

# Kybernetika

VOLUME 36 (2000), NUMBER 4

The Journal of the Czech Society for  
Cybernetics and Information Sciences

Published by:

Institute of Information Theory  
and Automation of the Academy  
of Sciences of the Czech Republic

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The Journal has been monitored in the Science Citation Index since 1977 and it is abstracted/indexed in databases of Mathematical Reviews, Current Mathematical Publications, Current Contents ISI Engineering and Computing Technology.

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*Kybernetika*. Volume 36 (2000)

ISSN 0023-5954, MK ČR E 4902.

Published bi-monthly by the Institute of Information Theory and Automation of the Academy of Sciences of the Czech Republic, Pod Vodárenskou věží 4, 18208 Praha 8. — Address of the Editor: P. O. Box 18, 18208 Prague 8, e-mail: kybernetika@utia.cas.cz. — Printed by PV Press, Pod vrstevnicí 5, 14000 Prague 4. — Orders and subscriptions should be placed with: MYRIS TRADE Ltd., P. O. Box 2, V Štíhlách 1311, 14201 Prague 4, Czech Republic, e-mail: myris@myris.cz. — Sole agent for all “western” countries: Kubon & Sagner, P. O. Box 340108, D-8000 München 34, F.R.G.

Published in August 2000.

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## LINEAR APPROXIMATIONS TO SOME NON-LINEAR AR(1) PROCESSES

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Some methods for approximating non-linear AR(1) processes by classical linear AR(1) models are proposed. The quality of approximation is studied in special non-linear AR(1) models by means of comparisons of quality of extrapolation and interpolation in the original models and in their approximations. It is assumed that the white noise has either rectangular or exponential distribution.

### 1. INTRODUCTION

Consider a non-linear AR(1) process  $\{X_t\}$  defined by

$$X_t = \lambda(X_{t-1}) + e_t, \quad t \geq 1, \quad (1)$$

where  $\lambda$  is a measurable function and  $e_t$  is a strict white noise with a density  $h$ . A random variable  $X_0$  is supposed to be given. Let  $\mathbf{E}e_t^2 < \infty$ . Denote  $\gamma = \mathbf{E}e_t$ ,  $\sigma^2 = \text{var } e_t$ . There are applications such that it is possible to obtain a long realization of the white noise without any signal. Then parameters of the white noise like  $\gamma$  and  $\sigma^2$  can be estimated very precisely.

In some cases it can be proved that a non-linear process is stationary. Then there are two ways how to approximate it by a linear stationary process.

- (i) If expectation and covariance function of the non-linear process are known then one can try to find a linear stationary process with the same characteristics. Pemberton [4] studied this approach and applied it to special threshold autoregressive models, because it was proved in [3] that the autocorrelation structure of a piecewise constant autoregressive threshold model with  $k$  regimes is the same as that of an ARMA( $p, p$ ) model with  $p \leq k - 1$ .
- (ii) If the function  $\lambda$  is smooth, then it is possible to expand it in a Taylor series and to use only its linear approximation. This method is discussed in [6].

In this paper we study quality of approximations of the type (ii). We demonstrate our ideas on the model

$$X_t = \omega X_{t-1}^q + e_t, \quad t \geq 1, \quad (2)$$

where  $\omega > 0$ ,  $q \in (0, 1)$ , random variables  $e_t$  are non-negative and  $X_0$  is also a non-negative variable. In order to compare values obtained by a linear approximation with the true ones, we need exact formulas for extrapolation and interpolation in the model (1.2). Such results can be derived only for some distributions of the white noise  $e_t$ . Here we present two such cases.

**A. Rectangular distribution of the white noise.** Assume that  $e_t \sim \mathcal{R}(a, b)$  where  $0 \leq a < b < \infty$  and  $\mathcal{R}$  denotes the rectangular distribution. The model (1.2) with this white noise will be denoted by  $\mathcal{R}(q, \omega, a, b)$ . Further we define  $\mathcal{R}(q, \omega) = \mathcal{R}(q, \omega, 0, 1)$ .

It is known that for  $z \geq 0$  the equation  $x = \omega x^q + z$  has a unique positive root  $x_z$ . Define  $\alpha = x_a$ ,  $\beta = x_b$ . Then there exists a distribution of  $X_0$  such that the process  $\{X_t, t \geq 0\}$  is strictly stationary and  $\alpha \leq X_t \leq \beta$  for all  $t \geq 0$  (see [1]).

**B. Exponential distribution of the white noise.** Assume that  $e_t \sim \text{Ex}(1)$  where  $\text{Ex}(1)$  is the exponential distribution with parameter 1 having the density  $h(x) = e^{-x}$  for  $x > 0$ . In this case we denote the model (1.2) by  $\mathcal{E}(q, \omega)$ . For simplicity, here we investigate only the model  $\mathcal{E}(\frac{1}{2}, \omega)$ .

Our approximations are based on an AR(1) process  $Z_t = \nu + \rho Z_{t-1} + \varepsilon_t$  where  $\varepsilon_t$  is a white noise with  $\mathbb{E}\varepsilon_t = 0$ ,  $\text{var } \varepsilon_t = \sigma^2$ . It is known (cf. Lemma A.1) that

$$\mu = \mathbb{E}Z_t = \frac{\nu}{1 - \rho}, \quad \text{var } Z_t = \frac{\sigma^2}{1 - \rho^2}.$$

Approximations of the parameter  $\nu$  will be denoted as  $\hat{\nu}$ ,  $\tilde{\nu}$ , etc. and similar denotations will be used also for approximations of other parameters of the AR(1) model.

In a simulation study 10 000 realizations of the process  $\mathcal{R}(\frac{1}{2}, 1)$  and 10 000 realizations of the process  $\mathcal{E}(\frac{1}{2}, 1)$  were calculated. The length of each realization was 10 000. The average  $\bar{\mu}$  of arithmetic means of realizations and its standard deviation  $s_{\bar{\mu}}$  were calculated as well as the average of empirical autocorrelation coefficients  $\bar{\rho}$  and its standard deviation  $s_{\bar{\rho}}$ . The results, which will be used in the following parts of the paper for numerical illustrations, are summarized in Table 1.

**Table 1.** Results of simulations.

Model	$\bar{\mu}$	$s_{\bar{\mu}}$	$\bar{\rho}$	$s_{\bar{\rho}}$
$\mathcal{R}(\frac{1}{2}, 1)$	1.858	0.0046	0.369	0.0093
$\mathcal{E}(\frac{1}{2}, 1)$	2.578	0.0140	0.282	0.0095

## 2. METHODS OF LINEARIZATION

Consider model (1.2) with a general non-negative white noise. For  $q = 0$  we have  $X_t = \omega + e_t$  and for  $q = 1$  we have  $X_t = \omega X_{t-1} + e_t$ . In both cases  $X_t$  is a linear

process. It can be expected that  $q = 0.5$  leads to a model which mostly differs from a linear one.

Consider the model  $\mathcal{R}(q, \omega, a, b)$ . The first method of linearization used in this paper is based on the approximation of the function  $y = \omega x^q$  by its tangent at a point  $\xi$ , which has equation  $y = \omega(1 - q)\xi^q + \omega q\xi^{q-1}x$ . Then the model (1.2) can be approximated by

$$Z_t = \omega(1-q)\xi^q + \omega q\xi^{q-1}Z_{t-1} + e_t = \omega(1-q)\xi^q + \gamma + \omega q\xi^{q-1}Z_{t-1} + \varepsilon_t \quad (3)$$

where  $\varepsilon_t = e_t - \gamma$ . We consider only values  $\xi \in [\alpha, \beta]$ . A natural choice would be  $\xi = \mathbf{E}X_t$ . Since the stationary distribution of  $X_t$  needed for calculation of  $\mathbf{E}X_t$  is rarely known we use  $\xi = (\alpha + \beta)/2$  in our paper. Lemma A.4 gives that

$$0 \leq \omega q\xi^{q-1} \leq \omega q\beta^{q-1} < 1$$

and thus (2.1) represents a stationary AR(1) model. If  $a = 0$  and  $b = 1$  then  $\gamma = 0.5$ ,  $\alpha = 1$ ,  $\beta = 2.618$  and  $\xi = (\alpha + \beta)/2 = 1.809$ . In the case of  $\mathcal{R}(\frac{1}{2}, 1)$ , the parameters of the AR(1) process  $Z_t$  given by (2.1) are  $\hat{\mu} = 1.866$ ,  $\hat{\rho} = 0.372$  and  $\hat{\nu} = 1.172$ , which corresponds to model

$$Z_t = 1.172 + 0.372Z_{t-1} + \varepsilon_t. \quad (4)$$

In our second method we approximate the function  $y = \omega x^q$  on  $[\alpha, \beta]$  by a line  $y = u + vx$  derived by the least-squares method. The coefficients  $u, v$  minimizing  $\int_{\alpha}^{\beta} (\omega x^q - u - vx)^2 dx$  are

$$\begin{aligned} u &= \frac{\omega}{(\beta - \alpha)^4} \left\{ \frac{4(\beta^3 - \alpha^3)}{1 + q} (\beta^{q+1} - \alpha^{q+1}) - \frac{6(\beta^2 - \alpha^2)}{2 + q} (\beta^{q+2} - \alpha^{q+2}) \right\}, \\ v &= \frac{\omega}{(\beta - \alpha)^4} \left\{ \frac{12(\beta - \alpha)}{2 + q} (\beta^{q+2} - \alpha^{q+2}) - \frac{6(\beta^2 - \alpha^2)}{1 + q} (\beta^{q+1} - \alpha^{q+1}) \right\}. \end{aligned}$$

In this case we have for the model (1.2) an approximation

$$Z_t = u + vZ_{t-1} + e_t = U + vZ_{t-1} + \varepsilon_t \quad (5)$$

where  $U = u + \gamma$  and  $\varepsilon_t = e_t - \gamma$ . It follows from Corollary A.3 and Lemma A.4 that  $0 < v < 1$  so that (2.3) represents also a stationary AR(1) model.

Numerically, for  $\mathcal{R}(\frac{1}{2}, 1)$  the second approximation gives  $u = 0.650$ ,  $v = 0.378 = \tilde{\rho}$ ,  $\tilde{\mu} = 1.848$ ,  $\tilde{\nu} = 1.149$  and it yields

$$Z_t = 1.149 + 0.378Z_{t-1} + \varepsilon_t. \quad (6)$$

By the way, an AR(1) process  $\{Z_t\}$  with parameters corresponding to values  $\bar{\mu}$  and  $\bar{\rho}$  given in Table 1 for the model  $\mathcal{R}(\frac{1}{2}, 1)$ , i.e. with expectation 1.858 and autocorrelation coefficient 0.369 is

$$Z_t = 1.172 + 0.369Z_{t-1} + \varepsilon_t.$$

Other approximations can be based on piece-wise linear functions, which would lead to threshold autoregression.

Now, consider model  $\mathcal{E}(\frac{1}{2}, 1)$ . In this case the distribution of  $X_t$  has support  $(1, \infty)$ . The expectation of  $X_t$  is not known. Since  $\sqrt{x}$  is a concave function, we have  $\mathbb{E}\sqrt{X_{t-1}} \leq \sqrt{\mathbb{E}X_{t-1}}$  and thus for stationary  $\{X_t\}$  we get  $\mathbb{E}X_t \leq \xi$  where

$$\xi = \xi(\omega) = \sqrt{\frac{\omega + \sqrt{\omega^2 + 4}}{2}}.$$

If we approximate the function  $y = \omega\sqrt{x}$  by its tangent at the point  $\xi$ , i.e. by  $y = \omega\sqrt{\xi}/2 + \omega x/(2\sqrt{\xi})$ , then we come to the model

$$Z_t = \frac{\omega}{2}\sqrt{\xi} + \frac{\omega}{2\sqrt{\xi}}Z_{t-1} + e_t = \left(\frac{\omega}{2}\sqrt{\xi} + 1\right) + \frac{\omega}{2\sqrt{\xi}}Z_{t-1} + \varepsilon_t$$

where  $\varepsilon_t = e_t - 1$ . It is easy to show that the function  $r(\omega) = \omega / [2\sqrt{\xi(\omega)}]$  is increasing on  $[0, \infty)$  and the equation  $r(\omega) = 1$  has a unique root  $\omega_0 = 2.62362$ . It means that for  $\omega \in [0, \omega_0]$  our process  $Z_t$  is stationary. In the special case  $\omega = 1$  we have  $\xi = 1.272$  and

$$Z_t = 1.564 + 0.443Z_{t-1} + \varepsilon_t \quad (7)$$

with  $\mathbb{E}Z_t = 2.809$ .

The linear least squares approximation of the function  $\omega\sqrt{x}$  on  $[1, \infty)$  cannot be used and so we consider its weighted form

$$\min_{u,v} \int_1^\infty e^{-x} (\omega\sqrt{x} - u - vx)^2 dx.$$

Since

$$\begin{aligned} \int x e^{-x} dx &= -x e^{-x} - e^{-x}, \\ \int x^2 e^{-x} dx &= -(x^2 + 2x + 2)e^{-x}, \\ \int \sqrt{x} e^{-x} dx &= -\sqrt{x} e^{-x} + \sqrt{\pi} \Phi(\sqrt{2x}), \\ \int x^{3/2} e^{-x} dx &= -x^{3/2} e^{-x} - \frac{3}{2}\sqrt{x} e^{-x} + \frac{3}{2}\sqrt{\pi} \Phi(\sqrt{2x}), \end{aligned}$$

we get

$$\begin{aligned} u &= 2\omega e\sqrt{\pi} [1 - \Phi(\sqrt{2})], \\ v &= \frac{\omega}{2} \left\{ 1 - e\sqrt{\pi} [1 - \Phi(\sqrt{2})] \right\}. \end{aligned}$$

This approximation gives

$$Z_t = u + vZ_{t-1} + e_t = (u + 1) + vZ_{t-1} + \varepsilon_t$$

with  $\varepsilon_t = e_t - 1$ . For  $\omega = 1$  we have  $u = 0.757873$ ,  $v = 0.310532$  and

$$Z_t = 1.758 + 0.311Z_{t-1} + \varepsilon_t \tag{8}$$

with  $EZ_t = 2.550$ .

### 3. ESTIMATING THE PARAMETERS OF THE NON-LINEAR MODEL

Assume that  $\alpha$ ,  $\beta$  and  $\gamma$  are known parameters. If we have a realization  $Z_1, \dots, Z_n$  of the process  $\mathcal{R}(q, \omega, a, b,)$  then  $EZ_t$  and  $\rho$  are easily estimable parameters. We denote their estimates by  $\mu^*$  and  $\rho^*$ . The moment method applied to (2.1) gives

$$\frac{\omega(1-q)\xi^q + \gamma}{1-\rho^*} = \mu^*, \quad \omega q \xi^{q-1} = \rho^*. \tag{9}$$

Inserting  $\xi^q = \rho^* \xi / (\omega q)$  into the first equation we get for estimates  $\hat{q}$  and  $\hat{\omega}$  of the parameters  $q$  and  $\omega$  the following formulas:

$$\hat{q} = \frac{\rho^* \xi}{\rho^* \xi + \mu^*(1-\rho^*) - \gamma}, \quad \hat{\omega} = \frac{\rho^*}{\hat{q} \xi^{\hat{q}-1}}. \tag{10}$$

In the second method  $u$  and  $v$  are quite complicated functions of  $q$  and  $\omega$  so that the equations

$$\frac{u + \gamma}{1 - \rho^*} = \mu^*, \quad v = \rho^* \tag{11}$$

must be solved numerically. The solution of these equations is denoted by  $\tilde{q}$  and  $\tilde{\omega}$ .

Consider the model  $\mathcal{R}(q, \omega)$ . If we take  $\mu = \mu^* = 1.858$  and  $\rho = \rho^* = 0.369$  then (3.2) yields  $\hat{q} = 0.498$  and  $\hat{\omega} = 0.997$ . From (3.3) we obtain  $\tilde{q} = 0.486$  and  $\tilde{\omega} = 1.013$ . All the estimates are quite close to the true values of the corresponding parameters.

In the model  $\mathcal{E}(\frac{1}{2}, \omega)$  we estimate only one parameter  $\omega$ . The moment method applied to the first method of linearization leads to equations

$$\mu = \frac{\frac{\omega}{2}\sqrt{\xi} + 1}{1 - \frac{\omega}{2\sqrt{\xi}}}, \quad \rho = \frac{\omega}{2\sqrt{\xi}}.$$

Their solutions will be denoted by  $\omega_1^*$  and  $\omega_2^*$ , respectively.

Using the second method of linearization we come to equations

$$\mu = \frac{2\omega e\sqrt{\pi}[1 - \Phi(\sqrt{2})] + 1}{1 - \frac{\omega}{2}\{1 - e\sqrt{\pi}[1 - \Phi(\sqrt{2})]\}}, \quad \rho = \frac{\omega}{2}\{1 - e\sqrt{\pi}[1 - \Phi(\sqrt{2})]\}.$$

Their solutions will be denoted by  $\omega_1^+$  and  $\omega_2^+$ , respectively. If we insert values  $\bar{\mu} = 2.578$  and  $\bar{\rho} = 0.282$  from our simulations, we obtain

$$\omega_1^* = 0.922, \quad \omega_2^* = 0.608, \quad \omega_1^+ = 1.266, \quad \omega_2^+ = 0.908.$$

In this case the estimates considerably differ from the true value  $\omega = 1$ .

## 4. EXTRAPOLATION

Let  $\hat{X}_t$  be the LS extrapolation of  $X_t$  one step ahead based on  $\{X_{t-1}, X_{t-2}, \dots\}$ . It is known that for model (1.1) we have

$$\hat{X}_t = \lambda(X_{t-1}) + \gamma, \quad \mathbf{E}(X_t - \hat{X}_t)^2 = \sigma^2.$$

The LS extrapolation two or more steps ahead in model (1.1) is more complicated. Some results for  $\mathcal{R}(\frac{1}{2}, 1)$  and for  $\mathcal{E}(\frac{1}{2}, 1)$  can be found in the Appendix. In a simulation of the length  $n = 10\,000$  of  $\mathcal{R}(\frac{1}{2}, 1)$  one step ahead extrapolations  $\hat{X}_t$  as well as extrapolations  $Z_t^*$  of (2.2) and  $Z_t^+$  of (2.4) were calculated. The averages of  $(X_t - \hat{X}_t)^2$ ,  $(X_t - Z_t^*)^2$  and  $(X_t - Z_t^+)^2$  are denoted by  $\hat{\sigma}^2$ ,  $\sigma^{*2}$  and  $\sigma^{+2}$ , respectively. They are given in Table 2. Similarly, in a simulation of the length  $n = 10\,000$  of  $\mathcal{E}(\frac{1}{2}, 1)$  one step ahead extrapolations  $\hat{X}_t$  as well as extrapolations  $Z_t^*$  of (2.5) and  $Z_t^+$  of (2.6) were calculated together with the corresponding averages  $\hat{\sigma}^2$ ,  $\sigma^{*2}$  and  $\sigma^{+2}$ . See Table 2.

**Table 2.** Results of extrapolations.

Model	$\sigma^2$	$\hat{\sigma}^2$	$\sigma^{*2}$	$\sigma^{+2}$
$\mathcal{R}(\frac{1}{2}, 1)$	0.083	0.084	0.084	0.084
$\mathcal{E}(\frac{1}{2}, 1)$	1.000	1.017	1.060	1.020

Values  $\hat{\sigma}^2$  and  $\sigma^2$  are close which verifies quality of simulations. Values  $\sigma^{*2}$  and  $\sigma^{+2}$  are also very close to  $\sigma^2$ , which shows that the LS extrapolations based on linear approximations have nearly the same quality as the LS extrapolations in the considered non-linear models.

## 5. INTERPOLATION

Formulas for interpolation in models  $\mathcal{R}(\frac{1}{2}, 1)$  and  $\mathcal{E}(\frac{1}{2}, 1)$  can be found in the Appendix. Formula for interpolation in linear AR(1) model is well known but for convenience it is remembered in Lemma A.1. Let  $X_t^0$  be interpolation of  $X_t$  given  $\{\dots, X_{t-2}, X_{t-1}, X_{t+1}, X_{t+2}, \dots\}$ . We denote by  $Z_t^{*i}$  and  $Z_t^{+i}$  interpolations in processes (2.2) and (2.4), respectively, when we deal with  $\mathcal{R}(\frac{1}{2}, 1)$ . If we consider  $\mathcal{E}(\frac{1}{2}, 1)$  then  $Z_t^{*i}$  and  $Z_t^{+i}$  are interpolations in processes (2.5) and (2.6), respectively. A simulation of  $\mathcal{R}(\frac{1}{2}, 1)$  of the length  $n = 10\,000$  was calculated and the averages of  $(X_t - X_t^0)^2$ ,  $(X_t - Z_t^{*i})^2$  and  $(X_t - Z_t^{+i})^2$  denoted by  $\hat{\sigma}_i^2$ ,  $\sigma_i^{*2}$  and  $\sigma_i^{+2}$ , respectively, are given in Table 3. A similar simulation was carried out also for  $\mathcal{E}(\frac{1}{2}, 1)$ .

**Table 3.** Results of interpolations.

Model	$\hat{\sigma}_i^2$	$\sigma_i^{*2}$	$\sigma_i^{+2}$
$\mathcal{R}(\frac{1}{2}, 1)$	0.069	0.075	0.075
$\mathcal{E}(\frac{1}{2}, 1)$	0.882	1.018	1.016

We can conclude that  $\sigma_i^{*2}$  and  $\sigma_i^{+2}$  are also close to  $\hat{\sigma}_i^2$ , but the differences are larger than in the case of extrapolation.

APPENDIX

**Lemma A.1.** Let  $\{Z_t\}$  be the AR(1) process defined by

$$Z_t = \nu + \rho Z_{t-1} + \varepsilon_t \tag{A.12}$$

where  $\rho \in (-1, 1)$  and  $\{\varepsilon_t\}$  is a white noise with  $E\varepsilon_t = 0$ ,  $E\varepsilon_t^2 = \sigma^2 < \infty$ . Then

$$EZ_t = \frac{\nu}{1 - \rho}, \quad \text{var } Z_t = \frac{\sigma^2}{1 - \rho^2}, \quad \text{corr}(Z_t, Z_{t-1}) = \rho.$$

The best linear extrapolation  $\hat{Z}_t$  of  $Z_t$  given  $\{Z_{t-s}, s \geq 1\}$  is  $\hat{Z}_t = \nu + \rho Z_{t-1}$ . The residual variance of extrapolation is  $E(Z_t - \hat{Z}_t)^2 = \sigma^2$ . The best linear interpolation  $Z_t^0$  of  $Z_t$  given  $\{Z_{t-s}, s \neq 0\}$  is

$$Z_t^0 = \frac{\rho}{1 + \rho^2}(Z_{t-1} + Z_{t+1}) + \nu \frac{1 - \rho}{1 + \rho^2}$$

and its residual variance is  $E(Z - Z_t^0)^2 = \frac{\sigma^2}{1 + \rho^2}$ .

*Proof.* The assertion is well known. □

**Lemma A.2.** Let  $-\infty < \alpha < \beta < \infty$ . Let  $f$  be a continuous function on  $[\alpha, \beta]$ . Let  $y = u + vx$  be the least squares approximation of  $f$  on  $[\alpha, \beta]$ . Then there exist  $x_1, x_2$  such that  $\alpha < x_1 < x_2 < \beta$  and that  $u + vx_1 = f(x_1)$ ,  $u + vx_2 = f(x_2)$ .

*Proof.* Since  $u, v$  are such that  $\int_{\alpha}^{\beta} [f(x) - U - Vx]^2 dx$  attains its minimum at  $U = u, V = v$ , the equations

$$\int_{\alpha}^{\beta} [f(x) - u - vx] dx = 0, \tag{A.13}$$

$$\int_{\alpha}^{\beta} x[f(x) - u - vx] dx = 0 \tag{A.14}$$

are satisfied. It follows from (A.2) that there exists  $x_1 \in (\alpha, \beta)$  such that  $f(x_1) - u - vx_1 = 0$ . In the remaining part of the proof we assume without loss of generality that  $\alpha \geq 0$ . If  $f(x) - u - vx \neq 0$  for all  $x \in (\alpha, \beta)$ ,  $x \neq x_1$ , then we have either

$$\begin{aligned} f(x) - u - vx &> 0 & \text{for } \alpha < x < x_1, \\ f(x) - u - vx &< 0 & \text{for } x_1 < x < \beta \end{aligned} \tag{A.15}$$

or

$$\begin{aligned} f(x) - u - vx &< 0 & \text{for } \alpha < x < x_1, \\ f(x) - u - vx &> 0 & \text{for } x_1 < x < \beta \end{aligned} \tag{A.16}$$



because  $f$  is continuous and other cases such as  $f(x) - u - vx > 0$  for  $x \neq x_1$  etc. would be in contradiction with (A.2). Assume that (A.4) holds. Then we can see that

$$\begin{aligned} \int_{\alpha}^{\beta} \frac{x}{x_1} [f(x) - u - vx] dx &< \int_{\alpha}^{x_1} [f(x) - u - vx] dx + \int_{x_1}^{\beta} [f(x) - u - vx] dx \\ &= \int_{\alpha}^{\beta} [f(x) - u - vx] dx = 0 \end{aligned}$$

which contradicts (A.3). The case (A.5) is similar. □

**Corollary A.3.** Let the assumptions of Lemma A.2 be fulfilled. Moreover, let  $f'(x)$  exist for all  $x \in (\alpha, \beta)$ . Then there exists  $\xi \in (\alpha, \beta)$  such that  $v = f'(\xi)$ .

**Lemma A.4.** In the model  $\mathcal{R}(q, \omega, a, b)$  we have  $\omega q \beta^{q-1} < 1$ .

*Proof.* Remember that  $\beta$  satisfies  $\beta = \omega \beta^q + b$ . Then  $1 = \omega \beta^{q-1} + b/\beta$ , which gives  $\omega \beta^{q-1} \leq 1$ . Since  $q \in (0, 1)$ , the assertion follows. □

Let the model (1.1) hold and let  $X_0, \dots, X_t$  be known. The naïve extrapolation of the variable  $X_{t+m}$  ( $m \geq 1$ ) is given by

$$X_{t+1}^* = \lambda(X_t) + \gamma, \quad X_{t+m}^* = \lambda(X_{t+m-1}^*) + \gamma.$$

Obviously, there exists a function  $H_m$  such that  $X_{t+m} = H_m(X_t)$ . The functions  $H_m$ ,  $m \geq 1$ , satisfy

$$H_1(x) = \lambda(x) + \gamma, \quad H_{m+1}(x) = \lambda[H_m(x)] + \gamma \text{ for } m \geq 1.$$

The least squares extrapolation of  $X_{t+m}$  is

$$\hat{X}_{t+m} = K_m(X_t)$$

where

$$K_1(x) = \lambda(x) + \gamma, \quad K_{m+1}(x) = \int_{-\infty}^{\infty} K_m(y) h[y - \lambda(x)] dy \tag{A.17}$$

for  $m \geq 1$  (see [5], p. 346, and [2]). We can see that  $K_1(x) \equiv H_1(x)$  but for  $m \geq 2$  we have generally that  $H_m(x) \neq K_m(x)$ .

Assume that variables  $X_0, \dots, X_{j-1}, X_{j+1}, \dots, X_n$  are known. Let  $X_{\setminus j} = \{x_0, x_1, \dots, x_{j-1}, x_{j+1}, \dots, x_n\}$  where  $x_j$  ( $1 \leq j \leq n - 1$ ) is excluded. Then conditional densities  $p(\cdot, | \cdot)$  satisfy

$$p(x_j | X_{\setminus j}) = \frac{1}{K} p(x_j | x_{j-1}) p(x_{j+1} | x_j) \tag{A.18}$$

where

$$K = p(x_{j+1} | x_{j-1}) = \int p(x_j | x_{j-1}) p(x_{j+1} | x_j) dx_j$$

[see [5], p. 319, formulas (5.222) and (5.223)]. Since  $e_t$  has the density  $h$ , we have  $p(x_j|x_{j-1}) = h[x_j - \lambda(x_{j-1})]$ . The least squares interpolation of  $X_j$  is

$$X_j^0 = E(X_j|X_{\setminus j}) = \int x_j p(x_j|X_{\setminus j}) dx_j.$$

Now, we specify the general formulas to the two cases of the model (1.2) mentioned in Introduction.

**A. Rectangular distribution of the white noise.** In the model  $\mathcal{R}(q, \omega, a, b)$  it is clear that

$$\begin{aligned} K_1(x) &= H_1(x) = \frac{a+b}{2} + \omega x^q, \\ H_2(x) &= \frac{a+b}{2} + \omega \left( \frac{a+b}{2} + \omega x^q \right)^q \end{aligned}$$

and simple calculations give

$$K_2(x) = \frac{a+b}{2} + \frac{\omega}{(b-a)(1+q)} [(b + \omega x^q)^{1+q} - (a + \omega x^q)^{1+q}].$$

If  $m \geq 3$  then expressions for  $K_m(x)$  are complicated even for such values of  $q$  which admit derivation of explicit formulas. In our paper we consider only the case  $a = 0$  so that  $e_t \sim R(0, b)$ . Then  $h(x) = 1/b$  for  $0 < x < b$  and  $h(x) = 0$  otherwise. Formula (A.7) gives

$$p(x_j|X_{\setminus j}) = \frac{1}{\min\{x_{j+1}^2, b + \sqrt{x_{j-1}}\} - \max\{\sqrt{x_{j-1}}, (x_{j+1} - b)^2\}}$$

for

$$\max\{\sqrt{x_{j-1}}, (x_{j+1} - b)^2\} < x_j < \min\{x_{j+1}^2, b + \sqrt{x_{j-1}}\}$$

and 0 otherwise. From here it is clear that the least squares interpolation  $X_j^0$  of  $X_j$  given  $X_{\setminus j}$  is

$$X_j^0 = E(X_j|X_{\setminus j}) = \frac{1}{2}[\min\{x_{j+1}^2, b + \sqrt{x_{j-1}}\} + \max\{\sqrt{x_{j-1}}, (x_{j+1} - b)^2\}].$$

**B. Exponential distribution of the white noise.** Here we consider the model  $\mathcal{E}(\frac{1}{2}, \omega)$ . First we have

$$\begin{aligned} K_1(x) &= H_1(x) = \omega\sqrt{x} + 1, \\ H_2(x) &= 1 + \omega\sqrt{\omega\sqrt{x} + 1}. \end{aligned}$$

Further computations lead to

$$K_2(x) = 1 + \omega^{3/2}\sqrt[4]{x} + \sqrt{\pi}\omega e^{\omega\sqrt{x}}[1 - \Phi(\sqrt{2\omega}\sqrt[4]{x})]$$

where  $\Phi$  is the distribution function of  $N(0, 1)$ . Further we have  $H_1(x) = K_1(x)$ .

To find explicit formulas for interpolation we need integrals

$$\begin{aligned}\int e^{-x+\omega\sqrt{x}} dx &= -e^{-x+\omega\sqrt{x}} + \omega\sqrt{\pi}e^{\omega^2/4}\Phi\left(\sqrt{2x} - \frac{\omega}{\sqrt{2}}\right), \\ \int xe^{-x+\omega\sqrt{x}} dx &= \frac{\omega}{2}\left(3 + \frac{\omega^2}{2}\right)\sqrt{\pi}e^{\omega^2/4}\Phi\left(\sqrt{2x} - \frac{\omega}{\sqrt{2}}\right) \\ &\quad - \left(1 + \frac{\omega^2}{4} + \frac{\omega}{2}\sqrt{x} + x\right)e^{-x+\omega\sqrt{x}}\end{aligned}$$

which can be obtained by direct calculation. The conditional density of  $X_j$  given  $X_{\setminus j}$  is

$$q(x_j) = p(x_j|X_{\setminus j}) = Ke^{-x_j+\omega\sqrt{x_j}}$$

for

$$\omega\sqrt{x_{j-1}} < x_j < x_{j+1}^2/\omega^2$$

and zero otherwise where

$$\begin{aligned}K^{-1} &= \exp\{-\omega\sqrt{x_{j-1}} + \omega^{3/2}\sqrt[4]{x_{j-1}}\} - \exp\left\{-\frac{x_{j+1}^2}{\omega^2} + x_{j+1}\right\} \\ &\quad + \omega\sqrt{\pi}e^{\omega^2/4}\left[\Phi\left(\frac{\sqrt{2}x_{j+1}}{\omega} - \frac{\omega}{\sqrt{2}}\right) - \Phi\left(\sqrt{2\omega}\sqrt[4]{x_{j-1}} - \frac{\omega}{\sqrt{2}}\right)\right].\end{aligned}$$

The least squares interpolation of the random variable  $X_j$  is

$$\begin{aligned}X_j^0 &= K^{-1}\left(\frac{\omega}{2}\left(3 + \frac{\omega^2}{2}\right)\sqrt{\pi}e^{\omega^2/4}\left[\Phi\left(\frac{\sqrt{2}x_{j+1}}{\omega} - \frac{\omega}{\sqrt{2}}\right) - \Phi\left(\sqrt{2\omega}\sqrt[4]{x_{j-1}} - \frac{\omega}{\sqrt{2}}\right)\right]\right. \\ &\quad + \left(1 + \frac{\omega^2}{4} + \frac{\omega^{3/2}}{2}\sqrt[4]{x_{j-1}} + \omega\sqrt{x_{j-1}}\right)\exp\{-\omega\sqrt{x_{j-1}} + \omega^{3/2}\sqrt[4]{x_{j-1}}\} \\ &\quad \left. - \left(1 + \frac{\omega^2}{4} + \frac{x_{j+1}}{2} + \frac{x_{j+1}^2}{\omega^2}\right)\exp\left\{-\frac{x_{j+1}^2}{\omega^2} + x_{j+1}\right\}\right).\end{aligned}$$

#### ACKNOWLEDGEMENT

The research was supported by Grant 201/00/0770 from the Grant Agency of the Czech Republic and by Grant CEZ: J13/98:113200008.

(Received February 21, 2000.)

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