COWLES FOUNDATION FOR RESEARCH IN ECONOMICS

AT YALE UNIVERSITY

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COWLES FOUNDATION DISCUSSION PAPER NO.: 846

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"WEAK CONVERGENCE OF SAMPLE COVARIANCE MATRICES TO STOCHASTIC INTEGRALS VIA MARTINGALE APPROXIMATIONS"

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July 1987
WEAK CONVERGENCE OF SAMPLE COVARIANCE MATRICES
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by

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0. ABSTRACT

Under general conditions the sample covariance matrix of a vector
martingale and its differences converges weakly to the matrix stochastic
integral \( \int_0^1 B dB' \), where \( B \) is vector Brownian motion. For strictly
stationary and ergodic sequences, rather than martingale differences, a
similar result obtains. In this case, the limit is \( \int_0^1 B dB' + \Lambda \) and in-
volves a constant matrix, \( \Lambda \), of bias terms whose magnitude depends on the
serial correlation properties of the sequence. This note gives a simple
proof of the result using martingale approximations.

July, 1987

*My thanks, as always, go to Glenda Ames for her skill and effort in
keyboarding the manuscript of this paper and to the NSF for research support
under grant number SES 8519595.
1. INTRODUCTION

There has recently been a good deal of interest in time series regressions that involve integrated processes. The theory makes extensive use of weak convergence methods in general, and multivariate invariance principles in particular. Some recent papers dealing with this topic are [1, 3-16]. Much of the theory involves weak convergence of sample covariance matrices to matrix stochastic integrals of the form $\int_0^1 dB_t^B + \Lambda$, where $B$ is vector Brownian motion and $\Lambda$ is a constant matrix of bias terms. This result is so important that it almost rivals the invariance principle in terms of its significance for applications.

To fix ideas, let $(x_t^\infty)_0$ be an $n$-vector time series generated by

$$x_t = x_{t-1} + u_t \quad t = 1, 2, \ldots$$

(1)

where $x_0$ is any random vector (including a constant) and $(u_t^\infty)_{-\infty}$ is a zero mean, strictly stationary and ergodic sequence with continuous spectral density $f_{uu}(\lambda)$. Define $X_T(r) = T^{-1/2}\sum_{j=1}^{T} u_j$. Then, as shown in [8, 12], under quite general conditions as $T \to \infty$ we have:

$$X_T(r) = B(r) - BM(\Omega)$$

(2)

with

$$\Omega = 2\pi f_{uu}(0) = \Sigma + \Lambda + \Lambda'$$

$$\Sigma = E(u_0^u u_0^i), \quad \Lambda = \sum_{k=1}^{\infty} E(u_0^u u_k^i);$$

and
\[ T^{-1} \sum_{t=1}^{T} u'_t = \int_0^1 \text{dB} + \Lambda. \] (3)

Here, we use the symbol " ⇨ " to signify weak convergence as \( T \to \infty \), " = " to signify equality in distribution and " BM(Ω) " to denote Brownian motion with covariance matrix \( Ω \).

The proof of (3) that is given in [8] is lengthy and uses the concept of a near-integrated process [9, 10]. A more direct proof of the result seems desirable. When \( \{u_t\} \) forms a square integrable martingale difference sequence with respect to the natural filtration of \( σ \)-fields \( F_t = σ(u_t, u_{t-1}, \ldots) \), then \( \Lambda = 0 \) and (3) has been proved recently by direct methods in [1]. In particular we have:

**Lemma** (Chan and Wei)

If \( \{u_t, F_t\} \) is a martingale difference sequence, if

\[ E(u'_t | F_{t-1}) \leq c \quad \text{a.s.} \] (4)

for some constant \( c > 0 \), and if (2) holds then

\[ T^{-1} \sum_{t=1}^{T} u'_t = \int_0^1 \text{dB} + \Lambda. \]

The purpose of the present note is to show how (3) may be obtained quite simply when \( \Lambda = 0 \) by using this Lemma and a martingale approximation to the process \( u_t \). The approach we follow is inspired by the use of martingale approximations in central limit theory for stationary processes. The reader is referred to [2, Ch. 5] for an excellent exposition of the approach.
2. **MAIN RESULT AND PROOF**

It will be convenient to let \( u_t \) in (1) be generated by the linear process

\[
\sum_{j=-\infty}^{\infty} B_j e_{t-j}, \quad \sum_{j=-\infty}^{\infty} \| B_j \| < \infty \tag{5}
\]

where the sequence of random vectors \( \{ e_t \}_{-\infty}^{\infty} \) is \( \text{iid}(0, \Delta) \) with \( \Delta > 0 \) and where \( \| B_j \| = \max_k \{ \sum_l |b_{jk}^l| \} \) with \( B_j = \langle b_{jk} \rangle \). This includes all stationary and invertible ARMA processes, for instance, and is therefore of wide applicability. The process \( u_t \) defined by (5) is strictly stationary and ergodic and has continuous spectral density given by

\[
\hat{f}_{uu}(\lambda) = (1/2\pi) \langle \sum_j B_j e^{ij\lambda} \rangle \Delta (\sum_j B_j e^{ij\lambda})^*. 
\]

In addition to the absolute summability of \( \{ B_j \} \) in (5), we will use the following condition (based on (5.37) of Hall and Heyde [2])

\[
\sum_{k=1}^{\infty} \left( \sum_{j=-k}^{\infty} \| B_j \| + \sum_{j=k}^{\infty} \| B_{-j} \| \right) < \infty \tag{6}
\]

which is again satisfied by all stationary and invertible ARMA models.

Our main result is as follows:

**THEOREM.** If \( \{ x_t \} \) is generated by (1) and \( \{ u_t \} \) satisfies (5) and (6) then (3) holds.

**PROOF.** Under the stated conditions, we note first that the multivariate invariance principle (2) applies. When \( n = 1 \) this follows directly from Theorem 5.5 of Hall and Heyde [2, p. 141 and p. 146]. For \( n > 1 \), the
result may again be deduced from this theorem by applying the argument of Theorem 2.1 of [7].

The remainder of the theorem is based on a martingale approximation of \( u_t \). The construction is achieved in Theorems 5.4 and 5.5 of Hall and Heyde [2]. We let \( M_k = \sigma(e_j, j \leq k) \) and define

\[
Y_0 = \sum_{j=0}^{\infty} [E(u_j | M_0) - E(u_j | M_{-1})] = \sum_{j=0}^{\infty} B_j e_0
\]

\[
Z_0 = \sum_{k=0}^{\infty} E(u_k | M_{-1}) - \sum_{k=0}^{\infty} (u_k - E(u_k | M_{-1})).
\]

Setting \( Y_k = U^k Y_0 \) and \( Z_k = U^k Z_0 \), where \( U \) is the temporal displacement operator, we observe that \( \{Y_k, M_k\} \) is a martingale difference sequence whose differences \( Y_k \) are strictly stationary, ergodic and square integrable with covariance matrix \( \Omega = \sum_j B_j \Delta (\Sigma_j B' j) = 2\pi f_{uu}(0) \). The process \( \{Z_k\} \) is also strictly stationary, ergodic and square integrable. With this construction we have \( u_0 = Y_0 + Z_0 - Z_1 \) and thus

\[
u_t = Y_t + Z_t - Z_{t+1}.
\]

Note that \( x_t = \sum_{j=0}^{t} u_j + x_0 \) and writing \( \Sigma_k = \sum_{j=0}^{k} Y_j \) we obtain

\[
T^{-1} \sum_{k=0}^{T} u_k' = T^{-1} \sum_{k=1}^{T} (P_{k-1} + Z_1 - Z_k + x_0) (Y_k + Z_k - Z_{k+1})' \\
- T^{-1} \sum_{k=1}^{T} P_{k-1} Y_k' \\
+ T^{-1} \sum_{k=1}^{T} (Z_1 - Z_k) Y_k' \\
+ T^{-1} \sum_{k=1}^{T} (Z_k - Z_{k+1})' + o_p(1).
\]

Now by ergodicity we have:
\( T^{-1} \Sigma_{1}^{T}Z_{1}Y_{1} \rightarrow 0 \) a.s.

\( T^{-1} \Sigma_{1}^{T}Z_{k}Y_{k} \rightarrow E(Z_{0}Y_{0}) \) a.s.

\( T^{-1} \Sigma_{1}^{T}(Z_{1} - Z_{k})(Z_{k} - Z_{k+1})' \rightarrow -E(Z_{0}(Z_{0} - Z_{1}))' \) a.s.

and

\[
T^{-1} \Sigma_{1}^{T}P_{k-1}(Z_{k} - Z_{k+1})' = T^{-1} \Sigma_{1}^{T}P_{k-1}Z_{k}' - [T^{-1} \Sigma_{1}^{T}P_{k}Z_{k}' - T^{-1} \Sigma_{1}^{T}P_{k}Z_{k+1}'] \\
= T^{-1}P_{0}Z_{1} - T^{-1}P_{T}Z_{T+1} + T^{-1} \Sigma_{1}^{T}Y_{k}Z_{k+1}' \\
\rightarrow E(Y_{0}Z_{1}') \) a.s.

Moreover, by the lemma

\( T^{-1} \Sigma_{1}^{T}P_{k-1}Y_{k} \Rightarrow \int_{0}^{T} dB'B' \)

where \( B(r) = BM(\Omega) \). We deduce that

\( T^{-1} \Sigma_{1}^{T}X_{t-1}u_{t}' \Rightarrow \int_{0}^{T} dB'B' + K \)

where

\[
K = E(Y_{0}Z_{1}') - E(Z_{0}(Z_{0} - Z_{1})') - E(Z_{0}Y_{0}') \\
= E(Y_{0}Z_{1}') - E(Z_{0}u_{0}') .
\]

Now

\[
Z_{1} = \sum_{k=0}^{\infty} E(u_{k+1} | H_{0}) - \Sigma_{k=0}^{\infty} (u_{k+1} - E(u_{k+1} | H_{0}))
\]

and
\[
E(Y_0 Z) = -\sum_{k=-\infty}^{\infty} E(Y_0 u_k') + \sum_{k=-\infty}^{\infty} E(E(u_k | M_0))
\]
\[
= \sum_{k=0}^{\infty} E(Y_0 u_k') ,
\]

since \(Y_0\) is \(M_0\)-measurable. Next

\[
E(Z_0 u_0') = -\sum_{k=-\infty}^{\infty} E(u_k u_0') + \sum_{k=-\infty}^{\infty} E(E(u_k | M_{-1}) u_0')
\]
\[
= -\sum_{k=1}^{\infty} E(u_0 u_k') + \sum_{k=-\infty}^{\infty} E(E(u_k | M_{-1}) u_0') .
\]

Hence,

\[
K = \Lambda + \sum_{k=0}^{\infty} E(Y_0 u_k') - \sum_{k=-\infty}^{\infty} E(E(u_k | M_{-1}) u_0')
\]
\[
= \Lambda + \sum_{j=1}^{\infty} E(Y_j u_0') - \sum_{k=-\infty}^{\infty} E(E(u_k | M_{-1}) u_0') .
\]

(8)

Now

\[
Y_j = \sum_{i=-\infty}^{\infty} (E(u_i | M_j) - E(u_i | M_{j-1}))
\]

and

\[
\sum_{j=1}^{\infty} E(Y_j u_0') = \sum_{j=-\infty}^{\infty} \{ E(E(u_i | M_{j-1}) u_0') - E(u_i | M_{j-1}) u_0') \}
\]
\[
= \sum_{j=-\infty}^{\infty} E(E(u_i | M_{-1}) u_0')
\]

(9)

since \(E(u_i | M_{-1}) = 0\) a.s. We deduce from (8) and (9) that \(K = \Lambda\) and (3) follows immediately.
3. SOME REMARKS ON APPLICATIONS

Limit theorems involving stochastic integrals such as (3) seem to be of widespread importance. They have many applications in econometrics and arise frequently in time series regressions with integrated processes and autoregressions with unit roots. Many examples are provided in the papers [3-6, 12-15]. In addition, as indicated in other recent work [11], it seems likely that a general asymptotic theory for optimization estimators can be developed that uses limit theorems such as (3). With some extensions, this theory can accommodate limits to stochastic integrals that are taken with respect to more general continuous parameter martingales. Some of the interesting possibilities for such extensions are explored in Section 4 of [11].
REFERENCES


[8] ________, "Weak convergence to the matrix stochastic integral \[ \int_0^1 BdB \]," Journal of Multivariate Analysis (forthcoming).


