

DS-GA 1018.001 Probabilistic Time Series Analysis
Homework 3

Due date: November 6th, by 8pm

Problem 1. (15p)

Consider the HMM with $K=3$ latent states and discrete observations $\{1, 2, 3\}$, with parameters specified

by: initial distribution $\pi = [1, 0, 0]$, transition matrix $\mathbf{A} = \begin{bmatrix} 0 & 0.5 & 0.5 \\ 1 & 0 & 0 \\ 0 & 1 & 0 \end{bmatrix}$, where $A_{ij} = P(z_{t+1} = j | z_t = i)$

and likelihood $P(x_t | z_t)$ described by matrix entries B_{xz} : $\mathbf{B} = \begin{bmatrix} 0.5 & 0.5 & 0 \\ 0.5 & 0 & 0.5 \\ 0 & 0.5 & 0.5 \end{bmatrix}$.

Write down all possible state sequences consistent with observations a) 1, 2, 3 and b) 1, 3, 1.

Problem 2. (15p)

Construct an HMM that generates the observation sequence $A^{k_1} C^{k_2} A^{k_3} C^{k_4}$ where A^{k_1} denotes k_1 repeats of symbol A and the number of repeats k_i are drawn from the set $\{1, 2, 3\}$ with equal probability.

Problem 3. (20p) Implement EM for an HMM model with K states and gaussian observations (full derivations in handout). Use this code to fit the weekly S&P 500 returns data (data/sp500w.csv) for $K = 2$ vs. $K = 3$ and compare the two results.

Hint: Use Example 6.17 from tsa4.pdf (yellow textbook) as guideline for plots and interpretation.