F71SZ Stochastic Modelling

COURSE DETAILS
Course Code: F71SZ
Full Course Title: Stochastic Modelling
SCQF Level: 11
SCAF Credits: 7.5
Available as Elective: No

DELIVERY LEVEL
Undergraduate: Yes
Postgraduate Taught: Yes
Postgraduate Research: No

COURSE AIMS
To introduce fundamental stochastic processes which are useful in insurance

LEARNING OUTCOMES – SUBJECT MASTERY
After studying this half course, students should be able to:

- Understand and use the Markov property
- Write down equations for the stationary distribution of a Markov chain and use, wherever possible, additional structure to solve them
- Write down first step equations and use them to compute the time to death, probability of absorption etc.
- Apply Markov chain modelling in several problems
- Understand long term behaviour and stationarity of a Markov chain
- Apply Chi-squared tests for contingency tables or goodness of fit.
- Carry out a one-way ANOVA.

LEARNING OUTCOMES – PERSONAL ABILITIES
At the end of the half course, students should be able to:

- Demonstrate the ability to learn independently
- Manage time work to deadlines and prioritise workloads
- Present results in a way which demonstrates that they have understood the technical and broader issues of stochastic processes

SYLLABUS


F71SZ Stochastic Modelling

- Conditional expectation
- Sequences of random variables and the Markov property
- Review of matrix algebra
- Review of summation notation and other useful concepts
- Using the Markov property
- Absorbing Markov chains with finite state space
- First step (backwards) equations
- Basic examples
- Stationarity problem for finite state space chains
- Tricks for the computation of the stationary distribution
- Convergence to stationarity
- Markov chains with infinite but countable state space
- Examples
- Simple point processes, Poisson and compound Poisson processes
- Continuous time Markov processes
- Chi-squared test for contingency tables and goodness of fit.
- One-way ANOVA.

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Examination will be at least 60% and no more than 80%.

Y                                                                                     

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Coursework will be at least 20% and no more than 40%.

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Re-assessment in the next academic year.