

Question # 41

Answer: E

$$\mu = E(\lambda) = 1; \quad v = E(\sigma^2) = 1.25; \quad a = \text{Var}(\lambda) = 1/12.$$

$$k = v/a = 15; \quad Z = \frac{1}{1+15} = \frac{1}{16}.$$

Thus, the estimate for Year 2 is

$$\frac{1}{16}(0) + \frac{15}{16}(1) = .9375.$$