ETC3430

Financial Mathematics under Uncertainty

Assignment 1, Semester 1, 2022

# Question 1

Perform the following simulation exercise in Matlab or R, using your student number as the seed( rng( your student no.)). Consider a three state Markov Chain(“sunny”, “rainy” and “overcast”) to model the daily weather in Melbourne.

1. Without using data, suggest a reasonable estimate of the transition matrix. The later questions should be considered based on your estimates.
2. Given each starting state respectively, what is the most likely state of the weather in the next five days. Present your answer in a table.   
   Table

   Description automatically generated

Table

Description automatically generated

1. Label the three states as , i.e., if the weather is sunny, if the weather is rainy and if the weather is overcast. Given each starting state respectively, what is in the next five days. Present your answer in a table.