Statistical Tests in Decision making

- Testing of a Hypothesis
- Test of Significance

Testing of Hypotheses

- Deals with theoretical aspects of hypothesis testing for decision making
- Hypothesis : A statement based on logical assumption to be put under test.
- Non-statistical hypotheses
- Statistical hypotheses
- Null Hypothesis
- Alternative Hypothesis

Errors in Decision Making

Factual Position→ Decision↓	Ho : True	Ho : False
Accept Ho	Correct Decision	Type II Error
Reject Ho	Type I Error	Correct decision

Probabilities associated with Decision Making

Factual Position→ Decision↓	Ho : True	Ho : False
Accept Ho	1-α (Confidence Level)	β
Reject Ho	α (Level of Significance)	1-β (Power of the test)
All	1.00	1.00

Test of Significance

- Large sample tests
- Small sample tests
- Parametric test
- Non-parametric test
- One-tailed Test
- Two-tailed Test

Normal Tests

- For single proportion
- Difference of proportion
- Single mean
- Difference of means

Student's 't' test

- Test for single mean
- Test for difference of means
- Paired 't' test
- Test for sample correlation coefficient
- Test for sample regression coefficient

CHI-SQUARE TEST

- Also a non-parametric test
- Very useful for testing 'goodness of fit' and Association/Independence of Attributes

Steps in Test of Significance

- Setting up a null hypothesis(H0) and an alternative hypothesis(H1)
- Test statistic under H0 (some formula kind of thing)
- Calculation of value of the test statistic from the respective sample results/values/data
- Fixing up the required/desired 'level of significance' (p-value) and the tail(one- tailed/two-tailed according to the alternative hypothesis)
- Comparing the calculated value with the corresponding tabulated value.
- If Cal. Value is greater than the tabulated value, H0 is rejected, otherwise not rejected and the interpretations are made accordingly.

EXAMPLE

01. TEST OF SIGNIFICANCE FOR SINGLE PROPORTION

- Situation/Problem: In a sample of 800 electors from an Assembly Constituency, 60 complained that they had never received their EPIC. The authorities claimed that only 7 percent of the electors were not issued their EPIC due to some reason. Apply an appropriate test to verify authority's claim on issuing EPIC to the electors of the constituency.
- $H0: P=0.07$
- $H1: P \neq 0.07$
- Test statistic $Z=(p-P)/\sqrt{(PQ/n)}$
- Given $P=0.07$, $n=800$, $Q=0.93$, $p=60/800=0.075$
- $\alpha=0.05$ (Level of significance/size of Type I error)
- Two-tailed
- Zcal=0.556
- Ztab=1.96
- Zcal<Ztab
- **H0 is not rejected**
- Interpretation : Authority's claim may be regarded to be valid with regards to EPIC distribution to the electors.

EXAMPLE

02. TEST OF SIGNIFICANCE FOR DIFFERENCE OF PROPORTIONS

- Situation/Problem: In a random sample of 100 persons taken from village A, 60 are found to be consuming tea. In another sample of 200 persons from village B, 100 persons are found to be consuming tea. Can the two villages be regarded as same with regards to people with habit of consuming tea?
- $H0: P1 = P2$
- $H1: P1 \neq P2$
- Test statistic $Z = (p1 - p2) / \sqrt{PQ(1/n1 + 1/n2)}$
- Given $p1 = 0.60$, $n1 = 100$, $p2 = 0.50$,
- $P = (n1p1 + n2p2)/(n1 + n2) = 0.53$, $Q = 1 - P = 0.47$
- $\alpha = 0.05$ (Level of significance)
- Two-tailed
- Zcal=1.64
- Ztab=1.96
- Zcal<Ztab
- <u>**H0 is not rejected**</u>
- Interpretation : The two villages may be regarded to be the same with regards to people with tea habit.

EXAMPLE
03. TEST OF SIGNIFICANCE FOR SINGLE MEAN

- Situation/Problem: A manufacturer of a new cheaper type of the light bulb claims that his product is better than the higher priced competitive light bulb. The average life of the other light bulb is known to be 5000 hrs. In a test to examine the claim 100 units of manufactured bulbs are tested for their lives. The average life came out to be 5100 hrs. With a significance level of $\alpha=0.05$, is there enough evidence to back the manufacturer's claim. Assume $\sigma = 500$ hrs.
- Soln:
- $H0:\mu=5000$
- $H1:\mu>5000$
- Given from Sample: $n=100$, $\bar{X}=5100$, $\sigma = 500$ (from Population)
- Test statistic $Z = (\bar{X} - \mu)/ \sigma/\sqrt{n}$
- $\alpha=0.05$
- One-tailed
- Zcal=2.0
- Ztab=1.645
- Zcal>Ztab
- **<u>H0 is rejected</u>**
- Interpretation : Manufacturer's claim is valid and can be well taken.

EXAMPLE

04. TEST OF SIGNIFICANCE FOR DIFFERENCE OF MEANS

Situation/Problem: Random sample of workers from two different villages yielded the following results with regards to their monthly earnings from all sources.

Village	Sample Size	Mean Earnings(Rs)	S.D.
A	100	1000	10
B	120	1050	11

- Can it be concluded that the two villages are having the same level of earnings for the workers?
- $H0: \mu 1 = \mu 2$
- $H1: \mu 2 \neq \mu 1$
- Test statistic Z=(Ā2-Ā1)/ √ (σ1^2/n1+ σ 2^2/n2)
- Given, Ā1=1000, Ā2=1050, σ1=10, σ2=11, n1=100, n2=120
- $\alpha=0.05$ (Level of significance)
- Two-tailed
- Zcal=35.28
- Ztab=1.96
- Zcal>Ztab
- <u>H0 is rejected</u>
- Interpretation : The two villages are having the same level of monthly earnings for the workers.

EXAMPLE

05. CHI-SQUARE TEST FOR INDEPENDENCE OF ATTRIBUTES

- Situation/Problem: A sample of 200 students of 12^{th} standard of a school, a particular subject was taught to a group of 100 students with audio/visual aids while the remaining 100 students were taught using traditional method and their performance was evaluated to see the impact of modern inputs in teaching. Results are as shown below. Test whether the A/V aids is beneficial as far as improvement in performance is concerned

Number of Students taught			
	With A/V aids	With Traditional methods	**Total**
Improved	65	55	**120**
Not improved	35	45	**80**
Total	**100**	**100**	**200**

- H0: There is no association between performance and teaching method
- H1; Performance is associated with Teaching method.
- Test statistic $\chi^2=\sum(O-E)^2/E = 2.084$
- d.f. = $(2-1)*(2-1)=1$

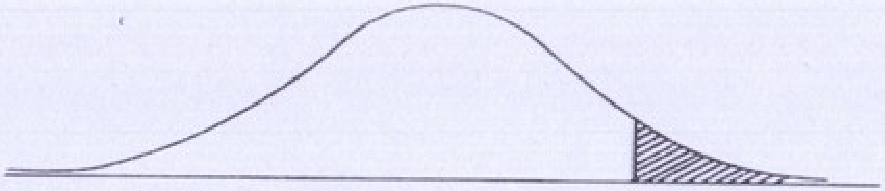
Chi-square test contd.

- $\alpha=0.05$ (Level of significance)
- χ^2 cal.= 2.084
- χ^2 tab.=3.84
- χ^2 cal.(= 2.084)< χ^2tab.(=3.84)
- **<u>H0 is not rejected</u>**
- Interpretation: There is no association between teaching method and improvement in performance.

0.4	.1554	.1591	.1628	.1664	.1700	.1736	.1772	.1808	.1844	.1879
0.5	.1915	.1950	.1985	.2019	.2054	.2088	.2123	.2157	.2190	.2224
0.6	.2257	.2291	.2324	.2357	.2389	.2422	.2454	.2486	.2517	.2549
0.7	.2580	.2611	.2642	.2673	.2704	.2734	.2764	.2794	.2823	.2852
0.8	.2881	.2910	.2939	.2967	.2995	.3023	.3051	.3078	.3106	.3133
0.9	.3159	.3186	.3212	.3238	.3264	.3289	.3315	.3340	.3365	.3389
1.0	.3413	.3438	.3461	.3485	.3508	.3531	.3554	.3577	.3599	.3621
1.1	.3643	.3665	.3686	.3708	.3729	.3749	.3770	.3790	.3810	.3830
1.2	.3849	.3869	.3888	.3907	.3925	.3944	.3962	.3980	.3997	.4015
1.3	.4032	.4049	.4066	.4082	.4099	.4115	.4131	.4147	.4162	.4177
1.4	.4192	.4207	.4222	.4236	.4251	.4265	.4279	.4292	.4306	.4319
1.5	.4332	.4345	.4357	.4370	.4382	.4394	.4406	.4418	.4429	.4441
1.6	.4452	.4463	.4474	.4484	.4495	.4505	.4515	.4525	.4535	.4545
1.7	.4554	.4564	.4573	.4582	.4591	.4599	.4608	.4616	.4625	.4633
1.8	.4641	.4649	.4656	.4664	.4671	.4678	.4686	.4693	.4699	.4706
1.9	.4713	.4719	.4726	.4732	.4738	.4744	.4750	.4756	.4761	.4767
2.0	.4772	.4778	.4783	.4788	.4793	.4798	.4803	.4808	.4812	.4817
2.1	.4821	.4826	.4830	.4834	.4838	.4842	.4846	.4850	.4854	.4857
2.2	.4861	.4864	.4868	.4871	.4875	.4878	.4881	.4884	.4887	.4890
2.3	.4893	.4896	.4898	.4901	.4904	.4906	.4909	.4911	.4913	.4916
2.4	.4918	.4920	.4922	.4925	.4927	.4929	.4931	.4932	.4934	.4936
2.5	.4938	.4940	.4941	.4943	.4945	.4946	.4948	.4949	.4951	.4952
2.6	.4953	.4955	.4956	.4957	.4959	.4960	.4961	.4962	.4963	.4964
2.7	.4965	.4966	.4967	.4968	.4969	.4970	.4971	.4972	.4973	.4974
2.8	.4974	.4975	.4976	.4977	.4977	.4978	.4979	.4979	.4980	.4981
2.9	.4981	.4982	.4982	.4983	.4984	.4984	.4985	.4985	.4986	.4986
3.0	.4987	.4987	.4987	.4988	.4988	.4989	.4989	.4989	.4990	.4990

TABLE :-

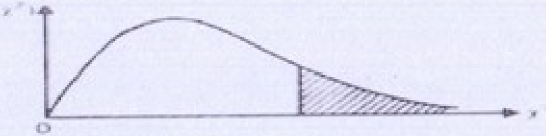
IX. CRITICAL VALUES OF t



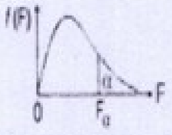
$d.f.$	$t_{.100}$	$t_{.050}$	$t_{.025}$	$t_{.010}$	$t_{.005}$
1	3.078	6.314	12.706	31.821	63.657
2	1.886	2.920	4.303	6.965	9.925
3	1.638	2.353	3.182	4.541	5.841
4	1.533	2.132	2.776	3.747	4.604
5	1.476	2.015	2.571	3.365	4.032
6	1.440	1.943	2.447	3.143	3.707
7	1.415	1.895	2.365	2.998	3.499
8	1.397	1.860	2.306	2.896	3.355
9	1.383	1.833	2.262	2.821	3.250
10	1.372	1.812	2.228	2.764	3.169
11	1.363	1.796	2.201	2.718	3.106
12	1.356	1.782	2.179	2.681	3.055
13	1.350	1.771	2.160	2.650	3.012
14	1.345	1.761	2.145	2.624	2.977
15	1.341	1.753	2.131	2.602	2.947
16	1.337	1.746	2.120	2.583	2.921
17	1.333	1.740	2.110	2.567	2.898
18	1.330	1.734	2.101	2.552	2.878
19	1.328	1.729	2.093	2.539	2.861
20	1.325	1.725	2.086	2.528	2.845
21	1.323	1.721	2.080	2.518	2.831
22	1.321	1.717	2.074	2.508	2.819
23	1.319	1.714	2.069	2.500	2.807
24	1.318	1.711	2.064	2.492	2.797
25	1.316	1.708	2.060	2.485	2.787
26	1.315	1.706	2.056	2.479	2.779
27	1.314	1.703	2.052	2.473	2.771
28	1.313	1.701	2.048	2.467	2.763
29	1.311	1.699	2.045	2.462	2.756
inf.	1.282	1.645	1.960	2.326	2.576

-:TABLE:-

VIII. CRITICAL VALUES OF CHI-SQUARE (χ^2)



df \ α	.100	.050	.025	.010	.005	.001
1	2.71	3.84	5.02	6.63	7.88	10.8
2	4.61	5.99	7.38	9.21	10.6	13.8
3	6.25	7.81	9.35	11.3	12.8	16.3
4	7.78	9.49	11.1	13.3	14.9	18.5
5	9.24	11.1	12.8	15.1	16.7	20.5
6	10.6	12.6	14.4	16.8	18.5	22.5
7	12.0	14.1	16.0	18.5	20.3	24.3
8	13.4	15.5	17.5	20.1	22.0	26.1
9	14.7	16.9	19.0	21.7	23.6	27.9
10	16.0	18.3	20.5	23.2	25.2	29.6
11	17.3	19.7	21.9	24.7	26.8	31.3
12	18.5	21.0	23.3	26.2	28.3	32.9
13	19.8	22.4	24.7	27.7	29.8	34.5
14	21.1	23.7	26.1	29.1	31.3	36.1
15	22.3	25.0	27.5	30.6	32.8	37.7
16	23.5	26.3	28.8	32.0	34.3	39.3
17	24.8	27.6	30.2	33.4	35.7	40.8
18	26.0	28.9	31.5	34.8	37.2	42.3
19	27.2	30.1	32.9	36.2	38.6	43.8
20	28.4	31.4	34.2	37.6	40.0	45.3
21	29.6	32.7	35.5	38.9	41.4	46.8
22	30.8	33.9	36.8	40.3	42.8	48.3
23	32.0	35.2	38.1	41.6	44.2	49.7
24	33.2	36.4	39.4	43.0	45.6	51.2
25	34.4	37.7	40.6	44.3	46.9	52.6
26	35.6	38.9	41.9	45.6	48.3	54.1
27	36.7	40.1	43.2	47.0	49.6	55.5
28	37.9	41.3	44.5	48.3	51.0	56.9
29	39.1	42.6	45.7	49.6	52.3	58.3
30	40.3	43.8	47.0	50.9	53.7	59.7
35	46.1	49.8	53.2	57.3	60.3	66.6
40	51.8	55.8	59.3	63.7	66.8	73.4
45	57.5	61.7	65.4	70.0	73.2	80.1
50	63.2	67.5	71.4	76.2	79.5	86.7
55	68.8	73.3	77.4	82.3	85.7	93.2
60	74.4	79.1	83.3	88.4	92.0	99.6
65	80.0	84.8	89.2	94.4	98.1	106.0
70	85.5	90.5	95.0	100.4	104.0	112.3
75	91.1	96.2	100.8	106.4	110.3	118.6
80	96.6	101.9	106.6	112.3	116.3	124.8
85	102.1	107.5	112.4	118.2	122.3	131.0
90	107.6	113.1	118.1	124.1	128.3	137.2
95	113.0	118.8	123.9	130.0	134.2	143.3
100	118.5	124.3	129.6	135.8	140.2	149.4



X. 5% POINTS OF FISHER'S F-DISTRIBUTION

n \ m	1	2	3	4	5	6	7	8	9	10	12	15	20	30	60	∞
1	161.45	199.50	215.71	224.58	230.16	233.99	236.77	238.88	240.54	241.88	243.91	245.95	248.01	250.09	252.20	254.32
2	18.513	19.000	19.164	19.247	19.296	19.330	19.353	19.371	19.385	19.396	19.413	19.420	19.446	19.462	19.479	19.496
3	10.128	9.5521	9.2766	9.1172	9.0135	8.9406	8.8868	8.8452	8.8123	8.7855	8.7446	8.7029	8.6602	8.6166	8.5720	8.5265
4	7.7086	6.9443	6.5914	6.3883	6.2560	6.1631	6.0942	6.0410	5.9988	5.9644	5.9117	5.8578	5.8025	5.7459	5.6878	5.0281
5	6.6079	5.7861	5.4095	5.1922	5.0503	4.9503	4.8753	4.8183	4.7725	4.7351	4.6777	4.6188	4.5581	4.4957	4.4314	4.3650
6	5.9874	5.1433	4.7571	4.5337	4.3874	4.2839	4.2066	4.1468	4.0990	4.0600	3.9999	3.9381	3.8742	3.8082	3.7398	3.6688
7	5.5914	4.7374	4.3468	4.1203	3.9715	3.8660	3.7870	3.7257	3.6767	3.6365	3.5747	3.5108	3.4445	3.3758	3.3043	3.2298
8	5.3177	4.4590	4.0662	3.8378	3.6875	3.5806	3.5005	3.4381	3.3881	3.3472	3.2840	3.2184	3.1503	3.0794	3.0053	2.9276
9	5.1174	4.2565	3.8626	3.6331	3.4817	3.3738	3.2927	3.2296	3.1789	3.1373	3.0729	3.0001	2.9365	2.8637	2.7872	2.7007
10	4.9646	4.1028	3.7083	3.4780	3.3258	3.2172	3.1355	3.0717	3.0204	2.9782	2.9130	2.8450	2.7740	2.6996	2.6211	2.5379
11	4.8443	3.9823	3.5874	3.3567	3.2039	3.0946	3.0123	2.9480	2.8962	2.8536	2.7876	2.7186	2.6464	2.5705	2.4901	2.4045
12	4.7272	3.8853	3.4903	3.2502	3.1059	2.9961	2.9134	2.8486	2.7964	2.7534	2.6866	2.6169	2.5436	2.4663	2.3842	2.2962
13	4.6672	3.8056	3.4105	3.1791	3.0254	2.9153	2.8321	2.7669	2.7144	2.6710	2.6037	2.5331	2.4589	2.3803	2.2966	2.2064
14	4.6001	3.7389	3.3439	3.1122	2.9582	2.8477	2.7642	2.6987	2.6458	2.6021	2.5342	2.4630	2.3879	2.3082	2.2230	2.1307
15	4.5431	3.6823	3.2874	3.0556	2.9013	2.7905	2.7066	2.6408	2.5876	2.5437	2.4753	2.4035	2.3275	2.2468	2.1601	2.0658
16	4.4940	3.6337	3.2389	3.0069	2.8524	2.7413	2.6572	2.5911	2.5377	2.4935	2.4247	2.3522	2.2756	2.1938	2.1058	2.0096
17	4.4513	3.5915	3.1968	2.9647	2.8100	2.6987	2.6143	2.5480	2.4943	2.4499	2.3807	2.3077	2.2304	2.1477	2.0584	1.9604
18	4.4139	3.5546	3.1599	2.9277	2.7729	2.6613	2.5767	2.5102	2.4563	2.4117	2.3421	2.2686	2.1906	2.1071	2.0166	1.9168
19	4.3808	3.5219	3.1274	2.8951	2.7401	2.6283	2.5435	2.4768	2.4227	2.3779	2.3080	2.2341	2.1555	2.0712	1.9796	1.8780
20	4.3513	3.4928	3.0984	2.8661	2.7100	2.5990	2.5140	2.4471	2.3928	2.3479	2.2776	2.2033	2.1242	2.0391	1.9464	1.8432
21	4.3248	3.4668	3.0725	2.8401	2.6848	2.5727	2.4876	2.4205	2.3661	2.3210	2.2504	2.1757	2.0960	2.0102	1.9165	1.8117
22	4.3009	3.4434	3.0491	2.8167	2.6613	2.5491	2.4638	2.3965	2.3419	2.2967	2.2258	2.1508	2.0707	1.9842	1.8895	1.7831
23	4.2793	3.4221	3.0280	2.7955	2.6500	2.5277	2.4422	2.3748	2.3201	2.2747	2.2036	2.1282	2.0476	1.9605	1.8649	1.7570
24	4.2597	3.4028	3.0088	2.7763	2.6207	2.5082	2.4226	2.3551	2.3002	2.2547	2.1834	2.1077	2.0267	1.9390	1.8424	1.7331
25	4.2417	3.3852	2.9912	2.7587	2.6030	2.4904	2.4047	2.3371	2.2821	2.2365	2.1649	2.0889	2.0075	1.9192	1.8217	1.7110
26	4.2252	3.3690	2.9751	2.7426	2.5868	2.4741	2.3883	2.3205	2.2655	2.2197	2.1479	2.0716	1.9898	1.9010	1.8027	1.6906
27	4.2100	3.3541	2.9604	2.7278	2.5719	2.4591	2.3732	2.3053	2.2501	2.2043	2.1323	2.0558	1.9736	1.8842	1.7851	1.6717
28	4.1960	3.3404	2.9467	2.7141	2.5581	2.4453	2.3593	2.2913	2.2360	2.1900	2.1179	2.0411	1.9586	1.8687	1.7689	1.6541
29	4.1830	3.3277	2.9340	2.7014	2.5454	2.4324	2.3463	2.2782	2.2229	2.1768	2.1045	2.0275	1.9446	1.8543	1.7537	1.6377
30	4.1709	3.3158	2.9223	2.6896	2.5336	2.4205	2.3343	2.2662	2.2107	2.1646	2.0921	2.0148	1.9317	1.8409	1.7396	1.6223
40	4.0848	3.2317	2.8387	2.6060	2.4495	2.3359	2.2490	2.1802	2.1240	2.0772	2.0035	1.9245	1.8389	1.7444	1.6373	1.5089
60	4.0012	3.1504	2.7581	2.5252	2.3688	2.2540	2.1665	2.0970	2.0401	1.9926	1.9174	1.8364	1.7480	1.6491	1.5343	1.3893
120	3.9201	3.0718	2.6802	2.4472	2.2900	2.1750	2.0867	2.0164	1.9588	1.9105	1.8337	1.7505	1.6587	1.5543	1.4290	1.2539
∞	3.8415	2.9957	2.6049	2.3719	2.2141	2.0986	2.0096	1.9384	1.8799	1.8307	1.7522	1.6664	1.5705	1.4591	1.3180	1.0000


THANK YOU