The University of Texas at Austin
In-Class Work 16

M339D Introduction to Financial Mathematics

November 02, 2026

Instructions: Provide your complete solution to the following problems. Final answers only, without appropriate justification, will receive zero points even if correct.

The de Moivre-Laplace Theorem.

Problem 16.1: *According to the Pew research center, 64% of Americans say that social media have a mostly negative effect on things (see https://pewrsr.ch/3dsV7uR). You take a sample of* 1000 *randomly chosen Americans. What is the approximate probability that at least* 650 *of them say that social media have a mostly negative effect on things?*

Solution: *The number* X *of Americans in the sample who say that social media have a mostly negative effect on things is a binomial random variable with* 1000 *trials and* 64% *probability of success in every trial. Formally,*

$$X \sim Binomial(n = 1000, p = 0.64).$$

We have $\mu_X = \mathbb{E}[X] = 1000(0.64) = 640$ *and* $\sigma_X = SD[X] = \sqrt{1000(0.64)(0.36)} = 15.17893$.

Since $1000(0.64) = 640 \geq 10$ *and* $1000(0.36) = 360 \geq 10$*, we can safely use the normal approximation to the binomial. The problem says to ignore the continuity correction, so we will do so. We have*

$$\mathbb{P}[X \geq 650] = \mathbb{P}\left[\frac{X - 640}{15.17893} \geq \frac{650 - 640}{15.17893} = 0.658808\right] \approx 1 - N(0.66)$$

where N *denotes the standard normal cumulative distribution function. From the standard normal tables, we obtain* $1 - N(0.66) = 1 - 0.7454 = 0.2546$.

Remark 16.2*: If you were to calculate the above* ***binomial*** *probability in R, you would get* 0.2663*. Not too bad! Also, using the normal approximation* with the continuity correction*, we get* 0.2657009*. This is a better approximation.*

Problem 16.3: *According to a Gallup survey, only 22% of American young adults rate their mental health as* excellent*:*

https://www.gallup.com/education/328961/why-higher-education-lead-wellbeing-revolution.aspx.

You sample 6000 *randomly chosen American young adults. What is the approximate probability that at most* 1400 *of them rate their mental health as* excellent*?*

Solution: *Let the random variable X denote the number of American young adults in the sample who deem their mental health* excellent. *It is a binomial random variable with* 6000 *trials and* 22% *probability of success in every trial. Formally,*

$$X \sim Binomial(n = 6000, p = 0.22).$$

We have $\mu_X = \mathbb{E}[X] = 6000(0.22) = 1320$ *and* $\sigma_X = SD[X] = \sqrt{6000(0.22)(0.78)} = 32.08738$.

Since $6000(0.22) = 1320 \geq 10$ *and* $6000(0.78) = 4680 \geq 10$*, we can safely use the normal approximation to the binomial. The problem says to ignore the continuity correction, so we will do so. We have*

$$\mathbb{P}[X \leq 1400] = \mathbb{P}\left[\frac{X - 1320}{32.08738} \geq \frac{1400 - 1320}{32.08738} = 2.493192\right] \approx N(2.49)$$

where N denotes the standard normal cumulative distribution function. From the standard normal tables, we obtain $N(2.49) = 0.9936$.

***Remark 16.4**: If you were to calculate the above **binomial** probability in R, you would get* 0.9936818.

Problem 16.5: *You toss a fair coin* $10,000$ *times. What is the approximate probability that the number of* Heads *exceeds the number of* Tails *by between* 200 *and* 500 *(inclusive)?*

Solution: *The number of* Heads *in the* $10,000$ *tosses of a fair coin can be modelled using a binomial random variable X with parameters $n = 10,000$ (for the number of trials) and $p = 1/2$ (for the probability of success in every trial). Since X denotes the number of* Heads*, we have that $10,000 - X$ stands for the number of* Tails *in the same string of cointosses. We are looking for the probability*

$$\begin{aligned}\mathbb{P}[200 \leq X - (10000 - X) \leq 500] &= \mathbb{P}[200 \leq 2X - 10000 \leq 500] \\ &= \mathbb{P}[10200 \leq 2X \leq 10500] = \mathbb{P}[5100 \leq X \leq 5250].\end{aligned}$$

The mean and the standard deviation of the random variable X are

$$\mu_X = \mathbb{E}[X] = 10000(1/2) = 5000 \quad \text{and} \quad \sigma_X = SD[X] = \sqrt{10000(1/2)(1/2)} = 50.$$

Evidently, we can use the normal approximation to the binomial. We get

$$\mathbb{P}[5100 \leq X \leq 5250] = \mathbb{P}\left[\frac{5100 - 5000}{50} \leq \frac{X - \mu_X}{\sigma_X} \leq \frac{5250 - 5000}{50}\right] \approx \mathbb{P}[2 \leq Z \leq 5]$$

with $Z \sim N(0, 1)$. Our final answer will be

$$\mathbb{P}[2 \leq Z \leq 5] = N(5) - N(2) = 1 - N(2) = 1 - 0.9772 = 0.0228.$$

***Remark 16.6**: Calculating the **binomial** probability directly in R, we get* 0.02329249.