5. A company that manufactures smartphones developed a new battery that has a longer life span than that of a traditional battery. From the date of purchase of a smartphone, the distribution of the life span of the new battery is approximately normal with mean 30 months and standard deviation 8 months. For the price of $50, the company offers a two-year warranty on the new battery for customers who purchase a smartphone. The warranty guarantees that the smartphone will be replaced at no cost to the customer if the battery no longer works within 24 months from the date of purchase.

   (a) In how many months from the date of purchase is it expected that 25 percent of the batteries will no longer work? Justify your answer.

   (b) Suppose one customer who purchases the warranty is selected at random. What is the probability that the customer selected will require a replacement within 24 months from the date of purchase because the battery no longer works?

   (c) The company has a gain of $50 for each customer who purchases a warranty but does not require a replacement. The company has a loss (negative gain) of $150 for each customer who purchases a warranty and does require a replacement. What is the expected value of the gain for the company for each warranty purchased?

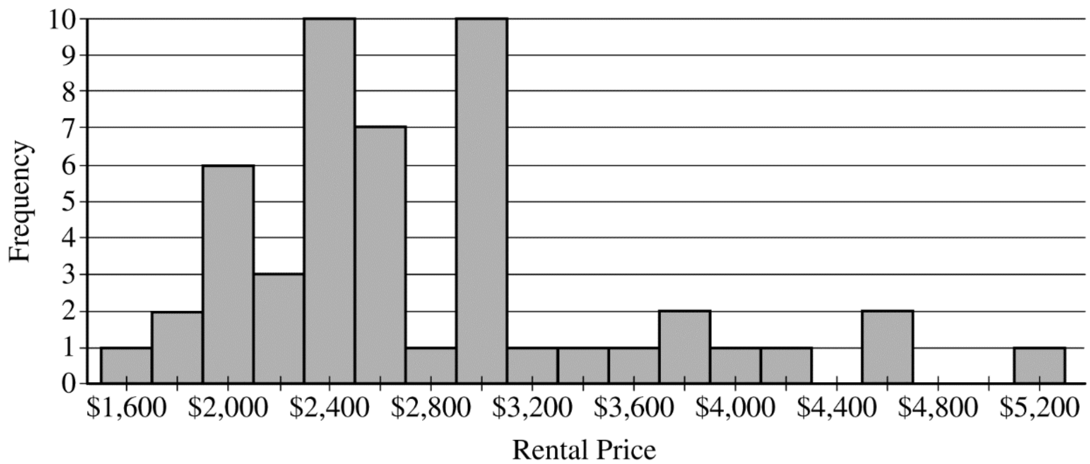
STATISTICS
SECTION II
Part B
Question 6
Spend about 25 minutes on this part of the exam.
Percent of Section II score—25

Directions: Show all your work. Indicate clearly the methods you use, because you will be scored on the correctness of your methods as well as on the accuracy and completeness of your results and explanations.

6. Emma is moving to a large city and is investigating typical monthly rental prices of available one-bedroom apartments. She obtained a random sample of rental prices for 50 one-bedroom apartments taken from a Web site where people voluntarily list available apartments.

   (a) Describe the population for which it is appropriate for Emma to generalize the results from her sample.

   The distribution of the 50 rental prices of the available apartments is shown in the following histogram.



   (b) Emma wants to estimate the typical rental price of a one-bedroom apartment in the city. Based on the distribution shown, what is a disadvantage of using the mean rather than the median as an estimate of the typical rental price?

   (c) Instead of using the sample median as the point estimate for the population median, Emma wants to use an interval estimate. However, computing an interval estimate requires knowing the sampling distribution of the sample median for samples of size 50. Emma has one point, her sample median, in that sampling distribution. Using information about rental prices that are available on the Web site, describe how someone could develop a theoretical sampling distribution of the sample median for samples of size 50.

   Because Emma does not have the resources to develop the theoretical sampling distribution, she estimates the sampling distribution of the sample median using a process called bootstrapping. In the bootstrapping process, a computer program performs the following steps.

   - Take a random sample, with replacement, of size 50 from the original sample.
   - Calculate and record the median of the sample.
   - Repeat the process to obtain a total of 15,000 medians.

Question 5

Intent of Question

The primary goals of this question were to assess a student's ability to (1) evaluate a percentile of a normal distribution; (2) evaluate a probability for a normal distribution; and (3) compute an expected value for a random variable with two possible outcomes.

Solution

Part (a):

The 25th percentile of the standard normal distribution is -0.6745. Consequently the 25th percentile of a normal distribution with mean 30 months and standard deviation 8 months is $30 + 8(-0.6745) = 24.6$ months.

Part (b):

The probability that a randomly selected customer will need to request a replacement because the battery fails within 24 months from the date of purchase is

$$P(\text{life span} \le 24 \text{ months}) = P\left(Z \le \frac{24 - 30}{8}\right) = P(Z \le -0.75) \approx 0.2266.$$

Part (c):

The company's expected gain for each warranty purchased is

$$(\$50) \times P(\text{life span} > 24 \text{ months}) + (-\$150) \times P(\text{life span} \le 24 \text{ months})$$
$$= (\$50) \times (0.7734) + (-\$150) \times (0.2266) \approx \$4.68.$$

Scoring

Parts (a), (b), and (c) are each scored as essentially correct (E), partially correct (P), or incorrect (I).

Part (a) is scored as follows:

Essentially correct (E) if the response satisfies the following three components:
1. Indicates the use of a normal distribution with a mean of 30 and a standard deviation of 8.
2. Sets up a correct approach for finding the 25th percentile of the battery life span distribution.
3. Reports the correct value of the 25th percentile (24.6) or a percentile value that is consistent with components 1 and 2.

Partially correct (P) if the response satisfies only two of the three components.

Incorrect (I) if the response does not meet the criteria for E or P.

Notes:
- Component 1 may be satisfied in either part (a) or (b).
- Incorrect statistical notation in specifying the distribution mean or standard deviation (for example, $\bar{x} = 30$ or $s = 8$) results in Component 1 not being met the first time it appears.

Question 5 (continued)

- Component 1 may be satisfied by one of the following:
  - Graphical: Displaying a graph of a normal density function with the horizontal axis clearly labeled using the mean and standard deviation for the battery life span distribution.
  - Calculator syntax: Labeling the mean and standard deviation in an inverse normal cdf calculator statement, for example, invNorm$(0.25,\ \mu = 30,\ \sigma = 8)$.
  - z-score: Showing correct components in a standard z-score calculation, for example, $z = \frac{x - 30}{8}$, or $-0.6745 = \frac{x - 30}{8}$, or $x = 30 + 8(-0.6745)$.
  - Notation: Using standard notation for a normal distribution, for example, $N(30, 8)$ or $\text{Normal}(30, 64)$.
- Component 2 may be satisfied by one of the following:
  - Graphical: Identifying the lower-tail area corresponding to the probability of 0.25 in a graph of a normal density function.
  - Calculator syntax: Stating the correct percentile in an inverse normal cdf calculator statement, for example, invNorm$(0.25,\ \mu = 30,\ \sigma = 8)$.
  - z-score: Equating the z-score of the 25th percentile of the battery life span distribution to -0.6745, for example, $-0.6745 = \frac{x - 30}{8}$ or $x = 30 + 8(-0.6745)$.

Part (b) is scored as follows:

Essentially correct (E) if the response satisfies the following three components:

1. Indicates the use of a normal distribution with a mean of 30 and a standard deviation of 8.
2. Specifies the correct event, including the correct boundary value and direction.
3. Reports the correct probability (0.2266) or a probability consistent with components 1 and 2.

Partially correct (P) if response satisfies only two of the three components.

Incorrect (I) if the response does not meet the criteria for E or P.

Notes:

- Component 1 may be satisfied in either part (a) or (b).
  - Incorrect statistical notation in specifying the distribution mean or standard deviation (for example, $\bar{x} = 30$ or $s = 8$) results in Component 1 not being met the first time it appears.
- Component 1 may be satisfied by one of the following:
  - Graphical: Displaying a graph of a normal density function with the horizontal axis clearly labeled using the mean and standard deviation for the battery life span distribution.
  - Calculator syntax: Labeling the mean and standard deviation in a normal cdf calculator statement, for example, normalcdf$(0,\ \text{upper} = 24,\ \mu = 30,\ \sigma = 8)$.
  - z-score: Showing correct components in a standard z-score calculation, for example, $z = \frac{x - 30}{8}$, or $z = \frac{24 - 30}{8}$, or $\frac{24 - 30}{8} = -0.75$.
  - Notation: Using standard notation for a normal distribution, for example, $N(30, 8)$ or $\text{Normal}(30, 64)$

Question 5 (continued)

- Component 2 may be satisfied by one of the following:
  - Graphical: A normal density graph labeled with boundary and direction corresponding to the region of interest.
  - Calculator syntax: Labeling the upper bound in a normal cdf calculator statement. The lower bound does not need to be labeled but must be less than or equal to 0, for example, normalcdf(0, upper $= 24$, $\mu = 30$, $\sigma = 8$).
  - In words: Specifying the correct event, boundary value, and direction, in words: for example, P(battery life span $\leq$ 24 months), or "probability requires battery replacement within 24 months."
  - Random variable: Specifying the boundary value and direction using a random variable, for example, $P(X \leq 24)$ or $P(Z \leq -0.75)$.

Part (c) is scored as follows:

Essentially correct (E) if the response satisfies the following two components:

1. Provides an expected value calculation with two appropriate probabilities that add to 1 and are paired with the correct outcomes.
2. Reports the correct expected value (4.68), or a reasonable expected value consistent with work shown.

Partially correct (P) if the response satisfies only one of the two components.

Incorrect (I) if the response does not satisfy the criteria for E or P.

Notes:

- For component 1, appropriate probabilities that add to 1 are:
  - probabilities consistent with the value computed in part (b); or
  - the correct probabilities; or
  - if there is no probability provided in part (b), probabilities explicitly defined in context in part (c).
- If the correct probability is used, due to rounding considerations, any number between 4.00 and 4.70 is acceptable as a correct expected value for component 2.
- A reasonable expected value for component 2 can be any number between $-\$150$ and $+\$50$ that is consistent with work shown.