Lecture 18 Path integral *

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1 Wiener Measure

The path integral, which can be dated to R. Feynman to construct a new formulation to understand quantum mechanics [2], gives very powerful formal approach to deal with the probability measures on path space and compute the expectation for some functionals of Wiener paths. Briefly speaking, path integral is a formal infinite dimensional limit of the considered stochastic process under finite dimensional approximations. Let us start with the formal representation of the Wiener measure P_* defined on the canonical space $(C[0,1],\mathcal{B}(C[0,1]))$ for the standard Wiener process.

From the definition of Wiener process, we have the joint pdf for $(W_{t_1}, W_{t_2}, \ldots, W_{t_n})$

$$p_n(w_1, w_2, \ldots, w_n) = \frac{1}{Z_n}\exp(-I_n(w)),$$

where $0 < t_1 < t_2 < \cdots < t_n \leq 1$ and

$$Z_n = (2\pi)^{\frac{n}{2}}\big[t_1(t_2-t_1)\cdots(t_n-t_{n-1})\big]^{\frac{1}{2}},$$

$$I_n(w) = \frac{1}{2}\sum_{j=1}^{n}\Big(\frac{w_j - w_{j-1}}{t_j - t_{j-1}}\Big)^2(t_j - t_{j-1}), \quad t_0 := 0, w_0 := 0.$$

Now we take the formal limit as $n\to\infty$, we obtain

$$p_n dw_1 dw_2 \cdots dw_n \to \frac{1}{Z}\exp(-I[w])\delta(w_0)\mathcal{D}w, \tag{1.1}$$

where the δ-function $\delta(w_0)$ is to fix $w_0 = 0$, $I[w]$ is called the *action functional* of the Wiener process defined as

$$I[w] = \frac{1}{2}\int_0^1 \dot{w}_t^2 dt.$$

$\mathcal{D}w$ is a shortcut for $\prod_{0\leq t\leq 1} dw_t$, which is the formal volume element in the path space $C[0,1]$. Z is the normalization factor. For notations, we use the lowercase w_t for dumb

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variables, but the uppercase W_t for the stochastic process. This convention will be taken in this whole chapter.

To give a formal understanding on the Wiener measure (1.1), we note that

$$Z_n = \left(\frac{2\pi}{n}\right)^{\frac{n}{2}} \to 0$$

if $t_j - t_{j-1} = 1/n$. At the same time we have $\int_0^1 \dot{w_t}^2 dt \to +\infty$ because W_t is almost surely "half order" differentiable. This means $\exp(-\int_0^1 \dot{w_t}^2 dt) \to 0$ as the subdivision is infinitely refined. These two infinitesimals balance each other in the limit process and leads to a nontrivial limit which is the volume element in the path space $C[0,1]$. With this understanding,

$$\frac{1}{Z}\exp(-I[w])\delta(w_0) = \frac{\mathcal{D}P_*}{\mathcal{D}w}$$

may be thought of as the pdf of the Wiener process in the space $C[0,1]$. The probability of the event $\{W_\cdot \in A\}$, where $A \in \mathcal{B}(C[0,1])$, can be obtained as

$$\mathbb{P}(W_\cdot \in A) = \int_A \frac{1}{Z}\exp(-I[w])\delta(w_0)\mathcal{D}w.$$

We should emphasize that this interpretation is purely formal and all of the results induced by the path integral need to be reproved in rigorous mathematical language before we want to use it as an theorem. One reason to understand it is only formal is that we have no infinite dimensional Lebesgue measure [1]. To see this, let us consider an infinite dimensional Hilbert space H with orthonormal basis $\{e_1, e_2, \ldots\}$. Define the balls

$$B_n = B_{\frac{1}{2}}(e_n) = \{x | \|x - e_n\| \leq 1/2\}, \quad B = B_2(0) = \{x | \|x\| \leq 2\}.$$

As a Lebesgue measure, it should be translation invariant and finite for bounded sets. If the Lebesgue measure on H exists as $\mu(\cdot)$, then we have

$$0 < \mu(B_1) = \mu(B_2) = \cdots = \mu(B_n) = \cdots < \infty, \quad 0 < \mu(B) < \infty.$$

However from the disjointness of $\{B_n\}$ and $B_n \subset B$ for any n, we obtain

$$\mu(B) \geq \sum_n \mu(B_n) = \infty,$$

which is a contradiction! Thus the notation $\mathcal{D}w$ is totally meaningless! But the glamor of path integral is that it can give some extremely insightful results in a very efficient way. That is why it is also useful for applied mathematicians.

2 Expectation of a Wiener Functional

Example 2.1. *Compute the expectation*

$$\mathbb{E}\exp\Big(-\frac{1}{2}\int_0^1 W_t^2 dt\Big).$$

Solution. Note that it is not straightforward to compute this expectation since the integrand involves the whole Wiener path, i.e. a Wiener functional. From the Karhunen-Loeve expansion,

$$\begin{aligned}\int_0^1 W_t^2 dt &= \int_0^1 \sum_{k,l} \sqrt{\lambda_k \lambda_l}\alpha_k \alpha_l \phi_k(t)\phi_l(t)dt \\ &= \sum_k \int_0^1 \lambda_k \alpha_k^2 \phi_k^2(t)dt = \sum_k \lambda_k \alpha_k^2.\end{aligned}$$

Then

$$\mathbb{E}\exp\Big(-\frac{1}{2}\int_0^1 W_t^2 dt\Big) = \mathbb{E}\Big(\prod_k \exp(-\frac{1}{2}\lambda_k\alpha_k^2)\Big) = \prod_k \mathbb{E}\exp(-\frac{1}{2}\lambda_k\alpha_k^2).$$

From the identity

$$\mathbb{E}\exp(-\frac{1}{2}\lambda_k\alpha_k^2) = \int_{-\infty}^{+\infty} \frac{1}{\sqrt{2\pi}} e^{-\frac{x^2}{2}} \cdot e^{-\frac{1}{2}\lambda_k x^2} dx = \sqrt{\frac{1}{1+\lambda_k}}$$

we obtain

$$\mathbb{E}\exp\Big(-\frac{1}{2}\int_0^1 W_t^2 dt\Big) = \prod_k \sqrt{\frac{1}{1+\lambda_k}} := M,$$

where

$$M^{-2} = \prod_{k=1}^{\infty}\Big(1 + \frac{4}{(2k-1)^2\pi^2}\Big).$$

From the identities for infinite product series we have

$$\cosh(x) = \prod_{n=1}^{\infty}\Big(1 + \frac{4x^2}{(2n-1)^2\pi^2}\Big),$$

where $\cosh(x) = (e^x + e^{-x})/2$. Thus

$$M = (\cosh(1))^{-\frac{1}{2}} = \sqrt{\frac{2e}{1+e^2}}.$$

Here we show how to apply the path integral approach to compute the expectation of this Wiener functional. The path integral approach to compute the expectation is composed of the following two steps.

Step 1. Discretize the problem into finite dimensions.

At first let us take finite dimensional approximation to the functional

$$\exp\left(-\frac{1}{2}\int_0^1 W_t^2 dt\right) \approx \exp\Big(-\frac{1}{2}\sum_{j=1}^n W_{t_j}^2 \Delta t\Big) = \exp\left(-\frac{1}{2}\Delta t X^T A X\right),$$

where $\Delta t = t_j - t_{j-1}$ for $j = 1, 2, \ldots, n$, $A = I$, and $X = (W_{t_1}, W_{t_2}, \cdots, W_{t_n})^T$. Thus

$$\mathbb{E}\exp\Big(-\frac{1}{2}\int_0^1 W_t^2 dt\Big) \approx \int_{\mathbb{R}^n} \exp\left(-\frac{1}{2}\Delta t \boldsymbol{x}^T A \boldsymbol{x}\right) \cdot \frac{1}{Z_n} \exp\left(-\frac{1}{2}\Delta t \boldsymbol{x}^T B \boldsymbol{x}\right) d\boldsymbol{x}, \tag{2.1}$$

where $\boldsymbol{x} = (x_1, x_2, \ldots, x_n)$, $Z_n = (2\pi)^{\frac{n}{2}}(\det(\Delta t B)^{-1})^{\frac{1}{2}}$, and

$$B = \frac{1}{\Delta t^2}\begin{pmatrix} 2 & -1 & & & \\ -1 & 2 & -1 & & \\ & \ddots & \ddots & \ddots & \\ & & -1 & 2 & -1 \\ & & & -1 & 1 \end{pmatrix}.$$

From equation (2.1), we have

$$\begin{aligned}\mathbb{E}\exp\Big(-\frac{1}{2}\int_0^1 W_t^2 dt\Big) &\approx \frac{(2\pi)^{\frac{n}{2}}(\det(\Delta t(A+B))^{-1})^{\frac{1}{2}}}{(2\pi)^{\frac{n}{2}}(\det(\Delta t B)^{-1})^{\frac{1}{2}}} \\ &= \left(\frac{\det(B)}{\det(A+B)}\right)^{\frac{1}{2}} = \left(\frac{\prod_i \lambda_i^B}{\prod_i \lambda_i^{A+B}}\right)^{\frac{1}{2}},\end{aligned}$$

where $\lambda_i^B, \lambda_i^{A+B}$ are eigenvalues of B and $A+B$, respectively.

Step 2. Take the formal limit as $n \to \infty$.

If we take the formal limit as $n \to +\infty$, the matrix B will converge to the differential operator $\mathcal{B} = -d^2/dt^2$ with zero Dirichlet boundary condition at $t = 0$ and free Neumann boundary condition at $t = 1$. Thus the eigenvalues of $\mathcal{B}$ corresponds to the following Sturm-Liouville boundary value problem

$$-\frac{d^2 u}{dt^2} = \lambda u(t), \quad u(0) = 0, u'(1) = 0.$$

With the observation

$$\int_0^1 W_t^2 dt = (\mathcal{A} W_t, W_t),$$

where $\mathcal{A} = I$ and $(f, g) := \int_0^1 f g dt$, we have the formal path integral limit

$$\mathbb{E}\exp\Big(-\frac{1}{2}\int_0^1 W_t^2 dt\Big) = \int \exp\Big(-\frac{1}{2}(\mathcal{A} w_t, w_t)\Big) \cdot \frac{1}{Z}\exp\Big(-\frac{1}{2}(\mathcal{B} w_t, w_t)\Big)\delta(w_0)\mathcal{D}w$$

where the operator $\mathcal{B}u(t) := d^2u/dt^2$ and

$$Z = \int \exp\Big(-\frac{1}{2}(\mathcal{B}w_t, w_t)\Big)\delta(w_0)\mathcal{D}w.$$

Now we formally apply the Gaussian integrals in infinite dimensions to obtain

$$\mathbb{E}\exp\Big(-\frac{1}{2}\int_0^1 W_t^2 dt\Big) = \Big(\frac{\det\mathcal{B}}{\det(\mathcal{A}+\mathcal{B})}\Big)^{\frac{1}{2}},$$

where $\det\mathcal{B}$, $\det(\mathcal{A}+\mathcal{B})$ mean the products of all eigenvalues for the following boundary value problems:

$$\begin{cases} \mathcal{B}u = \lambda u, & \text{or} \quad (\mathcal{A}+\mathcal{B})u = \lambda u, \\ u(0) = 0, & u'(1) = 0. \end{cases}$$

This yield the same result as before.

3 Girsanov Transformation

We have seen that the Wiener measure over $[0,1]$ can be formally expressed as

$$d\mu_W = Z^{-1}\exp\left(-\frac{1}{2}\int_0^1 \dot{w}_t^2 dt\right)\delta(w_0)\mathcal{D}w.$$

The solution of the SDE

$$dX_t = b(X_t,t) + \sigma(X_t,t)dW_t, \quad X_0 = 0.$$

can be viewed as a map between the Wiener path $\{W_t\}$ and $\{X_t\}$:

$$\{W_t\} \xrightarrow{\Phi} \{X_t\}.$$

Consequently, the mapping Φ induces another measures on $C[0,1]$, which is nothing but the distribution of $\{X_t\}$.

We now ask the question how the measure $d\mu_W$ changes under the mapping Φ? Let us first consider the case when $\sigma = 1$ in one dimension. The more general conditions can be derived in a similar way. We will perform the path integral through two steps as in the previous section: that is, making discretization first and then taking the formal continuum limit.

Step 1. Discretize the problem into finite dimensions.

With the Euler-Maruyama discretization, we obtain

$$X_{t_{j+1}} = X_{t_j} + b(X_{t_j}, t_j)(t_{j+1} - t_j) + (W_{t_{j+1}} - W_{t_j}). \tag{3.1}$$

In matrix form we have

$$B \cdot \begin{pmatrix} X_{t_1} \\ X_{t_2} \\ \vdots \\ X_{t_n} \end{pmatrix} - \begin{pmatrix} b(X_{t_0}, t_0)(t_1 - t_0) \\ b(X_{t_1}, t_1)(t_2 - t_1) \\ \vdots \\ b(X_{t_{n-1}}, t_{n-1})(t_n - t_{n-1}) \end{pmatrix} = B \cdot \begin{pmatrix} W_{t_1} \\ W_{t_2} \\ \vdots \\ W_{t_n} \end{pmatrix},$$

where $t_0 = 0$, $X_{t_0} = 0$, and the matrix B has the form

$$B = \begin{pmatrix} 1 & & & & \\ -1 & 1 & & & \\ & \ddots & \ddots & & \\ & & \ddots & \ddots & \\ & & & -1 & 1 \end{pmatrix}_{n\times n}.$$

The equation (3.1) indeed introduces a finite dimensional transformation Φ_n as

$$\{W_{t_1}, W_{t_2}, \cdots, W_{t_n}\} \xrightarrow{\Phi_n} \{X_{t_1}, X_{t_2}, \cdots, X_{t_n}\}.$$

With dumb variables representation for (3.1), we have

$$x_{j+1} = x_j + b(x_j, t_j)(t_{j+1} - t_j) + (w_{j+1} - w_j), \quad j = 0, \dots, n-1 \tag{3.2}$$

where $w_0 = 0$ and x_0 is fixed. It is not difficult to find that the Jacobian of the transformation

$$\frac{\partial(w_1, \dots, w_n)}{\partial(x_1, \dots, x_n)} = 1. \tag{3.3}$$

Suppose we want to compute the average $\langle F[X_t]\rangle$, then

$$\langle F[X_t]\rangle \approx \langle F(X_{t_1}, X_{t_2}, \cdots, X_{t_n})\rangle = \langle G(W_{t_1}, W_{t_2}, \cdots, W_{t_n})\rangle,$$

where $G = F \circ \Phi_n$. Furthermore with transformation of variables

$$\begin{aligned} \langle F[X_t]\rangle &\approx \int G(w_1, w_2, \cdots, w_n)\frac{1}{Z_n}\exp(-I_n(\boldsymbol{w}))dw_1 dw_2 \cdots dw_n \\ &= \int F(x_1, x_2, \cdots, x_n)\frac{1}{Z_n}\exp(-\tilde{I}_n(\boldsymbol{x}))dx_1 dx_2 \cdots dx_n, \end{aligned} \tag{3.4}$$

where the transformation holds because of (3.3), and $\tilde{I}_n(\boldsymbol{x}) = I_n \circ \Phi_n^{-1}(\boldsymbol{x})$ by definition (3.2)

$$\begin{aligned} \tilde{I}_n(\boldsymbol{x}) =& \frac{1}{2}\sum_{j=1}^{n}\Big(\frac{x_j - x_{j-1}}{t_j - t_{j-1}}\Big)^2 (t_j - t_{j-1}) + \frac{1}{2}\sum_{j=1}^{n} b^2(x_{j-1}, t_{j-1})(t_j - t_{j-1}) \\ & - \sum_{j=1}^{n}(x_j - x_{j-1}) \cdot b(x_{j-1}, t_{j-1}). \end{aligned}$$

Changing the dumb variables x_i to w_i, we obtain

$$\begin{aligned}\langle F[X_t]\rangle &\approx \int F(w_1, w_2, \cdots, w_n)\frac{1}{Z_n}\exp(-I_n(\boldsymbol{w}))\exp\Big(-\frac{1}{2}\sum_{j=1}^{n} b^2(w_{j-1}, t_{j-1})(t_j - t_{j-1})\Big)\\ &\quad \cdot \exp\Big(\sum_{j=1}^{n} b(w_{j-1}, t_{j-1})\cdot(w_j - w_{j-1})\Big)dw_1 dw_2\cdots dw_n\\ &= \Big\langle F(W_{t_1}, W_{t_2}, \cdots, W_{t_n})\exp\Big(-\frac{1}{2}\sum_{j=1}^{n} b^2(W_{t_{j-1}}, t_{j-1})(t_j - t_{j-1})\Big)\\ &\quad \cdot \exp\Big(\sum_{j=1}^{n} b(W_{t_{j-1}}, t_{j-1})\cdot(W_{t_j} - W_{t_{j-1}})\Big)\Big\rangle.\end{aligned}$$

Step 2. Take the formal limit as $n \to \infty$.

Now with the finite dimensional discretization, we can take formal continuum limit

$$\langle F[X_t]\rangle = \Big\langle F[W_t]\exp\Big(-\frac{1}{2}\int_0^1 b^2(W_t, t)dt + \int_0^1 b(W_t, t)dW_t\Big)\Big\rangle. \tag{3.5}$$

Since (3.5) is valid for arbitrary F, in mathematical language, this asserts that the distribution μ_X is absolutely continuous with respect to μ_W, and

$$\frac{d\mu_X}{d\mu_W} = \exp\Big(-\frac{1}{2}\int_0^1 b^2(W_t, t)dt + \int_0^1 b(W_t, t)dW_t\Big).$$

The above derivations can be done directly with continuum version if one gets familiar enough

$$\begin{aligned}\langle F[X_t]\rangle &= \langle G[W_t]\rangle \qquad (\text{where } G = F\circ\Phi)\\ &= \int G[w_t]\cdot\frac{1}{Z}\exp\Big(-\frac{1}{2}\int_0^1 \dot{w}_t^2 dt\Big)\delta(w_0)\mathcal{D}w\\ &= \int F[x_t]\cdot\frac{1}{Z}\exp\Big(-\frac{1}{2}\int_0^1 \dot{x}_t^2 dt - \frac{1}{2}\int_0^1 b^2(x_t, t)dt + \int_0^1 b(x_t, t)\dot{x}_t dt\Big)\delta(x_0)\mathcal{D}x\\ &= \int F[w_t]\cdot\frac{1}{Z}\exp\Big(-\frac{1}{2}\int_0^1 \dot{w}_t^2 dt - \frac{1}{2}\int_0^1 b^2(w_t, t)dt + \int_0^1 b(x_t, t)\dot{w}_t dt\Big)\delta(w_0)\mathcal{D}w\\ &= \Big\langle F[W_t]\exp\Big(-\frac{1}{2}\int_0^1 b^2(W_t, t)dt + \int_0^1 b(W_t, t)dW_t\Big)\Big\rangle.\end{aligned}$$

A special case of this representation is the *Cameron-Martin formula*, for the transformation

$$\boldsymbol{X}_t = \boldsymbol{W}_t + \boldsymbol{\phi}(t) \tag{3.6}$$

where $\boldsymbol{\phi}$ is a smooth function. This can be obtained from SDE with $\boldsymbol{b}(X_t, t) = \dot{\boldsymbol{\phi}}(t)$. In this case, we get

$$\frac{d\mu_X}{d\mu_W} = \exp\Big(-\frac{1}{2}\int_0^1 \dot{\boldsymbol{\phi}}^2(t)dt + \int_0^1 \dot{\boldsymbol{\phi}}(t)d\boldsymbol{W}_t\Big). \tag{3.7}$$

A slight generalization is the *Girsanov formula*. Consider two SDE's:

$$\begin{cases} d\boldsymbol{X}_t = \boldsymbol{b}(\boldsymbol{X}_t, t)dt + \boldsymbol{\sigma}(\boldsymbol{X}_t, t)d\boldsymbol{W}_t, \\ d\boldsymbol{Y}_t = (\boldsymbol{b}(\boldsymbol{Y}_t, t) + \boldsymbol{\gamma}(t,\omega))dt + \boldsymbol{\sigma}(\boldsymbol{Y}_t, t)d\boldsymbol{W}_t, \end{cases}$$

where $\boldsymbol{X}, \boldsymbol{Y}, \boldsymbol{b}, \boldsymbol{\gamma} \in \mathbb{R}^n$, $\boldsymbol{W} \in \mathbb{R}^m$ and $\boldsymbol{\sigma} \in \mathbb{R}^{n\times m}$. Assume that $\boldsymbol{X}_0 = \boldsymbol{Y}_0 = \boldsymbol{x}$. Then the distributions of $\{\boldsymbol{X}_t\}$ and $\{\boldsymbol{Y}_t\}$ over $[0,1]$ are absolutely continuous with respect to each other. Moreover the Radon-Nikodym derivative is given by

$$\frac{d\mu_Y}{d\mu_X}[X.] = \exp\left(-\frac{1}{2}\int_0^1 |\boldsymbol{\phi}(t,\omega)|^2 dt + \int_0^1 \boldsymbol{\phi}(t,\omega)d\boldsymbol{W}_t\right), \tag{3.8}$$

where $\boldsymbol{\phi}$ is the solution of

$$\boldsymbol{\sigma}(\boldsymbol{X}_t, t)\boldsymbol{\phi}(t,\omega) = \boldsymbol{\gamma}(t,\omega).$$

Mathematically, the above two results have another formulation whose idea can be explained as follows. Suppose we have n independent standard Gaussian random variables $Z_1, Z_2, \ldots, Z_n \sim N(0,1)$ on probability space $(\Omega, \mathcal{F}, P)$. Given a vector $(\mu_1, \mu_2, \ldots, \mu_n) \in \mathbb{R}^n$, the new random variables with translation

$$\tilde{Z}_k = Z_k + \mu_k, \quad k = 1, 2\ldots, n$$

are no longer $N(0,1)$ distributed. But we can define another probability measure

$$\tilde{P}(d\omega) = \exp\Big(-\sum_{k=1}^n \mu_k Z_k(\omega) - \frac{1}{2}\sum_{k=1}^n \mu_k^2\Big)P(d\omega).$$

Then we have

$$\begin{aligned}
&\tilde{P}\left(\tilde{Z}_1 \in [\tilde{z}_1, \tilde{z}_1 + d\tilde{z}_1), \ldots, \tilde{Z}_n \in [\tilde{z}_n, \tilde{z}_n + d\tilde{z}_n)\right) \\
&= \exp\Big(-\sum_{k=1}^n \mu_k(\tilde{z}_k - \mu_k) - \frac{1}{2}\sum_{k=1}^n \mu_k^2\Big) P\left(\tilde{Z}_1 \in [\tilde{z}_1, \tilde{z}_1 + d\tilde{z}_1), \ldots, \tilde{Z}_n \in [\tilde{z}_n, \tilde{z}_n + d\tilde{z}_n)\right) \\
&= \exp\Big(-\sum_{k=1}^n \mu_k(\tilde{z}_k - \mu_k) - \frac{1}{2}\sum_{k=1}^n \mu_k^2\Big) \cdot (2\pi)^{-\frac{n}{2}} \exp\Big(-\frac{1}{2}\sum_{k=1}^n (\tilde{z}_k - \mu_k)^2\Big) d\tilde{z}_1 \cdots d\tilde{z}_n \\
&= (2\pi)^{-\frac{n}{2}} \exp\Big(-\frac{1}{2}\sum_{k=1}^n \tilde{z}_k^2\Big) d\tilde{z}_1 \cdots d\tilde{z}_n.
\end{aligned}$$

This reveals that the variables $\{\tilde{Z}_k\}_{k=1,\ldots,n}$ are again independent $N(0,1)$ random variables on space $(\Omega, \mathcal{F}, \tilde{P})$. If we take

$$Z_k = \frac{\Delta W_k}{\sqrt{\Delta t_k}}, \quad \tilde{Z}_k = \frac{\Delta \tilde{W}_k}{\sqrt{\Delta t_k}}, \quad \mu_k = \phi_k \sqrt{\Delta t_k}$$

and take the formal limit as $n \to \infty$, where $\Delta W_k = W_{t_{k+1}} - W_{t_k}$ and W_t is the standard Wiener process on $(\Omega, \mathcal{F}, P)$, we may claim that

$$\tilde{W}_t = W_t + \int_0^t \phi(s)ds$$

is again a standard Wiener process on $(\Omega, \mathcal{F}, \tilde{P})$ with

$$\tilde{P}(d\omega) = \exp\Big(- \int_0^t \phi(s)dW_s - \frac{1}{2}\int_0^t \phi^2(s)ds\Big) P(d\omega). \tag{3.9}$$

This claim is indeed true even for multidimensional case and the translation $\phi(t)$ can be ω-dependent.

Theorem 3.1 (Girsanov theorem I)**.** *For Itô process*

$$d\tilde{\boldsymbol{W}}_t = \boldsymbol{\phi}(t,\omega)dt + d\boldsymbol{W}_t, \quad \tilde{\boldsymbol{W}}_0 = 0, \tag{3.10}$$

where $\boldsymbol{W} \in \mathbb{R}^d$ is a d-dimensional standard Wiener process on $(\Omega, \mathcal{F}, \mathbb{P})$. Define

$$Z_t(\omega) = \exp\Big(- \int_0^t \boldsymbol{\phi}(s,\omega)d\boldsymbol{W}_s - \frac{1}{2}\int_0^t \boldsymbol{\phi}^2(s,\omega)ds\Big). \tag{3.11}$$

Assume $\boldsymbol{\phi}(t,\omega)$ satisfies Novikov's condition

$$\mathbb{E}\exp\Big(\frac{1}{2}\int_0^T |\boldsymbol{\phi}|^2(s,\omega)ds\Big) < \infty, \tag{3.12}$$

where $T \leq \infty$ is a fixed constant. Define $\tilde{\mathbb{P}}$ as

$$\tilde{\mathbb{P}}(d\omega) = Z_T(\omega)\mathbb{P}(d\omega), \tag{3.13}$$

then we have $\tilde{\boldsymbol{W}}$ is a d-dimensional Wiener process with respect to $(\Omega, \mathcal{F}_T, \tilde{\mathbb{P}})$ for $t \leq T$.

The Novikov's condition is to ensure the process Z_t in (3.11) is an *exponential martingale*. The rigorous proof of Theorem 3.1 may be referred to [3,4]. The definition (3.11) does not contradict (3.7). Indeed, they are consequences of each other. To see this, we note that for any functional F

$$\begin{aligned}
\Big\langle F[\tilde{\boldsymbol{W}}_t]\Big\rangle_{\tilde{\mathbb{P}}} &= \Big\langle F[\tilde{\boldsymbol{W}}_t]Z_T\Big\rangle_{\mathbb{P}} \\
&= \Big\langle F[\tilde{\boldsymbol{W}}_t]\exp\Big(- \int_0^T \boldsymbol{\phi}(s,\omega)d\tilde{\boldsymbol{W}}_s + \frac{1}{2}\int_0^T \boldsymbol{\phi}^2(s,\omega)ds\Big)\Big\rangle_{\mathbb{P}} \\
&= \Big\langle F[\boldsymbol{W}_t]\exp\Big(- \int_0^T \boldsymbol{\phi}(s,\omega)d\boldsymbol{W}_s + \frac{1}{2}\int_0^T \boldsymbol{\phi}^2(s,\omega)ds\Big)\frac{d\mu_{\tilde{\boldsymbol{W}}}}{d\mu_{\boldsymbol{W}}}\Big\rangle_{\mathbb{P}} \\
&= \Big\langle F[\boldsymbol{W}_t]\Big\rangle_{\mathbb{P}}.
\end{aligned}$$

It can also be verified by path integrals as follows

$$
\begin{aligned}
\langle F[\boldsymbol{W}_t]\rangle_{\mathbb{P}} &= \int F[\boldsymbol{w}_t]\cdot\frac{1}{Z}\exp\Big(-\frac{1}{2}\int_0^T \dot{\boldsymbol{w}}_t^2 dt\Big)\delta(\boldsymbol{w}_0)D\boldsymbol{w}\\
&= \int F[\tilde{\boldsymbol{w}}_t]\cdot\frac{1}{Z}\exp\Big(-\frac{1}{2}\int_0^T \dot{\tilde{\boldsymbol{w}}}_t^2 dt\Big)\delta(\tilde{\boldsymbol{w}}_0)D\tilde{\boldsymbol{w}}\\
&= \int F\circ\Phi[\boldsymbol{w}_t]\cdot\frac{1}{Z}\exp\Big(-\frac{1}{2}\int_0^T \dot{\boldsymbol{w}}_t^2 dt-\frac{1}{2}\int_0^T \boldsymbol{\phi}^2 dt-\int_0^T \boldsymbol{\phi}(t)\dot{\boldsymbol{w}}_t dt\Big)\delta(\boldsymbol{w}_0)D\boldsymbol{w}\\
&= \Big\langle G[\boldsymbol{W}_t]\exp\Big(-\frac{1}{2}\int_0^T \boldsymbol{\phi}^2(t)dt-\int_0^T \boldsymbol{\phi}(t)d\boldsymbol{W}_t\Big)\Big\rangle_{\mathbb{P}}\\
&= \Big\langle F[\tilde{\boldsymbol{W}}_t]\exp\Big(-\frac{1}{2}\int_0^T \boldsymbol{\phi}^2(t)dt-\int_0^T \boldsymbol{\phi}(t)d\boldsymbol{W}_t\Big)\Big\rangle_{\mathbb{P}}\\
&= \Big\langle F[\tilde{\boldsymbol{W}}_t]Z_T\Big\rangle_{\mathbb{P}} = \Big\langle F[\tilde{\boldsymbol{W}}_t]\Big\rangle_{\tilde{\mathbb{P}}}.
\end{aligned}
$$

Corresponding to (3.8), we have another form of Girsanov theorem.

Theorem 3.2 (Girsanov theorem II)**.** *For Itô processes $\boldsymbol{X},\boldsymbol{Y}$ satisfy*

$$
\begin{cases}
d\boldsymbol{X}_t = \boldsymbol{b}(\boldsymbol{X}_t,t)dt+\boldsymbol{\sigma}(\boldsymbol{X}_t,t)d\boldsymbol{W}_t, \quad \boldsymbol{X}_0=\boldsymbol{x},\\
d\boldsymbol{Y}_t = (\boldsymbol{b}(\boldsymbol{Y}_t,t)+\boldsymbol{\gamma}(t,\omega))dt+\boldsymbol{\sigma}(\boldsymbol{Y}_t,t)d\boldsymbol{W}_t, \quad \boldsymbol{Y}_0=\boldsymbol{x},
\end{cases}
$$

where $\boldsymbol{X},\boldsymbol{Y},\boldsymbol{b},\boldsymbol{\gamma}\in\mathbb{R}^n$, $\boldsymbol{W}\in\mathbb{R}^m$ and $\boldsymbol{\sigma}\in\mathbb{R}^{n\times m}$, and assume $\boldsymbol{b}$ and $\boldsymbol{\sigma}$ satisfy the usual conditions in Theorem **??***. Suppose there exists unique $\boldsymbol{\phi}(t,\omega)$ such that*

$$\boldsymbol{\sigma}(\boldsymbol{X}_t,t)\boldsymbol{\phi}(t,\omega)=\boldsymbol{\gamma}(t,\omega)$$

and the Novikov's condition holds

$$\mathbb{E}\exp\Big(\frac{1}{2}\int_0^T |\boldsymbol{\phi}|^2(s,\omega)ds\Big)<\infty. \tag{3.14}$$

Define $\tilde{\boldsymbol{W}}_t$, Z_t and $\tilde{\mathbb{P}}$ as in Theorem 3.1, then $\tilde{\boldsymbol{W}}$ is a standard Wiener process under $(\Omega,\mathcal{F}_T,\tilde{\mathbb{P}})$ and $\boldsymbol{Y}$ satisfies

$$d\boldsymbol{Y}_t=\boldsymbol{b}(\boldsymbol{Y}_t,t)dt+\boldsymbol{\sigma}(\boldsymbol{Y}_t,t)d\tilde{\boldsymbol{W}}_t, \quad \boldsymbol{Y}_0=\boldsymbol{x}, \quad t\le T.$$

Thus the law of $\boldsymbol{Y}_t$ under $\tilde{\mathbb{P}}$ is the same that of $\boldsymbol{X}_t$ under $\mathbb{P}$ for $t\le T$.

The readers may be referred to [3, 4] for proof details.

4 Feynman-Kac Formula: Revisited

Earlier we have known that the solution of PDE

$$\partial_t v=\frac{1}{2}\Delta v+q(x)v, \quad v|_{t=0}=f(x)$$

can be represented as

$$v(x,t) = \mathbb{E}^x\Big(\exp\Big(\int_0^t q(W_s)ds\Big)f(W_t)\Big).$$

In path integral form

$$v(x,t) = \int \delta(w_0 - x)\frac{1}{Z}\exp\Big(-\int_0^t \big(\frac{1}{2}\dot{w}_s^2 - q(w_s)\big)ds\Big)f(w_t)\mathcal{D}w,$$

where the delta-function $\delta(w_0 - x)$ is to shift the starting point of the Wiener process to x. Feynmann-Kac formula originates from Feynmann's interpretation of quantum mechanics, namely that solution of linear Schrödinger equation

$$i\hbar\partial_t\psi = -\frac{\hbar^2}{2m}\Delta\psi + V(x)\psi, \quad \psi|_{t=0} = \psi_0(x) \tag{4.1}$$

can be expressed formally as

$$\psi(x,t) = \int \delta(w_0 - x)\frac{1}{Z}\exp\Big(\frac{i}{\hbar}I[w]\Big)\psi_0(w_t)\mathcal{D}w, \tag{4.2}$$

where $I[\cdot]$ is the Lagrangian defined as

$$I[w] = \int_0^t \Big(\frac{m}{2}\dot{w}_s^2 - V(w_s)\Big)ds.$$

Formally if we take

$$m = 1, \quad \hbar = -i$$

in (4.1) and (4.2), we exactly obtain the above formulation for Feynman-Kac problem! Indeed, that is the real story on how Feynman-Kac formula is created.

Feynman's formally expression is yet to be made rigorous. However, Kac's reinterpretation for the heat equation instead of Schrödinger's equation can be readily proved. The Feynman-Kac formula can also be generalized to the case when Δ is replaced by more general second order differential operator as we did in previous Chapter.

Homeworks

1. Derive the infinite dimensional characteristic function for Wiener process W_t

$$\Big\langle \exp\Big(i\int_0^1 \xi(t)dW_t\Big)\Big\rangle = \exp\Big(-\frac{1}{2}\int_0^1 |\xi|^2 dt\Big).$$

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