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02405 Probability
2005-10-28
BFN/bfn

Question a) We find $G(t)$ using (7) page 297

IMM - DTU

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$G(t)$

IMM - DTU

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$$G(t) = e^{-\int_0^t \frac{a}{b+u} du}$$

IMM - DTU

02405 Probability
2005-10-28
BFN/bfn

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$$G(t) = e^{-\int_0^t \frac{a}{b+u} du} = e^{-a[\ln(b+u)]_{u=0}^{u=t}}$$

IMM - DTU

02405 Probability
2005-10-28
BFN/bfn

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$$G(t) = e^{-\int_0^t \frac{a}{b+u} du} = e^{-a[\ln(b+u)]_{u=0}^{u=t}} = e^{-a \ln\left(\frac{b+t}{b}\right)}$$

IMM - DTU

02405 Probability
2005-10-28
BFN/bfn

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This is a Pareto distribution. The Pareto distribution is one of the generic distributions with important applications in economics (income distributions), insurance (claim size distribution), geology (distribution for strenght of earth quakes), and telecommunications (duration of internet connections).

IMM - DTU

02405 Probability
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BFN/bfn

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Question b) We find $f(t)$ using (5) page 297

IMM - DTU

02405 Probability
2005-10-28
BFN/bfn

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IMM - DTU

02405 Probability
2005-10-28
BFN/bfn

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Question b) We find $f(t)$ using (5) page 297

$$f(t) = -\frac{dG(t)}{dt}$$

IMM - DTU

02405 Probability
2005-10-28
BFN/bfn

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Question b) We find $f(t)$ using (5) page 297

$$f(t) = -\frac{dG(t)}{dt} = -\frac{d\left(1 + \frac{t}{b}\right)^{-a}}{dt} = \frac{a}{b} \left(1 + \frac{t}{b}\right)^{-a-1}$$