

Department of Statistical Science
Curriculum Data Science

Stochastic Processes

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Abstract

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Chapter 1

Introduction

1.1 Definition

The first concept that we need to present in this course is the definition of stochastic process:

[Stochastic process] A stochastic process is any collection of random variables

So, quite simple, no?

Let's now briefly recall what is a random variables since it will be useful to understanding what we are talking about:

A random variable is a measurable map defined as follows:

$$X : \Omega \longrightarrow S$$

where we just recall that the triplet (Ω, \mathcal{A}, P) is the well known probability space and (S, \mathcal{B}) is the measurable space.

In particular, S is a set and \mathcal{B} is a σ -field of subset of S .

It can be possible that you are not familiar with this concepts since some notion of the probability theory are needed, so if you have already problems with understanding what are we talking about pause the reading and try to comprehend the concept so far since they will be very useful for the rest of the course.

So far we just briefly recalled the two main ingredients for defining a random variable: another ingredient that has to be mentioned when defining what is a stochastic process is the set T .

The set T can be any set, but the most natural and intuitive set that we can think of is the *Time* set. But, later on we will define better what T actually is.

To give a formal definition we can repeat that a stochastic process X is any collection of random variables namely:

$$X = X_t : t \in T$$

where $X_t : \Omega \longrightarrow S$ is a random variable $\forall t \in T$

Another parentheses should be opened here: in fact, if one remember what it actually is a random variable can point out that a random variable has to be a measurable map, i.e. the random variables that are in our stochastic processes has to be measurable too:

$$X_t^{-1}(B) \in \mathcal{A} \quad \forall B \in \mathcal{B}$$

where

$$X_t^{-1}(B) = \{\omega \in \Omega : X_t(\omega) \in B\}$$

1.1.1 Remarks on S and T

- S is said to be the **state space** of the process: of course, the most important case is when the state space is equal to the real line, namely

$$S = \mathbb{R} \text{ and } \mathcal{B} \text{ is the Borel } \sigma\text{-field on } \mathbb{R}$$

- T is an arbitrary set, which is usually called the **indexing set** of the **parameter space** of the process: a natural interpretation of this set can be thought as the *time* set.
- If T is a finite or countable set, X is said to be a discrete time process: for example, a sequence of random variables.
- If T is an interval of the real line \mathcal{R} , X is said to be a **continuous time process**

1.2 A process is a bivariate function

An important way to think of what is a stochastic process is that it is nothing else than a function of two variables:

$$X : \Omega \times T \longrightarrow S$$

So, we can write

$$X(\omega, t) \text{ or, equivalently, } X_t(\omega)$$

So, since a stochastic process can be thought as a function of two variables let's see what happens if we fix one of the two variables and let one be freely to change.

- Let fix $t \in T$:
Then, X_t is still a random variable, namely a measurable function on Ω .
Hence, we have

$$X_t(\omega) \quad \forall \omega \in \Omega$$

- Let fix $\omega \in \Omega$:
Then, we obtain a function of t , namely:

$$t \longrightarrow X_t(\omega)$$

This function is usually called the **path** or **trajectory** of the process.
For instance, if we choose the state process as $S = R$ and $T = [0, \infty)$: the path is a function that maps from $[0, \infty)$ into \mathcal{R}

1.2.1 Another way to see what is a stochastic process

A process can be always regarded as a random function: it is sufficient to think of X as the map $\omega \longrightarrow$ to the path associated to ω , namely:

- $\omega \longrightarrow X(\omega, *)$

1.3 Equality of the processes

One can wonder