

# Economics 257

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## Assignment 2

1. An equity analyst claims to be able to predict which of a set of stocks will gain the most in the coming year. He is given a list of eight stocks, and asked to predict, in order, the top three. What is the probability of getting the top three right, in order, by chance? (That is, assume that he in fact has no useful knowledge to bring to bear on this question, so that any stock is as likely as any other to get randomly picked for any place in his top three.)

Explain your answer.

2. Newspaper subscribers are polled on whether they read the business section, and whether they invest in the stock market. The responses can be broken down as follows: invest and read business section regularly, 20%; invest and read occasionally, 11%; invest and never read, 6%; don't invest and read regularly, 15%; don't invest and read occasionally, 26%; don't invest and never read it, 22%.

- a) Find the probability that a randomly-chosen subscriber never reads the business section.
- b) Find the probability that a randomly chosen subscriber invests in stocks.
- c) Find the probability that a subscriber who never reads the business section invests in stocks.
- d) Find the probability that a subscriber who invests in stocks never reads the business section.
- e) Find the probability that a subscriber who does not regularly read (that is, occasionally or never) the business section does invest in stocks.