# Contents

**Preface, xiii**

**Chapter 1**
**QUESTIONS, QUESTIONS! 1**

A Framework for Objective Analysis, 2
Problem Solving in Context, 7
The Plan of This Book, 9
A Few Words about the Computers, 10
*Personal Computers, 13*
Computers in Public Organizations, 14
Computer Software for This Book, 15

**PART I**
**THE BASIC TOOLBOX, 17**

**Chapter 2**
**Descriptive Statistics and Probability Theory, 18**

Numbers as Storytellers, 19
The Building Blocks of Quantitative Analysis, 19
Methods of Descriptive Statistics, 20
*Measures of Central Tendency, 20*
*Measures of Dispersion, 27*
*Skewness and Symmetry of Distribution, 31*
*Which Measure of Central Tendency to Use, 34*
*A Quick Glance at the Distribution: The Stem-Leaf Method, 35*
Introduction to Probability Theory, 36
Objective Probability, 37
*Probability Distribution, 39*
*Hypothesis Testing and Confidence Intervals, 43*
Subjective Probability, 60
*Sources of Personal Biases, 61*

**Chapter 3**
**Source of Data, 71**

Where Do We Find the Numbers? 72
What Are We Measuring? 72
*Types of Measurement, 72*

*How Valid Are the Measuring Scales? 74*
The Primary Data: Doing a Survey, 75
*The Sources of Systematic Errors in Sampling, 77*
*Random Sampling Errors, 79*
Survey Design, 80
*Choosing the Sample Population, 80*
*Choosing the Size of the Sample, 83*
*Choosing the Survey Instruments, 86*
*Choosing the Method of Polling, 90*
Quantification of Survey Data, 92
*Pretesting Questionnaire, 92*
Analysis of Survey Data, 92
Reporting of Survey Results, 94
Survey Design: A Step-by-Step Approach, 94
*When the Polls Are Suspect, 95*
The Secondary Data, 97
*Library Search, 98*
*Traditional Library Search, 98*
*When Data Are Not Available, 100*

**Chapter 4**
**Making Sense of Numbers, 102**

Managing Those Numbing Numbers, 103
*Techniques of Statistical Assessment, 103*
*Tabular Presentation of Data, 104*
The Worth of a Picture: The Graphical Methods of Analysis, 105
*Use of the Current Dollar Figure, 105*
*Percentage Change, 108*
*In the Perspective of a Base: Creating an Index, 109*
*Choosing the Type of Graph to Use, 110*
*Graphical Methods in Decision Making, 110*
To Tell the Truth and Nothing But the Truth, 111
*Interpretation and Deception, 113*
*Those Not So Innocent Numbers, 119*
*Structure above a Swamp, 120*

**PART II**

**CAN WE FORECAST THE FUTURE? 125**

**Chapter 5**
**Projection Techniques: When History Is Inadequate, 126**

Projection Versus Causal Prediction, 127
Inadequacy of History, 128

*Single-Factor Projection, 128*
*Problems of Single-Factor Analysis, 131*
Judgmental Methods of Projection, 133
*The Delphi Technique, 133*
*The Feasibility Assessment Technique, 138*
*The Expected Utility Model, 142*
Shortcomings of the Judgmental Methods, 144

**Chapter 6**
**Projection Techniques: Analysis of Historical Data, 148**

The Problem, 149
*Patterns of Trend, 152*
Methods of Seasonal and Trend Adjustment, 155
*Seasonal Adjustment, 156*
*Trend Adjustment, 158*
Smoothing Out the Fluctuations, 159
*Projecting the Immediate Past: Naive Projection, 161*
*Projecting by the Mean, 161*
*Moving Average, 162*
Markov's Chain, 164
*The Problem, 164*
*Markov's Chain, 164*
*A Lesson in Matrix Operation, 166*
*Projection by Markov's Chain, 167*
*The Absorbing State, 170*
*Policy Analysis with Markov's Chain, 171*
*When Is It Appropriate to Use Markov's Chain? 171*

**Chapter 7**
**Projection Techniques: The Method of Least Squares, 177**

The Problem, 178
Building a Least Squares Model, 178
*Straight Line Trend, 182*
*Projection into the Future, 186*
How Good Are the Results? 186
*How Much Is Being Explained? 187*
*What Is a High $R^2$? 189*
*How Relevant Are the Estimated Coefficients? 189*
*The Significance of Individual Coefficients, 191*
*The Significance of Coefficients Taken Together, 194*
*Presentation of Estimation Results, 195*
What Happens If the Trend Changes? 196
*Abrupt Changes in Trend, 196*
*Abrupt Change in Slope, 200*

*Best Linear Unbiased Estimator (BLUE), 204*
Gradual Changes in Trend: Estimation of Nonlinear Trends, 205
*Polynomial Forms, 207*
*Higher-Order Polynomials, 210*
*Log Transformed Forms, 212*
*Inverse Forms, 214*
*Other Nonlinear Forms, 215*
*How Do I Choose the Correct Functional Form? 216*
Forecasting and Its Problems, 216
*Point Forecast, 216*
*Interval Forecast, 217*
Explaining the Present with the Past: Lagged Dependent Variables, 220

**Chapter 8**
**Models of Causal Prediction: Multiple Regression, 225**

The Problem, 226
Building a Causal Model, 226
*Causality, Co-occurrence, and Acts of Trivial Pursuit, 227*
Estimation of the Model, 229
Interpretation of the Estimated Results, 230
*How Significant Are the Estimated Results? 230*
*The Uses of the Estimated Results, 230*
How Good Is the Model? 231
*What Happens When We Leave Out Important Explanatory Variables? 231*
*What Happens When We Include Irrelevant Independent Variables? 233*
*How to Search for the Proper List of Independent Variables, 235*
When Regression Results Are Suspect: The Errors of Estimation, 240
*When the Independent Variables Are Highly Correlated, 240*
*Serial Correlation: When the Successive Error Terms Are Correlated, 246*
*Heteroskedasticity: The Problem of Scaling of Variables, 248*
*When the Data Are Imperfect, 253*

**PART III**
**THE LOGIC OF EFFICIENT MANAGEMENT, 259**

**Chapter 9**
**How to Plan a Large Project: Gantt, PERT, and the Critical Path Method, 260**

The Problem, 261
Gantt Chart, 261

PERT Network, 262
*Estimation of Time, 265*
*Calculation of Critical Path, 267*
*Slack Time and Critical Path, 268*
*Can We Finish This Project Before a Certain Time? The Use of Variance, 269*
*Things to Avoid in Preparing PERT and Critical Path, 271*
Survey of the Homeless Population: An Example, 273
*Crashing Time on the Critical Path, 275*
*When to Use PERT, 277*
Words of Caution, 278

**Chapter 10**
**Inventory and Cash Management, 282**

The Problem, 283
Inventory Management, 283
*The Concept of Average Inventory, 283*
*Posing the Problem of Inventory Management, 284*
*The Problems of Reordering, 285*
*The Safety Stock Model, 287*
*The Economic Ordering Quantity Model, 289*
*Variable Ordering Costs, 293*
*Quantity Discounts, 294*
*When Usage and Supply Are Uncertain, 295*
*Inventory Classification: The Place of Maximum Saving, 298*
*How Useful Is the EOQ Model? 299*
Cash Management, 299
*The Elements of Cash Management, 302*
*Determining the Optimal Number of Withdrawals, 302*
*The Trade-Off between Investments and Withdrawals, 304*
*The Miller-Orr Method, 306*
*Practical Steps toward Efficient Cash Management, 307*

**PART IV**
**HOW TO CHOOSE THE BEST ALTERNATIVE, 311**

**Chapter 11**
**Elements of Social Choice, 312**

What Is Best for Society? 313
Choosing the Best Alternative, 314
*Problems of Multiple Attributes, 314*
*Problems of Inconsistency in Choice, 316*

*Laying Down the Rules of a Logically Consistent Social Preference, 318*
*The Problem of More than Two Attributes, 322*

**Chapter 12**
**Choosing the Best Alternative: Benefit-Cost Analysis, 325**

The Problem, 326
The Theory of Social Benefit-Cost Analysis, 326
*External Effects on Costs and Benefits, 331*
Steps toward Conducting a Benefit-Cost Analysis, 333
*Defining the Goals, 334*
*Identifying the Alternatives, 334*
*Listing the Costs and Benefits of the Alternatives, 335*
*Estimating and Valuating Benefits and Costs, 336*
*Choosing the Best Alternative, 343*
Introduction of Time: Present Value Analysis, 344
*Choice of Time Horizon, 349*
*Choice of Discount Rate, 350*
The Internal Rate of Return, 352
Some Additional Considerations, 354
*Redistribution of Income, 354*
*Uncertainty, 354*
*Benefit-Cost Ratio, 354*
Cost-Effectiveness Analysis, 355
*The Problem of an Ill-Defined Objective Function, 355*

**Chapter 13**
**Linear Programming: Choosing the Optimal Mix of Alternatives, 360**

Introduction, 361
Facilities Planning: An Example, 361
Expressing Linear Programming in Algebraic Form, 368
Accommodation of Policy Considerations, 369
When Social Preferences Change, 369
Mathematical Solution for Linear Programming Problems, 371
Logical Inconsistency and an Empty Feasibility Zone, 372
The Consideration of Shadow Price, 372
The Logic of Minimization Problems, 374
Example of Another Application of Linear Programming, 375
*Prison Planning, 375*
Sensitivity Analysis, 379
The Limitations of Linear Programming, 379
Integer Programming, 380

**PART V**
**HOW TO DEAL WITH UNCERTAINTY, 387**

**Chapter 14**
**The Elements of Strategic Thinking: Decision Tree and Game Theory, 388**
The Problem, 389
Uncertainty and Expected Payoff, 390
The Decision Tree, 390
*To Tell or Not to Tell Your Boss, 391*
*Playing the Dominant Strategy, 394*
*Two Active Players: The Game Theory, 396*
*The Golden Rules of Decision Making under Uncertainty, 398*
The Pitfalls of Dominant Strategy: The Prisoner's Dilemma, 399
*Strategies to Overcome the Prisoner's Dilemma, 400*

**Chapter 15**
**Queuing Theory and Simulations, 405**
Queuing Theory, 406
*The Problem, 406*
*The Elements of Rational Queuing Model, 406*
*The Diverse Structure of Queues, 407*
*A Deterministic Solution, 408*
*Queuing Theory in an Uncertain World, 410*
*The Use of Theoretical Distributions in a Queuing Model, 414*
The Use of Simulations, 416
*System Simulation, 417*
*Heuristic Simulation, 418*
*Game Simulation, 418*
*Monte Carlo Method, 418*

**Chapter 16**
**Decisions by the Numbers: Problems and Solutions, 423**
The Princes, The High Priests, and Public Policy, 424
The Methodological Question, 426
*Designing Research, 427*
*Choosing the Right Model: How Much Abstraction? 431*
*Whose Goals to Maximize? 433*
*The Test of Pudding: Suggestions for Framing an Analysis, 440*

Decisions Within an Organization: How Objective Is the Analysis? 445
*The Individual Biases, 446*
*The Organization and the Question of Objective Rationality, 446*
*Avoiding the Psychological Impediments to Objective Analysis, 456*
In Analysts Do We Trust? 457
Whose Ball Is It, Anyway? Playing the Political Game, 457
Say It with Numbers, 459
When Time Is of the Essence: Researched Analysis Versus Quick Decision Making, 461
Using Quantitative Techniques: Some Parting Suggestions, 463

**Appendix A Areas of the Standard Normal Distribution (the *Z* Table), 467**

**Appendix B Critical Values of the *t* Distribution, 468**

**Appendix C Critical Values of the *F* Statistic: 5 Percent Level of Significance, 470**

**Appendix D Critical Values of the *F* Statistic: 1 Percent Level of Significance, 471**

**Appendix E The Chi-Square Distribution, 472**

**Appendix F Mystat Instruction Manuals, 473**
*Macintosh Version, 473*
*IBM Version, 503*

**Subject Index, 531**

**Author Index, 534**