MVE171 Basic Stochastic Processes and Financial Applications Written exam 4 April 2018 8.30–11.30

Teacher: Patrik Albin. Jour: Henrik Imberg, telefon 031 7725325.

Aids: Either two A4-sheets (4 pages) of hand-written notes (xerox-copies and/or computer print-outs are not allowed) or Beta (but not both these aids).

Grades: 8 points for grade 3, 12 points for grade 4 and 16 points for grade 5, respectively.

Motivations: All answers/solutions must be motivated. Good Luck!

Task 1. Consider a time homogeneous Markov chain $\{X_n\}_{n=0}^{\infty}$ with state space E, initial distribution $\mathbf{p}(0)$ and transition probability matrix P given by

$$E=\{0,1,2\},\quad \mathbf{p}(0)=[1/3\ \ 1/3\ \ 1/3]\quad\text{and}\quad P=\begin{bmatrix}1/2 & 1/3 & 1/6\\ 0 & 2/3 & 1/3\\ 1/2 & 0 & 1/2\end{bmatrix},$$

respectively. Write a computer program that by means of simulation finds a numerical approximation of the expected vaule of the number of time units it takes until the chain for the first time has spent two consequtive time units (two time units in row, that is) at state 0. **(5 points)**

Task 2. A WSS random signal $\{X(t)\}_{t\in\mathbb{R}}$ with PSD $S_X(\omega)$ is transmitted on a noisy channel where it is disturbed by an additive zero-mean WSS random noise $\{N(t)\}_{t\in\mathbb{R}}$ that is independent of the signal X and has PSD $S_N(\omega)$. The recived signal $Y(t)=X(t)+N(t)$ is input to a linear system (/filter) with output signal $Z(t)$ that has frequency response $H(\omega)=S_X(\omega)/(S_X(\omega)+S_N(\omega))$. Express the mean-square deviation $\mathbf{E}\{(Z(t)-X(t))^2\}$ in terms of S_X and S_N. **(5 points)**

Task 3. Let $X_1, X_2, \ldots$ be independent identically distributed random variables, where each X_i can take only two values $1/2$ and 2 with the probabilities p and $1-p$, respectively. For which value of $p\in(0,1)$ is the process $\{M_n,\ n\geq 0\}$ given by $M_0=1$ and $M_n=\prod_{i=1}^{n} X_i = X_1 X_2 \ldots X_n$ for $n\geq 1$ a martingale? **(5 points)**

Task 4. Find the autocorrelation function $R_X(s,t)$ of the process $X(t)=\sqrt{2}\,A\cos(Ut+\Theta)$ for $t\in\mathbb{R}$, where A, U and Θ are independent random variables with A standard normal distributed, U uniformly distributed over the inteval $[0,1]$ and Θ uniformly distributed over the inteval $[0,\pi]$. [Hint: The fact that $2\cos(x)\cos(y)=\cos(x+y)+\cos(x-y)$ can be useful.] **(5 points)**

MVE171 Solutions to written exam 4 April 2018

Task 1. Here is a Mathematica program that solves the task

```
For[i=1; Result={}, i<=100000, i++,
    X = Floor[Random[UniformDistribution[{0,3}]]];
    AtZero = 0; Wait = 0;
    While[AtZero<1, Wait=Wait+1;
        Move = Random[UniformDistribution[{0,1}]];
        If[X==0, If[Move<=1/2, Y=0, If[Move<=5/6, Y=1, Y=2]]];
        If[X==1, If[Move<=2/3, Y=1, Y=2]];
        If[X==2, If[Move<=1/2, Y=0, Y=2]];
        If[X==0&&Y==0, AtZero=AtZero+1; AppendTo[Result,Wait], X=Y]]
N[Mean[Result]]
```

Task 2. Writing h for the impulse response of the filter and $\star$ for convolution the fact that $h\star N$ is zero-mean and independent of X (as N is) readily gives that $\mathbf{E}\{(Z(t)-X(t))^2\} = \mathbf{E}\{((h\star X)(t)+(h\star N)(t)-X(t))^2\} = \mathbf{E}\{(((h-\delta)\star X)(t)+(h\star N)(t))^2\} = \mathbf{E}\{((h-\delta)\star X)(t)^2+(h\star N)(t)^2\} = \frac{1}{2\pi}\int_{-\infty}^{\infty}[|H(\omega)-1|^2 S_X(\omega) + |H(\omega)|^2 S_N(\omega)]\,d\omega = \ldots = \frac{1}{2\pi}\int_{-\infty}^{\infty} S_X(\omega)S_N(\omega)/(S_X(\omega)+S_N(\omega))\,d\omega$.

Task 3. We have $E(M_{n+1}|F_n) = E(M_{n+1}|M_1,\ldots,M_n) = E(X_{n+1}M_n|M_n) = E(X_{n+1}) \times M_n = M_n$ when $E(X_{n+1}) = (1/2)\,p + 2\,(1-p) = 2-3\,p/2 = 1$, that is, when $p = 2/3$.

Task 4. We have $R_X(s,t) = \mathbf{E}\{X(s)X(t)\} = \mathbf{E}\{A^2\cos(U(s+t)+2\Theta)\} + \mathbf{E}\{A^2\cos(U(s-t))\} = \mathbf{E}\{\cos(U(s+t)+2\Theta)\} + \mathbf{E}\{\cos(U(s-t))\} = \mathbf{E}\{\cos(U(s-t))\} = \sin(s-t)/(s-t)$.