MATH180C: Introduction to Stochastic Processes II

Lecture A00: math.ucsd.edu/~ynemish/teaching/180cA
Lecture B00: math.ucsd.edu/~ynemish/teaching/180cB

Today: Brownian motion

Next: PK 8.1-8.2

Week 9:

CAPES

- homework 7 (due Friday, May 27)
- HW6 regrades are active on Gradescope until May 28, 11 PM
- Friday May 27 office hour: AP&M 7321

Brownian motion. Definition

Def. **Brownian motion** with diffusion coefficient σ^2 is a continuous time stochastic process $(B_t)_{t\geq 0}$ satisfying

(i) $B(0)=0$, $B(t)$ is continuous as a function of t

(ii) For all $0\leq s<t<\infty$ $B(t)-B(s)$ is a Gaussian random variable with mean 0 and variance $\sigma^2(t-s)$

(iii) The increments of B are independent: if $0=t_0<t_1<\dots<t_n$ then $\{B(t_i)-B(t_{i-1})\}_{i=1}^{n}$ are independent (Gaussian) r.v.s.

$\sigma^2=1 \leftarrow$ standard BM

BM as a Gaussian process

<u>Def</u>. Stochastic process $(X_t)_{t\geq 0}$ is called a Gaussian process if for any $0 \leq t_1 < t_2 < \cdots < t_n$

$(X_{t_1}, \ldots, X_{t_n})$ is a Gaussian vector, or equivalently for any $c_1, \ldots, c_n \in \mathbb{R}$

$c_1 X_{t_1} + c_2 X_{t_2} + \cdots + c_n X_{t_n}$ is a Gaussian r.v.

Recall that the distribution of a Gaussian vector is uniquelly defined by its mean and covariance matrix.

Similarly, each Gaussian process is uniquely described by

$$\mu(t) = E(X_t) \quad \text{and} \quad \Gamma(s,t) = \mathrm{Cov}(X_s, X_t) \geq 0$$

↑ covariance function

BM as a Gaussian process

Proposition BM is a Gaussian process with

$$\mu(t) = 0 \quad \text{and} \quad \Gamma(s,t) = \min\{s,t\} = s \wedge t$$

Proof. For any $\overset{t_0}{\overset{\shortparallel}{0}} \le t_1 < t_2 < \cdots < t_n$, $B_{t_j} - B_{t_{j-1}}$ are indep. Gaussian, thus

$$\sum_{i=1}^{n} c_i B_{t_i} = \sum_{i=1}^{n} c_i \sum_{j=1}^{i} (B_{t_j} - B_{t_{j-1}}) = \sum_{j=1}^{n} \underbrace{\sum_{i=j}^{n} c_i}_{\alpha_j} (B_{t_j} - B_{t_{j-1}})$$

is also Gaussian.

By definition $\mu(t) = E(B_t) = 0$. Let $s < t$.

Then

$$\begin{aligned}
\Gamma(s,t) &= \mathrm{Cov}(B_s, B_t) \\
&= \mathrm{Cov}(B_s, B_s + (B_t - B_s)) \\
&= \mathrm{Cov}(B_s, B_s) + \mathrm{Cov}(B_s, B_t - B_s) \\
&= s + 0 = s = \min\{s,t\} \qquad \blacksquare
\end{aligned}$$

Some properties of BM

Proposition. Let $(B_t)_{t\geq 0}$ be a standard BM. Then

(i) For any $s>0$, the process $(B_{t+s}-B_s, t\geq 0)$ is a BM independent of $(B_u, 0\leq u\leq s)$.

(ii) The process $(-B_t, t\geq 0)$ is a BM

(iii) For any $c>0$, the process $(cB_{\frac{t}{c^2}}, t\geq 0)$ is a BM

(iv) The process $(X_t)_{t\geq 0}$ defined by $X_0=0$, $X_t = tB_{\frac{1}{t}}$ for $t>0$ is a BM.

Proof (i) Define $X_t = B_{t+s}-B_s$. Then $X_0=0$ and $X_{t_2}-X_{t_1}=B_{t_2+s}-B_{t_1+s}$

$\Rightarrow$ independent Gaussian increments, $E(X_{t_2}-X_{t_1})=0$, $Var(X_{t_2}-X_{t_1})=t_2-t_1$

$(X_t)_{t\geq 0}$ has continuous paths $\Rightarrow (X_t)$ is a BM

(iv) X_t is Gaussian, for $s<t$ $\Gamma(s,t)=Cov(sB_{\frac{1}{s}}, tB_{\frac{1}{t}})=st\min\{\frac{1}{s},\frac{1}{t}\}=s$

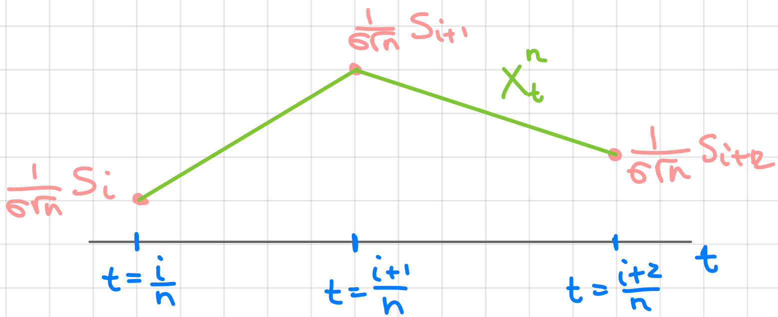
Proof of $\lim_{t\to 0} X_t=0$ is more technical, thus omitted. ■

Construction of BM

BM can be constructed as a limit of properly rescaled random walks.

Let $\{\xi_k\}_{k=1}^{\infty}$ be a sequence of i.i.d. r.v.s, $E(\xi_i)=0$, $Var(\xi_i)=\sigma^2<\infty$. Denote $S_m=\sum_{i=1}^{m}\xi_i$ and define

$$X_t^n = \frac{1}{\sigma\sqrt{n}}\left(S_{[nt]} + (nt-[nt])\xi_{[nt]+1}\right)$$



Theorem (Donsker) $(X_t^n)_{t\geq 0}$ converges in distribution to the standard BM