# M339J/M389J Syllabus

## M339J/M389J: Probability Models Actuarial with Applications - Spring 2023 - Syllabus

Course meets. MWF 1pm - 1:50pm in PMA 5.122

Instructor. Milica Čudina (she/her/hers); my office is PMA 13.142 (2515 Speedway, Austin, TX 78712).

Email. It's best to use Canvas to email the instructor. The instructor's email address is mcudina@math.utexas.edu.

Office Hours. MWF 10am-10:50am in PMA 13.142.

Statistics with Applications.

of yourselves and your classmates.

Course info

exam. The material exhibited includes: basic insurance and re-insurance, severity- and frequency-of-loss models, compound models, parametric and non-parametric estimation, maximum-likelihood estimation, credibility.

• Familiarity with the basics of the programming language R and the RStudio IDE. Using R to simulate random variables.

- Understanding the stipulations of common insurance contracts useful in every-day life, including coverage modifications (deductibles,
- parameter value choice.
- Becoming versed in calculating the expected aggregate payments in the presence of coverage modifications for a variety of model choices as the first step towards policy pricing.
- Implementing non-parametric estimation techniques in survival analysis. Prerequisites. The formal prerequisite is the grade C- or better in M362K and M358K (or M378K). Students are assumed to be at home with

the basics of probability as presented in, e.g., Ross's First Course in Probability, Pitman's Probability or Asimow and Maxwell's Probability and

course, and for that to happen, a thorough understanding of probability.

**Lectures online.** This class is using the *Lectures Online* recording system. This system records the audio and video material presented in class for you to review after class. Links for the recordings will appear in the Lectures Online tab on the Canvas page for this class. You will

find this tab along the left side navigation in Canvas.

recommended. In case you need to be absent, you are responsible for covering the missed material independently. Class notes will be provided on the course website. As noted above, we will be using the Lectures Online recording system. There will be no synchronous online option for this course. You are strongly encouraged to stay home if you are sick or contagious, not only to stop the spread of disease but also to promote your personal wellness. I view this class as a community of learners. We cannot learn effectively when we are ill. Please, take care

Class format and attendance. Attendance for the purposes of grading will not be taken. However, regular attendance is strongly

Here are some university resources on COVID-19 and a link to the university's Exposure Action Chart. If **students** are isolating, too sick to attend class, or experiencing another type of absence, they should: contact the Student Emergency Services immediately, and email the instructor as soon as they feel well enough to do so. If the instructor is isolating, or too sick to attend class, she will do her best to change class modality to Zoom (with an alternative instructor if

The class meetings consist of interactive lectures, coding demonstrations, and problem solving. In short, the course will incorporate a lot of

active learning in class. Thus, if you miss class, you miss out on these learning opportunities. Please, come to class as much as possible.

**Textbook.** Our open-source textbook is available at:

Loss Data Analytics

the situation calls for such drastic measures and if it's possible).

Short LDA course

Required devices. You will need access to a computer to be able to work on projects and homework. Please have your computer (or another device capable of running R) available in the exams as well.

1. Course website: https://mcudina.github.io/page/M339J/M339J.html. I recommend bookmarking this course site in your default

# browser for easy access.

Online resources.

classmates and myself. Rather than emailing questions to the instructor, I encourage you to post your questions on Ed Discussion. It is accessible via the menu on the left-hand side in Canvas.

3. Ed Discussion will be used for informal class discussion. The system is highly catered to getting you help fast and efficiently from

proceedings.

Homework

In-term exams

Quizzes

94 - 100

90-94

time after the excused absence.

http://www.utexas.edu/safety/

attention to the section on plagiarism.

The SCHEDULE of CLASSES

Topic

Weekday

Mon

Wed

Fri

Fri

Wed

Mon

Wed

Mon

Wed

Mon

Mon

Wed

Fri

Fri

made in your absence. .

**Date** 

1/9/2023

1/11/2023

1/13/2023

1/18/2023

1/20/2023

1/30/2023

2/1/2023

2/3/2023

2/6/2023

2/22/2023

2/24/2023

2/27/2023

4/3/2023

4/12/2023

86 - 90

faculty, and staff as well as a concern submission form.

Behavior Concerns Advice Line): 512-232-5050. Your call can be anonymous.

activation or announcement requires exiting and assembling outside.

the one you used when entering the building.

- Sharing of Course Materials is Prohibited. No materials used in this class, including, but not limited to, lecture hand-outs, videos, assessments (quizzes, exams, papers, projects, homework assignments), in-class materials, review sheets, and additional problem sets, may
- are associated with you, or any suspected unauthorized sharing of materials, will be reported to Student Conduct and Academic Integrity in the Office of the Dean of Students. These reports can result in sanctions, including failure in the course. Class Recordings. Class recordings are reserved only for students in this class for educational purposes and are protected under FERPA. The

will count as the zeroth homework assignment. To get the credit, read this entire document with understanding by the homework deadline. Not handing in this assignment does not exempt you from abiding by this First-Day Handout. The lowest three homework scores will be dropped. The homework assignments and their due dates will be announced as the term progresses.

Quizzes. You will have various short warm-up and review worksheets to complete at home and upload to Canvas. Think of quizzes as "mini-

homework". Many of the quizzes will include coding in R. The lowest three quiz scores will be dropped. The quizzes and their due dates

Homework assignments. Homework assignments will be available on the course website or in Canvas. You will be uploading your solutions

using Canvas. Please, have your solutions in order and number the pages. Having read and understood this First-Day Handout in its entirety

will be announced on the course website as the term progresses.

Assessment and grading

exam. For this course and section, according to the Registrar's office, the date and time of the final exam is Saturday, April 29, 3:30pm-5:30 pm. **Final grade.** The final grade is composed as follows: **Assignment** Percentage of final grade

The Final Exam. This course has a comprehensive final exam. If higher, the final-exam score will substitute the score on your lowest in-term

There is *no curve* in this class and the letter grades are assigned according to the following table: B+ B B-C+ D D-C-D+ **A-**

70 - 74

65 - 70

60 - 65

55 - 60

50 - 55

particular

74 - 78

Drop dates. The procedure/consequences are different, depending on whether you drop before or after the 4th day of classes (01/12), and then, before or after the main drop (Q-drop) date (03/21). (See https://ugs.utexas.edu/vick/academic/adddrop for details) Students with Disabilities. The University of Texas at Austin provides upon request appropriate academic accommodations for qualified

82 - 86

from the Office of the Dean of Students to explore what your options are in such a dire situation.

10%

10%

78 - 82

GENERAL, UNIVERSITY- or STATE-MANDATED INFORMATION

60% (20% each)

Education Code relate to absences by students and instructors for observance of religious holy days. Section 51.911 states that a student who misses an examination, work assignment, or other project due to the observance of a religious holy day must be given an opportunity to complete the work missed within a reasonable time after the absence, provided that they have properly notified each instructor.

It is the policy of The University of Texas at Austin that the student must notify each instructor at least fourteen days prior to the classes

scheduled on dates he or she will be absent to observe a religious holy day. For religious holidays that fall within the first two weeks of the

semester, the notice should be given on the first day of the semester. The student may not be penalized for these excused absences but the

instructor may appropriately respond if the student fails to complete satisfactorily the missed assignment or examination within a reasonable

Title IX Reporting/SB 212. Texas Senate Bill 212 requires all employees of Texas universities, including faculty, report any information to the

Title IX Office regarding sexual harassment, sexual assault, dating violence and stalking that is disclosed to them. Your instructor in a mandatory reporter. By law, your instructor must be fired if she does not report. Our Student Ombuds is confidential. Additionally, if you wish to speak with someone who can provide support without making an official report to the university, contact a confidential advocate at the Office of the Dean of Students by emailing advocate@austin.utexas.edu.

the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office. information Link regarding evacuation routes found emergency and procedures can be emergency at: http://www.utexas.edu/emergency Academic (dis)Honesty. Students who violate University rules on academic dishonesty are subject to disciplinary penalties, including the

• Students requiring assistance in evacuation shall inform their instructor in writing during the first week of class.

https://catalog.utexas.edu/general-information/appendices/appendix-c/student-conduct-and-academic-integrity/ Please,

Basics of R: Arithmetic. Vectors. R-scripts and R-notebooks. For loops. 1/23/2023 Mon Functions in R. If ... else in R. Simulations of random variables. 1/25/2023 Wed 1/27/2023 Fri Focus on the expectation. The tail formula for the expectation. TVaR.

Deductibles. Per-payment and per-loss random variables.

Random number generation. The inverse transform method.

Orientation. Setting up R and RStudio.

The exponential distribution.

SLLN. Monte Carlo simulation.

Moments. Variance. Coefficient of variation.

Loss elimination ratio. Other loss modifications.

Poisson thinning. The negative binomial distribution.

The (a, b, 0) class. The (a, b, 1) class.

The binomial distribution. The binomial-Poisson connection.

Maximum-likelihood estimation: Negative binomial and binomial.

- 2/8/2023 Wed Proportional and excess of loss reinsurance. Fri Parametric distributions. Scale distributions. 2/10/2023 2/13/2023 In-Term One Mon 2/15/2023 Wed mgf and pgf. Sums of independent random variables.
- The individual risk model. Monte Carlo for the individual risk model. 3/1/2023 Wed Fri 3/3/2023 The collective risk model.
- 3/20/2023 Mon Maximum-likelihood estimation: First principles. Individual unmodified data. 3/22/2023 Wed Maximum-likelihood estimation: Grouped data. Fri 3/24/2023 Maximum-likelihood estimation: Censoring.
- 3/29/2023 Wed Maximum-likelihood estimation: Truncation. 3/31/2023 Fri Maximum-likelihood estimation: Bernoulli and Poisson.
- 4/5/2023 Wed Survival analysis. 4/7/2023 Fri Non-parametric estimation.

Kaplan-Meier.

- 4/10/2023 Mon Maximum-likelihood estimation for mortality.
- 4/17/2023 Mon Credibility. 4/19/2023 Wed Limited fluctuation (classical) credibility.

COURSE-SPECIFIC INFORMATION Welcome to M339J/M389J! Here is some information and some ground rules. Read carefully and let me know if there is anything unclear by

the twelfth day of classes, i.e., January 25th, 2023. Basic info **Course number.** M339J/M389J (unique: 54735/55100)

Course description. This course is intended to provide the mathematical foundations necessary to prepare for a portion of the SOA Exam FAM. Additionally, the course is aimed at building the vocabulary and the techniques indispensable in the workplace at current insurance institutions. This is not an exam-prep seminar. There is intellectual merit to the course beyond the ability to prepare for a professional

The remainder of the Exam FAM curriculum is exhibited in courses M339D and M339U (also offered by the Department of Mathematics). Learning outcomes.

limits, coinsurance).

• Learning to build probabilistic models based on real-life problems with particular focus on short term insurance. • Gaining competency in choosing appropriate probabilistic models for the applications mentioned above including, but not limited to,

Estimating parameters using maximum likelihood estimation.

Students are **not** assumed to have any prior programming experience and the basics of R will be covered from scratch. It should be stressed that this course is more sophisticated mathematically than is evident at first glance. I want you to be successful in this

To review a recording, simply click on the Lectures Online navigation tab and follow the instructions presented to you on the page. You can learn more about how to use the Lectures Online system at http://sites.la.utexas.edu/lecturesonline/students/how-to-access-recordings/. You can find additional information about Lectures Online at: https://sites.la.utexas.edu/lecturesonline/.

The supplemental short course is available at:

## 2. Canvas will be used in this course to keep track of grades and for communication purposes. The students are responsible for the content of these announcements. The easiest way not to miss any is to turn on (i.e., not turn off) Announcements in their account's

Notification menu.

- be shared online or with anyone outside of the class unless you have my explicit, written permission. Unauthorized sharing of materials promotes cheating. It is a violation of the University's Student Honor Code and an act of academic dishonesty. Any materials found online that
- recordings should not be shared outside the class in any form. Violation of this restriction by a student could lead to Student Misconduct
- No late quizzes or homework are accepted except in dire circumstances at the sole discretion of the instructor. In-term exams. There will be three in-term exams. All will be individual and conducted in-person in our classroom. The exam coverage will be shared on the course website ahead of the exam itself. If you miss an exam due to illness or other extenuating circumstances, the final exam will take the weight of the in-term exam you missed. If you miss more than one in-term exam, you are strongly encouraged to seek assistance

The final exam 20%

students with disabilities. If you have a documented disability and you need specific support as a result of your disability, please let me know as soon as possible, but definitely within the first 3 weeks of class. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 (TTY), 1-866-329-3986 (video phone) or go to http://ddce.utexas.edu/disability/ Counseling and mental health. Counseling and other mental-health services are available from Counseling and Mental Health Center, Student Services Bldg (SSB), 5th Floor. (hours: M-F 8am-5pm. phone: 512 471 3515, web: http://www.cmhc.utexas.edu)

Inclusion and equity. A climate conducive to learning and creating knowledge is the right of every person in our community. Bias,

harassment, and discrimination of any sort have no place here. The Office for Inclusion and Equity provides many resources for students,

Religious holy days. Religious holy days sometimes conflict with class and examination schedules. Sections 51.911 and 51.925 of the Texas

Sanger Learning Center. All students are welcome to take advantage of Sanger Center's classes and workshops, private learning specialist appointments, peer academic coaching, and tutoring for more than 70 courses in 15 different subject areas. For more information, please visit http://www.utexas.edu/ugs/slc or call 512-471-3614 (JES A332).

Important Safety Information. If you have concerns about the safety or behavior of fellow students, TAs or Professors, call BCAL (the

Further information about (campus) safety and security can be obtained from the Office of Campus Safety and Security, 512-471-5767,

Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm

• Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be

• In the event of an evacuation, follow the instruction of faculty or class instructors. Do not re-enter a building unless given instructions by

possibility of failure in the course and/or dismissal from the University. Since such dishonesty harms the individual, all students, and the integrity of the University, policies on academic dishonesty will be strictly enforced. For further information, please visit the Student Conduct

and Academic Integrity website at: http://deanofstudents.utexas.edu/conduct For a more detailed document, please consult:

This syllabus is subject to change. If you have to miss class, please make sure to check in with a classmate to learn of any updates that were

Cumulative distribution function. Survival function. Percentiles. VaR.

Types of random variables. Probability mass function. Probability density function.

- Fri The Central Limit Theorem. 2/17/2023 The Poisson distribution. 2/20/2023 Mon
- 3/6/2023 Compound Poisson. Mon 3/8/2023 Wed Monte Carlo for the collective risk model. 3/10/2023 Fri Stop-loss insurance.
- 3/27/2023 Mon In-Term Two
- - Fri Nelson-Aalen. 4/14/2023
  - 4/21/2023 Fri Problem-solving session. 4/24/2023 Mon In-Term Three