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ON HENSTOCK-KURZWEIL METHOD TO STRATONOVICH INTEGRAL

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Dedicated to Professor Jaroslav Kurzweil on the occasion of his 90th birthday

Abstract. We use the general Riemann approach to define the Stratonovich integral with respect to Brownian motion. Our new definition of Stratonovich integral encompass the classical Stratonovich integral and more importantly, satisfies the ideal Itô formula without the “tail” term, that is,

\[ f(W_t) = f(W_0) + \int_0^t f'(W_s) \circ dW_s. \]

Further, the condition on the integrands in this paper is weaker than the classical one.

Keywords: Itô formula; Henstock-Kurzweil approach; Stratonovich integral

MSC 2010: 26A39, 60H05

1. Introduction

Since the 1950s, Henstock and Kurzweil independently introduced a Riemann-type definition of integrals using non-uniform meshes (where meshes vary from point to point) [5], [6]. This approach makes it possible to give an alternative definition of the Itô integral with respect to Brownian motion using Riemann sums [7], [9], [13], [14], [16], [17]. Protter [13] and Toh [1], [15] used this Riemann approach to define the stochastic integral with respect to a semimartingale. This new approach turned out to encompass the classical stochastic integral.

Based on the success of using the Henstock-Kurzweil method in defining the Itô integral, we believe that we also can define the Stratonovich integral using this method as well.

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Gradinaru and Nourdin [3], [10] showed that the classical Stratonovich formula holds with respect to fractional Brownian motion and converges in law in the Skorohod space of the right continuous functions with left limit. One approach of defining the Stratonovich integral is to define it as the sum of an Itô integral and an additional term (see [4], [12]). We tap on this definition to consider a new way to define the Stratonovich integral using the Henstock-Kurzweil approach. We will also show that the two integrals, that is, the classical Stratonovich integral and the Henstock-Kurzweil Stratonovich integral, agree.

To align with the classical definition of the Stratonovich integral with Brownian motion, we consider the case where the integrands are continuous.

2. Classical Stratonovich integral

In this section, we present the definition of the Brownian motion and of its properties, and the definition of the classical Stratonovich integral.

Definition 2.1. Let \((\Omega, \mathcal{F}, P)\) be a probability space. A one-dimensional standard Brownian motion is a real-valued process \(W_t = \{W(\omega, t), \ t \geq 0, \ \omega \in \Omega\}\) that has the following properties:

(a) If \(t_0 < t_1 < \ldots < t_n\), then \(W_{t_0}, W_{t_1} - W_{t_0}, \ldots, W_{t_n} - W_{t_{n-1}}\) are independent.

(b) If \(s, t \geq 0\) then \(P(W_{s+t} - W_s \in A) = \int_A (2\pi t)^{-1/2} \exp(-x^2/2t) \, dx\).

(c) With probability one, \(t \rightarrow W_t\) is continuous and \(W_0 = 0\).

Due to (a) and (b), \(W_t\) has independent increment and the increment \(W_{s+t} - W_s\) has a normal distribution with mean 0 and variance \(t\). It is not difficult to verify that \(E(W_t) = 0\) and \(E[W_t W_s] = \min\{s, t\} = s \wedge t\) and \(E(W_t - W_s)^4 = 3(t - s)^2\) (see, for example [2], page 302).

Let \(C^2(\mathbb{R})\) denote the class of functions which have continuous second derivatives.

Definition 2.2 (see [12], page 75, and [4], page 156). If \(f \in C^2(\mathbb{R})\), then the classical Stratonovich integral (henceforth, Stratonovich integral) of \(f(W_t)\) with respect to the standard Brownian motion \(W_t\) is

\[
\int_0^t f(W_s) \circ dW_s \triangleq \int_0^t f(W_s) \, dW_s + \frac{1}{2} \int_0^t f'(W_s) \, ds
\]

where the first integral on the right-hand side of (2.1) is the classical Itô integral and the other one is the Lebesgue integral.

We know that if \(f \in C^2(\mathbb{R})\) and \(W\) is a Brownian motion, then \(f(W_t)\) is a semi-martingale (see [4], page 149). This is the setting for which the classical Stratonovich integral is defined.
Remark. For any fixed $\omega \in \Omega$ and $t > 0$, $W_t$ is bounded for $0 \leq s \leq t$, so $f(W_s)$ is bounded on this interval. By Itô integral definition (see [4], page 146), $\int_0^t f(W_s) \, dW_s$ is a continuous local martingale. Also, $\int_0^t f'(W_t) \, ds$ is well-defined since $f'(W_t)$ is continuous. Therefore, the condition on $f \in C^2$ guarantees that $\int_0^t f(W_t) \circ dW_s$ is well-defined. In other words, for $f \in C^2$ the Stratonovich integral of $f(W_t)$ with respect to the standard Brownian motion $W_t$ exists.

3. Henstock-Kurzweil approach to define Stratonovich integral with respect to Brownian motion

In this section, we still keep the $\delta$-fine division introduced in [9], page 52, and [15], to define the Stratonovich integral. To be consistent with the result of the Stratonovich integral, we shall modify the definition of the Itô-McShane integral in [9], page 52.

Definition 3.1 (see [14], [15]). Let $0 = \xi_1 < \ldots < \xi_n < \xi_{n+1} = 1$ and let $I_k$ be a compact subinterval of $[0, 1]$ for $k = 1, \ldots, n$. Let $\delta : [0, 1] \to \mathbb{R}^+$. A finite collection of interval-point pairs $D = (I_k, \xi_k)_{k=1}^n$ is called a $(\delta, \eta)$-fine belated partial division of $[0, 1]$ if $I_k$, $k = 1, \ldots, n$, are non-overlapping subintervals of $T$; and each $I_k \subset [\xi_k, \xi_k + \delta(\xi_k))$; and $|[0, 1] \setminus \bigcup_{k=1}^n I_k| < \eta$.

Given $\delta(\xi) > 0$, unlike in the case of a $\delta$-fine full division of $[0, 1]$, a $\delta$-fine belated full division of $T$ may not exist. Given an example, $\delta(\xi) = (1 - \xi)/2$ on $[0, 1]$, the right hand side may not be covered. By the Vitali covering theorem for all $\eta > 0$, there exists a $\delta$-fine belated partial division $D = \{(I_k, \xi_k)\}_{k=1}^n$ (see [9], page 52, and [15]) such that $\bigg| \bigcup_{k=1}^n I_k - [0, 1] \bigg| < \eta$ for sufficiently large $k$, see [9], page 52. In other words, we may not have a $\delta$-fine full division of $[0, 1]$, but we can have a $(\delta, \eta)$-fine belated partial division which covers $[0, 1]$ except for a set of arbitrarily small measure $\eta$.

Definition 3.2. An adapted process $Y_t$ in $(\Omega, \mathcal{F}_t, \mathbb{P})$ is said to be Stratonovich-Henstock belated (denoted by SHB) integrable with respect to the Brownian motion $W_t$ on $[0, 1]$ to a random variable $A \in L^2(\Omega, \mathcal{F}, \mathbb{P})$, if for all $\varepsilon > 0$ there exists a $(\delta, \eta)$-fine belated partial division $D = \{([\xi_i, t_i], \xi_i) : i = 1, 2, \ldots, n\}$ of $[0, 1]$ such that

$$E \left| \sum_{i=1}^n \frac{Y_{\xi_i} + Y_{\xi_{i+1}}}{2} (W_{t_i} - W_{\xi_i}) - A \right|^2 < \varepsilon$$

where and henceforth $\xi_{n+1} = 1$. 

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**Proposition 3.3.** If an adapted process \( Y_t \) in \((\Omega, \mathcal{F}_t, \mathbb{P})\) is SHB integrable with respect to the Brownian motion \( W_t \), then the Stratonovich-Henstock belated integral of \( Y_t \) is unique almost surely.

**Proof.** Suppose both \( A_1, A_2 \in L^2(\Omega) \) are the Stratonovich-Henstock belated integral of \( Y_t \). By the definition of the Stratonovich-Henstock belated integral, for every \( \varepsilon > 0 \) there exists a \((\delta, \eta)\)-fine belated partial division \( D_1 = \{([\xi_i, t_i], \xi_i): i = 1, 2, \ldots, n\} \) of \([0, 1]\) such that

\[
E \left| \sum_{i=1}^{n} \frac{Y_{\xi_i} + Y_{\xi_{i+1}}}{2}(W_{t_i} - W_{\xi_i}) - A_1 \right|^2 < \frac{1}{4} \varepsilon.
\]

And for the same \( \varepsilon > 0 \) there exists another \((\delta, \eta)\)-fine belated partial division \( D_2 = \{([\xi'_i, t'_i], \xi'_i): i = 1, 2, \ldots, n\} \) of \([0, 1]\) such that

\[
E \left| \sum_{i=1}^{n} \frac{Y_{\xi'_i} + Y_{\xi'_{i+1}}}{2}(W_{t'_i} - W_{\xi'_i}) - A_2 \right|^2 < \frac{1}{4} \varepsilon.
\]

Hence, for every \( \varepsilon > 0 \),

\[
E(|A_1 - A_2|^2) = E \left| A_1 - \sum_{i=1}^{n} \frac{Y_{\xi_i} + Y_{\xi_{i+1}}}{2}(W_{t_i} - W_{\xi_i}) 
+ \sum_{i=1}^{n} \frac{Y_{\xi'_i} + Y_{\xi'_{i+1}}}{2}(W_{t'_i} - W_{\xi'_i}) - A_2 \right|^2
\leq 2E \left| A_1 - \sum_{i=1}^{n} \frac{Y_{\xi_i} + Y_{\xi_{i+1}}}{2}(W_{t_i} - W_{\xi_i}) \right|^2
+ 2E \left| \sum_{i=1}^{n} \frac{Y_{\xi'_i} + Y_{\xi'_{i+1}}}{2}(W_{t'_i} - W_{\xi'_i}) - A_2 \right|^2 < \frac{1}{2} \varepsilon + \frac{1}{2} \varepsilon = \varepsilon.
\]

Since \( \varepsilon \) is arbitrary, we have \( E(|A_1 - A_2|^2) = 0 \). Hence, \( A_1 - A_2 = 0 \), a.s. \( \square \)

In view of Proposition 3.3, we will denote the integral of the process \( Y_t \) with respect to a Brownian motion \( W_t \) by (SH) \( \int_0^1 Y_t \circ dW_t \cong A \).

**Proposition 3.4.** An adapted process \( Y_t \) in \((\Omega, \mathcal{F}_t, \mathbb{P})\) is SHB integrable with respect to a Brownian motion \( W_t \) if and only if for every \( \varepsilon > 0 \) there exists a positive function \( \delta \) and a constant \( \eta > 0 \) such that whenever both \( D = \{([\xi_i, t_i], \xi_i): i = 1, 2, \ldots, n\} \) and \( D' = \{([\xi'_i, t'_i], \xi'_i): i = 1, 2, \ldots, n\} \) are \((\delta, \eta)\)-fine belated partial divisions of \([0, 1]\), then

\[
E \left| \sum_{i=1}^{n} \frac{Y_{\xi_i} + Y_{\xi_{i+1}}}{2}(W_{t_i} - W_{\xi_i}) - \sum_{i=1}^{n} \frac{Y_{\xi'_i} + Y_{\xi'_{i+1}}}{2}(W_{t'_i} - W_{\xi'_i}) \right|^2 < \varepsilon.
\]

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Proof. Suppose that the adapted process \( Y_t \) in \((\Omega, \mathcal{F}_t, \mathbb{P})\) is SHB integrable with respect to a Brownian motion \( W_t \) to \( A \). Then for every \( \varepsilon > 0 \) there exists a positive function \( \delta \) and a constant \( \eta > 0 \) such that for any \((\delta, \eta)\)-fine belated partial division \( D = \{([\xi_i, t_i], \xi_i): i = 1, 2, \ldots, n\} \) of \([0, 1]\) we have

\[
E \left| \frac{1}{2} \sum_{i=1}^{n} \left( Y_{\xi_i} + Y_{\xi_{i+1}} \right) (W_{t_i} - W_{\xi_i}) - A \right|^2 < \frac{\varepsilon}{4}.
\]

Let \( D' = \{([\xi'_i, t'_i], \xi'_i): i = 1, 2, \ldots, n\} \) be another \((\delta, \eta)\)-fine belated partial division of \([0, 1]\). Then we have

\[
E \left| \frac{1}{2} \sum_{i=1}^{n} \left( Y_{\xi'_i} + Y_{\xi'_{i+1}} \right) (W_{t'_i} - W_{\xi'_i}) - A \right|^2 < \frac{\varepsilon}{4}.
\]

From (3.1) and (3.2) we have

\[
E \left| \frac{1}{2} \sum_{i=1}^{n} \left( Y_{\xi_i} + Y_{\xi_{i+1}} \right) (W_{t_i} - W_{\xi_i}) - \sum_{i=1}^{n} \left( Y_{\xi'_i} + Y_{\xi'_{i+1}} \right) (W_{t'_i} - W_{\xi'_i}) \right|^2 < 2E \left| \frac{1}{2} \sum_{i=1}^{n} \left( Y_{\xi_i} + Y_{\xi_{i+1}} \right) (W_{t_i} - W_{\xi_i}) - A \right|^2 + 2E \left| \frac{1}{2} \sum_{i=1}^{n} \left( Y_{\xi'_i} + Y_{\xi'_{i+1}} \right) (W_{t'_i} - W_{\xi'_i}) - A \right|^2 < \varepsilon.
\]

Conversely, for every \( \varepsilon > 0 \) there is a \((\delta, \eta)\)-fine belated partial division \( D = \{([\xi_i, t_i], \xi_i): i = 1, 2, \ldots, n\} \) of \([0, 1]\) such that for any \((\delta, \eta)\)-fine belated partial division \( D^j = \{([\xi_j^i, t_j^i], \xi_j^i): i = 1, 2, \ldots, n\}; j = 1, 2, \ldots, \) of \([0, 1]\) we have

\[
E \left| \frac{1}{2} \sum_{i=1}^{n} \left( Y_{\xi_i} + Y_{\xi_{i+1}} \right) (W_{t_i} - W_{\xi_i}) - \sum_{i=1}^{n} \left( Y_{\xi_j^i} + Y_{\xi_{j+1}^i} \right) (W_{t_j^i} - W_{\xi_j^i}) \right|^2 < \varepsilon.
\]

For brevity, we may write \( \|D(Y) - D^j(Y)\|^2 < \varepsilon \). Hence, for all \( j \) we have

\[
\|D(Y) - D^j(Y)\|^2 < \varepsilon \Rightarrow 2\|D(Y) - D^j(Y)\|^2 + 2\|D(Y)\|^2 < \varepsilon + 2\|D(Y)\|^2
\]

\[
\Rightarrow \|D^j(Y)\|^2 < \varepsilon + 2\|D(Y)\|^2.
\]

Therefore, the sequence \( \{\|D^j(Y)\|^2\}_{j=1}^{\infty} \) is bounded, i.e., the upper limit exists. Let a random variable \( A \) be the upper limit of the sequence \( \{\|D^j(Y)\|^2\}_{j=1}^{\infty} \). In other words, there exists a subsequence \( \{\|D^{jk}(Y)\|^2\}_{k=1}^{\infty} \) such that \( \lim_{k \to \infty} \|D^{jk}(Y)\| = A \).
Hence, for the same $\varepsilon > 0$ exists $k' \in \mathbb{N}$, such that $\| D^{j_{k'}}(Y) - A \| < \varepsilon$. Now, whenever $D^j$ is a $(\delta, \varepsilon)$-fine belated partial division then

$$\| D^j(Y) - A \|^2 < \| D^j(Y) - D^{j_{k'}}(Y) + D^{j_{k'}}(Y) - A \|^2$$

$$< \| D^j(Y) - D^{j_{k'}}(Y) \|^2 + \| D^{j_{k'}}(Y) - A \|^2 < 2\varepsilon.$$

That is, $Y_t$ is SHB integrable. \hfill \square

**Proposition 3.5.** Let $X_t$ and $Y_t$ be adapted processes on $[0,1]$ which are SHB integrable with respect to $W_t$, and $\alpha \in \mathbb{R}$. Then $X_t + Y_t$, $\alpha X_t$ are SHB integrable with respect to $W_t$ on $[0,1]$. Furthermore,

(i) $\int_0^1 (X_t + Y_t) \circ dW_t = (\int_0^1 X_t \circ dW_t) + (\int_0^1 Y_t \circ dW_t)$,

(ii) $\int_0^1 \alpha X_t \circ dW_t = \alpha (\int_0^1 X_t \circ dW_t)$.

**Proof.** (i) Let $(\int_0^1 X_t \circ dW_t) = A_1$, $(\int_0^1 Y_t \circ dW_t) = A_2$.

By the definition of the SHB integral, for every $\varepsilon > 0$ there is a $(\delta_1, \eta_1)$-fine belated partial division $D_1 = \{([\xi_1', t_1'], \xi_1') : i = 1, 2, \ldots, n\}$ of $[0,1]$ such that

$$E \left[ \sum_{i=1}^{n} \frac{X_{\xi_i'} + X_{\xi_{i}'+1}}{2} (W_{t_i'} - W_{\xi_i'}) - A_1 \right]^2 < \frac{\varepsilon}{4}.$$

Similarly, for the same $\varepsilon > 0$, there is a $(\delta_2, \eta_2)$-fine belated partial division $D_2 = \{([\xi_2'', t_2''], \xi_2'') : i = 1, 2, \ldots, n\}$ of $[0,1]$ such that

$$E \left[ \sum_{i=1}^{n} \frac{Y_{\xi_{i}''} + Y_{\xi_{i}''+1}}{2} (W_{t_{i}''} - W_{\xi_{i}''}) - A_2 \right]^2 < \frac{\varepsilon}{4}.$$

Now let $D \triangleq D_1 \cup D_2$, i.e., the division points and associated points of $D$ are the union of those from $D_1$ and $D_2$. Then $D = \{([\xi_i, t_i], \xi_i) : i = 1, 2, \ldots, n\}$ is a $(\delta, \eta)$-fine belated partial division including the $(\delta, \eta)$-fine belated partial division $D_1$ and the $(\delta, \eta)$-fine belated partial division $D_2$. Hence, for the same $\varepsilon > 0$,

$$E \left[ \sum_{i=1}^{n} \left( \frac{X_{\xi_i} + X_{\xi_{i}+1}}{2} + \frac{Y_{\xi_i} + Y_{\xi_{i}+1}}{2} \right) (W_{t_i} - W_{\xi_i}) - A_1 - A_2 \right]^2$$

$$\leq 2E \left[ \sum_{i=1}^{n} \frac{X_{\xi_i} + X_{\xi_{i}+1}}{2} (W_{t_i} - W_{\xi_i}) - A_1 \right]^2$$

$$+ 2E \left[ \sum_{i=1}^{n} \frac{Y_{\xi_i} + Y_{\xi_{i}+1}}{2} (W_{t_i} - W_{\xi_i}) - A_2 \right]^2 < \varepsilon.$$
In other words,

\[(3.3) \quad (\text{SH}) \int_0^1 (X_t + Y_t) \circ dW_t = A_1 + A_2 = (\text{SH}) \int_0^1 X_t \circ dW_t + (\text{SH}) \int_0^1 Y_t \circ dW_t.\]

(ii) Assume that \(\alpha \neq 0\) (since \(\alpha = 0\) is trivial). Since the adapted process \(X_t\) on \([0, 1]\) is SHB integrable, then by the definition, for every \(\varepsilon > 0\) there is a \((\delta_3, \eta_3)\)-fine belated partial division \(D_3 = \{([\xi_i, t_i], \xi_i) : i = 1, 2, \ldots, n\}\) of \([0, 1]\) such that

\[(3.4) \quad E \left| \sum_{i=1}^n \frac{X_{\xi_i} + X_{\xi_{i+1}}}{2} (W_{t_i} - W_{\xi_i}) - A_1 \right|^2 < \frac{\varepsilon}{\alpha^2}.\]

Then,

\[E \left| \sum_{i=1}^n \frac{\alpha X_{\xi_i} + \alpha X_{\xi_{i+1}}}{2} (W_{t_i} - W_{\xi_i}) - \alpha A_1 \right|^2 = \alpha^2 E \left| \sum_{i=1}^n \frac{X_{\xi_i} + X_{\xi_{i+1}}}{2} (W_{t_i} - W_{\xi_i}) - A_1 \right|^2 < \varepsilon.\]

By the definition of the SHB integral, we have \((\text{SH}) \int_0^1 \alpha X_t \circ dW_t = \alpha A_1 = \alpha (\text{SH}) \int_0^1 X_t \circ dW_t.\]

\[\square\]

**Proposition 3.6.** If an adapted process \(Y_t\) is SHB integrable with respect to \(W_t\) on \([0, 1]\), then so it is on any subinterval \([c, d]\) of \([0, 1]\).

**Proof.** Take any two \((\delta, \eta/2)\)-fine belated partial divisions \(D = \{([\xi_i, t_i], \xi_i) : i = 1, 2, \ldots, n\}\) of \([c, d]\) and \(D' = \{([\xi'_i, t'_i], \xi'_i) : i = 1, 2, \ldots, n\}\) of \([c, d]\) and denote by \(A_1\) and \(A_2\), respectively, the Riemann sums over \(D\) and \(D'\). That is,

\[(3.5) \quad A_1 = \sum_D \frac{Y_{\xi_i} + Y_{\xi_{i+1}}}{2} (W_{t_i} - W_{\xi_i}),\]

\[(3.6) \quad A_2 = \sum_{D'} \frac{Y_{\xi'_i} + Y_{\xi'_{i+1}}}{2} (W_{t'_i} - W_{\xi'_i}).\]

Similarly, take another \((\delta, \eta/2)\)-fine belated partial division \(D'' = \{([\xi''_i, t''_i], \xi''_i) : i = 1, 2, \ldots, n\}\) of \([0, 1]\) \(\setminus [c, d]\) and denote by \(A_3\) the corresponding Riemann sum, i.e.,

\[A_2 = \sum_{D''} (Y_{\xi''_i} + Y_{\xi''_{i+1}}) (W_{t''_i} - W_{\xi''_i})/2.\]

Then the union \(D \cup D''\) forms a \((\delta, \eta)\)-fine belated partial division of \([0, 1]\). Here, the division points and the associated points of \(D \cup D''\) are the union of those from \(D\) and \(D''\). The Riemann sum of \(Y_t\) over \(D \cup D''\) is \(A_1 + A_3\), and likewise, that over \(D' \cup D''\) is \(A_2 + A_3\). By Proposition 3.4, we have \(E|A_1 - A_2|^2 \leq E|A_1 + A_3 - (A_2 + A_3)|^2 < \varepsilon\) for all \(\varepsilon > 0\). Hence, the process \(Y_t\) is SHB integrable on the interval \([c, d]\) by Proposition 3.4. \[\square\]
Now, we say that \( Y_t \cdot \chi_{[c,d]} \) is SHB integrable on \([0,1]\) if \( Y_t \) is SHB integrable on \([c, d] \subset [0, 1]\), where \( \chi_{[c,d]} \) is the characteristic function of \([c, d]\) (see [8]).

**Proposition 3.7.** Let an adapted process \( Y_t \) be SHB integrable on \([0, a]\) and \([a, 1]\) with respect to \( W_t \). Then \( Y_t \) is SHB integrable on \([0, 1]\) and furthermore,

\[
(3.7) \quad \text{(SH)} \int_0^1 Y_t \circ dW_t = (\text{SH}) \int_0^a Y_t \circ dW_t + (\text{SH}) \int_a^1 Y_t \circ dW_t.
\]

**Proof.** First, we have

\[
(\text{SH}) \int_0^1 Y_t \cdot \chi_{[0,a]} \circ dW_t = (\text{SH}) \int_0^a Y_t \circ dW_t,
\]
\[
(\text{SH}) \int_0^1 Y_t \cdot \chi_{[a,1]} \circ dW_t = (\text{SH}) \int_1^a Y_t \circ dW_t.
\]

Then, by Proposition 3.5, we have

\[
(\text{SH}) \int_0^1 Y_t \cdot \chi_{[0,a]} \circ dW_t + (\text{SH}) \int_0^1 Y_t \cdot \chi_{[a,1]} \circ dW_t
\]
\[
= (\text{SH}) \int_0^1 (Y_t \cdot \chi_{[0,a]} + Y_t \cdot \chi_{[a,1]}) \circ dW_t.
\]

Since, \( Y_t \cdot \chi_{[0,a]} + Y_t \cdot \chi_{[a,1]} = Y_t \cdot \chi_{[0,1]} \), then we get

\[
(\text{SH}) \int_0^1 Y_t \cdot \chi_{[0,1]} \circ dW_t = (\text{SH}) \int_0^1 Y_t \circ dW_t
\]
\[
= (\text{SH}) \int_0^a Y_t \circ dW_t + (\text{SH}) \int_a^1 Y_t \circ dW_t.
\]

\[\square\]

### 4. Itô formula for SHB integral

As far as we know, one of the most important properties of the Stratonovich integral is that there is no second order term in the classical Stratonovich analogue of the Itô transformation formula (see [11], page 44). Therefore, in the following part we will verify the Itô formula for the SHB integral. Simply, we will prove the formula

\[
(4.1) \quad f(W_t) = f(W_0) + (\text{SH}) \int_0^t f'(W_s) \circ dW_s
\]

where \( f \) is of class \( C^2(\mathbb{R}) \).
Lemma 4.1. If \( f(x) \in C^2(\mathbb{R}) \) with bounded first and second derivatives, then the adapted process \( f(W_t) \) is SHB integrable with respect to the Brownian motion to \( \int_0^t f(W_s) \circ dW_s \) on \([0, 1]\).

Proof. Let \( D = \{([\xi_i, t_i], \xi_i) : i = 1, 2, \ldots, n\} \) be a belated partial division (see [15]) of \([0, 1]\). By the mean value theorem, \((f(W_{t_i}) + f(W_{t_{i+1}}))/2 = f(W_{t_i}) + [f(W_{t_{i+1}}) - f(W_{t_i})]/2 = f(W_{t_i}) + \partial f/\partial x[(\widetilde{W}_i)(W_{t_{i+1}} - W_{t_i})]/2\), where \( \widetilde{W}_i \in [W_{t_i}, W_{t_{i+1}}] \). Since \( W_t \) is continuous with respect to \( t \), there is a \( \xi_i \in [\xi_i, \xi_{i+1}] \) such that \( W_{\xi_i} = \widetilde{W}_i \) a.s. We have

\[
E \left| \sum_{i=1}^n \frac{1}{2} (f(W_{\xi_i}) + f(W_{\xi_{i+1}})) (W_{t_i} - W_{\xi_i}) - \int_0^{1} f(W_t) \circ dW_t \right|^2
\]

\[
= E \left| \sum_{i=1}^n \left[ f(W_{\xi_i}) + \frac{1}{2} \frac{\partial f(W_{\xi_i})}{\partial x} (W_{t_{i+1}} - W_{\xi_i}) \right] (W_{t_i} - W_{\xi_i}) - \int_0^{1} f(W_t) \circ dW_t \right|^2
\]

\[
= E \left| \sum_{i=1}^n \left[ f(W_{\xi_i}) + \frac{1}{2} \frac{\partial f(W_{\xi_i})}{\partial x} (W_{t_{i+1}} - W_{\xi_i}) \right] (W_{t_i} - W_{\xi_i})
- \int_0^{1} f(W_t) \ dW_t - \frac{1}{2} \int_0^{1} \frac{\partial f(W_t)}{\partial x} \ dt \right|^2
\]

\[
\leq 2E \sum_{i=1}^n f(W_{\xi_i}) (W_{t_i} - W_{\xi_i}) - \int_0^{1} f(W_t) \ dW_t \right|^2
+ E \left| \sum_{i=1}^n \frac{\partial f(W_{\xi_i})}{\partial x} (W_{t_i} - W_{\xi_i}) (W_{t_{i+1}} - W_{\xi_i}) - \int_0^{1} \frac{\partial f(W_t)}{\partial x} \ dt \right|^2
= 2R_1 + R_2
\]

where

\[
R_1 = E \left| \sum_{i=1}^n f(W_{\xi_i}) (W_{t_i} - W_{\xi_i}) - \int_0^{1} f(W_t) \ dW_t \right|^2
\]

and

\[
R_2 = E \left| \sum_{i=1}^n \frac{\partial f(W_{\xi_i})}{\partial x} (W_{t_i} - W_{\xi_i}) (W_{t_{i+1}} - W_{\xi_i}) - \int_0^{1} \frac{\partial f(W_t)}{\partial x} \ dt \right|^2.
\]

In the previous paper [15], we have already proved that for every \( \varepsilon > 0 \) there exists a \( (\delta_1, \eta_1) \)-fine belated partial division \( D_1 = \{([\xi_i, t_i], \xi_i) : i = 1, 2, \ldots, n\} \) of \([0, 1]\) such that \( R_1 < \varepsilon \). We now consider \( R_2 \):

\[
R_2 = E \left| \sum_{i=1}^n \frac{\partial f(W_{\xi_i})}{\partial x} (W_{t_i} - W_{\xi_i}) (W_{t_{i+1}} - W_{\xi_i}) - \int_0^{1} \frac{\partial f(W_t)}{\partial x} \ dt \right|^2
\]
\[
\sum_{i=1}^{n} \frac{\partial f}{\partial x}(W_{\xi_i})(W_{t_i} - W_{\xi_i})(W_{\xi_{i+1}} - W_{t_i})
\]

where

\[
b_1 = E \sum_{i=1}^{n} \frac{\partial f}{\partial x}(W_{\xi_i})(W_{t_i} - W_{\xi_i})(W_{\xi_{i+1}} - W_{t_i})
\]

\[
E(W_{t_i} - W_{\xi_i})^2 \times E(W_{\xi_{i+1}} - W_{t_i})^2,
\]

\[
b_2 = E \sum_{i=1}^{n} \frac{\partial f}{\partial x}(W_{\xi_i})(W_{t_i} - W_{\xi_i})(W_{t_i} - W_{\xi_i}) - \int_{0}^{1} \frac{\partial f}{\partial x}(W_{t_i}) dt
\]

where \( M \triangleq \sup \{f'(W_t): 0 \leq t \leq 1; \omega \in \Omega \} \). Since \( E(W_{\xi_{i+1}} - W_{t_i})^2 = \xi_{i+1} - t_i \) and \( \bigcup_{i=1}^{n} [\xi_i, t_i] < \eta \), we have \( b_1 < M\eta \). Further,

\[
b_2 \leq 4M^2 \sum_{i=1}^{n} C(t_i - \xi_i)^2 + M\eta \leq 4M^2 \varepsilon \sum_{i=1}^{n} C(t_i - \xi_i) + M\eta < C' \varepsilon + M\eta.
\]

In particular, \( C' \) is a constant number. Hence, for the same \( \varepsilon > 0 \), let \( \delta = \min \{\delta_1, \varepsilon\} \) and \( \eta = \eta_1 < \varepsilon \). Whenever \( D = \{([\xi_i, t_i], \xi_i)\}_{i=1}^{n} \) is a \((\delta, \eta)\)-fine belated partial division of \([0, 1]\) then

\[
E \left| \sum_{i=1}^{n} \frac{f(W_{\xi_i}) + f(W_{\xi_{i+1}})}{2}(W_{t_i} - W_{\xi_i}) - \int_{0}^{1} f(W_{t_i}) \circ dW_{t_i} \right|^2 < R_1 + 2b_1 + 2b_2 < \overline{M} \varepsilon
\]

where \( \overline{M} \) is a constant. That is, \( f(X_t) \) is SHB integrable to \( \int_{0}^{t} f(W_s) \circ dW_s \) on \([0, 1]\). \( \square \)
Theorem 4.2. If \( f(x) \in C^2(\mathbb{R}) \) then the adapted process \( f(W_t) \) is SHB integrable with respect to the Brownian motion to \( \int_0^1 f(W_s) \circ dW_s \) on \([0, 1]\).

Proof. We first let \( g(x) = f(x) \cdot 1_{\{|x| \leq m\}} \), where \( m \) is an integer. The function \( g(x) \) has bounded first and second derivatives on the compact set \( \{|x| \leq m\} \). By Lemma 4.1, we get for all \( \varepsilon > 0 \),

\[
(4.2) \quad E \left| \sum_{i=1}^{n} \frac{g(W_{\xi_i}) + g(W_{\xi_{i+1}})}{2} (W_{\xi_i} - W_{\xi_{i+1}}) - \int_0^1 g(W_t) \circ dW_t \right|^2 < \varepsilon
\]

for every \((\delta, \eta)\)-fine belated partial division \( D = \{(\xi_i, t_i], \xi_i): i = 1, 2, \ldots, n\} \) of \([0, 1]\). Substituting \( g(x) \) with \( f(x) \cdot 1_{\{|x| \leq m\}} \) in (4.2), then

\[
E \left[ \sum_{i=1}^{n} \frac{f(W_{\xi_i}) + f(W_{\xi_{i+1}})}{2} \cdot 1_{\{|W_i| \leq m\}} (W_{\xi_i} - W_{\xi_{i+1}}) - \int_0^1 f(W_t) \cdot 1_{\{|W| \leq m\}} \circ dW_t \right]^2 < \varepsilon.
\]

Given that \( \lim_{m \to \infty} f(W_t) \cdot 1_{\{|W| \leq m\}} = 1 \) a.s., we have

\[
E \left[ \sum_{i=1}^{n} \frac{f(W_{\xi_i}) + f(W_{\xi_{i+1}})}{2} (W_{\xi_i} - W_{\xi_{i+1}}) - \int_0^1 f(W_t) \circ dW_t \right]^2 \cdot 1_{\{|W| \leq m\}} < \varepsilon
\]

\[
\Rightarrow \liminf_{m \to \infty} E \left[ \sum_{i=1}^{n} \frac{f(W_{\xi_i}) + f(W_{\xi_{i+1}})}{2} (W_{\xi_i} - W_{\xi_{i+1}}) - \int_0^1 f(W_t) \circ dW_t \right]^2 \cdot 1_{\{|W| \leq m\}} < \varepsilon
\]

\[
\Rightarrow E \left[ \liminf_{m \to \infty} \sum_{i=1}^{n} \frac{f(W_{\xi_i}) + f(W_{\xi_{i+1}})}{2} (W_{\xi_i} - W_{\xi_{i+1}}) - \int_0^1 f(W_t) \circ dW_t \right]^2 \cdot 1_{\{|W| \leq m\}} < \varepsilon
\]

\[
\Rightarrow E \left[ \sum_{i=1}^{n} \frac{f(W_{\xi_i}) + f(W_{\xi_{i+1}})}{2} (W_{\xi_i} - W_{\xi_{i+1}}) - \int_0^1 f(W_t) \circ dW_t \right]^2 < \varepsilon.
\]

Altogether, \( f(W_t) \) is SHB integrable on \([0, 1]\). In addition,

\[
(4.3) \quad (\text{SH}) \int_0^1 f(W_t) \circ dW_t = \int_0^1 f(W_t) \circ dW_t \quad \text{a.s.}
\]

Example 4.3. Using the definition of the SHB integral, verify

\[
(\text{SH}) \int_0^1 W_t \circ dW_t = \frac{1}{2} W_t^2.
\]
Proof. Let $D = \{([\xi_i, t_i], \xi_i): i = 1, 2, \ldots, n\}$ be a $(\delta, \eta)$-fine belated partial division of $[0, 1]$.

\[
E\left| \sum_{i=1}^{n} \frac{W_{\xi_i} + W_{\xi_{i+1}}(W_{t_i} - W_{\xi_i}) - \frac{1}{2} W_{t_i}^2}{2} \right|^2
\]

\[
= E\left| \sum_{i=1}^{n} \frac{W_{\xi_i} + W_{\xi_{i+1}}(W_{\xi_{i+1}} - W_{\xi_i}) - \frac{1}{2} W_{\xi_i}^2 - W_{\xi_{i+1}}(W_{\xi_{i+1}} - W_{t_i})}{2} \right|^2
\]

\[
= E\left| \sum_{i=1}^{n} \frac{W_{\xi_i} + W_{\xi_{i+1}}(W_{\xi_{i+1}} - W_{t_i}) - W_{t_i} - W_{\xi_i}(W_{\xi_{i+1}} - W_{t_i})}{2} \right|^2
\]

\[
\leq 3E\left| \sum_{i=1}^{n} W_{\xi_i}(W_{\xi_{i+1}} - W_{t_i}) \right|^2 + 3E\left| \sum_{i=1}^{n} \frac{W_{\xi_{i+1}} - W_{t_i}}{2}(W_{\xi_{i+1}} - W_{t_i}) \right|^2
\]

\[
= 3 \sum_{i=1}^{n} EW_{\xi_i}^2(W_{\xi_{i+1}} - W_{t_i})^2 + \frac{3}{2} \sum_{i=1}^{n} E(W_{\xi_{i+1}} - W_{t_i})^4
\]

\[
= 3 \sum_{i=1}^{n} (\xi_{i+1} - t_i) + \frac{3}{2} \sum_{i=1}^{n} E(W_1)^4(\xi_i - t_i)^2 + \frac{3}{2} \sum_{i=1}^{n} (\xi_{i+1} - t_i)(t_i - \xi_i).
\]

Since $D = \{([\xi_i, t_i], \xi_i): i = 1, 2, \ldots, n\}$ is a $(\delta, \eta)$-fine belated partial division of $[0, 1]$, we have $\sum_{i=1}^{n} (\xi_{i+1} - t_i) < \eta$ and in addition $\sum_{i=1}^{n} (\xi_{i+1} - t_i)^2 < \eta$. Also, by the Itô formula, $E(W_1)^4 = 4 \cdot \frac{3}{2} \int_0^1 EW_t^2 \, dt = 3$.

Hence, for $\varepsilon > 0$, let $\eta < \varepsilon/9$ and thus

\[
E\left| \sum_{i=1}^{n} \frac{W_{\xi_i} + W_{\xi_{i+1}}(W_{t_i} - W_{\xi_i}) - \frac{1}{2} W_{t_i}^2}{2} \right|^2 < 3\eta + \frac{9}{2}\eta + \frac{3}{2}\eta < \varepsilon.
\]

That is, (SH) $\int_0^1 W_t \circ dW_t = \frac{1}{2} W_1^2$.\]
We note that from Theorem 4.2, we obtain that if \( f \) is of class \( C^2(\mathbb{R}) \), \( f(W_t) \) is SHB integrable to \( \int_0^1 f(W_t) \circ dW_t \). Now we consider the Itō formula for Stratonovich integral: if \( f \in C^3 \), then

\[
(4.4) \quad f(W_t) = f(W_0) + \int_0^1 f'(W_t) \circ dW_t
\]

and we substitute \((\text{SH}) \int_0^1 f'(W_t) \circ dW_t\) for \( \int_0^1 f'(W_t) \circ dW_t \). Then

\[
(4.5) \quad f(W_t) = f(W_0) + (\text{SH}) \int_0^1 f'(W_t) \circ dW_t.
\]

As shown in Example 4.3 and (4.5), the SHB integral is more “natural” than the Itō integral. There is no second order term in (4.5). This matches our intuitive sense of the integration formula. With this slight modification of integral, we keep the form of the fundamental theorem of calculus.

5. Conclusion

In conclusion, from the definition of the Stratonovich integral using the Henstock-Kurzweil method, we not only keep the important properties of the classical Stratonovich integral, but also probably enlarge the scope of the integrands which satisfy the ideal “Itō formula”.

References


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