Overview

◯ 5M

A model is created to provide a mathematical description of some phenomenon in reality. A reasonably accurate model will also be useful in predicting future events. So, how might an actuary construct one?

In building a model, it is important to consider, or even incorporate, past data. Suppose that an actuary has a particular sample of data and wants to fit a certain model to (i.e. assume a certain distribution for) that data. In order to do so, the actuary will need to assign a value for each parameter of the distribution. How should the past sample data be used to obtain reasonable parameter values? Consider the example in the next subsection.