

# Contents

## Preface

## 1 Introduction to Probability Theory

- 1.1 Introduction
- 1.2 Sample Space and Events
- 1.3 Probabilities Defined on Events
- 1.4 Conditional Probabilities
- 1.5 Independent Events
- 1.6 Bayes' Formula

### Exercises

### References

## 2 Random Variables

- 2.1 Random Variables
- 2.2 Discrete Random Variables
  - 2.2.1 The Bernoulli Random Variable
  - 2.2.2 The Binomial Random Variable
  - 2.2.3 The Geometric Random Variable
  - 2.2.4 The Poisson Random Variable
- 2.3 Continuous Random Variables
  - 2.3.1 The Uniform Random Variable
  - 2.3.2 Exponential Random Variables
  - 2.3.3 Gamma Random Variables
  - 2.3.4 Normal Random Variables
- 2.4 Expectation of a Random Variable
  - 2.4.1 The Discrete Case
  - 2.4.2 The Continuous Case
  - 2.4.3 Expectation of a Function of a Random Variable
- 2.5 Jointly Distributed Random Variables
  - 2.5.1 Joint Distribution Functions
  - 2.5.2 Independent Random Variables
  - 2.5.3 Covariance and Variance of Sums of Random Variables
  - 2.5.4 Joint Probability Distribution of Functions of Random Variables
- 2.6 Moment Generating Functions

2.6.1	The Joint Distribution of the Sample Mean and Sample Variance from a Normal Population	66
2.7	The Distribution of the Number of Events that Occur	69
2.8	Limit Theorems	71
2.9	Stochastic Processes	77
	Exercises	79
	References	91
<b>3</b>	<b>Conditional Probability and Conditional Expectation</b>	<b>93</b>
3.1	Introduction	93
3.2	The Discrete Case	93
3.3	The Continuous Case	97
3.4	Computing Expectations by Conditioning	100
3.4.1	Computing Variances by Conditioning	111
3.5	Computing Probabilities by Conditioning	115
3.6	Some Applications	133
3.6.1	A List Model	133
3.6.2	A Random Graph	135
3.6.3	Uniform Priors, Polya's Urn Model, and Bose—Einstein Statistics	141
3.6.4	Mean Time for Patterns	146
3.6.5	The k-Record Values of Discrete Random Variables	149
3.6.6	Left Skip Free Random Walks	152
3.7	An Identity for Compound Random Variables	157
3.7.1	Poisson Compounding Distribution	160
3.7.2	Binomial Compounding Distribution	161
3.7.3	A Compounding Distribution Related to the Negative Binomial	162
	Exercises	163
<b>4</b>	<b>Markov Chains</b>	<b>183</b>
4.1	Introduction	183
4.2	Chapman–Kolmogorov Equations	187
4.3	Classification of States	194
4.4	Long-Run Proportions and Limiting Probabilities	204
4.4.1	Limiting Probabilities	219
4.5	Some Applications	220
4.5.1	The Gambler's Ruin Problem	220
4.5.2	A Model for Algorithmic Efficiency	223
4.5.3	Using a Random Walk to Analyze a Probabilistic Algorithm for the Satisfiability Problem	226
4.6	Mean Time Spent in Transient States	231
4.7	Branching Processes	234

4.8	Time Reversible Markov Chains	237
4.9	Markov Chain Monte Carlo Methods	247
4.10	Markov Decision Processes	251
4.11	Hidden Markov Chains	254
4.11.1	Predicting the States	259
	Exercises	261
	References	275
<b>5</b>	<b>The Exponential Distribution and the Poisson Process</b>	<b>277</b>
5.1	Introduction	277
5.2	The Exponential Distribution	278
5.2.1	Definition	278
5.2.2	Properties of the Exponential Distribution	280
5.2.3	Further Properties of the Exponential Distribution	287
5.2.4	Convolutions of Exponential Random Variables	293
5.3	The Poisson Process	297
5.3.1	Counting Processes	297
5.3.2	Definition of the Poisson Process	298
5.3.3	Interarrival and Waiting Time Distributions	301
5.3.4	Further Properties of Poisson Processes	303
5.3.5	Conditional Distribution of the Arrival Times	309
5.3.6	Estimating Software Reliability	320
5.4	Generalizations of the Poisson Process	322
5.4.1	Nonhomogeneous Poisson Process	322
5.4.2	Compound Poisson Process	327
5.4.3	Conditional or Mixed Poisson Processes	332
5.5	Random Intensity Functions and Hawkes Processes	334
	Exercises	338
	References	356
<b>6</b>	<b>Continuous-Time Markov Chains</b>	<b>357</b>
6.1	Introduction	357
6.2	Continuous-Time Markov Chains	358
6.3	Birth and Death Processes	359
6.4	The Transition Probability Function $P_{ij}(t)$	366
6.5	Limiting Probabilities	374
6.6	Time Reversibility	380
6.7	The Reversed Chain	387
6.8	Uniformization	393
6.9	Computing the Transition Probabilities	396
	Exercises	398
	References	407

<b>7</b>	<b>Renewal Theory and Its Applications</b>	<b>409</b>
7.1	Introduction	409
7.2	Distribution of $N(t)$	411
7.3	Limit Theorems and Their Applications	415
7.4	Renewal Reward Processes	427
7.5	Regenerative Processes	436
7.5.1	Alternating Renewal Processes	439
7.6	Semi-Markov Processes	444
7.7	The Inspection Paradox	447
7.8	Computing the Renewal Function	449
7.9	Applications to Patterns	452
7.9.1	Patterns of Discrete Random Variables	453
7.9.2	The Expected Time to a Maximal Run of Distinct Values	459
7.9.3	Increasing Runs of Continuous Random Variables	461
7.10	The Insurance Ruin Problem	462
	Exercises	468
	References	479
<b>8</b>	<b>Queueing Theory</b>	<b>481</b>
8.1	Introduction	481
8.2	Preliminaries	482
8.2.1	Cost Equations	482
8.2.2	Steady-State Probabilities	484
8.3	Exponential Models	486
8.3.1	A Single-Server Exponential Queueing System	486
8.3.2	A Single-Server Exponential Queueing System Having Finite Capacity	495
8.3.3	Birth and Death Queueing Models	499
8.3.4	A Shoe Shine Shop	505
8.3.5	A Queueing System with Bulk Service	507
8.4	Network of Queues	510
8.4.1	Open Systems	510
8.4.2	Closed Systems	514
8.5	The System $M/G/1$	520
8.5.1	Preliminaries: Work and Another Cost Identity	520
8.5.2	Application of Work to $M/G/1$	520
8.5.3	Busy Periods	522
8.6	Variations on the $M/G/1$	523
8.6.1	The $M/G/1$ with Random-Sized Batch Arrivals	523
8.6.2	Priority Queues	524
8.6.3	An $M/G/1$ Optimization Example	527
8.6.4	The $M/G/1$ Queue with Server Breakdown	531

8.7	The Model $G/M/1$	534
8.7.1	The $G/M/1$ Busy and Idle Periods	538
8.8	A Finite Source Model	538
8.9	Multiserver Queues	542
8.9.1	Erlang's Loss System	542
8.9.2	The $M/M/k$ Queue	544
8.9.3	The $G/M/k$ Queue	544
8.9.4	The $M/G/k$ Queue	546
	Exercises	547
	References	558
<b>9</b>	<b>Reliability Theory</b>	<b>559</b>
9.1	Introduction	559
9.2	Structure Functions	560
9.2.1	Minimal Path and Minimal Cut Sets	562
9.3	Reliability of Systems of Independent Components	565
9.4	Bounds on the Reliability Function	570
9.4.1	Method of Inclusion and Exclusion	570
9.4.2	Second Method for Obtaining Bounds on $r(p)$	578
9.5	System Life as a Function of Component Lives	580
9.6	Expected System Lifetime	587
9.6.1	An Upper Bound on the Expected Life of a Parallel System	591
9.7	Systems with Repair	593
9.7.1	A Series Model with Suspended Animation	597
	Exercises	599
	References	606
<b>10</b>	<b>Brownian Motion and Stationary Processes</b>	<b>607</b>
10.1	Brownian Motion	607
10.2	Hitting Times, Maximum Variable, and the Gambler's Ruin Problem	611
10.3	Variations on Brownian Motion	612
10.3.1	Brownian Motion with Drift	612
10.3.2	Geometric Brownian Motion	612
10.4	Pricing Stock Options	614
10.4.1	An Example in Options Pricing	614
10.4.2	The Arbitrage Theorem	616
10.4.3	The Black-Scholes Option Pricing Formula	619
10.5	The Maximum of Brownian Motion with Drift	624
10.6	White Noise	628
10.7	Gaussian Processes	630
10.8	Stationary and Weakly Stationary Processes	633

10.9 Harmonic Analysis of Weakly Stationary Processes	637
Exercises	639
References	644
<b>11 Simulation</b>	<b>645</b>
11.1 Introduction	645
11.2 General Techniques for Simulating Continuous Random Variables	649
11.2.1 The Inverse Transformation Method	649
11.2.2 The Rejection Method	650
11.2.3 The Hazard Rate Method	654
11.3 Special Techniques for Simulating Continuous Random Variables	657
11.3.1 The Normal Distribution	657
11.3.2 The Gamma Distribution	660
11.3.3 The Chi-Squared Distribution	660
11.3.4 The Beta ( $n, m$ ) Distribution	661
11.3.5 The Exponential Distribution—The Von Neumann Algorithm	662
11.4 Simulating from Discrete Distributions	664
11.4.1 The Alias Method	667
11.5 Stochastic Processes	671
11.5.1 Simulating a Nonhomogeneous Poisson Process	672
11.5.2 Simulating a Two-Dimensional Poisson Process	677
11.6 Variance Reduction Techniques	680
11.6.1 Use of Antithetic Variables	681
11.6.2 Variance Reduction by Conditioning	684
11.6.3 Control Variates	688
11.6.4 Importance Sampling	690
11.7 Determining the Number of Runs	694
11.8 Generating from the Stationary Distribution of a Markov Chain	695
11.8.1 Coupling from the Past	695
11.8.2 Another Approach	697
Exercises	698
References	705
<b>Appendix: Solutions to Starred Exercises</b>	<b>707</b>
<b>Index</b>	<b>759</b>