

# Time Series Analysis Classnotes

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December 1, 2019

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# 1 Chapter 1 - Characteristics of Time Series

## 1.1 Definitions

**Filtered Series:** A linear combination of values in a time series

**Autoregression:** A time series where the current value  $x_t$  is dependent on a function of previous values  $x_{t-1}, x_{t-2}, \dots$ , etc. The order of Autoregression is dependent on the number of previous values.

**Random Walk (with Drift):** An AR(1) model with some constant  $\delta$  called *drift*. When  $\delta = 0$ , this is called a Random Walk.  $x_t = \delta + x_{t-1} + w_t$

**Signal-to-noise Ratio (SNR):**  $SNR = \frac{A}{\sigma_w}$   $A$ : Amplitude of the Waveform  $\sigma_w$ : Additive noise term

Note: A sinusoidal wave form can be written as  $A \cos(2\pi\omega t + \phi)$

**Weak Stationarity**

A time series where the mean is constant. In this case,  $h = |s - t|$  where  $h$  is the separation between points  $x_s$  and  $x_t$  is important.

**Note:** Many modeling practices attempt to reduce or transform a time series to white noise to then model it. This is known as *pre-whitening* and is typically done prior to performing Cross-Correlation Analysis (CCA).

## 1.2 Mean

### 1.2.1 Theoretical

$$\mu_{xt} = E(x_t) = \int_{-\infty}^{\infty} x f_t(x) dx$$

1. Moving Average  $\mu_{vt} = E(v_t) = \frac{1}{3}[E(w_{t-1}) + E(w_t) + E(w_{t+1})] = 0$
2. Random Walk with Drift  $\mu_{xt} = E(x_t) = \delta t + \sum_{j=1}^t E(w_j) = \delta t$

### 1.2.2 Sample

$$\bar{x} = \frac{1}{n} \sum_{t=1}^n x_t$$

$$\begin{aligned} var(\bar{x}) &= \frac{1}{n^2} cov\left(\sum_{t=1}^n x_t, \sum_{s=1}^n x_s\right) \\ &= \frac{1}{n} \sum_{h=-n}^n \left(1 - \frac{|h|}{n}\right) \gamma_x(h) \end{aligned} \tag{1}$$

### 1.3 Autocovariance

- the second moment product for all s and t.
- Measures linear dependence between two points on the same series observed at different times.

Theoretical Formula:  $\gamma_x(s, t) = cov(x_s, x_t) = E[(x_s - \mu_s)(x_t - \mu_t)]$  Sample Formula:  $\hat{\gamma}(h) = n^{-1} \sum_{t=1}^{n-h} (x_{t+h} - \bar{x})(x_t - \bar{x})$  where  $\hat{\gamma}(-h) = \hat{\gamma}(h) \forall h \in [0, n-1]$

- This estimator guarantees a non-negative result.

#### 1.3.1 Covariance of Linear Combos

Let U and V be linear combinations with finite variance of the random variables  $X_j$  and  $Y_k$ .

$$\begin{aligned} U &= \sum_{j=1}^m a_j X_j \\ V &= \sum_{k=1}^r b_k Y_k \end{aligned} \tag{2}$$

Then,

$$\begin{aligned} cov(U, V) &= \sum_{j=1}^m \sum_{k=1}^r a_j b_k cov(X_j, Y_k) \\ cov(U, U) &= var(U) \end{aligned}$$

#### 1.3.2 Moving Average

$$\gamma_v(s, t) = cov(v_s, v_t) = cov\left(\frac{1}{3}(w_{s-1} + w_s + w_{s+1}), \frac{1}{3}(w_{t-1} + w_t + w_{t+1})\right)$$

$$\gamma_v(s, t) = \begin{cases} \frac{3}{9}\sigma_w^2 & s = t \\ \frac{2}{9}\sigma_w^2 & |s - t| = 1 \\ \frac{1}{9}\sigma_w^2 & |s - t| = 2 \\ 0 & |s - t| > 2 \end{cases} \tag{3}$$

#### 1.3.3 Random Walk

$$\gamma_x(s, t) = cov(x_s, x_t) = cov\left(\sum_{j=1}^s w_j, \sum_{k=1}^t w_k\right) = min(s, t)\sigma_w^2$$

- covariance of walk is dependent on time opposed to lag, unlike Linear combos and Moving Average.

### 1.3.4 Cross-covariance

Covariance between two time series x and y

Population:  $\gamma_{xy}(s, t) = \text{cov}(x_s, y_t) = E[(x_s - \mu_{xs})(y_t - \mu_{yt})]$

Sample:  $\hat{\gamma}_{xy}(h) = n^{-1} \sum_{t=1}^{n-h} (x_{t+h} - \bar{x})(y_t - \bar{y})$

## 1.4 Autocorrelation (ACF)

Measures the linear predictability of a time series at time  $t$  ( $x_t$ ) using only the value  $x_s$ .

Theoretical Formula:  $\rho(s, t) = \frac{\gamma(s, t)}{\sqrt{\gamma(s, s)\gamma(t, t)}}$

Sample Formula:  $\hat{\rho}(h) = \frac{\hat{\gamma}(h)}{\hat{\gamma}(0)}$

For large sample sizes, the sample ACF is  $\sim N(0, \frac{1}{n})$

### 1.4.1 Cross-correlation

Correlation between two different time series x and y

Population:  $\rho_{xy}(s, t) = \frac{\gamma_{xy}(s, t)}{\sqrt{\gamma_x(s, s)\gamma_y(t, t)}}$

Sample:  $\hat{\rho}_{xy}(h) = \frac{\hat{\gamma}_{xy}(h)}{\sqrt{\hat{\gamma}_x(0)\hat{\gamma}_y(0)}}$

For large samples,  $\hat{\rho}_{xy} \sim N(0, \frac{1}{n})$

## 1.5 Stationary Time Series

A measure of regularity over the course of a time series.

### 1.5.1 Strict Stationary

A time series for which the probabilistic behavior of every collection of values  $(x_{t1}, x_{t2}, \dots, x_{tk})$  is identical to that of the time shifted set  $(x_{t1+h}, \dots, x_{tk+h})$ .

i.e.  $Pr(x_{t1} \leq c_1, \dots, x_{tk} \leq c_k) = Pr(x_{t1+h} \leq c_1, \dots, x_{tk+h} \leq c_k)$

Mean:  $\mu_t = \mu_s$  for all s and t indicating that  $\mu_t$  is *constant*.

Autocovariance:  $\gamma(s, t) = \gamma(s + h, t + h)$

- The process depends only on time *difference* between s and t rather than the actual times.

This definition is too restrictive and unrealistic for most applications.

### 1.5.2 Weakly Stationary

A time series for which

1.  $\mu_t$  is constant and does not depend on time  $t$
2.  $\gamma(s, t)$  depends on  $s$  and  $t$  only through their difference  $|s - t|$

If a time series is normal, then it implies it is strict stationary.

**Autocorrelation Function (ACF) of a stationary time series**

$$\rho(h) = \frac{\gamma(t+h, t)}{\sqrt{\gamma(t+h, t+h)\gamma(t, t)}} = \frac{\gamma(h)}{\gamma(0)}$$

Moving Averages are Stationary Random Walks are **not** Stationary since the mean depends on time

### 1.5.3 Trend Stationarity

When the Mean function is dependent on time but the Autocovariance function is not, the model can be considered as having a stationary behavior around a linear trend. a.k.a trend stationarity.

### 1.5.4 Autocovariance Function Properties

1.  $\gamma(h)$  is non-negative definite meaning that that variance and linear combinations of such will never be negative.  
$$0 \leq \text{var}(a_1x_1 + \dots + a_nx_n) = \sum_{j=1}^n \sum_{k=1}^n a_j a_k \gamma(j - k)$$
2.  $\gamma(h = 0) = E[(x_t - \mu)^2]$  is the variance of the time series and thus Cauchy-Swarz inequality implies  $|\gamma(h)| \leq \gamma(0)$
3.  $\gamma(h) = \gamma(-h)$  for all  $h$ . i.e. symmetrical

### 1.5.5 Joint Stationarity

Both time series are stationary and the Cross-Covariance Function is a function only of lag  $h$ .

$$\gamma_{xy}(h) = \text{cov}(x_{t+h}, y_t) = E[(x_{t+h} - \mu_x)(y_t - \mu_y)]$$

Cross-correlation Function (CCF) of a jointly stationary time series  $x_t$  and  $y_t$  is defined as  $\rho_{xy}(h) = \frac{\gamma_{xy}(h)}{\sqrt{\gamma_x(0)\gamma_y(0)}}$

Generally  $\text{cov}(x_2, y_1) \neq \text{cov}(x_1, y_2)$  and  $\rho_{xy}(h) \neq \rho_{xy}(-h)$ ; however,  $\rho_{xy}(h) = \rho_{yx}(-h)$ .

### 1.5.6 Linear Process

Linear combination of white noise variates  $w_t$ , given by  $x_t = \mu + \sum_{j=-\infty}^{\infty} \psi_j w_{t-j}$ ,  $\sum_{j=-\infty}^{\infty} |\psi_j| < \infty$

**Autocovariance for  $h \geq 0$ :**  $\gamma_x(h) = \sigma_w^2 \sum_{j=-\infty}^{\infty} \psi_{j+h} \psi_j$

models that do not depend on the future are considered **causal**. In causal linear processes,  $\psi_j = 0$  for  $j < 0$

### 1.5.7 Gaussian (Normal) Process

A process is said to be Gaussian if the  $n$ -dimensional vectors  $x = (x_{t_1}, x_{t_2}, \dots, x_{t_n})^T$  for every collection of distinct time points  $t_1, t_2, \dots, t_n$  and every positive integer  $n$  have a multivariate normal distribution.

A Gaussian Process is Strictly Stationary. Gaussian Time series form the basis of modeling many time series.

**Wold Decomposition:** A stationary non-deterministic time series is a causal linear process with  $\sum \psi_j^2 < \infty$

## 1.6 Vector Time Series

$$\underset{(p \times 1)}{x_t} = (x_{t1}, \dots, x_{tp})^T$$

1. Mean **Population:**  $\vec{\mu} = E(x_t)$  **Sample Vector:**  $\bar{x} = n^{-1} \sum_{t=1}^n x_t$
2. Autocovariance Matrix **Population:**  $\Gamma(h) = E[(x_{t+h} - \mu)(x_t - \mu)^T]$ 
  - $\Gamma(-h) = \Gamma^T(h)$  holds

$$\textbf{Sample: } \underset{(p \times p)}{\hat{\Gamma}}(h) = n^{-1} \sum_{t=1}^{n-h} (x_{t+h} - \bar{x})(x_t - \bar{x})^T$$

- $\hat{\Gamma}(-h) = \hat{\Gamma}^T(h)$  holds

## 1.7 Multidimensional Series

In cases where a series is indexed by more than time alone, a *multidimensional process* can be used. For example, a coordinate may be defined as  $(s_1, s_2)$ . Thus,  $\underset{(r \times 1)}{s} = (s_1, \dots, s_r)^T$  where  $s_i$  is the coordinate of the  $i$ th index.

### 1.7.1 Mean

**Population:**  $\mu = E(x_s)$

**Sample:**  $\bar{x} = (S_1 S_2 \dots S_r)^{-1} \Sigma_{s1} \Sigma_{s2} \dots \Sigma_{sr} x_{s1, s2, \dots, sr}$

### 1.7.2 Autocovariance

**Population:**  $\gamma(h) = E[(x_{s+h} - \mu)(x_s - \mu)]$  with multidimensional lag vector  $h$ ,  $h = (h_1, \dots, h_r)^T$

**Sample:**  $\hat{\gamma}(h) = (S_1 S_2 \dots S_r)^{-1} \Sigma_{s1} \Sigma_{s2} \dots \Sigma_{sr} (x_{s+h} - \bar{x})(x_s - \bar{x})$

### 1.7.3 Autocorrelation

**Sample:**  $\hat{\rho}(h) = \frac{\hat{\gamma}(h)}{\hat{\gamma}(0)}$  with  $\hat{\gamma}$  defined above

### 1.7.4 Variogram

Sampling requirements for multidimensional processes are severe since there must be some uniformity across values. When observations are irregular in time space, modifications to the estimators must be made. One such modification is the variogram.

$$2V_x(h) = \text{var}(x_{s+h} - x_s)$$

**Sample Estimator:**  $2\hat{V}_x(h) = \frac{1}{N(h)} \sum_s (x_{s+h} - x_s)^2$

$N(h)$ : Number of points located within  $h$

**Issues**

- negative estimators for the covariance function occur
- Indexing issues?