Contents

Preface to the Second Edition  xi
Preface to the First Edition  xiii

Part I Analysis of Non Fractional Time Series  1

1 Models for Nonstationarity and Noninvertibility  3
1.1 Statistics from the One-Dimensional Random Walk  3
1.1.1 Eigenvalue Approach  4
1.1.2 Stochastic Process Approach  11
1.1.3 The Fredholm Approach  12
1.1.4 An Overview of the Three Approaches  14
1.2 A Test Statistic from a Noninvertible Moving Average Model  16
1.3 The AR Unit Root Distribution  23
1.4 Various Statistics from the Two-Dimensional Random Walk  29
1.5 Statistics from the Cointegrated Process  41
1.6 Panel Unit Root Tests  47

2 Brownian Motion and Functional Central Limit Theorems  51
2.1 The Space $L_2$ of Stochastic Processes  51
2.2 The Brownian Motion  55
2.3 Mean Square Integration  58
2.3.1 The Mean Square Riemann Integral  59
2.3.2 The Mean Square Riemann–Stieltjes Integral  62
2.3.3 The Mean Square Ito Integral  66
2.4 The Ito Calculus  72
2.5 Weak Convergence of Stochastic Processes  77
2.6 The Functional Central Limit Theorem  81
2.7 FCLT for Linear Processes  87
2.8 FCLT for Martingale Differences  91
2.9 Weak Convergence to the Integrated Brownian Motion  99
2.10 Weak Convergence to the Ornstein–Uhlenbeck Process 103
2.11 Weak Convergence of Vector-Valued Stochastic Processes 109
2.11.1 Space $C^q$ 109
2.11.2 Basic FCLT for Vector Processes 110
2.11.3 FCLT for Martingale Differences 112
2.11.4 FCLT for the Vector-Valued Integrated Brownian Motion 115
2.12 Weak Convergence to the Ito Integral 118

3 The Stochastic Process Approach 127
3.1 Girsanov’s Theorem: O-U Processes 127
3.2 Girsanov’s Theorem: Integrated Brownian Motion 137
3.3 Girsanov’s Theorem: Vector-Valued Brownian Motion 142
3.4 The Cameron–Martin Formula 145
3.5 Advantages and Disadvantages of the Present Approach 147

4 The Fredholm Approach 149
4.1 Motivating Examples 149
4.2 The Fredholm Theory: The Homogeneous Case 155
4.3 The c.f. of the Quadratic Brownian Functional 161
4.4 Various Fredholm Determinants 171
4.5 The Fredholm Theory: The Nonhomogeneous Case 190
4.5.1 Computation of the Resolvent – Case 1 192
4.5.2 Computation of the Resolvent – Case 2 199
4.6 Weak Convergence of Quadratic Forms 203

5 Numerical Integration 213
5.1 Introduction 213
5.2 Numerical Integration: The Nonnegative Case 214
5.3 Numerical Integration: The Oscillating Case 220
5.4 Numerical Integration: The General Case 228
5.5 Computation of Percent Points 236
5.6 The Saddlepoint Approximation 240

6 Estimation Problems in Nonstationary Autoregressive Models 245
6.1 Nonstationary Autoregressive Models 245
6.2 Convergence in Distribution of LSEs 250
6.2.1 Model A 251
6.2.2 Model B 253
6.2.3 Model C 255
6.2.4 Model D 257
6.3 The c.f.s for the Limiting Distributions of LSEs 260
6.3.1 The Fixed Initial Value Case 261
6.3.2 The Stationary Case 265
6.4 Tables and Figures of Limiting Distributions 267
6.5 Approximations to the Distributions of the LSEs 276
6.6 Nearly Nonstationary Seasonal AR Models 281
6.7 Continuous Record Asymptotics 289
6.8 Complex Roots on the Unit Circle 292
6.9 Autoregressive Models with Multiple Unit Roots 300

7 Estimation Problems in Noninvertible Moving Average Models 311
7.1 Noninvertible Moving Average Models 311
7.2 The Local MLE in the Stationary Case 314
7.3 The Local MLE in the Conditional Case 325
7.4 Noninvertible Seasonal Models 330
7.4.1 The Stationary Case 331
7.4.2 The Conditional Case 333
7.4.3 Continuous Record Asymptotics 335
7.5 The Pseudolocal MLE 337
7.5.1 The Stationary Case 337
7.5.2 The Conditional Case 339
7.6 Probability of the Local MLE at Unity 341
7.7 The Relationship with the State Space Model 343

8 Unit Root Tests in Autoregressive Models 349
8.1 Introduction 349
8.2 Optimal Tests 350
8.2.1 The LBI Test 352
8.2.2 The LBIU Test 353
8.3 Equivalence of the LM Test with the LBI or LBIU Test 356
8.3.1 Equivalence with the LBI Test 356
8.3.2 Equivalence with the LBIU Test 358
8.4 Various Unit Root Tests 360
8.5 Integral Expressions for the Limiting Powers 362
8.5.1 Model A 363
8.5.2 Model B 364
8.5.3 Model C 365
8.5.4 Model D 367
8.6 Limiting Power Envelopes and Point Optimal Tests 369
8.7 Computation of the Limiting Powers 372
8.8 Seasonal Unit Root Tests 382
8.9 Unit Root Tests in the Dependent Case 389
8.10 The Unit Root Testing Problem Revisited 395
8.11 Unit Root Tests with Structural Breaks 398
8.12 Stochastic Trends Versus Deterministic Trends 402
8.12.1 Case of Integrated Processes 403
8.12.2 Case of Near-Integrated Processes 406
8.12.3 Some Simulations 409

9 Unit Root Tests in Moving Average Models 415

9.1 Introduction 415
9.2 The LBI and LBIU Tests 416
9.2.1 The Conditional Case 417
9.2.2 The Stationary Case 419
9.3 The Relationship with the Test Statistics in Differenced Form 424
9.4 Performance of the LBI and LBIU Tests 427
9.4.1 The Conditional Case 427
9.4.2 The Stationary Case 430
9.5 Seasonal Unit Root Tests 434
9.5.1 The Conditional Case 434
9.5.2 The Stationary Case 436
9.5.3 Power Properties 438
9.6 Unit Root Tests in the Dependent Case 444
9.6.1 The Conditional Case 444
9.6.2 The Stationary Case 446
9.7 The Relationship with Testing in the State Space Model 447
9.7.1 Case (I) 449
9.7.2 Case (II) 450
9.7.3 Case (III) 452
9.7.4 The Case of the Initial Value Known 454

10 Asymptotic Properties of Nonstationary Panel Unit Root Tests 459

10.1 Introduction 459
10.2 Panel Autoregressive Models 461
10.2.1 Tests Based on the OLSE 463
10.2.2 Tests Based on the GLSE 471
10.2.3 Some Other Tests 475
10.2.4 Limiting Power Envelopes 480
10.2.5 Graphical Comparison 485
10.3 Panel Moving Average Models 488
10.3.1 Conditional Case 490
10.3.2 Stationary Case 494
10.3.3 Power Envelope 499
10.3.4 Graphical Comparison 502
10.4 Panel Stationarity Tests 507
10.4.1 Limiting Local Powers 508
10.4.2 Power Envelope 512
10.4.3 Graphical Comparison 514
10.5 Concluding Remarks 515
11 Statistical Analysis of Cointegration 517
11.1 Introduction 517
11.2 Case of No Cointegration 519
11.3 Cointegration Distributions: The Independent Case 524
11.4 Cointegration Distributions: The Dependent Case 532
11.5 The Sampling Behavior of Cointegration Distributions 537
11.6 Testing for Cointegration 544
11.6.1 Tests for the Null of No Cointegration 544
11.6.2 Tests for the Null of Cointegration 547
11.7 Determination of the Cointegration Rank 552
11.8 Higher Order Cointegration 556
11.8.1 Cointegration in the I(d) Case 556
11.8.2 Seasonal Cointegration 559

Part II Analysis of Fractional Time Series 567

12 ARFIMA Models and the Fractional Brownian Motion 569
12.1 Nonstationary Fractional Time Series 569
12.1.1 Case of $d = \frac{1}{2}$ 570
12.1.2 Case of $d > \frac{1}{2}$ 572
12.2 Testing for the Fractional Integration Order 575
12.2.1 i.i.d. Case 575
12.2.2 Dependent Case 581
12.3 Estimation for the Fractional Integration Order 584
12.3.1 i.i.d. Case 584
12.3.2 Dependent Case 586
12.4 Stationary Long-Memory Processes 591
12.5 The Fractional Brownian Motion 597
12.6 FCLT for Long-Memory Processes 603
12.7 Fractional Cointegration 608
12.7.1 Spurious Regression in the Fractional Case 609
12.7.2 Cointegrating Regression in the Fractional Case 610
12.7.3 Testing for Fractional Cointegration 614
12.8 The Wavelet Method for ARFIMA Models and the fBm 614
12.8.1 Basic Theory of the Wavelet Transform 615
12.8.2 Some Advantages of the Wavelet Transform 618
12.8.3 Some Applications of the Wavelet Analysis 625
12.8.3.1 Testing for $d$ in ARFIMA Models 625
12.8.3.2 Testing for the Existence of Noise 626
12.8.3.3 Testing for Fractional Cointegration 627
12.8.3.4 Unit Root Tests 627
13 Statistical Inference Associated with the Fractional Brownian Motion 629
13.1 Introduction 629
13.2 A Simple Continuous-Time Model Driven by the fBm 632
13.3 Quadratic Functionals of the Brownian Motion 641
13.4 Derivation of the c.f. 645
13.4.1 Stochastic Process Approach via Girsanov’s Theorem 645
13.4.1.1 Case of $H = 1/2$ 645
13.4.1.2 Case of $H > 1/2$ 646
13.4.2 Fredholm Approach via the Fredholm Determinant 647
13.4.2.1 Case of $H = 1/2$ 649
13.4.2.2 Case of $H > 1/2$ 650
13.5 Martingale Approximation to the fBm 651
13.6 The Fractional Unit Root Distribution 659
13.6.1 The FD Associated with the Approximate Distribution 659
13.6.2 An Interesting Moment Property 664
13.7 The Unit Root Test Under the fBm Error 669

14 Maximum Likelihood Estimation for the Fractional Ornstein–Uhlenbeck Process 673
14.1 Introduction 673
14.2 Estimation of the Drift: Ergodic Case 677
14.2.1 Asymptotic Properties of the OLSEs 677
14.2.2 The MLE and MCE 679
14.3 Estimation of the Drift: Non-ergodic Case 687
14.3.1 Asymptotic Properties of the OLSE 687
14.3.2 The MLE 687
14.4 Estimation of the Drift: Boundary Case 692
14.4.1 Asymptotic Properties of the OLSEs 692
14.4.2 The MLE and MCE 693
14.5 Computation of Distributions and Moments of the MLE and MCE 695
14.6 The MLE-based Unit Root Test Under the fBm Error 703
14.7 Concluding Remarks 707

15 Solutions to Problems 709

References 865

Author Index 879

Subject Index 883