

M3F22 PROBLEMS 9. 8.12.2017

Q1 *Gaussian distributions.*

With the multivariate normal (multinormal, multivariate Gaussian) distribution as in V.2 W8, show that all linear combinations $\sum_1^n a_i X_i$ of a multinormal random vector are normal (in one dimension). [This is actually the best way to *define* the multinormal.]

Deduce that Itô integrals $\int_0^t f(s)dB_s$ with f continuous and deterministic are normally (Gaussian) distributed.

Q2 *Ornstein-Uhlenbeck process.*

For $V = (V_t)$ the solution to the Ornstein-Uhlenbeck SDE (OU)

$$dV = -\beta V dt + \sigma dB : \quad (OU)$$

(i) By using the Itô isometry, or otherwise, show that V_t has distribution

$$V_t \sim N(0, \sigma^2(1 - e^{-2\beta t})/(2\beta)).$$

(ii) By (i) and independence of Brownian increments, or otherwise, show that the covariance is

$$\text{cov}(V_t, V_{t+u}) = \sigma^2 e^{-2\beta u} (1 - 2e^{-2\beta t}) \quad (u \geq 0).$$

(iii) Show that V is Gaussian and Markov.

(iv) Show that V_t converges in distribution as $t \rightarrow \infty$, and find the limit distribution.

NHB