

Martingales

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July 24, 2021

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1 Discrete Time Martingales

Definition 1.1 (Filtration). Let (X, \mathcal{A}, μ) be a measure space, then a filtration on this measure space is a sequence $(\mathcal{A}_n)_{n \in \mathbb{N}}$ of increasing sub- σ -algebras of \mathcal{A} . If (X, \mathcal{A}_0, μ) is σ -finite, then we call $(X, \mathcal{A}, (\mathcal{A}_n), \mu)$ a σ -finite filtered measure space.

Definition 1.2 (Natural Filtration). Given a sequence of functions $(f_n : X \rightarrow Y)$ where Y is a measurable space, the natural filtration is the measure space $(X, \sigma(f_n \mid n \in \mathbb{N}), \mu)$ equipped with the filtration

$$(\mathcal{A}_n) = (\sigma(f_1, \dots, f_n)).$$

It is clear that the natural filtration is the least filtration such that f_n is \mathcal{A}_n -measurable. As we shall see in the continuous case, one may define filtrations more generally with a pre-order index.

Definition 1.3 (Discrete Time Martingale). Let $(X, \mathcal{A}, (\mathcal{A}_n), \mu)$ be a σ -finite filtered measure space. Then a sequence of \mathcal{A} -measurable functions $(f_n)_{n \in \mathbb{N}}$ is a martingale if $f_n \in \mathcal{L}^1(\mathcal{A}_n)$ and

$$\int_A f_{n+1} d\mu = \int_A f_n d\mu$$

for all $n \in \mathbb{N}$ and $A \in \mathcal{A}_n$.

Using probabilistic notation, the above property for martingales is simply $\mathbb{E}[f_{n+1} \mid \mathcal{A}_n] = f_n$.

Definition 1.4 (Sub/Super-martingale). The sequence of \mathcal{A} -measurable functions $(f_n)_{n \in \mathbb{N}}$ is a submartingale if $f_n \in \mathcal{L}^1(\mathcal{A}_n)$ and

$$\int_A f_{n+1} d\mu \geq \int_A f_n d\mu$$

for all $n \in \mathbb{N}$ and $A \in \mathcal{A}_n$. Similarly, (f_n) is a supermartingale if $f_n \in \mathcal{L}^1(\mathcal{A}_n)$ and

$$\int_A f_{n+1} d\mu \leq \int_A f_n d\mu$$

for all $n \in \mathbb{N}$ and $A \in \mathcal{A}_n$.

It is clear that a martingale is both a submartingale and a supermartingale and the negative of a submartingale is a supermartingale (and vice-versa).

Proposition 1.1. The sequence of \mathcal{L}^1 functions $(f_n)_{n \in \mathbb{N}}$ is a submartingale if and only if

$$\int \phi f_{n+1} d\mu \geq \int \phi f_n d\mu$$

for all $\phi \in \mathcal{L}^\infty(\mathcal{A}_n) \cap \geq 0$. Similar statements hold for martingales and supermartingales by the same proof.

Proof. The backwards implication is clear by choosing $\phi = \mathbb{1}_A$ so let us consider the forward direction. By approximation by simple functions, there exists a sequence of simple functions

$\left(s_N = \sum_{i=0}^N \alpha_i \mathbb{1}_{A_i}\right)_{N \in \mathbb{N}}$ such that $s_N \uparrow \phi$. Then, as $\phi \in \mathcal{L}^\infty$, there exists some $M \in \mathbb{R}$ such that $M \geq \phi \geq s_N$. Thus, by dominated convergence theorem,

$$\begin{aligned} \int \phi f_{n+1} &= \int \lim_{N \rightarrow \infty} s_N f_{n+1} = \lim_{N \rightarrow \infty} \int s_N f_{n+1} = \lim_{N \rightarrow \infty} \sum_{i=0}^N \int_{A_i} f_{n+1} \\ &\geq \lim_{N \rightarrow \infty} \sum_{i=0}^N \int_{A_i} f_n = \lim_{N \rightarrow \infty} \int s_N f_n = \int \lim_{N \rightarrow \infty} s_N f_n = \int \phi f_n. \end{aligned}$$

□

Proposition 1.2. If (f_n) and (g_n) are martingales and $\alpha, \beta \in \mathbb{R}$, then $\alpha f_n + \beta g_n$ is also a martingale. Similar statements hold for submartingales and supermartingales (with consideration to the sign of α and β).

Let us recall some definitions from probability theory.

Definition 1.5 (Independence). Let (X, \mathcal{A}, μ) be a probability space. A sequence of functions $(f_n)_{n \in \mathbb{N}} \subseteq \mathcal{L}^1$ is said to be independent if

$$\mu \left(\bigcap_{n=1}^N f_n^{-1}(B_n) \right) = \prod_{n=1}^N \mu(f_n^{-1}(B_n)),$$

for all $(B_n)_{n=1}^N \subseteq \mathcal{B}(\mathbb{R})$.

Lemma 1.1. Given a sequence of independent functions $(f_n)_{n=1}^{N+1} \subseteq \mathcal{L}^1$, for all $A \in \sigma(f_1, \dots, f_N)$,

$$\int_A f_{N+1} d\mu = \mu(A) \int f_{N+1} d\mu,$$

and for all $\phi \in \mathcal{L}^1(\sigma(f_1, \dots, f_N))$,

$$\int \phi f_{N+1} d\mu = \int \phi d\mu \cdot \int f_{N+1} d\mu.$$

Furthermore,

$$\int \prod_{n=1}^k f_n d\mu = \prod_{n=1}^k \int f_n d\mu,$$

for all $k = 1, \dots, N$.

Proposition 1.3. Given a sequence of independent functions $(f_n)_{n \in \mathbb{N}} \subseteq \mathcal{L}^1$, $(s_n) := (\sum_{i=1}^n f_i)$ is a submartingale with respect to the natural filtration if and only if $\int f_n \geq 0$ for all n .