Contents

| | estions for the Reader | |
|-----|--|---|
| | Survey of Stochastic Numerical Methods | |
| Par | : I. Preliminaries | |
| Cha | pter 1. Probability and Statistics | 1 |
| 1.1 | Probabilities and Events | 1 |
| 1.2 | Random Variables and Distributions | 5 |
| 1.3 | Random Number Generators | 1 |
| 1.4 | Moments | 4 |
| 1.5 | Convergence of Random Sequences | 2 |
| 1.6 | Basic Ideas About Stochastic Processes | 6 |
| 1.7 | Diffusion Processes | 4 |
| 1.8 | Wiener Processes and White Noise | 0 |
| 1.9 | Statistical Tests and Estimation | 4 |
| Cha | pter 2. Probability and Stochastic Processes 5 | 1 |
| 2.1 | Aspects of Measure and Probability Theory | 1 |
| 2.2 | Integration and Expectations | 5 |
| 2.3 | Stochastic Processes | 3 |
| 2.4 | Diffusion and Wiener Processes | 8 |
| Par | II. Stochastic Differential Equations | |
| Cha | pter 3. Ito Stochastic Calculus | 5 |
| 3.1 | Introduction | 5 |
| 3.2 | The Ito Stochastic Integral | 1 |
| 3.3 | The Ito Formula | 0 |
| 3.4 | Vector Valued Ito Integrals | 6 |
| 3.5 | Other Stochastic Integrals | - |
| Cha | pter 4. Stochastic Differential Equations | 3 |
| 4.1 | Introduction | 3 |
| 4.2 | Linear Stochastic Differential Equations | - |



XII CONTENTS

| 4.4 | Reducible Stochastic Differential Equations | 113 |
|--|--|---|
| 2.7 | Some Explicitly Solvable Equations | 117 |
| 4.5 | The Existence and Uniqueness of Strong Solutions | 127 |
| 4.6 | Strong Solutions as Diffusion Processes | 141 |
| 4.7 | Diffusion Processes as Weak Solutions | 144 |
| 4.8 | Vector Stochastic Differential Equations | 148 |
| 4.9 | Stratonovich Stochastic Differential Equations | 154 |
| Cha | apter 5. Stochastic Taylor Expansions | 161 |
| 5.1 | Introduction | 161 |
| 5.2 | Multiple Stochastic Integrals | 167 |
| 5.3 | Coefficient Functions | 177 |
| 5.4 | Hierarchical and Remainder Sets | 180 |
| 5.5 | Ito-Taylor Expansions | 181 |
| 5.6 | Stratonovich-Taylor Expansions | 187 |
| 5.7 | Moments of Multiple Ito Integrals | 190 |
| 5.8 | Strong Approximation of Multiple Stochastic Integrals | 198 |
| 5.9 | Strong Convergence of Truncated Ito-Taylor Expansions | 206 |
| 5.10 | Strong Convergence | 200 |
| | of Truncated Stratonovich-Taylor Expansions | 210 |
| 5.11 | Weak Convergence of Truncated Ito-Taylor Expansions | 211 |
| 5 12 | Weak Approximations of Multiple Ito Integrals | 221 |
| | | |
| Pari Cha | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic | |
| Pari Cha | t III. Applications of Stochastic Differential Equations | 227 |
| Pari Cha | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations | 227 |
| Par Cha Diff | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich | 227 227 |
| Pari | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains | 227 227 229 |
| Pari Cha Diff 6.1 6.2 | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability | 227 227 229 232 |
| Part Cha Diff 6.1 6.2 6.3 | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control | 227 227 229 232 241 |
| Part Cha Diff 6.1 6.2 6.3 6.4 | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control | 227 227 229 232 241 244 |
| Part Cha Diff 6.1 6.2 6.3 6.4 6.5 6.6 | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering | 227 227 229 232 241 244 248 |
| Part Cha Diff 6.1 6.2 6.3 6.4 6.5 6.6 Cha | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations | 227 227 229 232 241 244 248 253 |
| Cha Diff 6.1 6.2 6.3 6.4 6.5 6.6 Cha 7.1 | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics | 227 227 229 232 241 244 248 253 253 |
| Cha Diff 6.1 6.2 6.3 6.4 6.5 6.6 Cha 7.1 7.2 | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics Experimental Psychology and Neuronal Activity | 227 227 229 232 241 244 248 253 253 256 |
| Part Cha Diff 6.1 6.2 6.3 6.4 6.5 6.6 Cha 7.1 7.2 7.3 | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics Experimental Psychology and Neuronal Activity Investment Finance and Option Pricing | 227 227 229 232 241 244 248 253 253 256 257 |
| Paris Char Diff 6.1 6.2 6.3 6.4 6.5 6.6 Cha 7.1 7.2 7.3 7.4 | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics Experimental Psychology and Neuronal Activity Investment Finance and Option Pricing Turbulent Diffusion and Radio-Astronomy | 227 227 229 232 241 244 248 253 253 256 257 259 |
| Charlet Charle | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics Experimental Psychology and Neuronal Activity Investment Finance and Option Pricing Turbulent Diffusion and Radio-Astronomy Helicopter Rotor and Satellite Orbit Stability | 227 227 229 232 241 244 248 253 256 257 259 261 |
| Chacheller | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics Experimental Psychology and Neuronal Activity Investment Finance and Option Pricing Turbulent Diffusion and Radio-Astronomy Helicopter Rotor and Satellite Orbit Stability Biological Waste Treatment, Hydrology and Air Quality | 227 227 229 232 241 244 248 253 256 257 259 261 263 |
| Chapter Chapte | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics Experimental Psychology and Neuronal Activity Investment Finance and Option Pricing Turbulent Diffusion and Radio-Astronomy Helicopter Rotor and Satellite Orbit Stability Biological Waste Treatment, Hydrology and Air Quality Seismology and Structural Mechanics | 227 227 229 232 241 244 248 253 256 257 259 261 |
| Chacheller | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics Experimental Psychology and Neuronal Activity Investment Finance and Option Pricing Turbulent Diffusion and Radio-Astronomy Helicopter Rotor and Satellite Orbit Stability Biological Waste Treatment, Hydrology and Air Quality Seismology and Structural Mechanics Fatigue Cracking, Optical Bistability | 227 229 232 241 244 248 253 256 257 259 261 263 266 |
| Chapter Chapte | t III. Applications of Stochastic Differential Equations pter 6. Modelling with Stochastic erential Equations Ito Versus Stratonovich Diffusion Limits of Markov Chains Stochastic Stability Parametric Estimation Optimal Stochastic Control Filtering pter 7. Applications of Stochastic Differential Equations Population Dynamics, Protein Kinetics and Genetics Experimental Psychology and Neuronal Activity Investment Finance and Option Pricing Turbulent Diffusion and Radio-Astronomy Helicopter Rotor and Satellite Orbit Stability Biological Waste Treatment, Hydrology and Air Quality Seismology and Structural Mechanics | 227 227 229 232 241 244 248 253 256 257 259 261 263 |

CONTENTS

| 7.10 | Josephson Tunneling Junctions, Communications and Stochastic Annealing | 273 |
|------|--|-----|
| Part | IV. Time Discrete Approximations | |
| | pter 8. Time Discrete Approximation leterministic Differential Equations | 277 |
| 8.1 | Introduction | 277 |
| 8.2 | Taylor Approximations and Higher Order Methods | 286 |
| 8.3 | Consistency, Convergence and Stability | 292 |
| 8.4 | Roundoff Error | 301 |
| | pter 9. Introduction to Stochastic | 005 |
| Tim | e Discrete Approximation | 305 |
| 9.1 | The Euler Approximation | 305 |
| 9.2 | Example of a Time Discrete Simulation | 307 |
| 9.3 | Pathwise Approximations | 311 |
| 9.4 | Approximation of Moments | 316 |
| 9.5 | General Time Discretizations and Approximations | 321 |
| 9.6 | Strong Convergence and Consistency | 323 |
| 9.7 | Weak Convergence and Consistency | 326 |
| 9.8 | Numerical Stability | 331 |
| Par | t V. Strong Approximations | |
| Cha | pter 10. Strong Taylor Approximations | 339 |
| 10.1 | Introduction | 339 |
| 10.2 | The Euler Scheme | 340 |
| 10.3 | The Milstein Scheme | 345 |
| | The Order 1.5 Strong Taylor Scheme | 351 |
| | The Order 2.0 Strong Taylor Scheme | 356 |
| 10.6 | General Strong Ito-Taylor Approximations | 360 |
| 10.7 | General Strong Stratonovich-Taylor Approximations | 365 |
| 10.8 | A Lemma on Multiple Ito Integrals | 369 |
| Cha | pter 11. Explicit Strong Approximations | 373 |
| 11.1 | Explicit Order 1.0 Strong Schemes | 373 |
| | Explicit Order 1.5 Strong Schemes | 378 |
| 11.3 | Explicit Order 2.0 Strong Schemes | 383 |
| 11.4 | Multistep Schemes | 385 |
| 11.5 | General Strong Schemes | 390 |

XIV CONTENTS

| Chapter 12. Implicit Strong Approximations |
|---|
| 12.1 Introduction |
| 12.3 Implicit Strong Runge-Kutta Approximations |
| 12.4 Implicit Two-Step Strong Approximations 41 |
| 12.5 A-Stability of Strong One-Step Schemes 41 |
| 12.6 Convergence Proofs |
| Chapter 13. Selected Applications |
| of Strong Approximations 42 |
| 13.1 Direct Simulation of Trajectories |
| 13.2 Testing Parametric Estimators |
| 13.3 Discrete Approximations for Markov Chain Filters |
| 13.4 Asymptotically Efficient Schemes |
| |
| Part VI. Weak Approximations |
| Chapter 14. Weak Taylor Approximations 45 |
| 14.1 The Euler Scheme |
| 14.2 The Order 2.0 Weak Taylor Scheme |
| 14.3 The Order 3.0 Weak Taylor Scheme |
| 14.4 The Order 4.0 Weak Taylor Scheme |
| 14.5 General Weak Taylor Approximations |
| 14.6 Leading Error Coefficients |
| Chapter 15. Explicit and Implicit Weak Approximations 48 |
| |
| 15.1 Explicit Order 2.0 Weak Schemes |
| 15.2 Explicit Order 3.0 Weak Schemes |
| 15.3 Extrapolation Methods |
| 15.4 Implicit Weak Approximations |
| 15.5 Predictor-Corrector Methods 50 |
| 15.6 Convergence of Weak Schemes |
| Chapter 16. Variance Reduction Methods 51 |
| 16.1 Introduction |
| 16.2 The Measure Transformation Method |
| 16.3 Variance Reduced Estimators |
| 16.4 Unbiased Estimators |
| Chapter 17. Selected Applications of Weak Approximations . 52 |
| 17.1 Evaluation of Functional Integrals |
| 17.2 Approximation of Invariant Measures |
| 17.3 Approximation of Lyapunov Exponents 54 |

| CONTENTS | ΧV |
|------------------------|-----|
| Solutions of Exercises | 549 |
| Bibliographical Notes | 587 |
| References | 597 |
| Index | 625 |