

Question #27

Key: E

The absolute difference of the credibility estimate from its expected value is to be less than or equal to $k\mu$ (with probability P). That is,

$$\left| [ZX_{\text{partial}} + (1-Z)M] - [Z\mu + (1-Z)M] \right| \leq k\mu$$

$$-k\mu \leq ZX_{\text{partial}} - Z\mu \leq k\mu.$$

Adding μ to all three sides produces answer choice (E).