Contents

- Introduction I
 The use of quantitative techniques by business 2
 The role of quantitative techniques in business 4
 Models in quantitative decision making 6
 Use of computers 7
 Using the text 8
- Tools of the trade 10 Learning objectives 10 Some basic terminology 10 Measurement Fractions, proportions, percentages 13 Rounding and significant figures 15 Common notation 16 Powers and roots 18 Logarithms 20 Summation and factorials Equations 23 Graphs 26 Real and money terms 29 Exercises 30
- 3 Data presentation methods 33
 Learning objectives 33
 Frequency distributions 35
 Percentage and cumulative frequencies 38
 Histograms 38
 Frequency polygons 41
 Ogives 42
 Lorenz curves 43
 Bar charts 45

Pie charts 47

Time-series graphs 48 Z charts 50 Scatter diagrams General principles of graphical presentation Application: Cowie Health Centre, Scotland 57 Exercises 60 Management statistics Learning objectives A business example Why are statistics needed? Measures of average: the arithmetic mean Measures of average: the median Measures of variability Using the statistics Calculating statistics for aggregated data 83 Index numbers 87 Application: Halifax Building Society: house price index 96 Exercises 100

5 Probability and probability distributions 105

Learning objectives 105
Terminology 106
The multiplication rule 109
The addition rule 111
A business application 112
Probability distributions 115
The Binomial distribution 118
The Normal distribution 125
Application: ICI Pharmaceuticals 134
Exercises 137

6 Decision making under uncertainty 141

Learning objectives 141
The decision problem 141
The Maximax criterion 143
The Maximin criterion 144
The Minimax regret criterion 1

Decision making using probability information 146
Risk 147
Decision trees 147
The value of perfect information 152
Application: Gulf Oil 154
Exercises 158

7 Market research and statistical inference 161

Learning objectives 161 Populations and samples Sampling distributions 163 164 The Central Limit Theorem Characteristics of the sampling distribution 166 Confidence intervals Other confidence intervals Confidence intervals for proportions 170 Interpreting confidence intervals 172 Hypothesis tests 172 Tests on a sample mean 181 Tests on the difference between two means 183 Tests on two proportions or percentages 186 Tests on small samples 188 Inferential statistics using a computer package 190 Application: Queen's College, Taunton Exercises 196

Q Quality control and quality management 199

Learning objectives 199
The importance of quality 199
Techniques in quality management 200
Statistical process control 201
Control charts 203
Control charts for attribute variables 207
Pareto charts 209
Ishikawa diagrams 210
Application: Hewlett Packard 213
Exercises 215

9 Forecasting I: moving averages and time series 217

Learning objectives 217

The need for forecasting 217

Alternative approaches to forecasting 219

Trend projections 222

Time-series models 235

Application: retail supermarket, UK 246

Exercises 249

1 Forecasting II: simple linear regression 255

Learning objectives 255

The principles of simple linear regression 255

The correlation coefficient 260

The line of best fit 263

Using the regression equation 266

Further statistical evaluation of the regression equation 266

Using computer output 272

Extensions to simple linear regression 273

The forecasting process 279

Application: British Gas 282

Exercises 286

1 1 Linear programming 290

Learning objectives 290

The business problem 290

Formulating the problem 291

Graphical solution to the LP formulation 294

Sensitivity analysis 300

Computer solutions 306

Assumptions of the basic model 308

Dealing with more than two variables 309

Extensions to the basic LP model 311

Application: Blue Bell, Inc. 312

Exercises 314

19 Stock control 317

Learning objectives 317

The stock-control problem 317

Costs involved in stock control 318

The stock-control decision 320
The economic order quantity model 323
The reorder cycle 324
Assumptions of the EOQ model 324
Incorporating lead time 325
Classification of stock items 327
MRP and JIT 330
Application: Unipart 331
Exercises 334

13 Project management 337

Learning objectives 337
Characteristics of a project 337
Project management 338
Business example 339
Network diagrams 343
Developing the network diagram 348
Using the network diagram 353
Gantt charts 354
Uncertainty 355
Project costs and crashing 359
Application: Central Regional Council 361
Exercises 365

14 Simulation 370

Learning objectives 370

The principles of simulation 370

Business example 373

Developing the simulation model 375

A simulation flowchart 376

Using the model 378

Application: University Hospital of Wales 388

Exercises 390

15 Financial decision making 396

Learning objectives 396
Interest 396
Nominal and effective interest 400
Present value 401

Investment appraisal 403
Replacing equipment 408
Application: Tomco Oil Inc. 413
Exercises 416

16 Conclusion 419

Appendices

A Binomial distribution 421

B Areas in the tail of the Normal distribution 426

C Areas in the tail of the t distribution 427

Bibliography 428

Index 431