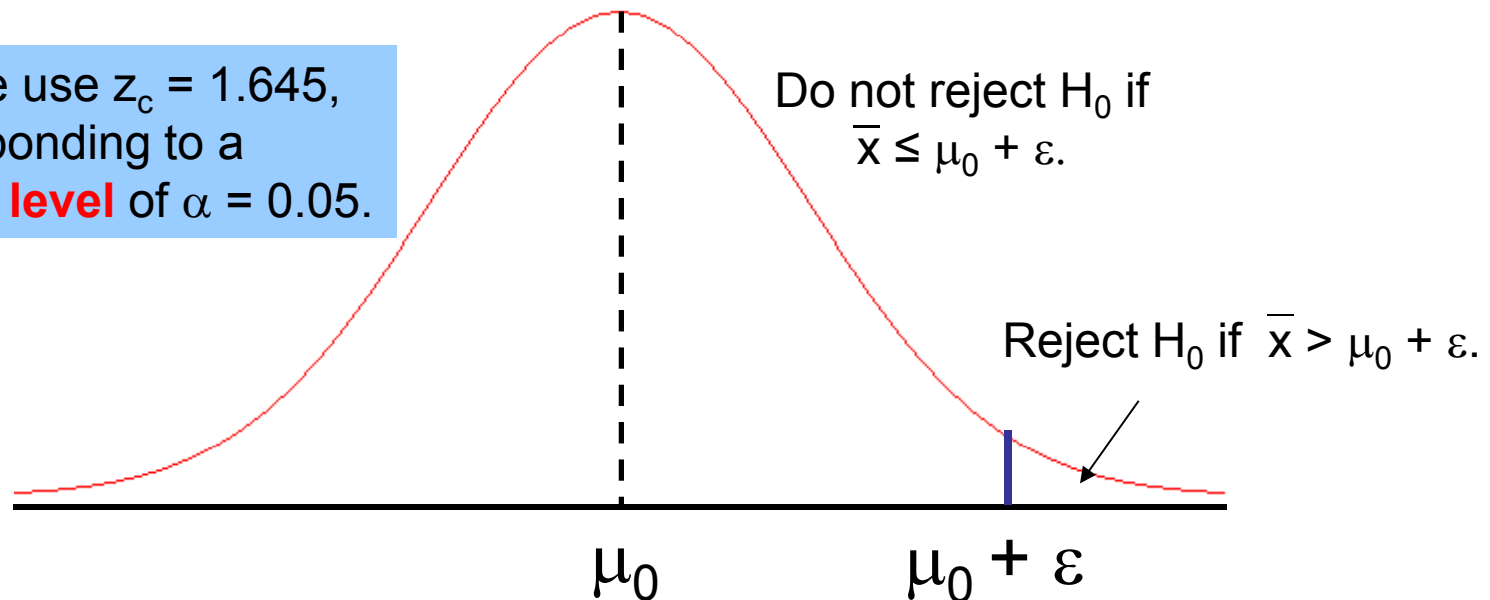
One-sided hypothesis tests

We want to test $H_1: \mu > \mu_0$ against $H_0: \mu \leq \mu_0$.

Solution: use the sample mean $\bar{x}$ and sample standard deviation s, and reject the null hypothesis if $\bar{x}$ is sufficiently higher than μ_0.

Assume $\mu = \mu_0$. Then if $N \geq 30$, $\bar{x}$ is normally distributed with mean μ_0 and standard deviation $\sigma / \sqrt{N} \approx s / \sqrt{N}$. Thus the z-score of $\bar{x}$ is $z = (\bar{x} - \mu_0) / (s / \sqrt{N})$.

Reject H_0 if $z > z_c$.

Typically we use $z_c = 1.645$, corresponding to a **significance level** of $\alpha = 0.05$.

Do not reject H_0 if $\bar{x} \leq \mu_0 + \varepsilon$.

Reject H_0 if $\bar{x} > \mu_0 + \varepsilon$.

μ_0

$\mu_0 + \varepsilon$

One-sided hypothesis tests

A computer supplies retail chain has a policy of only opening stores in communities where households spend more than $40 per year on computing supplies and equipment. A survey of 100 households in Monroeville finds that average expenditures in the sample are $40.50 with a standard deviation of $10. Is this strong evidence that the community spends more than $40?

$H_1 : \mu > 40$
$H_0 : \mu \leq 40$

If H_0 was true with $\mu = 40$, $\overline{x}$ would be normally distributed with mean 40 and standard deviation $10 / \sqrt{100} = 1$.

The z-score corresponding to $\overline{x} = 40.50$ is $z = (40.50 - 40) / 1 = 0.5$.

We cannot reject H_0 since **z ≤ 1.645**.

Assuming a significance level of $\alpha = 0.05$ and the corresponding threshold $z_c = 1.645$ for a one-sided test, we cannot reject the null hypothesis. We do not have sufficient evidence to conclude that the community spends more than $40.

One-sided hypothesis tests

We want to test H_1: $\mu < \mu_0$ against H_0: $\mu \geq \mu_0$.

Solution: use the sample mean $\bar{x}$ and sample standard deviation s, and reject the null hypothesis if $\bar{x}$ is sufficiently lower than μ_0.
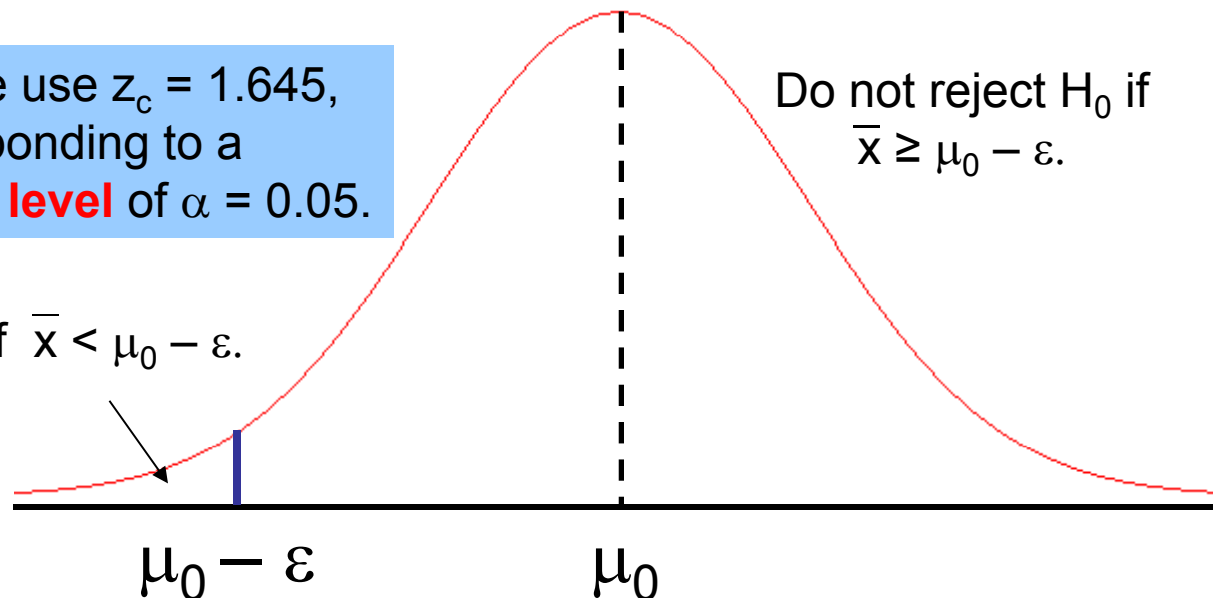
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Reject H_0 if $z < -z_c$.

Typically we use $z_c = 1.645$, corresponding to a **significance level** of $\alpha = 0.05$.

Do not reject H_0 if $\bar{x} \geq \mu_0 - \varepsilon$.

Reject H_0 if $\bar{x} < \mu_0 - \varepsilon$.

$\mu_0 - \varepsilon$

μ_0

One-sided hypothesis tests

A survey of 400 customers shows that 43% prefer the new on-line bill payment system to the old pay-by-mail system. Is this sufficient evidence to show that a majority of customers do not prefer the new system?

$H_1 : p < 0.5$
$H_0 : p \geq 0.5$

If H_0 was true with $p = 0.5$, $\bar{x}$ would be normally distributed with mean 0.5 and standard deviation $\sqrt{(0.5)(0.5) / 400} = .025$.

The z-score corresponding to $\bar{x} = 0.43$ is $z = (0.43 - 0.5) / 0.025 = -2.8$.

We can reject H_0 since **z < -1.645**.

Assuming a significance level of $\alpha = 0.05$ and the corresponding threshold $z_c = 1.645$ for a one-sided test, we can reject the null hypothesis and conclude that $p < 0.5$. A majority of customers do not prefer the new system!

Small-sample hypothesis tests

Based on historical data, our team of programmers produces an average of 1000 lines of production-quality code per day. In the last **16** days, our team has used a new integrated development environment, producing a mean of 1100 lines of production-quality code and standard deviation of 300 lines. Can we conclude that the new environment affects programmer productivity?

$H_1 : \mu \neq 1000$
$H_0 : \mu = 1000$

If H_0 was true, $\overline{x}$ would follow a t-distribution with mean 1000, standard deviation $300 / \sqrt{16} = 75$, and $16 - 1 = 15$ degrees of freedom.

The t-value threshold corresponding to $\alpha = 0.05$ and 15 dof is $t_c = 2.131$.

The t-score corresponding to $\overline{x} = 1100$ is $t = (1100 - 1000) / 75 = 1.33$.

We cannot reject H_0 since $-2.131 \leq t \leq 2.131$.

Assuming a significance level of $\alpha = 0.05$ and the corresponding threshold $t_c = 2.131$ for a two-sided test with 15 degrees of freedom, we do not have sufficient evidence to conclude that the new environment affects productivity.

Review of hypothesis tests

We want to compare H_1: "there is an effect" vs. H_0: "there is no effect."

H_1: $\mu > \mu_0$ $\mu < \mu_0$ $\mu \neq \mu_0$

H_0: $\mu \leq \mu_0$ $\mu \geq \mu_0$ $\mu = \mu_0$ ⟵ H_0 always contains $\mu = \mu_0$.

Step 1: Find how the observation $\bar{x}$ would be distributed **if H_0: $\mu = \mu_0$**.
       Large samples: Normal(μ_0, $s / \sqrt{N}$).
       Small samples: t-dist(μ_0, $s / \sqrt{N}$, $N - 1$ dof)

Step 2: If $\bar{x}$ is far enough from μ_0 in the desired direction(s), reject H_0.

Large samples:
For $\mu > \mu_0$: reject H_0 when $\bar{x} > \mu_0 + z_c (s / \sqrt{N})$, i.e. when $z > z_c$.
For $\mu < \mu_0$: reject H_0 when $\bar{x} < \mu_0 - z_c (s / \sqrt{N})$, i.e. when $z < -z_c$.
For $\mu \neq \mu_0$: reject H_0 when $| \bar{x} - \mu_0 | > z_c (s / \sqrt{N})$, i.e. when $| z | > z_c$.

Small samples: same except use t and t_c instead of z and z_c.

How to choose our threshold z_c or t_c?

Review of hypothesis tests

We want to compare H_1: "there is an effect" vs. H_0: "there is no effect."

H_1: $p > p_0$ $p < p_0$ $p \neq p_0$
H_0: $p \leq p_0$ $p \geq p_0$ $p = p_0$ ⟵ H_0 always contains $p = p_0$.

Step 1: Find how the observation $\bar{x}$ would be distributed **if H_0: $p = p_0$**.
        Large samples: Normal(p_0, $\sqrt{p_0(1 - p_0) / N}$).

Step 2: If $\bar{x}$ is far enough from p_0 in the desired direction(s), reject H_0.

For $p > p_0$: reject H_0 when $\bar{x} > p_0 + z_c \sqrt{p_0(1 - p_0) / N}$, i.e. when $z > z_c$.
For $p < p_0$: reject H_0 when $\bar{x} < p_0 - z_c \sqrt{p_0(1 - p_0) / N}$, i.e. when $z < -z_c$.
For $p \neq p_0$: reject H_0 when $| \bar{x} - p_0 | > z_c \sqrt{p_0(1 - p_0) / N}$, i.e. when $| z | > z_c$.

How to choose our threshold z_c?

Significance levels

The significance level α is the probability of incorrectly rejecting the null hypothesis H_0, if the null is true.

If the null is true and N is large, the z-score $z = (\bar{x} - \mu_0) / (s / \sqrt{N})$ will be normally distributed with mean 0 and standard deviation 1.

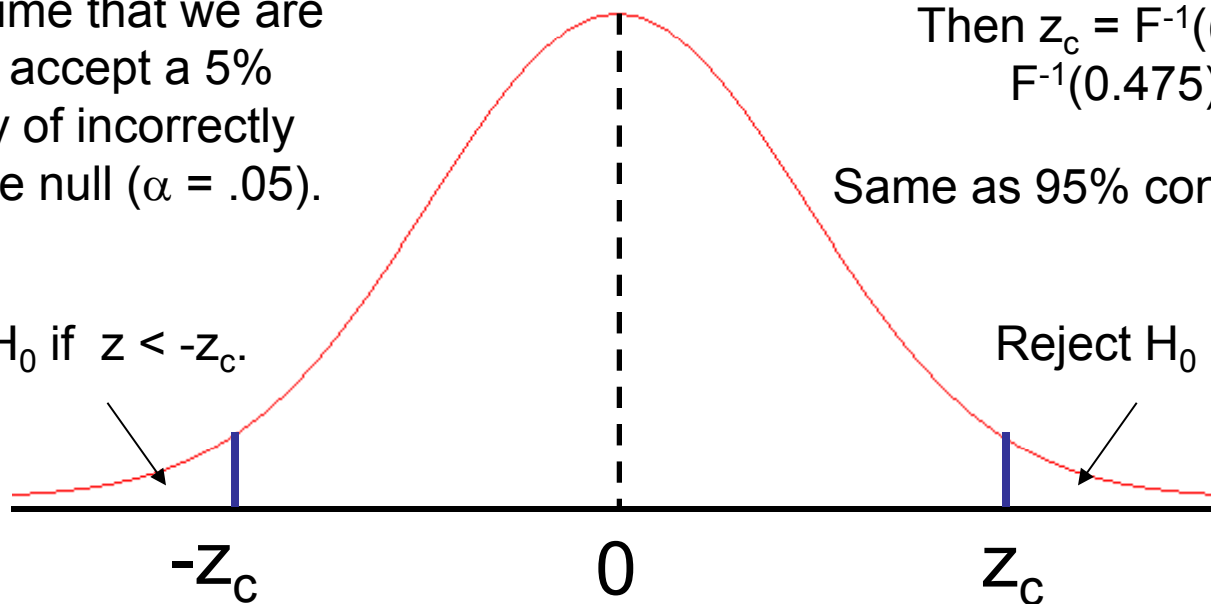Probability of incorrectly rejecting the null: $\alpha = 1 - 2*F(z_c)$ for a 2-sided test.

Let us assume that we are willing to accept a 5% probability of incorrectly rejecting the null (α = .05).

Then $z_c = F^{-1}((1 - \alpha) / 2) = F^{-1}(0.475) = 1.96$.

Same as 95% confidence interval!

Reject H_0 if z < -z_c.

Reject H_0 if z > z_c.

$-z_c$ 0 z_c
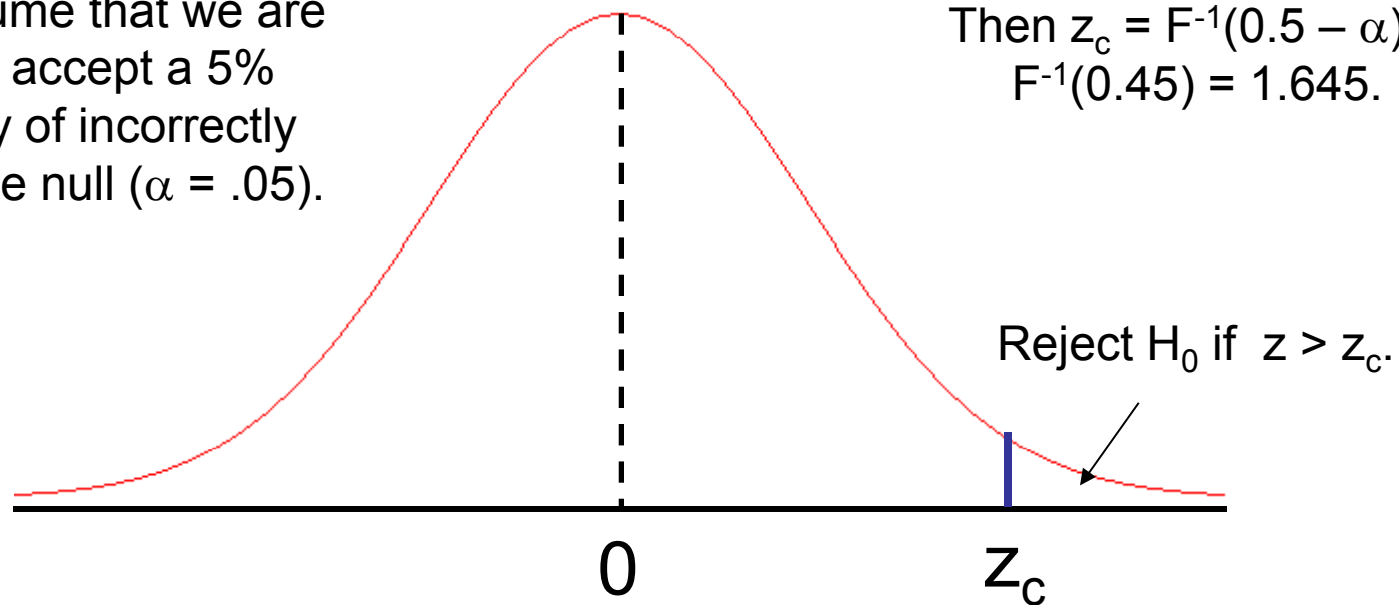
Significance levels

The significance level α is the probability of incorrectly rejecting the null hypothesis H_0, if the null is true.

If the null is true and N is large, the z-score $z = (\bar{x} - \mu_0) / (s / \sqrt{N})$ will be normally distributed with mean 0 and standard deviation 1.

Probability of incorrectly rejecting the null: $\alpha = 0.5 - F(z_c)$ for a 1-sided test.

Let us assume that we are willing to accept a 5% probability of incorrectly rejecting the null (α = .05).

Then $z_c = F^{-1}(0.5 - \alpha) = F^{-1}(0.45) = 1.645$.

Reject H_0 if $z > z_c$.

0   z_c

Significance levels

The significance level α is the probability of incorrectly rejecting the null hypothesis H_0, if the null is true.

If the null is true and N is small, the t-score $t = (\bar{x} - \mu_0) / (s / \sqrt{N})$ will be t-distributed with mean 0, standard deviation 1, and N – 1 degrees of freedom.

To find the t-score threshold t_c for a 1-sided test, for a given significance level α: Look up the value t_α with N – 1 degrees of freedom using the t-score table.

To find the t-score threshold t_c for a 2-sided test, for a given significance level α: Look up the value $t_{\alpha/2}$ with N – 1 degrees of freedom using the t-score table.
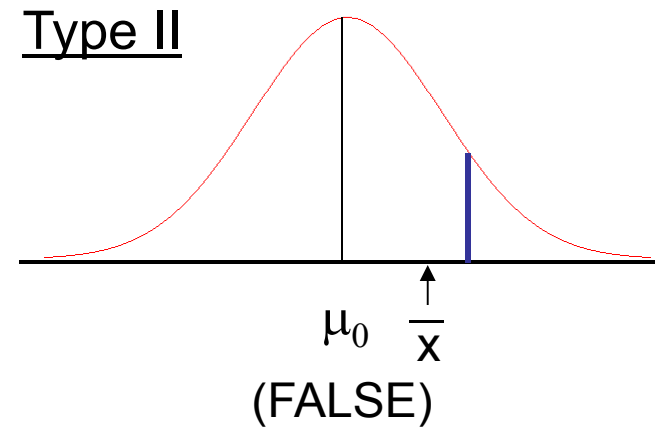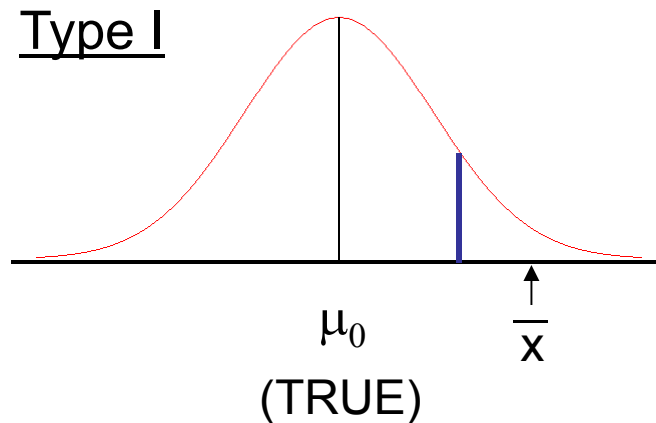
Just as for confidence intervals, the t-score threshold t_c will be larger than the corresponding z-score threshold z_c, to account for the uncertainty in using the sample standard deviation s to estimate the population standard deviation σ.

This means that it is harder to reject the null hypothesis when N is small.

Type I and Type II errors

Key idea: Making inferences about the population parameters based on sample statistics is inherently uncertain and thus subject to error.

Our decision

	Do not reject H_0	Reject H_0
If H_0 is true:	CORRECT	TYPE I ERROR
If H_0 is false:	TYPE II ERROR	CORRECT

Type I

μ_0
(TRUE)

$\overline{x}$

Type II

μ_0 $\overline{x}$
(FALSE)

Type I and Type II errors

Key idea: Making inferences about the population parameters based on sample statistics is inherently uncertain and thus subject to error.

Let α = probability of making a type I error (rejecting a true null)
Let β = probability of making a type II error (failing to reject a false null)

As discussed previously, α is the total probability in the tails of the null distribution.

β is hard to calculate: it depends on how far the true mean μ is from μ_0.

<u>Type I</u>

α

μ_0

(TRUE)

<u>Type II</u>

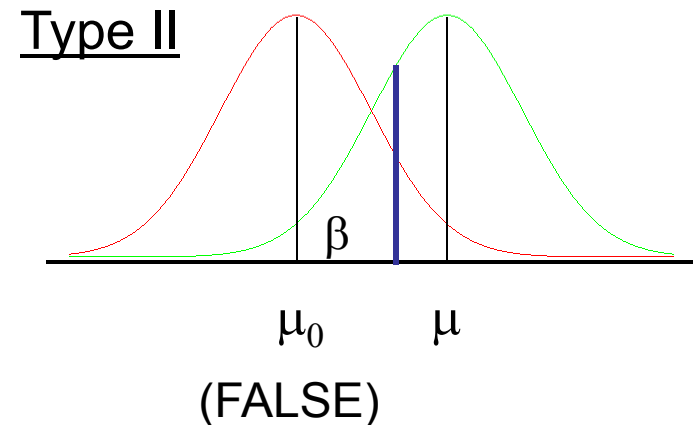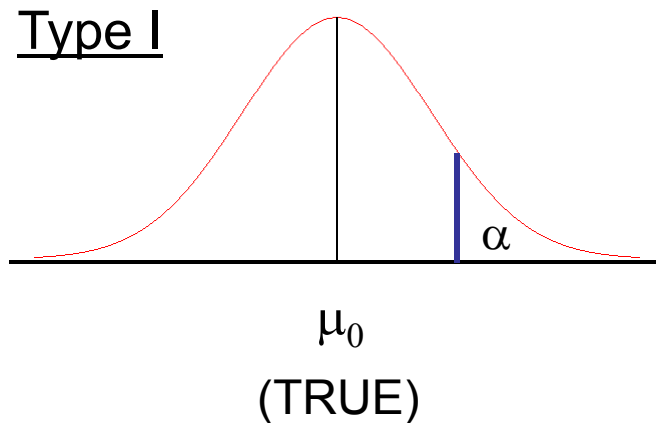β

μ_0 μ

(FALSE)

Type I and Type II errors

Key idea: Making inferences about the population parameters based on sample statistics is inherently uncertain and thus subject to error.

Let α = probability of making a type I error (rejecting a true null)
Let β = probability of making a type II error (failing to reject a false null)

As discussed previously, α is the total probability in the tails of the null distribution.

β is hard to calculate: it depends on how far the true mean μ is from μ_0.

Increasing the width of the interval decreases α but increases β.

Type I

α

μ_0
(TRUE)

Type II

β

μ_0 μ
(FALSE)

Balancing Type I and Type II errors

Step 1: List and quantify the costs of a type I error.
Step 2: List and quantify the costs of a type II error.
Step 3: Estimate the distance of the true mean μ from μ_0.
 (How large of an effect do we expect to see?)
Step 4: Ask an expert to calculate the tradeoff between α and β.
Step 5: Choose a value of α that reasonably balances these costs.

A computer supplies retail chain has a policy of only opening stores in communities where households spend more than \$40 per year on computing supplies and equipment. A survey of 100 households in Monroeville finds that average expenditures in the sample are \$40.50 with a standard deviation of \$10. Is this strong evidence that the community spends more than \$40?

What is a Type I error, and what are its consequences?

What is a Type II error, and what are its consequences?

How much do we expect the communities we are interested in to spend?

Balancing Type I and Type II errors

Step 1: List and quantify the costs of a type I error.
Step 2: List and quantify the costs of a type II error.
Step 3: Estimate the distance of the true mean μ from μ_0.
       (How large of an effect do we expect to see?)
Step 4: Ask an expert to calculate the tradeoff between α and β.
Step 5: Choose a value of α that reasonably balances these costs.

A computer supplies retail chain has a policy of only opening stores in communities where households spend more than $40 per year on computing supplies and equipment. A survey of 100 households in Monroeville finds that average expenditures in the sample are $40.50 with a standard deviation of $10. Is this strong evidence that the community spends more than $40?

Option I: We will open stores in 80% of communities that spend $50 or more
($\beta = 0.2$ for $\mu = 50$) but also in 10% of communities that spend $40 or less ($\alpha = 0.1$).

Option II: We will open stores in 50% of communities that spend $50 or more
($\beta = 0.5$ for $\mu = 50$) but also in 5% of communities that spend $40 or less ($\alpha = 0.05$).

Not happy with any of these options? Then collect more samples!

Using p-values for hypothesis testing

Question: What if we don't know a good value for α?

Answer: report the observed significance level, or **p-value**, from your test.

For example, a p-value of 0.04 would mean, "Reject the null if your chosen significance level α is higher than 0.04."

Someone else can then choose whether or not to reject the null, based on the value of α that they think is reasonable.

A lower p-value means that the data disagrees more strongly with the null, suggesting that the alternative hypothesis is more likely to be true.

However, the p-value is <u>not</u> the probability of the null.

Using p-values for hypothesis testing

To obtain the p-value corresponding to the observed value of $\overline{x}$:

1. Compute the z-score of $\overline{x}$ as before, $z_{obs} = (\overline{x} - \mu_0) / (s / \sqrt{N})$.
2. Find the tail probability of z_{obs} (probability of observing a value farther from μ_0).
   a) If the alternative hypothesis is $\mu > \mu_0$: p-value = $Pr(z > z_{obs})$.
   b) If the alternative hypothesis is $\mu < \mu_0$: p-value = $Pr(z < z_{obs})$.
   c) If the alternative hypothesis is $\mu \neq \mu_0$: p-value = $Pr(| z | > | z_{obs} |)$.

For a given significance level α, we can reject the null when the p-value $< \alpha$.

Using p-values for hypothesis testing

To obtain the p-value corresponding to the observed value of $\bar{x}$:
1. Compute the z-score of $\bar{x}$ as before, $z_{obs} = (\bar{x} - \mu_0) / (s / \sqrt{N})$.
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   c) If the alternative hypothesis is $\mu \neq \mu_0$: p-value = $Pr(|z| > |z_{obs}|)$.

Based on historical data, our team of programmers produces an average of 1000 lines of production-quality code per day. In the last 36 days, our team has used a new integrated development environment, producing a mean of 1100 lines of production-quality code and standard deviation of 300 lines. Can we conclude that the new environment affects programmer productivity?

The z-score corresponding to $\bar{x}$ = 1100 is z = (1100 – 1000) / 50 = 2.

p-value = $Pr(|z| > 2)$ = 1 – 2*F(2) = 0.0456.

If α = 0.05, we would reject the null since p-value < α.
If α = 0.01, we would not reject the null.

Using p-values for hypothesis testing

To obtain the p-value corresponding to the observed value of $\bar{x}$:
1. Compute the z-score of $\bar{x}$ as before, $z_{obs} = (\bar{x} - \mu_0) / (s / \sqrt{N})$.
2. Find the tail probability of z_{obs} (probability of observing a value farther from μ_0).
   a) If the alternative hypothesis is $\mu > \mu_0$: p-value = $Pr(z > z_{obs})$.
   b) If the alternative hypothesis is $\mu < \mu_0$: p-value = $Pr(z < z_{obs})$.
   c) If the alternative hypothesis is $\mu \neq \mu_0$: p-value = $Pr(|z| > |z_{obs}|)$.

A computer supplies retail chain has a policy of only opening stores in communities where households spend more than $40 per year on computing supplies and equipment. A survey of 100 households in Monroeville finds that average expenditures in the sample are $40.50 with a standard deviation of $10. Is this strong evidence that the community spends more than $40?

The z-score corresponding to $\bar{x}$ = 40.50 is z = (40.50 − 40) / 1 = 0.5.

p-value = $Pr(z > 0.5)$ = 0.5 − F(0.5) = 0.3085.

If α = 0.05, we would not reject the null since p-value ≥ α.

Comparing two populations

We can also make inferences comparing some parameter of two different populations, such as the population mean μ or the population proportion p.

Let us assume that we have a random sample from each population, and that these samples are drawn <u>independently</u>.

The average hourly wage of a random sample of 196 working women in Allegheny County is \$8.21, with a standard deviation of \$6.66. For a random sample of 204 working men, the average hourly wage is \$12.96, with a standard deviation of \$11.41. Is this sample evidence sufficient to conclude that there is a difference between the wages of men and women?

Let μ_1 = average hourly wage of men in Allegheny County.
Let μ_2 = average hourly wage of women in Allegheny County.

We want to find <u>confidence intervals</u> for $\mu_1 - \mu_2$, and to <u>test</u> whether $\mu_1 - \mu_2 = 0$.

Large-sample confidence intervals for the difference in means, $\mu_1 - \mu_2$

There is a probability of c that $\mu_1 - \mu_2$ lies within $(\overline{x}_1 - \overline{x}_2) +/- z_c\sigma$.

True difference	Observed difference	Number of std. dev. from mean	Std. dev. of observed difference

How to obtain σ, the standard deviation of the observed difference?

Answer: the variance of $\overline{x}_1 - \overline{x}_2$ is the sum of the variance of $\overline{x}_1$ and the variance of $\overline{x}_2$.

$$\sigma^2 = (\sigma_1 / \sqrt{n_1})^2 + (\sigma_2 / \sqrt{n_2})^2$$
$$= (\sigma_1^2 / n_1) + (\sigma_2^2 / n_2)$$
$$\approx (s_1^2 / n_1) + (s_2^2 / n_2).$$

$\Longrightarrow$ $\sigma = \sqrt{(s_1^2 / n_1) + (s_2^2 / n_2)}$

There is a probability of c that $\mu_1 - \mu_2$ lies within $(\overline{x}_1 - \overline{x}_2) +/- z_c \sqrt{(s_1^2 / n_1) + (s_2^2 / n_2)}$.

Large-sample confidence intervals for the difference in means, $\mu_1 - \mu_2$

The average hourly wage of a random sample of 196 working women in Allegheny County is $8.21, with a standard deviation of $6.66. For a random sample of 204 working men, the average hourly wage is $12.96, with a standard deviation of $11.41. Is this sample evidence sufficient to conclude that there is a difference between the wages of men and women?

Let μ_1 = average hourly wage of men in Allegheny County.
Let μ_2 = average hourly wage of women in Allegheny County.

$\overline{x}_1 = 12.96$ $\overline{x}_2 = 8.21$
$s_1 = 11.41$ $s_2 = 6.66$
$n_1 = 204$ $n_2 = 196$

There is a 95% probability that $\mu_1 - \mu_2$ lies within
$(12.96 - 8.21)$ +/– $1.96 \sqrt{(11.41^2 / 204) + (6.66^2 / 196)}$.

95% CI = 4.75 +/– $1.96(0.930)$ = [$2.93, $6.57].

There is a probability of c that $\mu_1 - \mu_2$ lies within $(\overline{x}_1 - \overline{x}_2)$ +/– $z_c \sqrt{(s_1^2 / n_1) + (s_2^2 / n_2)}$.

Large-sample hypothesis tests for the difference in means, $\mu_1 - \mu_2$

Do the means differ significantly? We want to test the alternative hypothesis $H_1 : \mu_1 \neq \mu_2$ against the null hypothesis $H_0 : \mu_1 = \mu_2$.

If the null hypothesis was true, the observed difference $\overline{x}_1 - \overline{x}_2$ would follow a normal distribution with mean 0 and standard deviation $\sqrt{(s_1^2 / n_1) + (s_2^2 / n_2)}$.

z-score of the observed difference: $z_{obs} = (\overline{x}_1 - \overline{x}_2) / \sqrt{(s_1^2 / n_1) + (s_2^2 / n_2)}$.

p-value for a two-sided test: $\Pr(| z | > | z_{obs} |) = 1 - 2*F(z_{obs})$.
Reject the null if p-value $< \alpha$.

$\overline{x}_1 = 12.96$ $\overline{x}_2 = 8.21$
$s_1 = 11.41$ $s_2 = 6.66$
$n_1 = 204$ $n_2 = 196$

$\Longrightarrow$

$\overline{x}_1 - \overline{x}_2 = 4.75$
std. dev. = 0.930

$\Longrightarrow$

z-score = 4.75 / 0.930 = 5.11
p-value $\approx$ .000

We can reject the null hypothesis, and conclude that $\mu_1 \neq \mu_2$.

Small-sample inference for the difference in means, $\mu_1 - \mu_2$

As in the one-population case, small-sample inference is more difficult because the Central Limit Theorem does not guarantee that the sample means $\overline{x}_1$ and $\overline{x}_2$ are normally distributed, and because s_1 and s_2 may not be accurate estimates of σ_1 and σ_2.

In order to do small-sample inference, we must make several simplifying assumptions: both populations must be approximately normally distributed, and must have equal variances $\sigma_1^2 = \sigma_2^2$.

Small-sample inference for the difference in means, $\mu_1 - \mu_2$

As in the one-population case, small-sample inference is more difficult because the Central Limit Theorem does not guarantee that the sample means $\overline{x}_1$ and $\overline{x}_2$ are normally distributed, and because s_1 and s_2 may not be accurate estimates of σ_1 and σ_2.

In order to do small-sample inference, we must make several simplifying assumptions: both populations must be approximately <u>normally distributed</u>, and must have <u>equal variances</u> $\sigma_1^2 = \sigma_2^2$.

For confidence intervals:

There is a probability of c that $\mu_1 - \mu_2$ lies in $(\overline{x}_1 - \overline{x}_2)$ +/− $t_c \sigma$.

For hypothesis tests:

t-score of the observed difference: $t_{obs} = (\overline{x}_1 - \overline{x}_2) / \sigma$.

How to obtain σ, the standard deviation of the observed difference? How to obtain the number of degrees of freedom for the t-distribution?

Small-sample inference for the difference in means, $\mu_1 - \mu_2$

Solution: recall that we are assuming equal population variances, $\sigma_1^2 = \sigma_2^2 = \sigma_p^2$.

σ_p^2 is called the "pooled variance."

We must first estimate the pooled variance using the sample variances s_1^2 and s_2^2.

Pooled sample variance: $s_p^2 = ((n_1 - 1)(s_1^2) + (n_2 - 1)(s_2^2)) / (n_1 + n_2 - 2)$

s_p^2 is a weighted average of the sample variances s_1^2 and s_2^2, each weighted by its number of degrees of freedom $n_i - 1$.

Standard deviation of the observed difference:
$\sigma = \sqrt{(s_p^2 / n_1) + (s_p^2 / n_2)} = s_p \sqrt{(1 / n_1) + (1 / n_2)}$.

Total number of degrees of freedom: $n_1 + n_2 - 2$.

How to obtain σ, the standard deviation of the observed difference?
How to obtain the number of degrees of freedom for the t-distribution?

Small-sample inference for the difference in means, $\mu_1 - \mu_2$

The average hourly wage of a random sample of **16** working women in Allegheny County is $8.21, with a standard deviation of $6.66. For a random sample of **14** working men, the average hourly wage is $12.96, with a standard deviation of $11.41. Is this sample evidence sufficient to conclude that there is a difference between the wages of men and women?

Assuming equal variances, we compute the pooled sample variance as $s_p^2 = (15 \cdot 6.66^2 + 13 \cdot 11.41^2) / 28 = 84.2$, so $s_p = 9.18$. Then the standard deviation of the observed difference is $\sigma = 9.18 \sqrt{(1 / 16) + (1 / 14)} = 3.36$.

Total number of degrees of freedom: $16 + 14 - 2 = 28$.

Standard deviation of the observed difference:
$\sigma = \sqrt{(s_p^2 / n_1) + (s_p^2 / n_2)} = s_p \sqrt{(1 / n_1) + (1 / n_2)}$.

Total number of degrees of freedom: $n_1 + n_2 - 2$.

Pooled sample variance: $s_p^2 = ((n_1 - 1)(s_1^2) + (n_2 - 1)(s_2^2)) / (n_1 + n_2 - 2)$

Small-sample confidence intervals for the difference in means, $\mu_1 - \mu_2$

The average hourly wage of a random sample of **16** working women in Allegheny County is $8.21, with a standard deviation of $6.66. For a random sample of **14** working men, the average hourly wage is $12.96, with a standard deviation of $11.41. Is this sample evidence sufficient to conclude that there is a difference between the wages of men and women?

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Total number of degrees of freedom: $16 + 14 - 2 = 28$.

For confidence intervals:

There is a probability of c that $\mu_1 - \mu_2$ lies in $(\bar{x}_1 - \bar{x}_2)$ +/− $t_c\sigma$.

95% CI: 4.75 +/− (2.048)(3.36)
= [-$2.13, +$11.63]

99% CI: 4.75 +/− (2.763)(3.36)
= [-$4.53, +$14.03]

Small-sample hypothesis tests for the difference in means, $\mu_1 - \mu_2$

The average hourly wage of a random sample of **16** working women in Allegheny County is \$8.21, with a standard deviation of \$6.66. For a random sample of **14** working men, the average hourly wage is \$12.96, with a standard deviation of \$11.41.
Is this sample evidence sufficient to conclude that there is a difference between the wages of men and women?

Assuming equal variances, we compute the pooled sample variance as
$s_p^2 = (15*6.66^2 + 13*11.41^2) / 28 = 84.2$, so $s_p = 9.18$. Then the standard deviation of the observed difference is $\sigma = 9.18 \sqrt{(1 / 16) + (1 / 14)} = 3.36$.

Total number of degrees of freedom: $16 + 14 - 2 = 28$.

For hypothesis tests:

t-score of the observed difference: $t_{obs} = (\overline{x}_1 - \overline{x}_2) / \sigma$.

t-score = 4.75 / 3.36 = 1.41

t_c for two-sided test ($\alpha = 0.05$, 28 dof): 2.048

Cannot reject H_0.

Small-sample inference for the difference in means, $\mu_1 - \mu_2$

<u>What if we do not believe that the population variances are equal?</u>

It turns out that we can still do **approximate** inference, as the difference is still approximately t-distributed. The tricky part, though, is estimating the number of degrees of freedom.

The standard deviation of the observed difference is approximately the same as in the large-sample case, $\sigma = \sqrt{(s_1^2 / n_1) + (s_2^2 / n_2)}$.

However, the estimated number of degrees of freedom for the t-distribution is now:

$$\nu = \frac{\left(\dfrac{s_1^2}{n_1} + \dfrac{s_2^2}{n_2} \right)^2}{\dfrac{(s_1^2 / n_1)^2}{n_1 - 1} + \dfrac{(s_2^2 / n_2)^2}{n_2 - 1}}$$

In the case of equal sample sizes, $n_1 = n_2 = n$, we can use a much simpler approximation:

$$\nu = 2(n-1)$$

This slide is optional material and will not be tested.

Large-sample confidence intervals for the difference in proportions

There is a probability of c that $p_1 - p_2$ lies within $(\overline{x}_1 - \overline{x}_2) +/- z_c\sigma$.

True difference | Observed difference | Number of std. dev. from mean | Std. dev. of observed difference

How to obtain σ, the standard deviation of the observed difference?

<u>Answer</u>: the variance of $\overline{x}_1 - \overline{x}_2$ is the sum of the variance of $\overline{x}_1$ and the variance of $\overline{x}_2$.

$$\sigma^2 = (\sqrt{p_1(1 - p_1) / n_1})^2 + (\sqrt{p_2(1 - p_2) / n_2})^2$$
$$= (p_1(1 - p_1) / n_1) + (p_2(1 - p_2) / n_2)$$
$$\approx (\overline{x}_1(1 - \overline{x}_1) / n_1) + (\overline{x}_2(1 - \overline{x}_2) / n_2)$$

$$\sigma = \sqrt{(\overline{x}_1(1 - \overline{x}_1) / n_1) + (\overline{x}_2(1 - \overline{x}_2) / n_2)}.$$

There is a probability of c that $p_1 - p_2$ lies within $(\overline{x}_1 - \overline{x}_2) +/- z_c \sqrt{(\overline{x}_1(1 - \overline{x}_1) / n_1) + (\overline{x}_2(1 - \overline{x}_2) / n_2)}.$

Large-sample confidence intervals for the difference in proportions

In a poll of 500 customers conducted two weeks after the implementation of a new computerized account system, you find that 49% are satisfied with the system. In a poll one month later, surveying an independent sample of 400 customers, you find the percentage of satisfied customers has increased to 53%. Can you conclude that support for the new system has increased?

Let p_1 = current proportion of customers who support the new system.
Let p_2 = original proportion of customers who support the new system.

$\overline{x}_1 = 0.53$
$n_1 = 400$

$\overline{x}_1 - \overline{x}_2 = 0.040, \sqrt{(\overline{x}_1(1 - \overline{x}_1) / n_1) + (\overline{x}_2(1 - \overline{x}_2) / n_2)} = 0.034$

There is a 95% chance that $p_1 - p_2$ is between -0.026 and +0.106.

$\overline{x}_2 = 0.49$
$n_2 = 500$

$0.04 +/- 1.96(0.034)$

There is a probability of c that $p_1 - p_2$ lies within
$(\overline{x}_1 - \overline{x}_2) +/- z_c \sqrt{(\overline{x}_1(1 - \overline{x}_1) / n_1) + (\overline{x}_2(1 - \overline{x}_2) / n_2)}$.

Large-sample hypothesis tests for the difference in proportions

If the null hypothesis was true with $p_1 = p_2$, then $\overline{x}_1 - \overline{x}_2$ would be normally distributed with mean 0 and standard deviation σ. How to find σ?

For proportions, σ is different for confidence intervals and hypothesis tests:

1-population CI: $\sigma = \sqrt{\overline{x}(1 - \overline{x}) / N}$, 1-population HT: $\sigma = \sqrt{p_0(1 - p_0) / N}$

2-population CI: $\sigma = \sqrt{(\overline{x}_1(1 - \overline{x}_1) / n_1) + (\overline{x}_2(1 - \overline{x}_2) / n_2)}$.

2-population HT: $\sigma = \sqrt{p_0(1 - p_0)(1 / n_1 + 1 / n_2)}$ ⟵ What is p_0?
Assume $p_1 = p_2 = p_0$.

The best estimate of p_0 under the null hypothesis is a weighted average of $\overline{x}_1$ and $\overline{x}_2$.

$$p_0 \approx (n_1 \overline{x}_1 + n_2 \overline{x}_2) / (n_1 + n_2)$$

Large-sample hypothesis tests for the difference in proportions

Has the proportion increased significantly? We want to test the alternative hypothesis $H_1 : p_1 > p_2$ against the null hypothesis $H_0 : p_1 \leq p_2$.

If the null hypothesis was true, the observed difference $\overline{x}_1 - \overline{x}_2$ would follow a normal distribution with mean 0 and standard deviation $\sqrt{p_0(1 - p_0)(1 / n_1 + 1 / n_2)}$.

z-score of the observed difference: $z_{obs} = (\overline{x}_1 - \overline{x}_2) / \sqrt{p_0(1 - p_0)(1 / n_1 + 1 / n_2)}$.

p-value for a one-sided test: $\Pr(z > z_{obs}) = 0.5 - F(z_{obs})$.
Reject the null if p-value $< \alpha$.

$\overline{x}_1 = 0.53$
$n_1 = 400$

$\overline{x}_2 = 0.49$
$n_2 = 500$

$\Longrightarrow$

$\overline{x}_1 - \overline{x}_2 = 0.04$
$p_0 = 0.508$
std. dev. = 0.034

$\Longrightarrow$

z-score = 0.04 / 0.034 = 1.19
p-value $\approx$ .1170

We do not have sufficient evidence to reject the null hypothesis.

Paired differences

Month	This yr	Last yr	Diff
Jan.	35062	33956	1106
Feb.	27908	26544	1364
Mar.	18003	17443	560
Apr.	12544	12452	92
May	10708	9323	1385
Jun.	8322	7615	707
Jul.	8413	8222	191
Aug.	7857	8012	-155
Sep.	10190	9554	636
Oct.	15760	14220	1540
Nov.	28776	27639	1137
Dec.	43749	41500	2249

An online retailer of ski equipment wishes to compare monthly sales for the current year to last year's monthly sales.

Mean sales for current year: $\bar{x}_1$ = 18941
Mean sales for last year: $\bar{x}_2$ = 18040
Std. dev. for current year: $s_1 \approx$ 12042
Std. dev. for last year: $s_2 \approx$ 11552
Number of samples: $n_1 = n_2 = 12$

95% CI for $\mu_1 - \mu_2$ = 901 +/- 9990
t-score = 901 / 4818 = .187
p-value = 0.853, cannot reject H_0.

But we did better than last year, every month but August! What's wrong here?

Paired differences

Month	This yr	Last yr	Diff
Jan.	35062	33956	1106
Feb.	27908	26544	1364
Mar.	18003	17443	560
Apr.	12544	12452	92
May	10708	9323	1385
Jun.	8322	7615	707
Jul.	8413	8222	191
Aug.	7857	8012	-155
Sep.	10190	9554	636
Oct.	15760	14220	1540
Nov.	28776	27639	1137
Dec.	43749	41500	2249

The assumption of independent samples is invalid. The counts for a given month are highly correlated between this year and last (high in winter, low in summer).

Notice that the variation from month to month is very large, compared to the relatively small difference between sample means.

We can reduce the variance of our sample by performing inference on the differences between this year's counts and last year's counts.

This method is only valid when we have matched pairs of datapoints; it cannot be used for independent samples.

Paired differences

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Mean of differences: $\overline{x}_d = 901$
Std. dev. of differences: $s_d = 692$
Number of differences: $n_d = 12$

We can now do one-population inference for the population of differences.

<u>Assumption</u>: sample differences are sampled at random from the target population of differences.

For small samples, we must also assume that the population of differences is approximately normally distributed.

Paired differences

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Mean of differences: $\bar{x}_d = 901$
Std. dev. of differences: $s_d = 692$
Number of differences: $n_d = 12$

Confidence interval for $\mu_d = \bar{x}_d +/- t_c (s_d / \sqrt{n_d})$

$n_d - 1$ degrees of freedom

95% CI = 901 +/− 2.201(199.8) = [461, 1341]

Testing $\mu_d \neq 0$ (same as $\mu_1 - \mu_2 \neq 0$)

t-score = $\bar{x}_d / (s_d / \sqrt{n_d}) = 901 / 199.8 = 4.51$
p-value ≈ .000

We can reject the null hypothesis and conclude that $\mu_1 \neq \mu_2$.

When to use paired differences?

Comparing daily sales for two restaurants for the same set of 30 days.

Comparing daily sales for two restaurants, choosing an independent set of 30 days for each restaurant.

Comparing salaries of male and female movie stars, sampling 50 of each.

Comparing salaries of male and female movie stars, matching each actor to an actress with similar experience, fame, etc.

Comparing the average reaction time of 50 subjects dosed with caffeine and 50 patients without caffeine.

Comparing each subject's reaction time with and without caffeine.

Comparing the average stress on a car's front and back wheels.

Comparing the number of attempted network intrusions before and after installing a new firewall.