

# Stochastic Modeling

A stochastic matrix is a square matrix whose elements are probabilities and where each row sums to one. One special example of a stochastic matrix is a matrix of transition probabilities.

## **Example**

Consider the case where a student enters a college as a one major, but changes to another.

	STEM	Humanities	Business
STEM	0.6	0.3	0.1
Hum.	0.05	0.7	0.25
Bus.	0.2	0.3	0.5

In this matrix, each  $a_{ij}$  entry represents the probability that a student will change to that major (or keep that major if it is the same). Suppose we have 1000 freshmen that enter the college

$$x_0 = [300, 500, 200]$$

in the order STEM, Humanities, and Business. If we want to know the number of STEM majors in the class's sophomore year, we can multiply our initial vector by the STEM column of our matrix:

$$\begin{aligned}\text{STEM Majors} &= (0.6)(300) + (0.05)(500) + (0.2)(200) \\ &= 245 \text{ students}\end{aligned}$$

$$\begin{aligned}\text{Hum. Majors} &= (0.3)(300) + (0.7)(500) + (0.3)(200) \\ &= 500 \text{ students}\end{aligned}$$

$$\begin{aligned}\text{Bus. Majors} &= (0.1)(300) + (0.25)(500) + (0.5)(200) \\ &= 255 \text{ students}\end{aligned}$$

We can continue this process for each year that the students attend the college.

This process for creating a sequence of vectors is called a Markov Chain. In general, we can start with a vector  $\mathbf{x}_0$  and a matrix  $P$ , and we get that

$$\begin{aligned}\mathbf{x}_1 &= \mathbf{x}_0 \cdot \mathbf{P} \\ \mathbf{x}_2 &= \mathbf{x}_1 \cdot \mathbf{P} = \mathbf{x}_0 \cdot \mathbf{P} \cdot \mathbf{P} \\ \mathbf{x}_3 &= \mathbf{x}_2 \cdot \mathbf{P} = \mathbf{x}_0 \cdot \mathbf{P} \cdot \mathbf{P} \cdot \mathbf{P},\end{aligned}$$

which yields the recurrence relation

$$\mathbf{x}_n = \mathbf{x}_0 \mathbf{P}^n.$$

$P^n$  is called the  $n$ -step transition matrix. In this matrix, the  $a_{ij}$  element gives the probability of going from state  $i$  to state  $j$ .

## **Example**

Consider the movement of people from the city to the suburb.

	Cities	Suburbs
Cities	0.96	0.04
Suburbs	0.1	0.99

with the initial vector

$$x_0 = [60, 125]$$