

1. Let  $X$  be the ratio between a claim payment and insured capital. Let us assume that  $X \sim \text{beta}(\alpha, \beta)$ , i.e.

$$f_x(x|\alpha, \beta) = \frac{\Gamma(\alpha + \beta)}{\Gamma(\alpha)\Gamma(\beta)} x^{\alpha-1} (1-x)^{\beta-1}, \quad 0 < x < 1, \quad \alpha, \beta > 0$$

Using software R we get (observed data in array x)

```
> length(x)
[1] 500
> mean(x)
[1] 0.6715272
> sd(x)
[1] 0.1775871
> summary(x); length(x); sd(x)
  Min. 1st Qu.  Median    Mean 3rd Qu.   Max.
0.1471 0.5576 0.6811 0.6715 0.8059 0.9945
> # first parameter is alpha
> # second parameter is beta
> minusloglik_beta=function(theta){
+   -sum(dbeta(x,shape1=theta[1],shape2=theta[2],log=TRUE))
+ }
>
> theta.start=c(3,2.5)
> out=nlm(minusloglik_beta,theta.start,hessian=TRUE)
Warning messages:
1: In dbeta(x, shape1, shape2, log) : NaNs produced
2: In nlm(minusloglik_beta, theta.start, hessian = TRUE) :
  NA/Inf replaced by maximum positive value
3: In dbeta(x, shape1, shape2, log) : NaNs produced
4: In nlm(minusloglik_beta, theta.start, hessian = TRUE) :
  NA/Inf replaced by maximum positive value
> HH=out$hessian
> InvHH=solve(HH)
> InvHH_n=InvHH/500
> out
$minimum
[1] -181.6821
$estimate
[1] 3.963062 1.933768
$gradient
[1] -4.785322e-06 5.532537e-06
$hessian
      [,1] [,2]
[1,] 51.01073 -92.3800
[2,] -92.38000 243.9896
$code
```

```

[1] 1
$iterations
[1] 13
> InvHH
      [,1] [,2]
[1,] 0.06236915 0.02361438
[2,] 0.02361438 0.01303947
> InvHH_n
      [,1] [,2]
[1,] 1.247383e-04 4.722875e-05
[2,] 4.722875e-05 2.607895e-05

```

- a) What are the maximum likelihood estimates for  $\alpha$  and  $\beta$ ? Are these estimates reliable?
  - b) Determine a 95% confidence interval for  $\beta$ .
  - c) Using delta method, determine a 95% interval for  $\mu = \alpha / (\alpha + \beta)$
  - d) Without using delta method determine another 95% confidence interval for  $\mu$ .
2. Assume that  $X$  is gamma distributed with unknown parameters  $\alpha$  and  $\theta$ . From this population we collected data set B as a sample.

```

Using software R we got
> x=c(27,82,115,126,155,161,243,294,340,384,457,680,855,877,974,
+ 1193,1340,1884,2558,15743)
> minusLogLikGamma=function(param){
+ -sum(dgamma(x,shape=param[1],scale=param[2],log=TRUE))
+ }
> param.start=c(1,1000)
> out=nlm(minusLogLikGamma,param.start,hessian=TRUE)
Warning messages:
1: In dgamma(x, shape, scale, log) : NaNs produced
2: In nlm(minusLogLikGamma, param.start, hessian = TRUE) :
  NA/Inf replaced by maximum positive value
> out
$minimum
[1] 162.2934
$estimate
[1] 0.556156 2561.146495
$gradient
[1] -8.273560e-05 -6.824815e-09
$hessian
      [,1] [,2]
[1,] 82.443074234 7.808613e-03
[2,] 0.007808613 1.695064e-06

```

```

$code
[1] 1
$iterations
[1] 26
> solve(out$hessian)
      [,1] [,2]
[1,] 0.02151866 -99.12953
[2,] -99.12952956 1046606.28099

```

- a) What are the maximum likelihood estimates for  $\alpha$  and  $\theta$ ?
- b) Determine a 95% confidence interval for each parameter.
- c) Using delta method, determine a 95% interval for  $\mu = E(X)$

3. To get a maximum likelihood estimate for the parameter  $\theta$  we defined the following function using R

```

>minusloglik_f=function(theta){
  -sum(log(x)-2*log(theta)-x/theta)
}>

```

Write the density function of the observed data.

4. Repeat example 15.17 using improper prior  $\pi(\theta) = 1/\theta, \theta > 0$
5. Repeat example 15.17 using the discrete prior  $\pi(\theta) = 1/3, \theta = 1, 2, 3$