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Editors

Stochastic Orders in Reliability and Risk

In Honor of Professor Moshe Shaked

 Springer

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Preface

Introduction

In summer of 2010, the first author (HL) visited the second author (XL) at Lanzhou University, China, and chaired the dissertation defense for XL's two graduating doctoral students. During the visit, we discussed that a large reliability meeting (MMR2011) was scheduled to be held in Beijing in the summer of 2011 and that the meeting would attract some stochastic inequality people, including Professor Moshe Shaked, to visit Beijing. XL then initiated the idea of organizing a small academic gathering for these people at Xiamen University, China, focusing specifically on stochastic inequalities in honor of Moshe Shaked—our common academic mentor, our coauthor, and our good friend. A stochastic order workshop was immediately planned to promote close collaboration in honor of Moshe. The people whom we have contacted with were overwhelmingly enthusiastic about the idea. Some people couldn't come but sent us their suggestions about the workshop. The funding for this workshop was provided by XL's NNSF research funds with support from the School of Mathematical Sciences and Center for Actuarial Studies at Xiamen University.

Xiamen is situated on the southeast coast of China, to the west of Taiwan Strait. Known as a "Garden on the Sea," Xiamen is surrounded by ocean on three sides. The International Workshop on Stochastic Orders in Reliability and Risk Management, or SORR2011, was held in Xiamen City Hotel from June 27 to June 29, 2011. SORR2011 featured 11 invited speeches and nine contributed talks, covering a wide range of topics from theory of stochastic orders to applications in reliability and risk/ruin analysis. Professor Moshe Shaked

delivered the opening keynote speech. A social highlight of SORR2011 was a surprise banquet party for Professor Moshe Shaked and Ms Edith Shaked.

This volume is based on the talks presented at the workshop and the invited contributions to this special occasion to honor Professor Moshe Shaked, who has made fundamental and widespread contributions to theory of stochastic orders and its applications in reliability, queueing modeling, operations research, economics, and risk analysis. All the papers submitted were subjected to reviewing, and all the accepted papers have been edited to standardize notations and terminologies. The volume consists of 19 contributions that are organized along the following five categories:

Part I: Theory of Stochastic Orders

- “A Global Dependence Stochastic Order Based on the Presence of Noise” by Moshe Shaked, Miguel A. Sordo, and Alfonso Suárez-Llorens
- “Duality Theory and Transfers for Stochastic Order Relations” by Alfred Müller
- “Reversing Conditional Orderings” by Rachele Foschi and Fabio Spizzichino

Part II: Stochastic Comparison of Order Statistics

- “Multivariate Comparisons of Ordered Data” by Félix Belzunce
- “On Stochastic Properties of Spacings with Applications in Multiple-Outlier Models” by Nuria Torrado and Rosa E. Lillo
- “On Sample Range from Two Heterogeneous Exponential Variables” by Peng Zhao and Xiaohu Li

Part III: Stochastic Orders in Reliability

- “On Bivariate Signatures for Systems with Independent Modules” by Gaofeng Da and Taizhong Hu
- “Stochastic Comparisons of Cumulative Entropies” by Antonio Di Crescenzo and Maria Longobardi
- “Decreasing Percentile Residual Life Aging Notion: Properties and Estimation” by Alba M. Franco-Pereira, Jacobo de Uña, Rosa E. Lillo, and Moshe Shaked

- “A Review on Convolutions of Gamma Random Variables” by Baha-Eldin Khaledi and Subhash Kochar
- “Allocation of Active Redundancies to Coherent Systems: A Brief Review” by Xiaohu Li and Weiyong Ding
- “On Used Systems and Systems with Used Components” by Xiaohu Li, Franco Pellerey, and Yinping You

Part IV: Stochastic Orders in Risk Analysis

- “Dynamic Risk Measures Within Discrete-Time Risk Models” by H el ene Cossette and Etienne Marceau
- “Excess Wealth Transform with Applications” by Subhash Kochar and Maochao Xu

Part V: Applications

- “Intermediate Tail Dependence: A Review and Some New Results” by Lei Hua and Harry Joe
- “Second-Order Conditions of Regular Variation and Drees Type Inequalities” by Tiantian Mao
- “Individual and Moving Ratio Charts for Weibull Processes” by Francis Pascual
- “On a Slow Server Problem” by Vladimir Rykov
- “Dependence Comparison of Multivariate Extremes via Stochastic Tail Orders” by Haijun Li

We thank all the authors and workshop participants for their contributions. This volume is dedicated to Professor Moshe Shaked to celebrate his academic achievements and also intended to stimulate further research on stochastic orders and their applications.

Professor Moshe Shaked

Moshe Shaked has been for the past 31 years a professor of mathematics at the University of Arizona, Tucson, AZ. He received his B.A. and M.A. degrees from Hebrew University of Jerusalem in 1967 and 1971, respectively. Moshe pursued his graduate studies in mathematics and statistics under Albert W. Marshall at the University of Rochester from 1971 to 1975. Moshe received his Ph.D. in 1975 and his dissertation was entitled “On Concepts of Positive Dependence.”

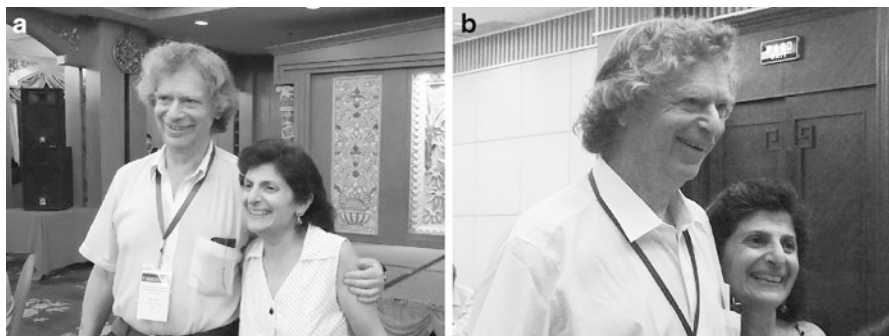


Figure 1: Moshe Shaked and Edith Shaked. (a) Beijing, China, June 2011. (b) Xiamen, China, June 2011

After short stays at the University of New Mexico, University of British Columbia, and Indiana University, Moshe became an associate professor of mathematics at the University of Arizona in 1981. Since 1986, he has been a full professor at Arizona (Fig. 1).

Moshe has made fundamental contributions in various areas of probability, statistics, and operations research. He has published over 180 papers and many of his papers appeared in the top journals in probability, statistics, and operations research. Coauthored with George Shanthikumar, Moshe published one of the two popular books on stochastic orders [426] (the other book was written by Alfred Müller and Dietrich Stoyan [335]). Moshe's contribution is extremely broad; for example, Moshe made seminal contributions to the following areas:

- Dependence analysis, positive and negative dependence notions, dependence by mixture of distributions, distributions with fixed marginals, and global dependence
- Comparison of stochastic processes, aging properties of stochastic processes, and aging first passage times
- Stochastic variability orders, dispersive ordering of distributions, and excess wealth order
- Accelerated life tests—*inference*, nonparametric approach, and goodness of fit
- Multivariate phase-type distributions

- Multivariate aging notions and multivariate life distributions
- Multivariate conditional hazard rate functions
- Linkages as a tool for construction of multivariate distributions
- Inventory centralization costs and games
- Stochastic convexity and concavity and stochastic majorization
- Stochastic comparisons of order statistics
- Total time on test transform order
- Use of antithetic variables in simulation
- Scientific activity and truth acquisition in social epistemology

In recognition of his many contributions, Moshe Shaked was elected as a Fellow of the Institute of Mathematical Statistics in 1986. He has been serving in editorial boards of various probability, statistics, and operations research journals and book series.

Moshe enjoys collaborations and has been working with more than 60 collaborators worldwide. Moshe is a stimulating, accommodating, and generous collaborator with colleagues and students alike. Moshe and Edith travel a lot professionally, so the concepts of “vacation” and “conference” often have the same meaning for them. Changing a routine in Tucson, visiting different places in other parts of the world, and meeting new friends (potential collaborators?) are all both relaxing and rewarding for Moshe and Edith. In coffee breaks of several conferences, we have witnessed that Moshe still worked on problems with collaborators one by one. It seems to us that Moshe values collaborating itself as much as he values possible products (i.e., papers) resulting from collaboration. This reminds us of Paul Erdős, a great mathematician, who strongly believed in scientific collaboration and practiced mathematics research as a social activity.

On the personal side, it was Moshe who helped HL get his academic job in the USA and it was Moshe who mentored XL in launching his academic career. Collaborating with Moshe has been a real treat for both of us, and by working with Moshe, we learned and became greatly appreciative to the true value of professionalism.

Stochastic Orders: A Historical Perspective

Stochastic ordering refers to comparing random elements in some stochastic sense and has evolved into a deep field of enormous breadth with ample structures of its own, establishing strong ties with numerous striking applications in economics, finance, insurance, management science, operations research, statistics, and other fields in engineering, natural, and social sciences. Stochastic ordering is a fundamental guide for decision making under uncertainty and an essential tool in the study of structural properties of complex stochastic systems.

Take two random variables X and Y , for example. One way to compare them is to compare their survival functions; that is, if

$$P\{X > t\} \leq P\{Y > t\}, \text{ for all real } t, \quad (1)$$

then Y is more likely to “survive” beyond t than X does, and we say X is stochastically smaller than Y and denote this by $X \leq_{\text{st}} Y$. Using approximations, the path-wise ordering Eq. (1) can be showed to be equivalent to

$$E[\phi(X)] \leq E[\phi(Y)], \text{ for all nondecreasing functions } \phi : \mathbb{R} \rightarrow \mathbb{R}, \quad (2)$$

provided that the expectations exist. That is, $X \leq_{\text{st}} Y$ is equivalent to the comparisons with respect to a class of increasing functionals of random variables. If a system performance measure can be written as an increasing functional $E[\phi(X)]$, where $\phi(\cdot)$ is increasing, then the system performance comparison boils down to the stochastic order Eq. (1).

The stochastic order \leq_{st} enjoys nice operational properties (see [335, 426]), and its utility can be greatly enhanced via coupling [444]. For any two random variables X and Y , $X \leq_{\text{st}} Y$ if and only if there exist two random variables \hat{X} and \hat{Y} , defined on the same probability space (Ω, \mathcal{F}, P) , such that \hat{X} and X have the same (marginal) distribution, \hat{Y} and Y have the same (marginal) distribution, and

$$P\{\hat{X} \leq \hat{Y}\} = 1. \quad (3)$$

That is, one can work with almost-sure inequalities on the coupling space (Ω, \mathcal{F}, P) and move back to the original random variables using marginal distributional equivalence.

The stochastic order \leq_{st} is also mathematically robust; namely, the order \leq_{st} , as described in Eqs. (1)–(3), can be extended to probability measures defined on a partially ordered Polish space [220] (i.e.,

a complete separable metric space endowed with a closed partial ordering). For example, the stochastic order \leq_{st} on \mathbb{R}^∞ can be applied to comparing two discrete-time stochastic processes. The stochastic order \leq_{st} is also extended to nonadditive measures [138]. The models that involve nonadditive probability measures have been used in decision theory to cope with observed violations of expected utility [412] (e.g., the Keynes–Ellsberg paradox). These models describe such distortions using different transforms of usual probabilities and have been applied to insurance premium pricing [116, 465, 466].

The stochastic order \leq_{st} is just one example that illustrates the deep stochastic comparison theory with widespread applications [335, 426]. The stochastic order \leq_{st} , however, is one of *strong orderings*, and many stochastic systems can only be compared using *weak orders*. One example of weak integral stochastic orders is the increasing and convex order \leq_{icx} that uses the set of all increasing and convex functions in Eq. (2). The idea of seeking various weaker versions of a problem solution has been used throughout mathematics (e.g., in the theory of partial differential equations), and indeed various weak stochastic orders and their applications add enormous breadth to the field of stochastic orders.

The studies on stochastic orders have a long and colorful history. To the best of our knowledge, the studies on inequalities of type (2) for convex functions $\phi(\cdot)$ can be traced back to Karamata [223]. Known as the dilation order, the comparison Eq. (2) for all continuous convex functions $\phi(\cdot)$ is closely related to the notion of majorization. The theory of stochastic inequalities based on majorization is summarized in Marshall and Olkin [308] and its updated version [312].

Historically, stochastic orders have been used to define and study multivariate dependence. Some strongest dependence notions can be defined in terms of *total positivity* [224]. Earlier studies have been focused on dependence structures of multivariate normal distributions and multivariate distributions of elliptical type (see Tong [449]). For analyzing dependence structures of non-normal multivariate distributions, stochastic orders have been substantially used in Joe [211] and Nelsen [355], in which dependence structures of copulas, especially extreme value copulas, have been systematically investigated using orthant and supermodular orders.

Stochastic orders have been applied to various domain fields and especially to reliability theory. Both of us first learned stochastic orders from the 1975 seminal book on reliability and life testing by Barlow

and Proschan [38], where Erich L. Lehmann's earlier contributions to the field are highlighted. To show how stochastic orders can be used in reliability contexts, let us consider the following example.

There are a few aging notions and three of them, IFR (increasing failure rate), IFRA (increasing failure rate average), and NBU (new better than used), are particularly useful. IFR implies IFRA, which in turn implies NBU. We now illustrate how the IFRA and NBU can naturally arise from Markov chains with stochastically monotone structures. We consider only the discrete case to ease the notations and a more complete survey can be found in [237].

Let $\{X_n, n \geq 0\}$ be a discrete-time, homogenous Markov chain on \mathbb{R}_+ . The chain is said to be stochastically monotone if

$$[X_n | X_{n-1} = x] \leq_{\text{st}} [X_n | X_{n-1} = x'], \text{ whenever } x \leq x'. \quad (4)$$

Consider the discrete first passage time $T_x := \inf\{n : X_n > x\}$. In such a discrete setting,

1. T_x is IFRA if either $\text{P}\{T_x = 0\} = 1$ or $\text{P}\{T_x = 0\} = 0$ and $[\text{P}\{T_x > n\}]^{1/n}$ is decreasing in $n \geq 1$
2. T_x is NBU if $[T_x - m | T_x > m] \leq_{\text{st}} T_x$ for all $m \geq 0$.

Theorem. *Assume that $\{X_n, n \geq 0\}$ is stochastically monotone.*

1. (Brown and Chaganty [79]) T_x is NBU for any x .
2. (Shaked and Shanthikumar [419]) *If, in addition, $\{X_n, n \geq 0\}$ has increasing sample paths, then T_x is IFRA for any x .*

That is, the aging properties NBU and IFRA emerge from Markov chains with stochastic order relation (4). The continuous-time version of this theorem can also be obtained. The comparison method used here is again robust and this theorem can be extended to a Markov chain with general partially ordered Polish state space.

It is well known that an IFRA life distribution arises from a weak limit of a sequence of coherent systems of independent, exponentially distributed components. The method used to establish such a result, however, is restricted to the continuous case (see, e.g., [38], page 87). In contrast, this result can be reestablished using a sequence of stochastically monotone Markov chains along the lines of the above theorem. More importantly, the stochastic order approach used in this theorem

sheds structural insight on the fact that aging properties arise in a very natural way from stochastically monotone systems.

Many stochastic systems used in reliability and queueing modeling are indeed stochastically monotone in the sense of Eq. (4). The English edition of Dietrich Stoyan's book ([443], 1977 version in German, 1979 version in Russian) attracted quite a few queueing theorists in the 1980s and early 1990s to apply stochastic comparison methods to queueing modeling and analysis. The 1994 book by Moshe Shaked and George Shanthikumar included several chapters (written by some leading queueing and reliability theorists) that highlight research on stochastic orders in queueing and reliability contexts.

The comparison methods of stochastic processes have been discussed in detail in Szekli [446]. The studies on dependence and aging via stochastic orders are presented in Spizzichino [440]. An early study of stochastic orders in risk contexts is documented in Mosler [329] and more recent applications of stochastic orders to analyzing actuarial risks are discussed in Denuit et al. [117].

The most up-to-date, comprehensive treatments of stochastic orders are given by Müller and Stoyan [335] and Shaked and Shanthikumar [426].

Looking Forward

In the late 1980s and early 1990s, there were several international workshops focusing exclusively on stochastic orders and dependence. We mention some of them below.

- Symposium on Dependence in Probability and Statistics [62], Hidden Valley Conference Center, Pennsylvania, August 1–5, 1987. Organizers: H.W. Block, A.R. Sampson, and T.H. Savits
- Stochastic Orders and Decision Under Risk [330], Hamburg, Germany, May 16–20, 1989. Organizers: K. Mosler and M. Scarsini
- Stochastic Inequalities [431], Seattle, WA, July 1991. Organizers: Moshe Shaked and Y. L. Tong
- Distribution with Fixed Marginals and Related Topics [398], Seattle, WA, August, 1993. Organizers: L. Rüschendorf, B. Schweizer, and M. D. Taylor

These workshops and their proceedings enhanced communication and collaboration between scholars working in different fields and simulated research on stochastic orders and dependence. It is our hope that at the time we honor Professor Moshe Shaked, the Xiamen Workshop and this volume will revive the community workshop tradition on stochastic orders and dependence and strengthen research collaboration.

Last but not least, we would like to thank the School of Mathematical Sciences of Xiamen University for the support to the SORR2011. We would also like to express our sincere thanks to XL's graduate students Jianhua Lin, Jintang Wu, Yiping You, Rui Fang and Chen Li. Without their effort in organizing the Xiamen workshop, we would not have had such a wonderful academic meeting. Our special thanks go to Mr. Rui Fang, who helped us edit and revise the Latex source files of all submitted papers. Due to his enthusiasm and quiet efficiency, we finally present this nice volume (Fig. 2).

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Figure 2: SORR 2011, Xiamen, China, June 27–29, 2011

Contents

Preface	v
List of Contributors	xv
I Theory of Stochastic Orders	1
1 A Global Dependence Stochastic Order Based on the Presence of Noise	
Moshe Shaked, Miguel A. Sordo, and Alfonso Suárez-Llorens	3
1.1 Introduction	4
1.2 Two Previous Ideas	5
1.3 Two New Ideas	9
1.4 Some Properties of the New Orders	17
1.4.1 The Order $\leq_{\text{GDO}_3\text{-cx}}$	17
1.4.2 The Order $\leq_{\text{GDO}_4\text{-st}}$	32
1.5 An Application in Reliability Theory	37
2 Duality Theory and Transfers for Stochastic Order Relations	
Alfred Müller	41
2.1 Introduction	41
2.2 Transfers and Integral Stochastic Orders	43
2.3 Duality Theory	50
2.4 Main Results	51
2.5 Examples	52
	xxi

3 Reversing Conditional Orderings **59**

Rachele Foschi and Fabio Spizzichino

3.1 Introduction 60

3.2 The Role of Usual Stochastic Ordering
in Conditioning 62

3.3 Remarkable Properties of Conditional
Orderings and Related Inversions 65

3.4 Conditional Orderings and Dependence 69

3.5 Applications of Theorem 3.3.2 72

3.5.1 Default Contagion and Dynamic
Dependence Properties 72

3.5.2 Conditional Independence and Reversed
Markov Processes 75

3.6 Discussion and Conclusions 77

3.7 Appendix 78

II Stochastic Comparison of Order Statistics **81**

4 Multivariate Comparisons of Ordered Data

Félix Belzunce **83**

4.1 Introduction 83

4.2 Multivariate Orders 84

4.3 Multivariate Models with Ordered
Components 89

4.4 Multivariate Comparisons
of Ordered Data 95

4.5 Some Additional Comments 102

**5 Sample Spacings with Applications in
Multiple-Outlier Models**

Nuria Torrado and Rosa E. Lillo **103**

5.1 Introduction 104

5.2 Distributional Properties of Spacings 105

5.3 Stochastic Orderings of Spacings
from One Sample 108

5.4 Stochastic Orderings of Spacings
from Two Samples 115

5.5	Stochastic Orderings of Spacings from Multiple-Outlier Models	120
5.6	Conclusions	122
6	Sample Range of Two Heterogeneous Exponential Variables	
	Peng Zhao and Xiaohu Li	125
6.1	Introduction	126
6.2	Likelihood Ratio Ordering	129
6.2.1	Case 1: $\max(\lambda_1, \lambda_2) \leq \min(\lambda_1^*, \lambda_2^*)$	129
6.2.2	Case 2: $\min(\lambda_1, \lambda_2) \leq \min(\lambda_1^*, \lambda_2^*)$ $\leq \max(\lambda_1^*, \lambda_2^*) \leq \max(\lambda_1, \lambda_2)$	129
6.2.3	Case 3: $\min(\lambda_1, \lambda_2) \leq \min(\lambda_1^*, \lambda_2^*)$ $\leq \max(\lambda_1, \lambda_2) \leq \max(\lambda_1^*, \lambda_2^*)$	131
6.3	Hazard Rate and Dispersive Orderings	132
6.3.1	Case 1: $\min(\lambda_1, \lambda_2) \leq \min(\lambda_1^*, \lambda_2^*)$ $\leq \max(\lambda_1^*, \lambda_2^*) \leq \max(\lambda_1, \lambda_2)$	133
6.3.2	Case 2: $\min(\lambda_1, \lambda_2) \leq \min(\lambda_1^*, \lambda_2^*)$ $\leq \max(\lambda_1, \lambda_2) \leq \max(\lambda_1^*, \lambda_2^*)$	136
III	Stochastic Orders in Reliability	141
7	On Bivariate Signatures for Systems with Independent Modules	
	Gaofeng Da and Taizhong Hu	143
7.1	Introduction	144
7.2	Bivariate Signatures	146
7.3	A Useful Method to Compute Bivariate Signatures	151
7.4	The Signatures of Systems with Independent Modules	153
7.4.1	Generalized Series and Parallel Systems . . .	153

7.4.2 Redundancy Systems 157

7.4.3 An Important Class of 3-State Systems . . . 160

7.5 Some Examples 162

8 Stochastic Comparisons of Cumulative Entropies

Antonio Di Crescenzo and Maria Longobardi **167**

8.1 Introduction 168

8.2 Cumulative Entropy 170

8.2.1 Connections to Reliability Theory 172

8.3 Inequalities and Stochastic Comparisons 175

8.4 Dynamic Cumulative Entropy 177

8.5 Empirical Cumulative Entropy 180

9 Decreasing Percentile Residual Life: Properties and Estimation

Alba M. Franco-Pereira, Jacobo de Uña, Rosa E. Lillo, and Moshe Shaked **183**

9.1 Introduction 184

9.2 Definitions and Basic Properties 185

9.3 Relationship with the Percentile Residual Life Orders 187

9.4 Estimation 189

9.5 Extension of the Estimator to the Censored Case 190

9.5.1 A Real Data Example 194

9.6 Discussion 195

10 A Review on Convolutions of Gamma Random Variables

Baha-Eldin Khaledi and Subhash Kochar **199**

10.1 Introduction 199

10.2 Preliminaries 202

10.3 Magnitude and Dispersive Orderings 205

10.4 Star Ordering 212

10.5 Right Spread Order of Linear Combinations 215

11 On Used Systems and Systems with Used Components	
Xiaohu Li, Franco Pellerey, and Yinping You	219
11.1 Introduction	220
11.2 Main Results	223
11.3 Sufficient Conditions for Positive Aging Properties	231
12 On Allocation of Active Redundancies to Systems: A Brief Review	
Xiaohu Li and Weiyong Ding	235
12.1 Introduction and Preliminaries	236
12.2 Redundancy at Component Level Versus that at System Level	238
12.2.1 Redundancies with Matching Spares	240
12.2.2 Redundancies with Nonmatching Spares	242
12.3 Allocation of Active Redundancies to a k -out-of- n System	243
12.3.1 The Case with i.i.d. Components and Redundancies	244
12.3.2 The Case with i.i.d Components and i.i.d. Redundancies	245
12.3.3 The Case with Stochastically Ordered Components	246
12.4 Other Allocations of Active Redundancies	248
12.4.1 One Single Redundancy	249
12.4.2 Several Redundancies	250
12.4.3 System with Two Dependent Components	253
IV Stochastic Orders in Risk Analysis	255
13 Dynamic Risk Measures within Discrete-Time Risk Models	
Hélène Cossette and Etienne Marceau	257
13.1 Introduction	258
13.2 Discrete-Time Risk Model	259
13.2.1 Definitions	259

- 13.2.2 Dynamic VaR and TVaR 261
- 13.2.3 Numerical Computation of the Dynamic VaR and TVaR 262
- 13.2.4 Dynamic TVaR and Increasing Convex Order 264
- 13.3 Discrete-Time Risk Model with Dependent Lines of Business 265
 - 13.3.1 Additional Definitions 265
 - 13.3.2 Dynamic TVaR and Supermodular Order 268
- 13.4 Discrete-Time Risk Model with Random Income 269
 - 13.4.1 Additional Definitions 269
 - 13.4.2 Dynamic TVaR and Concordance Order 271
- 13.5 Acknowledgements 272

14 Excess Wealth Transform with Applications

- Subhash Kocher and Maochao Xu **273**
- 14.1 Introduction and Motivation 274
- 14.2 Properties of Excess Wealth Transform and Order 275
- 14.3 Excess Wealth Plot 277
- 14.4 Applications 279
 - 14.4.1 Extreme Risk Analysis 279
 - 14.4.2 Reliability Theory 281
 - 14.4.3 Auction Theory 284
 - 14.4.4 Actuarial Science 285
- 14.5 Remarks 287

V Applications 289

15 Intermediate Tail Dependence: A Review and Some New Results

- Lei Hua and Harry Joe **291**
- 15.1 Introduction 292
- 15.2 Tail Order and Intermediate Tail Dependence 294
- 15.3 Extreme Value Copula 296
- 15.4 Elliptical Copula 297
- 15.5 Archimedean Copula 301
 - 15.5.1 Resilience or Frailty Models 301
 - 15.5.2 Scale Mixture Models 303
- 15.6 Remark and Future Work 310

16 Second-Order Conditions of Regular Variation and Drees-Type Inequalities

Tiantian Mao **313**

16.1 Introduction 314

16.2 Connections Between 2ERV and 2RV 316

16.3 Inequalities of Drees Type 326

17 Individual and Moving Ratio Charts for Weibull Processes

Francis Pascual **331**

17.1 Introduction 332

 17.1.1 Outline 332

17.2 Related Work 333

17.3 Model Assumptions 334

17.4 Normal Individual and Moving Range Charts 335

 17.4.1 Shewhart Control Limits 336

 17.4.2 Run Length Properties of the Y and MR Charts 337

 17.4.3 Discussion 338

17.5 Individual and Moving Ratio Charts for Weibull Distribution 340

17.6 Average Run Length and Unbiasedness 342

 17.6.1 Average Run Length 342

 17.6.2 ARL Unbiasedness 343

17.7 Numerical Results 343

 17.7.1 Control Limits for the Combined X/R Charts 344

 17.7.2 ARL -Unbiasedness of X/R Charts 344

 17.7.3 Sample Size Requirements for Phase I 344

17.8 An Application 346

17.9 Conclusion 347

17.10 Appendix 348

 17.10.1 ARL Computation for the Moving Range Chart 348

 17.10.2 X/R ARL Computation by Markov Chains 348

18 On a Slow Server Problem

Vladimir Rykov **351**

18.1 Introduction and Motivation 351

18.2	Problem Formulation	353
18.3	Optimality Equation	356
18.4	Transformation of Optimality Equations	357
18.5	Monotonicity of Optimal Policies	359
18.6	Conclusion	361
19	Dependence Comparison of Multivariate Extremes via Stochastic Tail Orders	
	Haijun Li	363
19.1	Introduction	363
19.2	Stochastic Tail Orders	368
19.3	Tail Orthant Orders	376
	Bibliography	389
	Author Index	432
	Subject Index	437

List of Figures

1	Moshe Shaked and Edith Shaked. (a) Beijing, China, June 2011. (b) Xiamen, China, June 2011	viii
2	SORR 2011, Xiamen, China, June 27–29, 2011	xix
2.1	Increasing transfer	44
2.2	Increasing transfer	45
2.3	Simple convex transfer	46
2.4	General concave transfer (fusion)	46
2.5	Supermodular transfer	47
2.6	Directionally convex transfer	48
2.7	Δ -monotone transfer in dimension $d = 3$	49
6.1	Likelihood ratio functions in Example 6.2.7 (a) $\lambda_1 = 2$, $\lambda_2 = 2.8$, $\lambda_1^* = 3$ and $\lambda_2^* = 3.5$ (b) $\lambda_1 = 2$, $\lambda_2 = 3.5$, $\lambda_1^* = 2.8$ and $\lambda_2^* = 3$ (c) $\lambda_1 = 2$, $\lambda_2 = 3$, $\lambda_1^* = 2.8$ and $\lambda_2^* = 3.5$ (d) $\lambda_1 = 2$, $\lambda_2 = 3.7$, $\lambda_1^* = 2.5$ and $\lambda_2^* = 3$ (e) $\lambda_1 = 2$, $\lambda_2 = 4.5$, $\lambda_1^* = 2.05$ and $\lambda_2^* = 6$	134
6.2	The ratio of survival functions in Example 6.3.9 (a) $\lambda_1 = 2$, $\lambda_2 = 3.7$, $\lambda_1^* = 2.5$ and $\lambda_2^* = 3$ (b) $\lambda_1 = 2$, $\lambda_2 = 2.4$, $\lambda_1^* = 3$ and $\lambda_2^* = 3.5$ (c) $\lambda_1 = 2$, $\lambda_2 = 10$, $\lambda_1^* = 3$ and $\lambda_2^* = 3.5$ (d) $\lambda_1 = 2$, $\lambda_2 = 3$, $\lambda_1^* = 2.005$ and $\lambda_2^* = 5$	138
8.1	Dynamic cumulative entropy: beta prime (lower) and exponential distributions	178
9.1	Illustration of the estimators $\hat{q}_{X,n,0.5}$ and $\hat{q}_{X,n,0.5}^*$	191
9.2	$\hat{q}_{X,n,0.25}$ (<i>dotted</i>) and $\hat{q}_{X,n,0.25}^*$ (<i>solid</i>) for the three groups of edema 0 (a) the group of edema 0.5 (b) the group of edema (c) the group of edema 1	196

9.3	Nelson–Aalen’s cumulative hazard estimates: 0 (<i>solid</i>), 0.5 (<i>dashed</i>), 1 (<i>dotted</i>)	196
10.1	Graphs of distribution functions of $S(\lambda_1, \lambda_2)$	208
10.2	Graphs of distribution functions of $S(\lambda_1, \lambda_2)$	208
10.3	Graphs of hazard rates of $S(\lambda_1, \lambda_2)$	209
10.4	Graphs of hazard rates of $S(\lambda_1, \lambda_2)$	209
10.5	Mean residual function of convolutions of gamma random variables	210
10.6	Mean residual function of convolutions of gamma random variables	211
12.1	A series system with redundancy at component and system levels	241
12.2	Survival curves corresponding to policies $r_i, i = 1, 2, 3$	249
13.1	A typical sample path of the surplus process \mathbf{U}	260
13.2	A typical sample path of the surplus process \mathbf{U}	261
13.3	CDF of Z_{12} for $r = 2$ and $r = 50$	264
14.1	EW/SEW plots for exponential distribution, population (<i>solid</i>) and sample (<i>dashed</i>)	279
14.2	TEW plot and mean excess (ME) plot of GPD distribution with $\beta = 0.9$ and $\xi = 0.7$	281
15.1	Simulation of Dagum-simplex copula (a) Dagum (1.2, 0.9) (b) Dagum (1.2, 0.9)	311
17.1	ARL contour of Y chart for $\lambda = 0.2777, \beta_S = 0.5, 1, 2$	339
17.2	ARL of the exponential Y chart for $\lambda = 0.2777$ and different values of ρ_η and ρ_β	340
17.3	ARL of MR chart for $\lambda = 0.2777, \beta_S = 0.5, 1, 2$ and different values of ρ_η and ρ_β	341
17.4	Contour plot of ARL for the unbiased X/R chart with $L_0 = 100$	345
17.5	X/R chart with stable-process ARL $L_0 = 100$ for the strengths of carbon fibers	347
18.1	Multi-server queueing system with heterogeneous servers	354

List of Tables

8.1	Cumulative entropies for some standard random variables with even densities	171
8.2	Cumulative entropies for some non-negative variables with mean 1 and variance 1	172
9.1	Number of cases and deaths in each group and median survival (in days)	195
17.1	Standardized control limits for <i>ARL</i> -unbiased <i>X/R</i> charts	344
17.2	Individual observations and moving ratio for strength distribution of carbon fibers	346
17.3	<i>ARL</i> of <i>X/R</i> charts for the shift in carbon-fiber strength distribution	347
17.4	Expected number of observations till an OOC signal	348