

# MAS-1

## Study Review

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- 📖 Probability Review
- 📖 Stochastic Processes
- 📖 Life Contingencies
- 📖 Simulation
- 📖 Statistics
- 📖 Extended Linear Model
- 📖 Time Series

## Lesson 1 : Probability Review

- > **Bernoulli Shortcut** : If a random variable can only assume two values  $a$  and  $b$  with probability  $q$  and  $1 - q$ , then its variance is  $q(1 - q)(b - a)^2$

## Lesson 2 : Parametric Distributions

### > Transformations :

- Transformed :  $\tau > 0$
- Inverse :  $\tau = -1$
- Inverse-Transformed :  $\tau < 0, \tau \neq 1$

## Lesson 4 : Markov Chains

### > Chapman-Kolmogorov :

$$P_{ij}^{(n+m)} = \sum_{k=0}^{\infty} P_{ik}^{(n)} P_{kj}^{(m)}$$

### > Gambler's ruin :

$$p_j = \begin{cases} \frac{j}{N} & , r = 1 \\ \frac{r^j - 1}{r^N - 1} & , r \neq 1 \end{cases}$$

où  $r = \frac{q}{p}$ ,  $p$  : winning prob.

- > **Algorithmic efficiency** : with  $N_j$  = number of steps from  $j^{th}$  solution to best solution.

$$E[N_j] = \sum_{i=1}^{j-1} \frac{1}{i}$$

$$\text{Var}(N_j) = \sum_{i=1}^{j-1} \left( \frac{1}{i} \right) \left( 1 - \frac{1}{i} \right)$$

As  $j \rightarrow \infty$ ,  $E[N_j] \rightarrow \ln j$ ,  $\text{Var}(N_j) \rightarrow \ln j$

## Lesson 5 : Markov Chain Classification

- > An **absorbing** state is one that cannot be exited.
- > State  $j$  is **accessible** ( $i \rightarrow j$ ) from state  $i$  if  $p_{ij}^n > 0$ ,  $\forall n \geq 0$ .
- > Two states **communicate** if  $i \leftrightarrow j$ .
- > A **class** of states is a maximal set of state that communicate with each other.
- > A Markov chain is **irreducible** if it has only one class.
- > A state (class) is **recurrent** if the probability of reentering the state is 1.  $\sum_{n=1}^{\infty} p_{ii}^{(n)} = \infty$
- > A state (class) is **transient** if it is not recurrent.  $\sum_{n=1}^{\infty} p_{ii}^{(n)} < \infty$
- > A finite Markov Chain must have at least one recurrent class. If it is irreducible, then it is recurrent.

## Lesson 6 : Markov Chains Limiting Probability

- > A chain is **positive recurrent** is the expected number of transitions until the state occur is finite, **null recurrent** otherwise. Null recurrent mean that the long-term proportion of time in each state is 0.
- > A chain is **periodic** when states occur every  $n$  periode for  $n > 1$ .
- > A chain is **aperiodic** when the periode is 1. In other word,  $P_{ii}^{(1)} > 0, \forall i$
- > A chain is **ergodic** when the chain is aperiodic and positive irreducible recurrent.
- > **Stationary probability** :

$$\pi_j = \sum_{i=1}^n P_{ij} \pi_i \quad \sum_{i=1}^n \pi_i = 1$$

- > **Limiting probabilities** : is the chain is ergodic, then

$$\mathbf{P}^{(\infty)} = \begin{pmatrix} \pi_1 & \pi_2 & \pi_3 \\ \pi_1 & \pi_2 & \pi_3 \\ \pi_1 & \pi_2 & \pi_3 \end{pmatrix}$$

## Lesson 7 : Time in Transient States

- > Tips : **Inverting a matrix**
- >  $\mathbf{S} = (\mathbf{I} - \mathbf{P}_{\text{transient}})^{-1}$ , where  $s_{ij}$  is the time in state  $j$  given that the current state is  $i$ .
- >  $f_{ij} = \frac{s_{ij} - \delta_{i,j}}{s_{jj}} = \sum_{n=1}^{\infty} f_{ij}^{(n)}$ , where  $f_{ij}$  is the probability that state  $i$  ever transitions to state  $j$ .

## Lesson 8 : Branching Processes

- > A branching process is a special type of Markov chain representing the growth or extinction of a population.
- >  $E[X_n] = E[Z]^n$ , where  $E[Z]$  is the expected number of people born in a generation.
- >  $\text{Var}(X_n) = \text{Var}(Z) \cdot E[Z]^{n-1} \sum_{k=1}^n E[Z]^{k-1}$
- > If  $X_0 \neq 1$  mean and variance of  $X_n$  need to be multiplied by  $X_0$ .

### > Probability of extinction :

$$\pi_0 = \sum_{j=1}^{\infty} p_j \pi_0^j$$

$$- \mu \leq 1 \Rightarrow \pi_0 \geq 1, \text{ if } X_0 = 1.$$

$$- \mu > 1 \Rightarrow \pi_0 < 1, \text{ if } X_0 = 1.$$

For cubic equation, it guaranteed to factor ( $\pi_0 - 1$ ). Tips : **Synthetic Division**

## Lesson 9 : Time Reversible

- > If  $\mathbf{Q}$  is the reverse-time Markov chain for ergodic  $\mathbf{P}$ , then  $\pi_i Q_{ij} = \pi_j P_{ji}$  with  $P_{ii} = Q_{ii}$  and if  $p_{ij} = 0 \Leftrightarrow q_{ji} = 0$
- > If  $\mathbf{Q} = \mathbf{P}$ , then  $\mathbf{P}$  is said to be **time-reversible**.

## Lesson 10 : Exponential Distribution

### > Lack of memory :

$$\Pr(X > k + x | X > k) = \Pr(X > x)$$

- > **Minimum** : if  $X_i \sim \text{Exp}(\lambda_i)$ , then

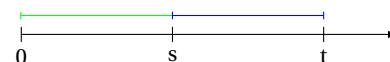
$$\min(X_1, X_2, \dots, X_n) \sim \text{Exp}\left(\sum_{i=1}^n \lambda_i\right)$$

- > The sum of 2 Exponential random variables is the sum of the maximum and the minimum, since one must be the min and the other the max.

$$X_1 + X_2 = \min(X_1, X_2) + \max(X_1, X_2)$$

## Lesson 11 : Poisson Process

- >  $X(t) \sim \text{Poisson}[m(t)]$ , where  $m(t)$  is **mean value function** representing the mean of the number events before time  $t$ .
- > Poisson process can't decrease over time.  $N(t) \geq N(s)$
- >  $N(0) = 0$
- > Increment are **independent** :



$$\Pr[N(t) - N(s) = n | N(s) = k] = \Pr[N(t) - N(s) = n]$$

### > Non-homogeneous Poisson process :

$$m(t) = \int_0^t \lambda(u) du$$

where  $\lambda(t)$  is the **intensify function**

- > **Homogeneous Poisson process** : The Poisson process is said to be homogeneous when the intensify function is a constant.

$$m(t) = \int_0^t \lambda du = \lambda t$$

We then say that the process have **stationary increments**.

$$\Pr[N(s)] = \Pr[N(t) - N(s)]$$

## Lesson 12 : Poisson Process Time To Next Events

- >  $T_n$  is the time between the  $n^e$  event and the  $(n-1)^e$  event.
- >  $S_n = \sum_{i=1}^n T_i$ , is the time for the  $n^e$  event.
- >  $F_{T_1}(t) = 1 - e^{-\int_0^t \lambda(u) du}$
- > For homogeneous process :  $T_n \sim \text{Exp}(\lambda)$   
 $S_n \sim \text{Gamma}(n, \lambda)$

## Lesson 13 : Poisson Process Counting Special Type

- > If event of type 1 occur with probability  $\alpha_1(t)$ , then the event follow a Poisson process with intensity  $\lambda(t)\alpha_1(t)$ .

$$m(t) = \int_0^t \lambda(u)\alpha_1(u) du$$

## Lesson 14 : Poisson Process Other Characteristics

- > Only for homogeneous Poisson processes.
- > The probability of  $k$  event from process 1 is given by :

$$k \sim \text{Binomial}(k+l-1, \frac{\lambda_1}{\lambda_1 + \lambda_2})$$

Then the probability that  $k$  event from process 1 occur before  $l$  from process 2 is :

$$\sum_{i=k}^{k+l-1} \binom{k+l-1}{i} \left( \frac{\lambda_1}{\lambda_1 + \lambda_2} \right)^i \left( \frac{\lambda_2}{\lambda_1 + \lambda_2} \right)^{k+l-1-i}$$

- > Given that exactly  $N(t) = k$  Poisson events occurred before time  $t$ , the joint distribution of event time is the joint distribution of  $k$  independent uniform random variable on  $(0, t)$ .

$$F_{S_1, \dots, S_n | n(t)}(s_1, \dots, s_n | k) = \frac{k!}{t^k}$$

- > For  $k$  independent uniform random variable on  $(0, t)$ , the expected value of the  $j^{\text{th}}$  order statistics is :  $E[T^{(j)}] = \frac{j t}{(k+1)}$ .
- > Tips : **Statistic Order**

## Lesson 15 : Poisson Process Sums and Mixtures

- > A **Sums** of independent Poisson random variables is a Poisson random with intensify function  $\lambda(t) = \sum \lambda_i(t)$ . **Warning : Subtraction dont give a Poisson random variable.**
- > A **Mixture** of Poisson processes is not a Poisson processes.

- **Discrete** mixture :

$$F_{X(t)}(t) = \sum_i w_i F_{X_i(t)}(t)$$

where  $w_i > 0, \sum w_i = 1$

- **Continuous** mixture :

$$F_{X(t)}(t) = \int F_{\{X_u(t)\}}(t) f(u) du$$

- If  $N(t)|\lambda$  is a Poisson random variable and  $\lambda \sim \text{Gamma}(\alpha, \theta)$ , then  $N(t) \sim \text{NegBin}(r = \alpha, \beta = \theta t)$ .

## Lesson 16 : Compound Poisson Processes

- > A **compound** random variable  $S$  is define by  $S = \sum_{i=1}^N X_i$  where  $N$  is the **primary** distribution and  $X$  the **secondary** distribution.

- > If  $N(t)$  is a Poisson process, then  $S(t)$  is a compound Poisson process with :

$$\begin{aligned} - E[S(t)] &= \lambda t E[X] \\ - \text{Var}(S(t)) &= \lambda t E[X^2] \end{aligned}$$

- > If  $X_i$  is discrete, we can separate the process into a sum of subprocess view in LESSON 13.

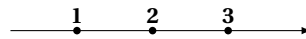
- > **Sums of compound** homogeneous Poisson process is also a Poisson process with :

$$\begin{aligned} - N(t) &\sim \text{Pois}(\sum \lambda_i) \\ - F_X(x) &= \sum_i w_i F_{X_i(t)}(t), \quad w_i = \frac{\lambda_i}{\sum \lambda_i} \end{aligned}$$

## Lesson 17 : Reliability Structure Functions

- >  $\phi(\mathbf{x})$  is the **structure** function for a system. It equal 1 if the system function, 0 otherwise.

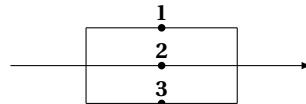
- > A **series** system is define as a **minimal path set**. The system is working if all components are working.



The serie structure function is define as

$$\phi(\mathbf{x}) = \prod_{i=1}^n x_i$$

- > A **parallel** system is define as a **minimal cut set**. The system is working if at least 1 components is working.



The parallel structure function is define as

$$\phi(\mathbf{x}) = 1 - \prod_{i=1}^n (1 - x_i)$$

- > Tips : Minimal path set is all way for the system to work, and the minimal cut set is all the way for the system to not work.

- > Tips : If set is  $\{1, 2, 3\}$  and  $\{1, 2\}$ , the **minimal** mean we only take  $\{1, 2\}$ .

- > Tips : **Minimal cut** is a serie of parallel structure and **minimal path** is a parallel of serie structure.

## Lesson 18 : Reliability Probabilities

- >  $r(\mathbf{p})$  is the same polynomial as  $\phi(\mathbf{x})$ .
- > Inclusion/exclusion bounds using minimal path :

$$\begin{aligned} r(\mathbf{p}) &\leq \sum A_i \\ r(\mathbf{p}) &\geq \sum A_i - \sum A_i \cup A_j \end{aligned}$$

$$r(\mathbf{p}) \leq \sum A_i - \sum A_i \cup A_j + \sum A_i \cup A_j \cup A_k$$

where  $A_i = \sum p_i$  is the probability of the  $i^{\text{e}}$  minimal path set work.

- > Inclusion/exclusion bounds using minimal cut :

$$1 - r(\mathbf{p}) \leq \sum A_i$$

$$1 - r(\mathbf{p}) \geq \sum A_i - \sum A_i \cup A_j$$

$$1 - r(\mathbf{p}) \leq \sum A_i - \sum A_i \cup A_j + \sum A_i \cup A_j \cup A_k$$

where  $A_i = \sum (1 - p_i)$  is the probability of the  $i^{\text{e}}$  minimal cut set work.

- > Bounds using intersections :

$$\prod \phi(\mathbf{X})^{\text{min. cut}} \leq r(\mathbf{p}) \leq \prod \phi(\mathbf{X})^{\text{min. path}}$$

- > **Random graph** :

$$1 - P_n = \sum_{k=1}^{n-1} \binom{n-1}{k-1} q^{k(n-k)} p_k$$

$$1 - P_n \leq (n+1) q^{n-1}$$

$$P_1 = 1$$

## Lesson 19 : Reliability Time to Failure

- > Expected amount of time to failure :

$$E[\text{system life}] = \int_0^\infty r(\tilde{F}(t)) dt$$

where,

- For serie system :

$$r(\tilde{F}(t)) = \prod_{i=1}^n \tilde{F}_i(t)$$

- For parallel system :

$$r(\tilde{F}(t)) = 1 - \prod_{i=1}^n \tilde{F}_i(t)$$

- > **Shortcut** :  $k$  out of  $n$  system with exponentials( $\theta$ ) :  $E[T] = \theta \sum_{i=k}^n \frac{1}{i}$

- > **Hazard rate function** (failure rate function) :

$$h(t) = \frac{f(t)}{\tilde{F}(t)}$$

and we say that the distribution

- is an increasing failure rate if  $h(t)$  is non-decreasing function of  $t$ .
- is an decreasing failure rate if  $h(t)$  is non-increasing function of  $t$ .

- > **Cumulative hazard function** :

$$H(t) = \int_0^t h(u) du = -\ln \tilde{F}(t)$$

with  $\frac{H(t)}{t}$  the average of the hazard rate.

## Lesson 20 : Survival Models

$${}_t p_x = \frac{\ell_{x+t}}{\ell_x}, \quad {}_t q_x = \frac{\ell_x - \ell_{x+t}}{\ell_x}$$

$${}_t |u q_x = \frac{\ell_{x+t} - \ell_{x+t+u}}{\ell_x}$$

$${}_{t+u} p_x = {}_t p_x \cdot {}_t p_{x+t}$$

$${}_t |u q_x = {}_{t+u} q_x - {}_t q_x = {}_t p_x \cdot {}_t |u q_{x+t}$$

- > Let be  $N_x$  the number of life surviving to age  $x$ , then

$$(N_{x+t} | N_x = n) \sim \text{Bin}(n, {}_t p_x)$$

- > **Force of mortality** :

$$\mu_{x+t} = \frac{f_{T_x}(t)}{{}_t p_x} = -\frac{d}{dt} \ln {}_t p_x$$

› **Linear interpolation(D.U.D) :**

$$\ell_{x+t} = (1-t)\ell_x + t\ell_{x+1}$$

Shortcut :  $\forall t \in (0, 1), \forall x \in \mathbb{N}, x < x+t < x+1 :$

$$\rightarrow t q_x = t \cdot q_x$$

$$\rightarrow \mu_{x+t} = \frac{q_x}{1-t \cdot q_x}$$

› **Expected life time :** Let  $k_x = \lfloor T_x \rfloor$ , the full years until death. Then  $e_x$  is the **curtate life expectancy** and  $\bar{e}_x$  the **complete life expectancy**.  $\omega$  is the age where  $\ell_\omega = 0$  and  $\omega = \infty$  by convention is nothing is said.

$$e_x = E[K_x] = \sum_{k=1}^{\omega-x-1} k p_x$$

$$\bar{e}_x = E[T_x] = \int_0^{\omega-x} t p_x dt \stackrel{\text{D.U.D}}{=} e_x + 0.5$$

## Lesson 21 : Contingent Payments

The contract here are define with  $K_x$  to pay at the end of death year. All same contract can be define with  $T_x$  to pay at the moment of death. Then we use integral instead of sum and use

$$\Pr(K = k) = {}_k p_x q_{x+k} \Rightarrow f_{T_x}(t) = t p_x \mu_{x+t}$$

› **Life Insurance :**

– Whole Life insurance :

$$A_x = \sum_{k=0}^{\infty} v^{k+1} {}_k p_x q_{x+k}$$

– Term Life insurance :

$$A_{x:\overline{n}|}^1 = \sum_{k=0}^n v^{k+1} {}_k p_x q_{x+k}$$

– Deferred insurance :

$${}_m A_x = \sum_{k=m}^{\infty} v^{k+1} {}_k p_x q_{x+k}$$

– Endowment insurance :

$$A_{x:\overline{n}|}^1 = A_{x:\overline{n}|} + {}_n E_x$$

– Pure Endowment :

$${}_n E_x = v^n {}_n p_x$$

› **Life Annuities :**

– Whole Life annuity

$$\ddot{a}_x = \sum_{k=0}^{\infty} v^k {}_k p_x$$

– Temporary Life annuity

$$\ddot{a}_{x:\overline{n}|} = \sum_{k=0}^n v^k {}_k p_x$$

– Deferred annuity

$${}_m \ddot{a}_x = \sum_{k=m}^{\infty} v^k {}_k p_x$$

– Certain and life annuity

$$\ddot{a}_{x:\overline{n}|} = \ddot{a}_{\overline{n}|} + {}_m \ddot{a}_x$$

› **Illustrative Life Table :**

–  $A_x = v^n q_x + p_x A_{x+1}$

–  $\ddot{a}_x = 1 + v p_x \ddot{a}_{x+1}$

–  $A_{x:\overline{n}|}^1 = A_x - {}_n E_x A_{x+n}$

–  $\ddot{a}_{x:\overline{n}|} = \ddot{a}_x - {}_n E_x \ddot{a}_{x+n}$

–  ${}_m A_x = {}_m E_x A_{x+m}$

–  ${}_m \ddot{a}_x = {}_m E_x \ddot{a}_{x+m}$

–  $\ddot{a}_x = 1 + a_x$

–  $A_x = 1 - d \ddot{a}_x$

› **Joint life annuity( $\ddot{a}_{xy}$ )** make payments until the earliest death pf two lives.

› **Last survivor annuity( $\ddot{a}_{\overline{xy}}$ )** make payments until the last death of two lives.

$$\ddot{a}_x + \ddot{a}_y = \ddot{a}_{xy} + \ddot{a}_{\overline{xy}}$$

› **Premiums :**

$$M \cdot A_x = P \ddot{a}_x$$

$$P = \frac{M \cdot A_x}{\ddot{a}_x} = \frac{M}{\ddot{a}_x} - M \cdot d$$

## Lesson 22 : Simulation Inverse Method

› **Linear congruential generators :**

$$x_k = (a x_{k-1} + c) \bmod m$$

$$x_k = b - \left\lfloor \frac{b}{m} \right\rfloor m$$

where  $b = (a x_{i-k} + c)$  and  $x_0 \equiv \text{seed}$

› **Inverse transformation method :**

$$\Pr(F^{-1}(u) \leq x) = \Pr(u \leq F(x)) = F(x)$$

then  $x = F^{-1}(u)$  where  $U \sim \text{Unif}(0, 1)$

– Normal Case :  $x = \mu + \sigma z$

– Log-Normal Case :  $x = e^{\mu + \sigma z}$

where  $z = \Phi^{-1}(u)$ , with linear interpolation.

› **Tips : Discrete Cumulative Function**

› **Tips :** if  $\uparrow U \equiv \downarrow X$  then  $(1 - u_i) \Rightarrow u_i$

## Lesson 23 : Simulation Application

$$\Pr(X \leq x) \simeq \frac{1}{m} \sum_{j=1}^m \mathbb{1}_{\{x^{(j)} \leq x\}}$$

$$E[X^k] \simeq \frac{1}{m} \sum_{j=1}^m [x^{(j)}]^k$$

$$\text{VaR}_k(X) \simeq X^{[j]}$$

$$\begin{aligned} \text{TVaR}_k(X) &\simeq \frac{1}{m(1-k)} \sum_{j=j_0+1}^m X^{(j)} \mathbb{1}_{\{X^{(j)} > X^{[j_0]}\}} \\ &\simeq \frac{1}{m-j_0} \sum_{j=j_0+1}^m X^{[j]} \end{aligned}$$

where

–  $m \equiv$  Number of simulations.

–  $j_0 = \lfloor m \cdot k \rfloor$

–  $X^{(j)} \equiv j^{\text{e}}$  simulations.

–  $X^{[j]} \equiv j^{\text{e}}$  simulations in ascending order.

## Lesson 24 : Simulation Rejection Method

› **General method :** Let  $f(x)$  be the density function of variable to simulate, and let  $g(x)$  be the **base distribution**, a random density function that is easy-to-simulate with nonzero wherever  $f(x) \neq 0$ .

$$c = \max \frac{f(x)}{g(x)}$$

Generate two uniform number  $u_1, u_2$ . Let  $x = G^{-1}(u_1)$ . Accept  $x_1$  only if

$$u_2 \leq \frac{f(x_1)}{c \cdot g(x_1)}$$

› **Simulating gamma distribution :** Use

$\text{Exp}(\alpha \cdot \theta)$  as the base distribution and  $c = \alpha \cdot \theta$ .

› **Simulating standart normal distribution :**

Generate 3 uniform  $u_1, u_2, u_3$ . Let  $y_1 = -\ln u_2$  and  $y_2 = -\ln u_3$ . Accept  $y_1$  if

$$y_2 \geq \frac{(y_1 - 1)^2}{2}$$

and add  $(-)$  if  $u_3 \geq 0.5$

## Lesson 25 : Estimator Quality

## Appendix

### Inverting a matrix

$$\begin{pmatrix} a & b \\ c & d \end{pmatrix}^{-1} = \frac{1}{ad-bc} \begin{pmatrix} d & -b \\ -c & a \end{pmatrix}$$

Ajouter pour une matrice 3x3

### Synthetic Division

**Example :** Factorize  $x^3 - 12x^2 - 81$

$$\begin{array}{r|rrrr} 3 & 1 & -12 & 0 & -81 \\ & & 3 & -27 & -81 \\ \hline & 1 & -9 & -27 & 0 \end{array}$$

then,  $x^3 - 12x^2 - 81 = (x-3)(x^2 - 9x - 27)$

### Deductible and Limite

$$\begin{aligned} X &= \min(X; d) + \max(0; X - d) \\ E[X] &= E[\min(X; d)] + E[\max(0; X - d)] \\ &= E[(X \wedge d)] + E[(x - d)_+] \\ &= E[(X \wedge d)] + e_x(d) \cdot S_x(d) \end{aligned}$$

### Statistic Order

- >  $Y_1 = \min(X_1, \dots, X_n)$   
 $f_{Y_1}(y) = n f(y) [S(y)]^{n-1}$   
 $S_{Y_1}(y) = \prod_{i=1}^n \Pr(X_i > y)$
- >  $Y_n = \max(X_1, \dots, X_n)$   
 $f_{Y_n}(y) = n f(y) [F(y)]^{n-1}$   
 $F_{Y_n}(y) = \prod_{i=1}^n \Pr(X_i \leq y)$
- >  $Y_k \in (Y_1, \dots, Y_k, \dots, Y_n)$   
 $f_{Y_k}(y) = \frac{n! \cdot f(y) [F(y)]^{k-1} [S(y)]^{n-k}}{(k-1)!(n-k)!}$   
 $F_{Y_k}(y) = \Pr(\text{at least } k \text{ of } n \text{ } X_i \text{ are } \leq y)$   
 $= \sum_{i=k}^n \binom{n}{i} [F(y)]^i [S(y)]^{n-i}$
- >  $x + y = \min(x, y) + \max(x, y)$ , since one is for sure the max and the other the min.

### Mode : Most likely probability

- >  $g(x) = f(x)$  or some time  $g(x) = \ln f(x)$
- > **Mode** is the  $x$  that respects :  $g'(x) = 0$

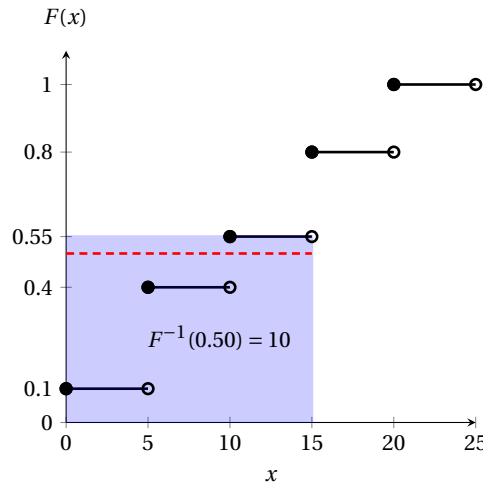
## Normal Approximation

- >  $F_X(x) = \Phi\left(\frac{X - E[X]}{\sqrt{\text{Var}(X)}}\right)$
- > **Continuity correction** is necessary when  $X$  is discrete.  $F_X(x) = \Phi\left(\frac{(X \pm k) - E[X]}{\sqrt{\text{Var}(X)}}\right)$  where  $k$  is the mid-point of the discrete value.

## Discrete Cumulative Function

$$\Pr(X = x) = \begin{cases} 0.10, & x = 0 \\ 0.30, & x = 5 \\ 0.15, & x = 10 \\ 0.25, & x = 15 \\ 0.20, & x = 20 \end{cases}$$

$$\Pr(X \leq x) = \begin{cases} 0.10, & 0 \leq x < 5 \\ 0.40, & 5 \leq x < 10 \\ 0.55, & 10 \leq x < 15 \\ 0.80, & 15 \leq x < 20 \\ 1, & x \geq 20 \end{cases}$$



## Contract

- > **Deductible(d)**
- > **Maximum(u)**
- > **Inflation(r)**
- > **Coinsurance( $\alpha$ )**

$$Y = \begin{cases} 0 & x \leq \frac{d}{1+r} \\ \alpha[(1+r)x - d] & \frac{d}{1+r} < x < \frac{u}{1+r} \\ \alpha[u - d] & x \geq \frac{u}{1+r} \end{cases}$$

**Warning :** The maximal don't include the deductible.