

CHAPTER 2

The Poisson Process

2.1 THE POISSON PROCESS

A stochastic process $\{N(t), t \geq 0\}$ is said to be a *counting process* if $N(t)$ represents the total number of 'events' that have occurred up to time t . Hence, a counting process $N(t)$ must satisfy

- (i) $N(t) \geq 0$
- (ii) $N(t)$ is integer valued
- (iii) If $s < t$, then $N(s) \leq N(t)$.
- (iv) For $s < t$, $N(t) - N(s)$ equals the number of events that have occurred in the interval $(s, t]$

A counting process is said to possess *independent increments* if the numbers of events that occur in disjoint time intervals are independent. For example, this means that the number of events that have occurred by time t (that is, $N(t)$) must be independent of the number of events occurring between times t and $t + s$ (that is, $N(t + s) - N(t)$)

A counting process is said to possess *stationary increments* if the distribution of the number of events that occur in any interval of time depends only on the length of the time interval. In other words, the process has stationary increments if the number of events in the interval $(t_1 + s, t_2 + s]$ (that is, $N(t_2 + s) - N(t_1 + s)$) has the same distribution as the number of events in the interval $(t_1, t_2]$ (that is, $N(t_2) - N(t_1)$) for all $t_1 < t_2$, and $s > 0$.

One of the most important types of counting processes is the Poisson process, which is defined as follows.

Definition 2.1.1

The counting process $\{N(t), t \geq 0\}$ is said to be a *Poisson process having rate λ* , $\lambda > 0$, if

- (i) $N(0) = 0$
- (ii) The process has independent increments

- (iii) The number of events in any interval of length t is Poisson distributed with mean λt . That is, for all $s, t \geq 0$,

$$P\{N(t+s) - N(s) = n\} = e^{-\lambda t} \frac{(\lambda t)^n}{n!}, \quad n = 0, 1,$$

Note that it follows from condition (iii) that a Poisson process has stationary increments and also that

$$E[N(t)] = \lambda t,$$

which explains why λ is called the rate of the process

In order to determine if an arbitrary counting process is actually a Poisson process, we must show that conditions (i), (ii), and (iii) are satisfied. Condition (i), which simply states that the counting of events begins at time $t = 0$, and condition (ii) can usually be directly verified from our knowledge of the process. However, it is not at all clear how we would determine that condition (iii) is satisfied, and for this reason an equivalent definition of a Poisson process would be useful.

As a prelude to giving a second definition of a Poisson process, we shall define the concept of a function f being $o(h)$.

Definition

The function f is said to be $o(h)$ if

$$\lim_{h \rightarrow 0} \frac{f(h)}{h} = 0.$$

We are now in a position to give an alternative definition of a Poisson process.

Definition 2.1.2

The counting process $\{N(t), t \geq 0\}$ is said to be a Poisson process with rate λ , $\lambda > 0$, if

- (i) $N(0) = 0$
- (ii) The process has stationary and independent increments.
- (iii) $P\{N(h) = 1\} = \lambda h + o(h)$
- (iv) $P\{N(h) \geq 2\} = o(h)$

THEOREM 2.1.1

Definitions 2.1.1 and 2.1.2 are equivalent

Proof We first show that Definition 2.1.2 implies Definition 2.1.1. To do this let

$$P_n(t) = P\{N(t) = n\}$$

We derive a differential equation for $P_0(t)$ in the following manner

$$\begin{aligned} P_0(t+h) &= P\{N(t+h) = 0\} \\ &= P\{N(t) = 0, N(t+h) - N(t) = 0\} \\ &= P\{N(t) = 0\}P\{N(t+h) - N(t) = 0\} \\ &= P_0(t)[1 - \lambda h + o(h)], \end{aligned}$$

where the final two equations follow from Assumption (ii) and the fact that (iii) and (iv) imply that $P\{N(h) = 0\} = 1 - \lambda h + o(h)$. Hence,

$$\frac{P_0(t+h) - P_0(t)}{h} = -\lambda P_0(t) + \frac{o(h)}{h}.$$

Letting $h \rightarrow 0$ yields

$$P_0'(t) = -\lambda P_0(t)$$

or

$$\frac{P_0'(t)}{P_0(t)} = -\lambda,$$

which implies, by integration,

$$\log P_0(t) = -\lambda t + c$$

or

$$P_0(t) = Ke^{-\lambda t}.$$

Since $P_0(0) = P\{N(0) = 0\} = 1$, we arrive at

$$(2.1.1) \quad P_0(t) = e^{-\lambda t}.$$

Similarly, for $n \geq 1$,

$$\begin{aligned} P_n(t+h) &= P\{N(t+h) = n\} \\ &= P\{N(t) = n, N(t+h) - N(t) = 0\} \\ &\quad + P\{N(t) = n-1, N(t+h) - N(t) = 1\} \\ &\quad + P\{N(t+h) = n, N(t+h) - N(t) \geq 2\} \end{aligned}$$

However, by (iv), the last term in the above is $o(h)$, hence, by using (ii), we obtain

$$\begin{aligned} P_n(t+h) &= P_n(t)P_0(h) + P_{n-1}(t)P_1(h) + o(h) \\ &= (1-\lambda h)P_n(t) + \lambda h P_{n-1}(t) + o(h) \end{aligned}$$

Thus,

$$\frac{P_n(t+h) - P_n(t)}{h} = -\lambda P_n(t) + \lambda P_{n-1}(t) + \frac{o(h)}{h}$$

Letting $h \rightarrow 0$,

$$P'_n(t) = -\lambda P_n(t) + \lambda P_{n-1}(t),$$

or, equivalently,

$$e^{\lambda t}[P'_n(t) + \lambda P_n(t)] = \lambda e^{\lambda t} P_{n-1}(t)$$

Hence,

$$(2.1.2) \quad \frac{d}{dt}(e^{\lambda t} P_n(t)) = \lambda e^{\lambda t} P_{n-1}(t)$$

Now by (2.1.1) we have when $n = 1$

$$\frac{d}{dt}(e^{\lambda t} P_1(t)) = \lambda$$

or

$$P_1(t) = (\lambda t + c)e^{-\lambda t},$$

which, since $P_1(0) = 0$, yields

$$P_1(t) = \lambda t e^{-\lambda t}$$

To show that $P_n(t) = e^{-\lambda t}(\lambda t)^n/n!$, we use mathematical induction and hence first assume it for $n - 1$. Then by (2.1.2),

$$\frac{d}{dt}(e^{\lambda t} P_n(t)) = \frac{\lambda(\lambda t)^{n-1}}{(n-1)!}$$

implying that

$$e^{\lambda t} P_n(t) = \frac{(\lambda t)^n}{n!} + c,$$

or, since $P_n(0) = P\{N(0) = n\} = 0$,

$$P_n(t) = e^{-\lambda t} \frac{(\lambda t)^n}{n!}$$

Thus Definition 2.1.2 implies Definition 2.1.1. We will leave it for the reader to prove the reverse.

Remark The result that $N(t)$ has a Poisson distribution is a consequence of the Poisson approximation to the binomial distribution. To see this subdivide the interval $[0, t]$ into k equal parts where k is very large (Figure 2.1.1). First we note that the probability of having 2 or more events in any subinterval goes to 0 as $k \rightarrow \infty$. This follows from

$$\begin{aligned} & P\{2 \text{ or more events in any subinterval}\} \\ & \leq \sum_{i=1}^k P\{2 \text{ or more events in the } i\text{th subinterval}\} \\ & = k o(t/k) \\ & = t \frac{o(t/k)}{t/k} \\ & \rightarrow 0 \quad \text{as } k \rightarrow \infty. \end{aligned}$$

Hence, $N(t)$ will (with a probability going to 1) just equal the number of subintervals in which an event occurs. However, by stationary and independent increments this number will have a binomial distribution with parameters k and $p = \lambda t/k + o(t/k)$. Hence by the Poisson approximation to the binomial we see by letting k approach ∞ that $N(t)$ will have a Poisson distribution with mean equal to

$$\lim_{k \rightarrow \infty} k \left[\lambda \frac{t}{k} + o\left(\frac{t}{k}\right) \right] = \lambda t + \lim_{k \rightarrow \infty} \left[t \frac{o(t/k)}{t/k} \right] = \lambda t.$$

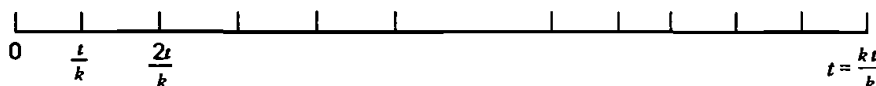


Figure 2.1.1