1. Money Withdrawn from an ATM Machine

Customers arrive at an automated teller machine (ATM) at the times of a Poisson process with a rate of \( \lambda = 10 \) per hour. Suppose that the amount of money withdrawn on each transaction has a mean of $30 and a standard deviation of $20.

(a) Find the mean and variance of the total amount of dollars withdrawn in 8 hours.

(b) What is the approximate probability that the total amount of money withdrawn in the first 8 hours exceeds $3,400?

(c) How do the answers change if the Poisson arrival process is a nonhomogeneous Poisson process with arrival rate function \( \lambda(t) = 4t, \ t \geq 0 \)?

(a) Assuming that successive withdrawals are IID, this is a compound Poisson process; see Section 5.4.2. Let \( X(t) \) be the total amount withdrawn in the time interval \( [0, t] \). Let \( N(t) \) be the number of customers to come to the ATM in the interval \( [0, t] \). Let \( Y_n \) be the amount of the \( n^{th} \) withdrawal. Then \( X(t) \) can be represented as the following random sum of random variables

\[
X(t) = \sum_{i=1}^{N(t)} Y_i .
\]

Hence, from \( §5.4 \) (p. 346 in the last edition),

\[
E[X(t)] = \lambda t E[Y_1] \quad \text{and} \quad var(X(t)) = \lambda t E[Y_1^2] , \tag{1}
\]

so that

\[
E[X(8)] = 10 \times 8 \times 30 = 2400 \quad \text{and} \quad var(X(t)) = 10 \times 8 \times ((30^2 + (20)^2) = 104,000 .
\]

The standard deviation is \( \sqrt{104,000} \approx 322.49 \).

But why are those the correct formulas? To see why, look at Examples 3.10 and 3.17 in Chapter 3. We discuss the harder variance formula. Let

\[
Y = \sum_{i=1}^{N} X_i ,
\]

where \( N \) is a nonnegative-integer-valued random variable and \( X_i \) are IID random variables. (We are using new notation here.) Then, by the conditional variance formula in Proposition 3.1,

\[
Var(Y) = E[Var(Y|N)] + Var(E[Y|N]) = E[N]Var(X_1) + E[X_1]^2 Var(N) .
\]

In the Poisson-process case, with rate \( \lambda \),

\[
E[N(t)] = Var(N(t)) = \lambda t .
\]

That yields formula (1) above.
(b) Use a normal approximation. It can be justified by applying the central limit theorem, because the stochastic process \( \{X(t) : t \geq 0\} \) has stationary and independent increments and the summands all have finite mean and variance. We can think of

\[
X(t) = \sum_{i=1}^{n} [X(k/n) - X((k-1)/n)],
\]

which is the sum of i.i.d. random variables. Hence,

\[
P(X(t) > 3400) = P \left( \frac{X(t) - E[X(t)]}{std(X(t))} > \frac{3400 - E[X(t)]}{std(X(t))} \right)
\approx P \left( N(0, 1) > \frac{3400 - E[X(t)]}{std(X(t))} \right)
\approx P \left( N(0, 1) > \frac{3400 - 2400}{322} \right)
\approx P (N(0, 1) > 3) \approx 0.0013.
\]

(c) The random variable \( N(t) \) is still a Poisson random variable, but we need to calculate the new mean. In formulas (1), replace \( \lambda t = 10 \times 8 = 80 \) by

\[
\int_{0}^{8} \lambda(s) \, ds = \int_{0}^{8} 4s \, ds = 128.
\]

Then (1) is modified to become

\[
E[X(t)] = \int_{0}^{8} \lambda(s) \, ds E[Y_1] \quad \text{and} \quad var(X(t)) = \int_{0}^{8} \lambda(s) \, ds var(Y_1) ,
\]

so that

\[
E[X(8)] = 128E[Y_1] \quad \text{and} \quad var(X(t)) = 128E[Y_1^2] ,
\]

The method from here is the same as in parts (a) and (b).

\[
E[X(8)] = 128 \times 30 = 3840 \quad \text{and} \quad var(X(t)) = 128 \times ((30^2 + 20^2) = 166,400 .
\]

The standard deviation is 407.92.

\[
P(X(t) > 3400) = P \left( \frac{X(t) - E[X(t)]}{std(X(t))} > \frac{3400 - E[X(t)]}{std(X(t))} \right)
\approx P \left( N(0, 1) > \frac{3400 - E[X(t)]}{std(X(t))} \right)
\approx P \left( N(0, 1) > \frac{3400 - 3840}{408} \right)
\approx P (N(0, 1) > -1.1) = P (N(0, 1) < 1.1) = 0.8643.
\]

2. Columbia Space Company, from 2005 midterm exam

3. Typographical Errors, Exercise 5.62 on p. 363.
Suppose that the number of typographical errors in a new text is Poisson distributed with mean $\lambda$.

We can arrive at this model by considering a more detailed model: More specifically, suppose that the text is 100 pages with 100 lines per page and 100 character spaces per line, yielding $10^8 = 1,000,000$ character spaces in all. As a rough approximation, we may regard the occurrence of errors in specific characters as being independent and identically distributed Bernoulli random variables. The total number of errors in any subset of text would then have a binomial distribution (exactly). However, we can use the Poisson approximation for the binomial distribution. With that approximation, we might regard the number of errors in various subsets of the text as a Poisson random measure. Suppose that $A$ is a portion of text containing $k$ character spaces. The mean number of errors the subset $A$ of the text would be

$$E[N(A)] = \frac{\lambda \times k}{10^8}.$$ 

Then the expected total number of errors in the entire text is simply $\lambda$.

Now suppose that two proofreaders independently read the text. Suppose that each error is independently found by proofreader $i$ with probability $p_i$, $i = 1, 2$. Let $X_1$ be the number of errors found by proofreader 1, but not proofreader 2; Let $X_2$ be the number of errors found by proofreader 2, but not proofreader 1. Let $X_3$ be the number of errors that are found by both proofreaders; and let $X_4$ be the number of errors found by neither proofreader.

The first goal is to find an estimator for the distribution of $X_4$.

The second goal is to estimate the benefit of having a new third proofreader read the text, where this proofreader finds each error independently with probability $q$.

(a) Describe the joint distribution of $X_1$, $X_2$, $X_3$ and $X_4$.

The random variables $X_1$, $X_2$, $X_3$ and $X_4$ are mutually independent Poisson random variables with means

$$E[X_1] = \lambda p_1 (1 - p_2)$$
$$E[X_2] = \lambda p_2 (1 - p_1)$$
$$E[X_3] = \lambda p_1 p_2$$
$$E[X_4] = \lambda (1 - p_1)(1 - p_2).$$

(b) Verify that

$$\frac{E[X_1]}{E[X_3]} = \frac{1 - p_2}{p_2}$$
and

$$\frac{E[X_2]}{E[X_3]} = \frac{1 - p_1}{p_1}.$$ 

Follows easily from part (a).

(c) By using $X_4$ as an estimator of $E[X_i]$, present estimators of $p_1$, $p_2$ and $\lambda$. 

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First, by (b),

\[ p_1 = \frac{1}{1 + \frac{E[X_3]}{E[X_2]}} = \frac{E[X_3]}{(E[X_2] + E[X_3])}. \]

Hence we can estimate \( p_1 \) by \( X_3/(X_2 + X_3) \). Thus \( p_1 \) is estimated by the fraction of error found by proofreader 2 that are also found by proofreader 1. Similarly (just change the labels!), we can estimate \( p_2 \) by \( X_3/(X_1 + X_3) \).

The total number of errors found has mean

\[ E[X_1 + X_2 + X_3] = E[X_1] + E[X_2] + E[X_3] = \lambda(1 - (1 - p_1)(1 - p_2)) \]

so that

\[ E[X_1 + X_2 + X_3] = \lambda(1 - (1 - p_1)(1 - p_2)) = \lambda(1 - \frac{E[X_2]E[X_1]}{(E[X_2] + E[X_3])(E[X_1] + E[X_3])}). \]

Hence we can estimate \( \lambda \) by

\[ \hat{\lambda} = \frac{(X_1 + X_2 + X_3)}{(1 - \frac{X_2X_1}{(X_2+X_3)(X_1+X_3)})}. \]

(d) Give an estimate of \( E[X_4] \) the expected number of errors not found by either proofreader.

Note that

\[ E[X_4] = \lambda - (E[X_1] + E[X_2] + E[X_3]) \]

so we can estimate \( E[X_4] \) by

\[ \hat{\lambda} - (X_1 + X_2 + X_3) = (X_1 + X_2 + X_3)(\frac{Z}{(1-Z)}), \]

where

\[ Z \equiv \frac{X_2X_1}{(X_2+X_3)(X_1+X_3)}. \]

(e) Suppose \( X_1 = 60, X_2 = 30 \) and \( X_3 = 40 \). What is the estimated distribution of \( X_4 \)?

As stated above, we know that \( X_4 \) has a Poisson distribution. We estimate its mean \( E[X_4] \) by

\[ 130(\frac{18/70}{1 - (18/70)} = 130 \frac{18}{52} = 45. \]

(e) Now we contemplate hiring the third proofreader who independently finds errors with probability \( q = 0.9 \). How much do we reduce the expected number of uncovered errors by using this third proof reader.
The number of undiscovered errors before using this new proofreader is $X_4$. The number of undiscovered errors after using this new proofreader is Poisson distributed with mean $E[X_4](1-q)$. We anticipate that the proportion $(1-q)$ of the remaining errors will remain. We will expect to delete $E[X_4]q$ errors. That is, we will discover a proportion $q$ of the remaining errors if we use the third proof reader. We expect to reduce the number of undiscovered errors from 45 to 4.5.