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with finite state space ; a linear case**

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MAXIMUM LIKELIHOOD ESTIMATION FOR DISCRETE-TIME PROCESSES

WITH FINITE STATE SPACE

A LINEAR CASE

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PRELIMINARY REMARK : This report, presented at the Ecole d'Ete de Calcul des Probabilités, Saint-Flour, July, 1980, is abstracted from reference [1]. The reader should go to this reference for formal proofs of the results presented and for some additional results.

THE PROBLEM :

Consider a process X_0, X_1, X_2, \dots , which takes values on a finite state space $S = \{1, 2, \dots, s\}$. Denote by \mathcal{F}_n the past of the process up to and including the n -th transition, i.e., $\mathcal{F}_n = \sigma\{X_0, X_1, \dots, X_n\}$. Given \mathcal{F}_n , we can consider the probability of the process going to state j in time $(n + 1)$, which we can write as

$$p_n^j = \text{Prob} \{X_{n+1} = j / \mathcal{F}_n\}.$$

In what follows we assume that p_n^j is known as a function of an unknown parameter α , write it as $p_n^j(\alpha)$, and look at the behavior of the MLE (maximum likelihood estimate) of α .

We make the following restrictive assumptions :

A1 : α is real, and the true value α^0 is known to belong to a bounded interval $I = [\underline{\alpha} , \bar{\alpha}]$

A2 : $p_n^j(\alpha)$ is linear in α , that is

$$p_n^j(\alpha) = a_n^j \alpha + b_n^j$$

A3 : The effect of α is restricted by the following condition :

$\exists K > 0$ such that for each n , for each possible evolution of the process up to time n , we have that for every $j \in S$, either $p_n^j(\alpha) = 0 \quad \forall \alpha \in I$, or $p_n^j(\alpha) \geq K \quad \forall \alpha \in I$.

We can interpret A3 as stating that, at time n , we know which states might be occupied at time $(n+1)$, and we know that the probability of occupancy of such states is at least K . Even though current work seems to indicate that assumptions A1 and A2 can be relaxed, A3 seems to be essential in the developments that follow.

AN EXAMPLE :

The example that motivated this study has already been analyzed in references [2] and [3] by different methods, and was suggested to this author by one of the authors in [3], Professor P. Varaiya.

Consider a Markov Chain with state space $S = \{1, 2, \dots, s\}$ whose transition probabilities $\{p_{ij}, i, j \in S\}$ depend both on an unknown parameter α and on a control action u that we can apply on each transition. That is,

$$p_{ij} = p_{ij}(\alpha, u) .$$

After each transition we can estimate α from our observations on the chain. Call α_n this estimate. We say that u is an adaptive control if $u_n = u(X_n, \alpha_n)$, that is, if the control we exert at time n depends both on the state we occupy at that time and on the estimate we have of what the true value of α may be.

As the control depends on the whole past of the chain (through α_n) the resulting process is no longer Markov. We can imagine more complex ways of selecting u_n based, for example, both on α_n and the estimated variance of α_n , etc.

Assumptions A1 and A2 keep almost the same form in this special case, and A3 takes the simpler form :

$$\exists K > 0 \ni \forall i, j, u, \quad \text{either } p_{ij}(\alpha, u) = 0 \quad \forall \alpha \in I$$

$$\text{or } p_{ij}(\alpha, u) \geq K \quad \forall \alpha \in I.$$

NOTATION AND MAIN RESULTS :

We define the likelihood of a given $\alpha \in I$ at time n as

$$\text{Prob}\{X_0, X_1, \dots, X_n/X_0\}(\alpha) = \prod_{m=0}^{n-1} p_m(\alpha),$$

and the log-likelihood

$$L_n(\alpha) = \sum_{m=0}^{n-1} \log[p_m(\alpha)] = \sum_{m=0}^{n-1} \log[a_m \alpha + b_m],$$

where we have denoted $p_m = p_m^{X_{m+1}}$, $a_m = a_m^{X_{m+1}}$, $b_m = b_m^{X_{m+1}}$.

Observe that $p_m, a_m, b_m \in \mathcal{F}_{m+1}$, while $p_m^j, a_m^j, b_m^j \in \mathcal{F}_m \quad \forall j \in S$.

Assumptions A2, A3 allow us to consider the derivatives of $\text{Ln}(\alpha)$, which take a simple form :

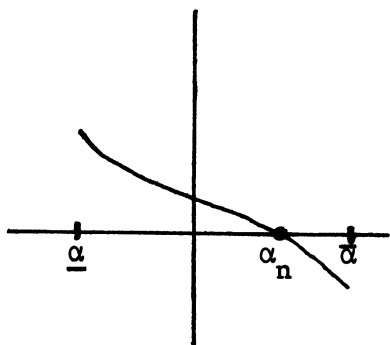
$$L'_n(\alpha) = \frac{dL_n}{d\alpha}(\alpha) = \sum_{m=0}^{n-1} \frac{a_m}{a_m \alpha + b_m} ;$$

$$L''_n(\alpha) = \frac{d^2 L_n}{d\alpha^2}(\alpha) = \sum_{m=0}^{n-1} \left[\frac{a_m}{a_m \alpha + b_m} \right]^2 \leq 0$$

We can now define the MLE of α^0 at time n , α_n , to be the smallest element of $I = [\underline{\alpha}, \bar{\alpha}]$ such that

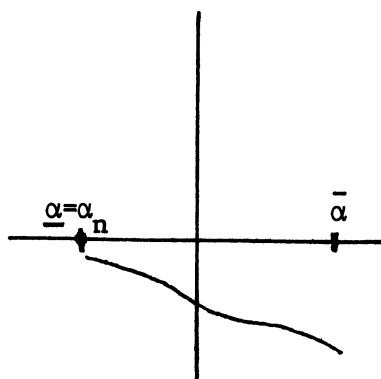
$$L_n(\alpha_n) \geq L_n(\alpha) \quad \forall \alpha \in I.$$

To study the asymptotic behavior of α_n it now suffices to look at the asymptotic behavior of L'_n , as the following picture suggests :



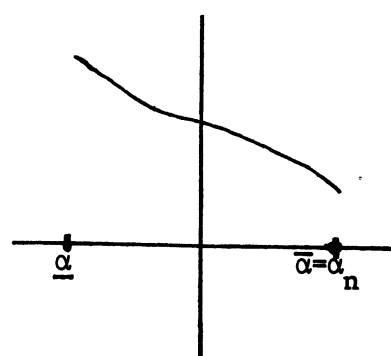
L'_n has a zero in I .

α_n is at the zero



$L'_n < 0$ on I

$\alpha_n = \alpha$



$L'_n > 0$ on I

$\alpha_n = \alpha$

Define

$$D_m(\alpha) = \frac{a_m}{a_m \alpha + b_m} ; D_m(\alpha) \in \mathcal{F}_{m+j}. \text{ Observe } L'_n(\alpha) = \sum_{m=0}^{n-1} D_m(\alpha).$$

To simplify notation we assume, without loss of generality, that $\alpha^0 = 0$, and also $-1 \in I, 1 \in I$.

Now

$$E_m(\alpha) = E[D_m(\alpha) / \mathcal{F}_m] = \sum_{j=1}^i \frac{a_m^j}{a_m^j \alpha + b_m^j} b_m^j.$$

Using the fact that, since $\sum_{j=1}^i P_m^j = 1, \sum_{j=1}^i a_m^j = 0$ and $\sum_{j=1}^i b_m^j = 1$,

it can be easily shown that $E_m(0) = 0 \forall m$ and, furthermore, for all m ;

$$\alpha < 0 \implies E_m(\alpha) \geq 0,$$

$$\alpha > 0 \implies E_m(\alpha) \leq 0.$$

Take now $\alpha < 0$ fixed, the argument being symmetric for $\alpha > 0$. Then $E_m(\alpha) \geq 0$ and $L'_n(\alpha)$ turns out to be a submartingale. We can decompose this submartingale by considering, for

$$Y_m = D_m - E_m,$$

the martingale

$$M_n = \sum_{m=0}^{n-1} Y_m, \quad (M_n \in \mathcal{F}_n, \forall n)$$

and the increasing process

$$A_n = \sum_{m=0}^{n-1} E_m, \quad (A_n \in \mathcal{F}_{n-1}, \forall n)$$

(where we have dropped the α 's in $Y_m(\alpha)$, etc.)

After some manipulations, it is easy to show that

$$\frac{1}{K} |\alpha| \sum_{m=0}^{n-1} \left\{ \sum_{j=1}^i (a_m^j)^2 \right\} \geq A_n \geq |\alpha| \sum_{m=0}^{n-1} \left\{ \sum_{j=1}^i (a_m^j)^2 \right\}$$

Therefore, the asymptotic behavior of A_n is easily determined by the asymptotic behavior of $\sum_{m=0}^{n-1} \left\{ \sum_{j=1}^i (a_m^j)^2 \right\}$ as n goes to ∞ . Suppose

$L'_n = A_n + M_n$ had the same asymptotic behavior as A_n . Then we would have

$$\sum_{m=0}^{n-1} \left\{ \sum_{j=1}^i (a_m^j)^2 \right\} \xrightarrow[n \rightarrow \infty]{} \infty \stackrel{?}{\implies} L'_n(\alpha) \rightarrow \infty,$$

and our $\alpha < 0$ could not be the MLE for n large (see the first or third drawings in our previous picture).

To have L'_n of the same order of A_n we would need

$$\frac{L'_n}{A_n} \rightarrow 1, \text{ i.e., } \frac{M_n}{A_n} \rightarrow 0, \text{ when } A_n \rightarrow \infty.$$

To see under what conditions this would happen, consider

$$V_m = \text{Var} [D_m / \mathcal{F}_m] \leq E [D_m^2 / \mathcal{F}_m].$$

After some algebra, one can show that

$$\frac{V_m}{E_m} \leq \frac{1}{K|\alpha|}, \text{ i.e., } V_m \leq \frac{1}{K|\alpha|} E_m.$$

Let's call $B_n = \sum_{m=0}^{n-1} V_m$, the process of "variations" of M_n . This process plays an important role in defining the behavior of M_n , since it is, somehow, the natural time scale for M_n . In particular, we can find in Neveu [4] that, almost surely, for each realization,

$$\left\{ \begin{array}{l} \lim_{n \rightarrow \infty} B_n < \infty \implies M_n \text{ converges to a finite limit } M \\ \lim_{n \rightarrow \infty} B_n = \infty \implies \frac{M_n}{B_n} \xrightarrow{n \rightarrow \infty} 0 . \end{array} \right.$$

By the bound we got on V_m , we have that $B_n \leq \frac{1}{K|\alpha|} A_n$, so that we conclude that, for almost all realizations,

- If $A_n \rightarrow \infty$ and B_n remains bounded, then $\frac{M_n}{A_n} \rightarrow \frac{M}{\infty} = 0$
- If $A_n \rightarrow \infty$ and $B_n \rightarrow \infty$, then $\frac{|M_n|}{A_n} \leq \frac{1}{K|\alpha|} \frac{|M_n|}{B_n} \rightarrow 0$.

In either case, $\frac{M_n}{A_n} \rightarrow 0$, whence $\frac{L'_n}{A_n} \xrightarrow{\text{a.s.}} 1$ and we can now write, with no question mark,

$$\sum_{m=0}^{n-1} \left\{ \sum_{j=1}^i (a_m^j)^2 \right\} \xrightarrow{n \rightarrow \infty} \infty \implies L'_n(\alpha) \xrightarrow{\text{a.s.}} \infty$$

(an analogous result states that $L'_n(\alpha) \rightarrow -\infty$ a.s. if $\alpha > 0$).

We already suggested an argument for showing that, if $L'_n(\alpha) \rightarrow \infty$, then α cannot be the MLE for α° .

This suggests the following theorem, whose proof can be found in [1].

THEOREM : Except for a negligible set of realizations, if the sequence $\{\alpha_n\}$ of MLE's has an accumulation point $\alpha^* \neq \alpha^\circ = 0$, then

$$\sum_{m=0}^{\infty} \left\{ \sum_{j=1}^i (a_m^j)^2 \right\} < \infty .$$

Corollary :

Under the conditions of the theorem,

$$a_m^j \xrightarrow{m \rightarrow \infty} 0, \quad j = 1, 2, \dots, s.$$

Some other results can be proven using our knowledge of the limit behaviour of L'_n . The most important seems to be the following.

Proposition :

$$\alpha_n \xrightarrow{\text{a.s.}} \alpha^*, \text{ where } \alpha^* \text{ may depend on the realization.}$$

APPLICATION :

We can now apply the results we obtained to the example that motivated this work, a Markov Chain with transition probabilities.

$$p_{ij}(\alpha, u) = a_{ij}(u) \alpha + b_{ij}(u).$$

Let's assume

A4 : u_n , the control in force after X_n has been observed, is of the adaptive form $u_n = \varphi(\alpha_n, X_n)$; and $a_{ij}(\varphi(\alpha, i))$ is continuous in α , for every $i, j \in S$.

Proposition :

Under A1 to A4, and except for a negligible set of realizations, if the sequence of MLE's has an accumulation point $\alpha^* \neq \alpha^0 = 0$, then

$$a_{ij}(\varphi(\alpha^*, i)) = 0 \text{ for every state } i \text{ that is reached infinitely often,} \\ \text{for every } j \in S.$$

A5 : The chain is irreducible for all pairs (α, u) in the sense that : $\forall i, j \in S \exists i_1, \dots, i_k \in S$ such that $p_{i_{\ell-1}, i_{\ell}}(\alpha, u) > 0$, $\ell = 0, \dots, k + 1$, where $i_0 = i, i_{k+1} = j$.

For a chain satisfying A5 Feller shows that all states are reached infinitely often. This result carries over to our situation (using A3), and we obtain our final

Proposition :

Under A1 to A5, and except for a negligible set of realizations,

$\alpha_n \rightarrow \alpha^*$ where α^* satisfies

$$p_{ij}(\alpha^*, \varphi(\alpha^*, i)) = p_{ij}(\alpha^\circ, \varphi(\alpha^*, i)), \quad \forall i, j \in S.$$

This last result can be phrased as saying that α^* is such that, if we were to take the control $U(i) = \varphi(\alpha^*, i)$, depending only on the present state of the chain, then α° and α^* would be indistinguishable, since they would produce equal values of all the p_{ij} 's.

This characterizes the set of all possible limit points α^* of the sequence of maximum likelihood estimators.

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