

**TIME SERIES ANALYSIS:
NONSTATIONARY AND NONINVERTIBLE
DISTRIBUTION THEORY**

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PREFACE

This book attempts to describe nonstandard theory for linear time series models that are nonstationary and/or noninvertible. Nonstandard aspects of the departure from stationarity or invertibility have attracted much attention in the field of time series econometrics during the last ten years. Since there seem few books concerned with the theory for such nonstandard aspects, I have been at liberty to choose my way. Throughout this book, attention is oriented toward the most interesting theoretical issue; that is, the asymptotic distributional aspect of nonstandard statistics. The subtitle of the book reflects this.

Chapter 1 is a prelude to the main theme. By using simple examples, various asymptotic distributions of nonstandard statistics are derived by a classical approach which I call the *eigenvalue approach*. It turns out that, if more complicated problems are to be dealt with, the eigenvalue approach breaks down, and the introduction of notions such as the Brownian motion, the Ito integral, the functional central limit theorem, and so on is inevitable. These notions are now developed very deeply in probability theory. In this book, however, a knowledge of such probability notions is required only at a moderate level, which I explain in Chapters 2 and 3 in an easily accessible way.

Probability theory, in particular the functional central limit theorem, en-

ables us to establish weak convergence of nonstandard statistics, and to realize that limiting forms can be expressed by functionals of the Brownian motion. However, more important from a statistical point of view is how to compute limiting distributions of those statistics. For this purpose I do not simply resort to simulations, but employ numerical integration. To make a matter possible we first need to derive limiting characteristic functions of nonstandard statistics. To this end two approaches are presented. Chapter 4 discusses one approach which I call the stochastic process approach, while Chapter 5 the other which I call the Fredholm approach. The two approaches originate from quite different mathematical theories, which I explain fully indicating the advantage and disadvantage of each approach for judicious use.

Chapter 6 discusses and illustrates numerical integration for computing distribution functions via inversion of characteristic functions. This chapter is necessitated because a direct application of any computer package for integration cannot do a proper job. Overcoming the difficulty we employ Simpson's rule which can be executed on a desktop computer. Necessity for accurate computation based on numerical integration is recognized, for instance, when comparison has to be made closely of limiting local powers of competing nonstandard tests.

Chapters 7 through 11 deal with statistical and econometric problems to which the nonstandard theory discussed in previous chapters applies. Chap-

ter 7 considers the estimation problems associated with nonstationary autoregressive models, while Chapter 8 with noninvertible moving average models. The corresponding testing problems called the unit root tests are discussed in Chapters 9 and 10, respectively. Chapter 11 is concerned with cointegration, which is a stochastic collinearity relationship among multiple nonstationary time series. Problems discussed in these chapters have an origin in time series econometrics. I describe in detail how to derive and compute limiting nonstandard distributions of various estimators and test statistics.

Chapter 12, the last chapter, is intended to give a complete set of solutions to problems posed at the end of most sections of each chapter. Most of the problems are concerned with corroborating the results described in the text so that one can gain a better understanding of details of discussions.

There are about 90 figures and 50 tables. Most of them are those of limiting distributions of nonstandard statistics. These are all produced by the method described in this book, and include many distributions which have never appeared in the literature. Among those are limiting powers and power envelopes of various nonstandard tests under a sequence of local alternatives.

This book may be used as a textbook for graduate students majoring in econometrics or time series analysis. A general knowledge of mathematical statistics including the theory of stationary processes is presupposed, although the necessary material is offered in the text and problems of this

book. Some knowledge of programming language like FORTRAN and computerized algebra like REDUCE is also useful.

The late Professor E. J. Hannan gave me valuable comments on the early version of my manuscript. I would like to thank him for his kindness and for pleasant memories extending over the years since my student days. This book grew out of joint work with Professor S. Nabeya, another respected teacher of mine. He read substantial parts of the manuscript and corrected a number of errors in its preliminary stages, for which I am most grateful. I am also grateful to Professors C. W. Helstrom, S. Kusuoka and P. Saikkonen for helpful discussions, and to Professor G. S. Watson for help of various kinds. Most of the manuscript was keyboarded, many times over, by Ms. M. Yuasa, and some parts were done by Ms. Y. Fukushima, to both of whom I am greatly indebted. Finally, I thank my wife, Yoshiko, who has always been a source of encouragement.

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CONTENTS

Chapter 1 Motivating Examples

- 1.1 The test statistic for the parameter constancy
- 1.2 The test statistic for a moving average unit root
- 1.3 Statistics from the one-dimensional random walk
- 1.4 Statistics from the two-dimensional random walk
- 1.5 Statistics from the cointegrated process

Chapter 2 Stochastic Calculus in Mean Square

- 2.1 The space L_2 of random variables
- 2.2 The standard Brownian motion and the Brownian bridge
- 2.3 Mean square integration
- 2.4 The integrated Brownian motion
- 2.5 The mean square Ito integral: the scalar case
- 2.6 The mean square Ito integral: the vector case
- 2.7 The Ito calculus

Chapter 3 Functional Central Limit Theorems

- 3.1 Function space \mathcal{C}
- 3.2 Weak convergence of stochastic processes in \mathcal{C}
- 3.3 The functional central limit theorem
- 3.4 Continuous mappings and related theorems
- 3.5 FCLT for linear processes: case 1
- 3.6 FCLT for martingale differences
- 3.7 FCLT for linear processes: case 2

- 3.8 Weak convergence to the integrated Brownian motion
- 3.9 Weak convergence to the Ornstein-Uhlenbeck process
- 3.10 Weak convergence of vector-valued stochastic processes
- 3.11 Weak convergence to the Ito integral

Chapter 4 The Stochastic Process Approach

- 4.1 Girsanov's theorem: case 1
- 4.2 Girsanov's theorem: case 2
- 4.3 Girsanov's theorem: case 3
- 4.4 The Cameron-Martin formula
- 4.5 Advantages and disadvantages of the present approach

Chapter 5 The Fredholm Approach

- 5.1 Motivating examples
- 5.2 The Fredholm theory: the homogeneous case
- 5.3 The c.f. of the quadratic Brownian functional
- 5.4 Various Fredholm determinants
- 5.5 The Fredholm theory: the nonhomogeneous case
- 5.6 Weak convergence of quadratic forms

Chapter 6 Numerical Integration

- 6.1 Introduction
- 6.2 Numerical integration: the nonnegative case
- 6.3 Numerical integration: the oscillating case
- 6.4 Numerical integration: the general case
- 6.5 Computation of percent points
- 6.6 The saddlepoint approximation

Chapter 7 Estimation Problems in Nonstationary Autoregressive Models

- 7.1 Nonstationary autoregressive models
- 7.2 Convergence in distribution of LSE's
- 7.3 The negative unit root case
- 7.4 The c.f.'s for the limiting distributions of LSE's
- 7.5 Tables and figures of limiting distributions
- 7.6 Approximations to the distributions of the LSE's
- 7.7 Nearly nonstationary seasonal AR models
- 7.8 Complex roots on the unit circle
- 7.9 Autoregressive models with multiple unit roots

Chapter 8 Estimation Problems in Noninvertible Moving Average Models

- 8.1 Noninvertible moving average models
- 8.2 The local MLE in the stationary case
- 8.3 The local MLE in the conditional case
- 8.4 Noninvertible seasonal models
- 8.5 The pseudo local MLE
- 8.6 Probability of the local MLE at unity
- 8.7 The relationship with the state space model

Chapter 9 Unit Root Tests in Autoregressive Models

- 9.1 Introduction

- 9.2 Optimal tests
- 9.3 Equivalence of the LM test with the LBI or LBIU test
- 9.4 Various unit root tests
- 9.5 Integral expressions for the limiting powers
- 9.6 Limiting power envelopes and point optimal tests
- 9.7 Computation of the limiting powers
- 9.8 Seasonal unit root tests
- 9.9 Unit root tests in the dependent case
- 9.10 The unit root testing problem revisited

Chapter 10 Unit Root Tests in Moving Average Models

- 10.1 Introduction
- 10.2 The LBI and LBIU tests
- 10.3 The relationship with the test statistics in differenced form
- 10.4 Performance of the LBI and LBIU tests
- 10.5 Seasonal unit root tests
- 10.6 Unit root tests in the dependent case
- 10.7 The relationship with testing in the state space model

Chapter 11 Statistical Analysis of Cointegration

- 11.1 Introduction
- 11.2 Case of no cointegration
- 11.3 Cointegration distributions: the independent case
- 11.4 Cointegration distributions: the dependent case

- 11.5 The sampling behavior of cointegration distributions
- 11.6 Testing for cointegration
- 11.7 Determination of the cointegration rank
- 11.8 Higher order cointegration

Chapter 12 Solutions to Problems

References

Author Index

Subject Index