Expectation Maximization calculation for the DTQ method

We consider a parameteric SDE model:

$$dX_t = f(X_t; \boldsymbol{\theta})dt + g(X_t; \boldsymbol{\theta})dW_t \tag{1}$$

In this model $f(X_t; \boldsymbol{\theta})$ is the drift function and $g(X_t; \boldsymbol{\theta})$ is the diffusion function. A concrete example of such an SDE is the Ornstein-Uhlenback SDE (linear in nature),

$$dX_t = \theta_1(\theta_2 - X_t)dt + \theta_3 dW_t \tag{2}$$

We start with the parameter inference problem where we have data available as a time series, denoted by $\mathbf{x} = (x_0, x_1, \cdots, x_N)$. Since the observed data might be have large inter-observation times, we consider intermediate points which we consider as *missing data points*, denoted by $\mathbf{z}$. On the interval $[t_i, t_{i+1}]$, we have 2 observed data points, $X_{t_i} = x_i$ and $X_{t_{i+1}} = x_{i+1}$. We consider F missing data points on this interval, denoted by $z_{i,F}$, the first subscript corresponding to the interval and the second subscript for the missing data point on the interval. Thus the missing data on an interval $[t_i, t_{i+1}]$, can be represented as $\mathbf{z}_i = (z_{i1}, z_{i2}, \cdots, z_{iF})$. The complete data on this interval would thus become $(x_i, z_{i1}, z_{i2}, \cdots, z_{iF}, x_{i+1})$, comprising of the observed data and the unknown missing data that we introduced.

1 EM algorithm

The Expectation-Maximization algorithm consists of 2 steps, computing the expectation of the log likelihood function and maximizing this value with respect to the parameters.

1. Start with an initial guess for the parameter, $\boldsymbol{\theta}^{(0)}$

2. For the expectation step,

$$\begin{align} Q(\boldsymbol{\theta}, \boldsymbol{\theta}^{(k)}) &= \mathbb{E}_{\mathbf{z}|\mathbf{x},\boldsymbol{\theta}^{(k)}}[\log p(\mathbf{x}, \mathbf{z} \mid \boldsymbol{\theta})] \tag{3} \\ &= \sum_{\mathbf{z}} \underbrace{\log p(\mathbf{x}, \mathbf{z} \mid \boldsymbol{\theta})}_{\text{Part I}} \cdot \underbrace{p(\mathbf{z} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)})}_{\text{Part II}} \tag{4} \end{align}$$

3. For the maximization step, we start with the current iterate and a dummy variable $\boldsymbol{\theta}$, so that the next iterate of the parameters would be the maximal value of $\boldsymbol{\theta}$

$$\boldsymbol{\theta}^{(k+1)} = \arg\max_{\boldsymbol{\theta}} Q(\boldsymbol{\theta}, \boldsymbol{\theta}^{(k)}) \tag{5}$$

   We can either use a numerical optimizer for the optimization step or differentiate the $Q(\boldsymbol{\theta}, \boldsymbol{\theta}^{(k)})$ function with respect to $\boldsymbol{\theta}$ vector and equate it to zero to get the maximal value.

4. Iterate Step 2 and 3 until convergence.

1.1 Computation of the complete log likelihood

The first part of the expectation is the complete likelihood, $\log p(\mathbf{x}, \mathbf{z} \mid \boldsymbol{\theta})$, which can be expanded as,

$$\log p(\mathbf{x}, \mathbf{z} \mid \boldsymbol{\theta}) = \log p(x_0 \mid \boldsymbol{\theta}) + \underbrace{\sum_{i=0}^{N-1} \log p(z_{i1} \mid x_i, \boldsymbol{\theta})}_{(1)} + \underbrace{\sum_{i=0}^{N-1} \sum_{j=1}^{F-1} \log p(z_{i,j+1} \mid z_{ij}, \boldsymbol{\theta})}_{(2)}$$
$$+ \underbrace{\sum_{i=0}^{N-1} \log p(x_{i+1} \mid z_{iF}, \boldsymbol{\theta})}_{(3)} \tag{6}$$

The expression can be simplified under the assumption that F is sufficiently large so that we can make an assumption that one-step transition densities in (1), (2) and (3) follow Gaussian distribution. Thus all the terms, $p(z_{i1} \mid x_i, \boldsymbol{\theta}), p(z_{i,j+1} \mid z_{ij}, \boldsymbol{\theta})$ and $p(x_{i+1} \mid z_{iF}, \boldsymbol{\theta})$ can be expressed with a Gaussian function

$$G(x, y, \boldsymbol{\theta}) = p(x \mid y, \boldsymbol{\theta}) = \frac{1}{\sqrt{2\pi g^2(y, \boldsymbol{\theta}) h}} \exp\left(-\frac{1}{2g^2(y, \boldsymbol{\theta}) h}(x - y - f(y, \boldsymbol{\theta}) h)^2\right)$$

1.2 Computation of the density of the missing data points

Looking back at the expectation equation (3), the expected value if computed by summing over all $\mathbf{z}$ values which is a nested integral. Since the log likelihood can be expanded in 4 terms, so the density $p(\mathbf{z} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)})$ gets multiplied by each of these terms. Upon summing over all the values of $\mathbf{z}$, there will be 3 steps of terms remaining, corresponding to the respective terms in the equation (6), as described below,

1. Corresponding to term (1), we have the term $p(z_{i1} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)})$. Using Bayes theorem we get,

$$p(z_{i1}, \mathbf{x} \mid \boldsymbol{\theta}^{(k)}) = p(z_{i1} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) \cdot p(\mathbf{x} \mid \boldsymbol{\theta}^{(k)}) \tag{7}$$
$$\implies p(z_{i1} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) = \frac{p(z_{i1}, \mathbf{x} \mid \boldsymbol{\theta}^{(k)})}{p(\mathbf{x} \mid \boldsymbol{\theta}^{(k)})} = \frac{p(z_{i1}, \mathbf{x} \mid \boldsymbol{\theta}^{(k)})}{p(x_0 \mid \boldsymbol{\theta}^{(k)}) \prod_{j=0}^{N-1} p(x_{j+1} \mid x_j, \boldsymbol{\theta}^{(k)})}$$

The numerator for the expression can be expanded using Markov property as,

$$p(z_{i1}, \mathbf{x} \mid \boldsymbol{\theta}^{(k)}) = p(z_{i1}, x_0, x_1, \cdots, x_N \mid \boldsymbol{\theta}^{(k)})$$
$$= p(x_0 \mid \boldsymbol{\theta}^{(k)}) \prod_{j=i+1}^{N-1} p(x_{j+1} \mid x_j, \boldsymbol{\theta}^{(k)}) \, p(x_{i+1} \mid z_{i1}, \boldsymbol{\theta}^{(k)}) \, p(z_{i1} \mid x_i, \boldsymbol{\theta}^{(k)}) \prod_{j=0}^{i-1} p(x_{j+1} \mid x_j, \boldsymbol{\theta}^{(k)})$$

Substituting the expression for $p(z_{i1}, \mathbf{x} \mid \boldsymbol{\theta}^{(k)})$ in equation (7) and expanding the denominator using Markov property in a similar way gives,

$$p(z_{i1}, \mathbf{x} \mid \boldsymbol{\theta}^{(k)}) = \frac{p(x_{i+1} \mid z_{i1}, \boldsymbol{\theta}^{(k)}) \, p(z_{i1} \mid x_i, \boldsymbol{\theta}^{(k)})}{p(x_{i+1} \mid x_i, \boldsymbol{\theta}^{(k)})} \tag{8}$$

2. Corresponding to the F internal steps represented by term (2), we have the terms $p(z_{i,j+1}, z_{ij} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)})$. We again use Bayes theorem in a similar way as before to get,

$$p(z_{i,j+1}, z_{ij} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) = \frac{p(z_{i,j+1}, z_{ij}, \mathbf{x} \mid \boldsymbol{\theta}^{(k)})}{p(x_0 \mid \boldsymbol{\theta}^{(k)}) \prod_{j=0}^{N-1} p(x_{j+1} \mid x_j, \boldsymbol{\theta}^{(k)})} \tag{9}$$

The numerator can be expanded using Markov property as follows,

$$\begin{aligned} p(z_{i,j+1}, z_{ij}, \mathbf{x} \mid \boldsymbol{\theta}^{(k)}) = p(x_0 \mid \boldsymbol{\theta}^{(k)}) \prod_{j=0}^{i-1} p(x_{j+1} \mid x_j, \boldsymbol{\theta}^{(k)}) \cdot p(z_{ij} \mid x_i, \boldsymbol{\theta}^{(k)}) \cdot p(z_{i,j+1} \mid z_{ij}, \boldsymbol{\theta}^{(k)}) \\ \cdot\, p(x_{i+1} \mid z_{i,j+1}, \boldsymbol{\theta}^{(k)}) \prod_{j=1}^{N-1} p(x_{j+1} \mid x_j, \boldsymbol{\theta}^{(k)}) \end{aligned} \tag{10}$$

$$\implies p(z_{i,j+1}, z_{ij} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) = \frac{p\left(z_{ij} \mid x_i, \boldsymbol{\theta}^{(k)}\right) p\left(z_{i,j+1} \mid z_{ij}, \boldsymbol{\theta}^{(k)}\right) p\left(x_{i+1} \mid z_{i,j+1}, \boldsymbol{\theta}^{(k)}\right)}{p\left(x_{i+1} \mid x_i, \boldsymbol{\theta}^{(k)}\right)} \tag{11}$$

3. The last term (3) has the corresponding term $p(z_{iF} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)})$, similar to the first term,

$$p(z_{iF} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) = \frac{p(x_{i+1} \mid z_{iF}, \boldsymbol{\theta}^{(k)})\, p(z_{iF} \mid x_i, \boldsymbol{\theta}^{(k)})}{p(x_{i+1} \mid x_i, \boldsymbol{\theta}^{(k)})} \tag{12}$$

1.3 Expectation Step

Combining the terms from Section 1.1 and Section 1.2, we can form a complete expression for the expectation. Going back to Section 1.1, we recall that the transition densities can be assumed to be Gaussian for sufficiently large enough F. Thus, the expectation expression can be rewritten as,

$$\begin{aligned} Q(\boldsymbol{\theta}, \boldsymbol{\theta}^{(k)}) = \log p(x_0 \mid \boldsymbol{\theta}) &+ \sum_{i=0}^{N-1} \log G(z_{i1}, x_i, \boldsymbol{\theta}) \cdot p(z_{i1} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) \\ &+ \sum_{i=0}^{N-1} \sum_{j=1}^{F-1} \log G(z_{i,j+1}, z_{ij}, \boldsymbol{\theta}) \cdot p(z_{i,j+1}, z_{ij} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) \\ &+ \sum_{i=0}^{N-1} \log G(x_{i+1}, z_{iF}, \boldsymbol{\theta}) \cdot p(z_{iF} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) \end{aligned} \tag{13}$$

1.4 Maximization Step

For the maximization step, there are 2 ways to maximize $Q(\boldsymbol{\theta}, \boldsymbol{\theta}^{(k)})$, either through numerical optimizers or through equating the derivative with respect to the parameters to zero and using a root-finding solver if required.

Since both these methods require the gradient of $Q(\boldsymbol{\theta}, \boldsymbol{\theta}^{(k)})$ so we specify the gradients below. The derivative of $Q(\boldsymbol{\theta}, \boldsymbol{\theta}^{(k)})$ with respect to the $\boldsymbol{\theta}$ parameters would then be,

$$\begin{aligned}
0 = \frac{\partial Q(\boldsymbol{\theta}, \boldsymbol{\theta}^{(k)})}{\partial \theta_\ell} = \frac{p'(x_0 \mid \boldsymbol{\theta})}{p(x_0 \mid \boldsymbol{\theta})} &+ \sum_{i=0}^{N-1} \frac{H_\ell(z_{i1}, x_i, \boldsymbol{\theta})}{G(z_{i1}, x_i, \boldsymbol{\theta})} \cdot p(z_{i1} \mid x_i, \boldsymbol{\theta}^{(k)}) \\
&+ \sum_{i=0}^{N-1} \sum_{j=1}^{F-1} \frac{H_\ell(z_{i,j+1}, z_{ij}, \boldsymbol{\theta})}{G(z_{i,j+1}, z_{ij}, \boldsymbol{\theta})} \cdot p(z_{i,j+1}, z_{ij} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)}) \\
&+ \sum_{i=0}^{N-1} \frac{H_\ell(x_{i+1}, z_{iF}, \boldsymbol{\theta})}{G(x_{i+1}, z_{iF}, \boldsymbol{\theta})} \cdot p(z_{iF} \mid \mathbf{x}, \boldsymbol{\theta}^{(k)})
\end{aligned}$$

where,

$$H_\ell(x, y, \boldsymbol{\theta}) = \frac{\partial G(x, y, \boldsymbol{\theta})}{\partial \theta_\ell} = \frac{\partial G}{\partial f} \cdot \frac{\partial f}{\partial \theta_\ell} + \frac{\partial G}{\partial g} \cdot \frac{\partial g}{\partial \theta_\ell}$$

1. With respect to θ_1, θ_2

$$\frac{H_1}{G}(x, y, \boldsymbol{\theta}) = \frac{\partial f}{\partial \theta_1} \left[\frac{(x - y - f(y)h)}{g^2(y)} \right], \frac{H_2}{G}(x, y, \boldsymbol{\theta}) = \frac{\partial f}{\partial \theta_2} \left[\frac{(x - y - f(y)h)}{g^2(y)} \right]$$

2. With respect to θ_3

$$\frac{H_3}{G}(x, y, \boldsymbol{\theta}) = \frac{\partial g}{\partial \theta_3} \left[\frac{(x - y - f(y)h)^2}{hg^3(y)} - \frac{1}{g(y)} \right]$$