Announcements:

. PS I due now, here

Econ 204 2011

.PS2 posted

Lecture 5

.PSI solutions

Outline

posted after class

.PS3 posted

- 1. Properties of Real Functions (Sect. 2.6, cont.)
- . 4,5,6

2. Monotonic Functions

- coming soon
- 3. Cauchy Sequences and Complete Metric Spaces
- 4. Contraction Mappings
- 5. Contraction Mapping Theorem

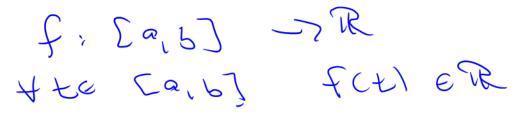
Properties of Real Functions

Here we first study properties of functions from ${\bf R}$ to ${\bf R}$, making use of the additional structure we have in ${\bf R}$ as opposed to general metric spaces.

Let $f: X \to \mathbf{R}$ where $X \subseteq \mathbf{R}$. We say f is bounded above if

$$f(X) = \{r \in \mathbf{R} : f(x) = r \text{ for some } x \in X\}$$

is bounded above. Similarly, we say f is bounded below if f(X) is bounded below. Finally, f is bounded if f is both bounded above and bounded below, that is, if f(X) is a bounded set.



Extreme Value Theorem

Theorem 1 (Thm. 6.23, Extreme Value Theorem). Let $a, b \in \mathbb{R}$ with $a \leq b$ and let $f : [a, b] \to \mathbb{R}$ be a continuous function. Then a assumes its minimum and maximum on [a, b]. That is, if

$$M = \sup_{t \in [a,b]} f(t) \qquad m = \inf_{t \in [a,b]} f(t)$$

then $\exists t_M, t_m \in [a, b]$ such that $f(t_M) = M$ and $f(t_m) = m$.

Proof. Let

$$M = \sup\{f(t) : t \in [a, b]\}$$

If M is finite, then for each n, we may choose $t_n \in [a,b]$ such that $M \geq f(t_n) \geq M - \frac{1}{n}$ (if we couldn't make such a choice, then $M - \frac{1}{n}$ would be an upper bound and M would not be the

supremum). If M is infinite, choose t_n such that $f(t_n) \ge n$. By the Bolzano-Weierstrass Theorem, $\{t_n\}$ contains a convergent subsequence $\{t_{n_k}\}$, with

$$\lim_{k \to \infty} t_{n_k} = t_0 \in [a, b]$$

Since f is continuous,

$$f(t_0) = \lim_{t \to t_0} f(t)$$

$$= \lim_{k \to \infty} f(t_{n_k})$$

$$= M$$

so M is finite and

$$f(t_0) = M = \sup\{f(t) : t \in [a, b]\}$$

so f attains its maximum and is bounded above.

The argument for the minimum is similar.

Internediate Value Theorem Redux

Theorem 2 (Thm. 6.24, Intermediate Value Theorem). Suppose $f:[a,b] \to \mathbf{R}$ is continuous, and f(a) < d < f(b). Then there exists $c \in (a,b)$ such that f(c) = d.

Proof. Let

$$B = \{ t \in [a, b] : f(t) < d \}$$

 $a \in B$, so $B \neq \emptyset$. By the Supremum Property, sup B exists and is real so let $c = \sup B$. Since $a \in B$, $c \geq a$. $B \subseteq [a,b]$, so $c \leq b$. Therefore, $c \in [a,b]$. We claim that f(c) = d.

Let

$$c \star \frac{1}{n} \geq t_n = \min\left\{c + \frac{1}{n}, b\right\} \geq c$$

Either $t_n > c$, in which case $t_n \notin B$, or $t_n = c$, in which case $t_n = b$ so $f(t_n) > d$, so again $t_n \notin B$; in either case, $f(t_n) \geq d$. Since f is continuous at c, $f(c) = \lim_{n \to \infty} f(t_n) \geq d$ (Theorem 3.5 in de la Fuente).

Since $c = \sup B$, we may find $s_n \in B$ such that

Since $s_n \in B$, $f(s_n) < d$. Since f is continuous at c, $f(c) = \lim_{n \to \infty} f(s_n) \le d$ (Theorem 3.5 in de la Fuente).

Since $d \leq f(c) \leq d$, f(c) = d. Since f(a) < d and f(b) > d, $a \neq c \neq b$, so $c \in (a,b)$.

Definition 1. A function $f: \mathbf{R} \to \mathbf{R}$ is monotonically increasing if

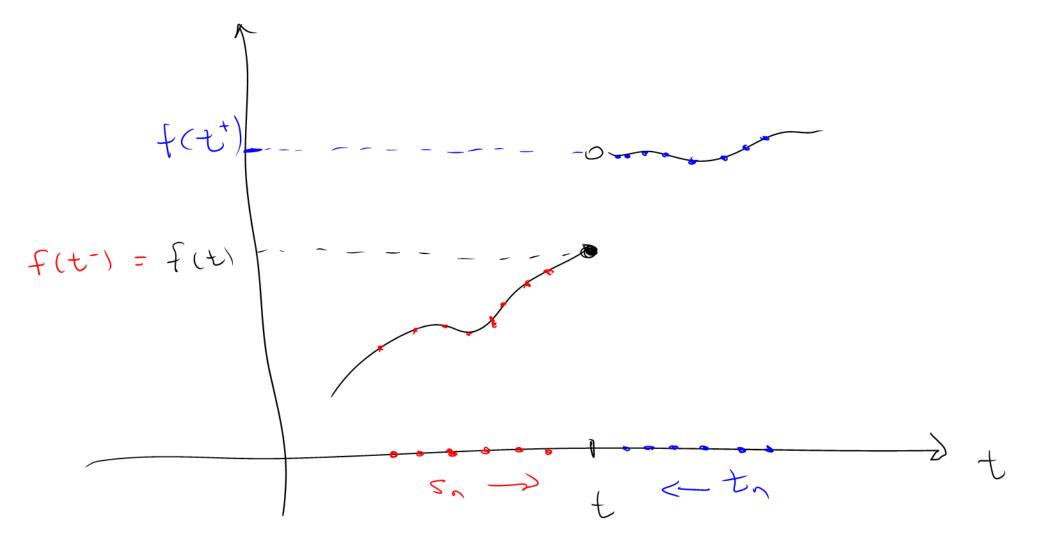
$$y > x \Rightarrow f(y) \ge f(x)$$

Monotonic functions are very well-behaved...

Theorem 3 (Thm. 6.27). Let $a,b \in \mathbf{R}$ with a < b, and let $f:(a,b) \to \mathbf{R}$ be monotonically increasing. Then the one-sided limits

right-hand
$$f(t^{+}) = \lim_{u \to t^{+}} f(u) = \lim_{u \to t^{-}} f(u) = \lim_{u \to$$

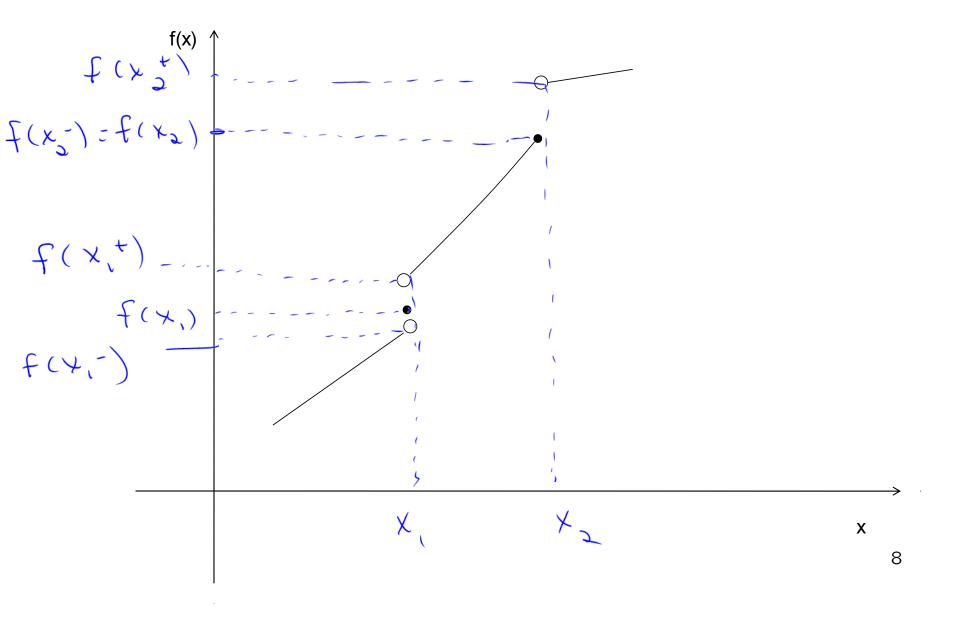
Proof. This is analogous to the proof that a bounded monotone sequence converges. \Box



We say that f has a <u>simple jump discontinuity</u> at t if the one-sided limits $f(t^-)$ and $f(t^+)$ both exist but f is not continuous at t.

Note that there are two ways f can have a simple jump discontinuity at t: either $f(t^+) \neq f(t^-)$, or $f(t^+) = f(t^-) \neq f(t)$.

The previous theorem says that monotonic functions have **only** simple jump discontinuities. Note that monotonicity also implies that $f(t^-) \le f(t) \le f(t^+)$. So a monotonic function has a discontinuity at t if and only if $f(t^+) \ne f(t^-)$.



A monotonic function is continuous "almost everywhere" — except for at most countably many points.

Theorem 4 (Thm. 6.28). Let $a, b \in \mathbf{R}$ with a < b, and let $f:(a,b) \to \mathbf{R}$ be monotonically increasing. Then

$$D = \{t \in (a,b) : f \text{ is discontinuous at } t\}$$

is finite (possibly empty) or countable.

Proof. If $t \in D$, then $f(t^-) < f(t^+)$ (if the left- and right-hand limits agreed, then by monotonicity they would have to equal f(t), so f would be continuous at t). \mathbf{Q} is dense in \mathbf{R} , that is, if

 $x, y \in \mathbf{R}$ and x < y then $\exists r \in \mathbf{Q}$ such that x < r < y. So for every $t \in D$ we may choose $r(t) \in \mathbf{Q}$ such that

$$f(t^-) < r(t) < f(t^+)$$

This defines a function $r:D\to \mathbf{Q}$. Notice that

$$s > t \Rightarrow f(s^-) \ge f(t^+)$$

SO

$$s > t, s, t \in D \Rightarrow r(s) > f(s^{-}) \ge f(t^{+}) > r(t)$$

so $r(s) \neq r(t)$. Therefore, r is one-to-one, so it is a bijection from D to a subset of \mathbf{Q} . Thus D is finite or countable.

Cauchy Sequences and Complete Metric Spaces

Roughly, a metric space is complete if "every sequence that ought to converge to a limit has a limit to converge to."

$$(\lambda, d)$$

Recall that $x_n \to x$ means

$$\forall \varepsilon > 0 \ \exists N(\varepsilon/2) \ \text{s.t.} \ n > N(\varepsilon/2) \Rightarrow d(x_n, x) < \frac{\varepsilon}{2}$$

Observe that if $n, m > N(\varepsilon/2)$, then

$$d(x_n, x_m) \le d(x_n, x) + d(x, x_m) < \frac{\varepsilon}{2} + \frac{\varepsilon}{2} = \varepsilon$$

Cauchy Sequences and Complete Metric Spaces

This motivates the following definition:

Definition 2. A sequence $\{x_n\}$ in a metric space (X,d) is Cauchy if

$$\forall \varepsilon > 0 \ \exists N(\varepsilon) \ \text{s.t.} \ n, m > N(\varepsilon) \Rightarrow d(x_n, x_m) < \varepsilon$$

A Cauchy sequence is trying really hard to converge, but there may not be anything for it to converge to.

Cauchy Sequences and Complete Metric Spaces

Any sequence that **does** converge must be Cauchy:

Theorem 5 (Thm. 7.2). Every convergent sequence in a metric space is Cauchy.

Proof. We just did it: Let $x_n \to x$. For every $\varepsilon > 0 \; \exists N$ such that $n > N \Rightarrow d(x_n, x) < \varepsilon/2$. Then

$$m, n > N \Rightarrow d(x_n, x_m) \le d(x_n, x) + d(x, x_m) < \frac{\varepsilon}{2} + \frac{\varepsilon}{2} = \varepsilon$$

Example: Let X = (0,1] and d be the Euclidean metric. Let $x_n = \frac{1}{n}$. Then $x_n \to 0$ in \mathbf{E}^1 , so $\{x_n\}$ is Cauchy in \mathbf{E}^1 . Thus $\{x_n\}$ is Cauchy in (X,d). But $\{x_n\}$ does not converge in (X,d).

The Cauchy property depends only on the sequence and the metric d, not on the ambient metric space:

 $\{x_n\}$ is Cauchy in (X,d), but $\{x_n\}$ does not **converge** in (X,d) because the point it is trying to converge to (0) is not an element of X.

Where does every Cauchy sequence get what it wants?

Definition 3. A metric space (X,d) is complete if every Cauchy sequence $\{x_n\} \subseteq X$ converges to a limit $x \in X$.

vector

Definition 4. A Banach space is a normed space that is complete in the metric generated by its norm.

Example: Consider the earlier example of X = (0,1] with d the usual Euclidean metric. The sequence $\{x_n\}$ with $x_n = \frac{1}{n}$ is Cauchy but does not converge, so ((0,1],d) is not complete.

Example: ${\bf Q}$ is not complete in the Euclidean metric. To see this, let

$$x_n = \frac{\lfloor 10^n \sqrt{2} \rfloor}{10^n}$$

where $\lfloor y \rfloor$ is the greatest integer less than or equal to y; x_n is just equal to the decimal expansion of $\sqrt{2}$ to n digits past the decimal point. Clearly, x_n is rational. $|x_n - \sqrt{2}| \le 10^{-n}$, so $x_n \to \sqrt{2}$ in \mathbf{E}^1 , so $\{x_n\}$ is Cauchy in \mathbf{E}^1 , hence Cauchy in \mathbf{Q} ; since $\sqrt{2} \notin \mathbf{Q}$, $\{x_n\}$ is not convergent in \mathbf{Q} , so \mathbf{Q} is not complete.

Theorem 6 (Thm. 7.10). \mathbf{R} is complete with the usual metric (so \mathbf{E}^1 is a Banach space).

Proof. Suppose $\{x_n\}$ is a Cauchy sequence in \mathbf{R} . Fix $\varepsilon > 0$. Find $N(\varepsilon/2)$ such that

$$n, m > N(\varepsilon/2) \Rightarrow |x_n - x_m| < \frac{\varepsilon}{2}$$

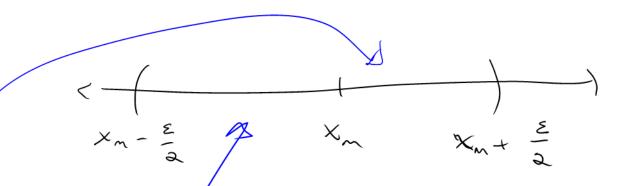
Let

$$\alpha_n = \sup\{x_k : k \ge n\}$$
 $\beta_n = \inf\{x_k : k \ge n\}$

Fix $m > N(\varepsilon/2)$. Then

$$k \ge m \Rightarrow k > N(\varepsilon/2) \Rightarrow x_k < x_m + \frac{\varepsilon}{2}$$

 $\Rightarrow \alpha_m = \sup\{x_k : k \ge m\} \le x_m + \frac{\varepsilon}{2}$



Since $\alpha_m < \infty$,

$$\limsup x_n = \lim_{n \to \infty} \alpha_n \le \alpha_m \le x_m + \frac{\varepsilon}{2}$$

since the sequence $\{\alpha_n\}$ is degreasing. Similarly,

$$\liminf x_n \ge x_m - \frac{\varepsilon}{2}$$

Therefore,

$$0 \leq \limsup_{n \to \infty} x_n - \liminf_{n \to \infty} x_n \leq \varepsilon$$

Since ε is arbitrary,

$$\limsup_{n\to\infty} x_n = \liminf_{n\to\infty} x_n \in \mathbf{R}$$

Thus $\lim_{n\to\infty} x_n$ exists and is real, so $\{x_n\}$ is convergent.

Theorem 7 (Thm. 7.11). \mathbf{E}^n is complete for every $n \in \mathbf{N}$.

Proof. See de la Fuente.

FLA YEX d: XXX -> R

Complete Metric Spaces and Banach Spaces

Theorem 8 (Thm. 7.9). Suppose (X,d) is a complete metric space and $Y \subseteq X$. Then $(Y,d) = (Y,d|_Y)$ is complete if and only if Y is a closed subset of X.

Proof. Suppose (Y,d) is complete. We need to show that Y is closed. Consider a sequence $\{y_n\} \subseteq Y$ such that $y_n \to_{(X,d)} x \in X$. Then $\{y_n\}$ is Cauchy in X, hence Cauchy in Y; since Y is complete, $y_n \to_{(Y,d)} y$ for some $y \in Y$. Therefore, $y_n \to_{(X,d)} y$. By uniqueness of limits, y = x, so $x \in Y$. Thus Y is closed.

Conversely, suppose Y is closed. We need to show that Y is complete. Let $\{y_n\}$ be a Cauchy sequence in Y. Then $\{y_n\}$ is Cauchy in X, hence convergent, so $y_n \to_{(X,d)} x$ for some $x \in X$. Since Y is closed, $x \in Y$, so $y_n \to_{(Y,d)} x \in Y$. Thus Y is complete. \Box

Theorem 9 (Thm. 7.12). Given $X \subseteq \mathbb{R}^n$, let C(X) be the set of bounded continuous functions from X to \mathbb{R} with

$$||f||_{\infty} = \sup\{|f(x)| : x \in X\}$$

Then C(X) is a Banach space.

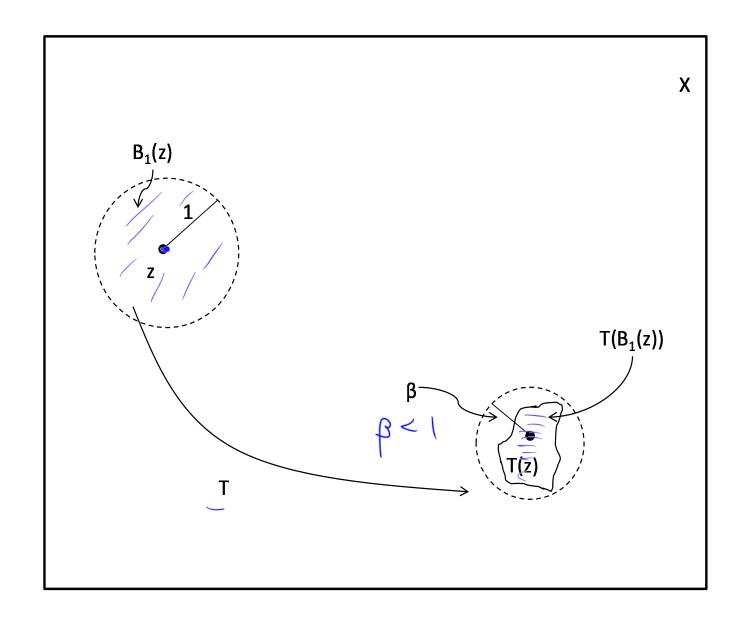
Contractions

Definition 5. Let (X,d) be a nonempty complete metric space. An operator is a function $T: X \to X$.

An operator T is a contraction of modulus β if $\beta < 1$ and

$$d(T(x), T(y)) \le \beta d(x, y) \quad \forall x, y \in X$$

A contraction shrinks distances by a **uniform** factor $\beta < 1$.



Contractions

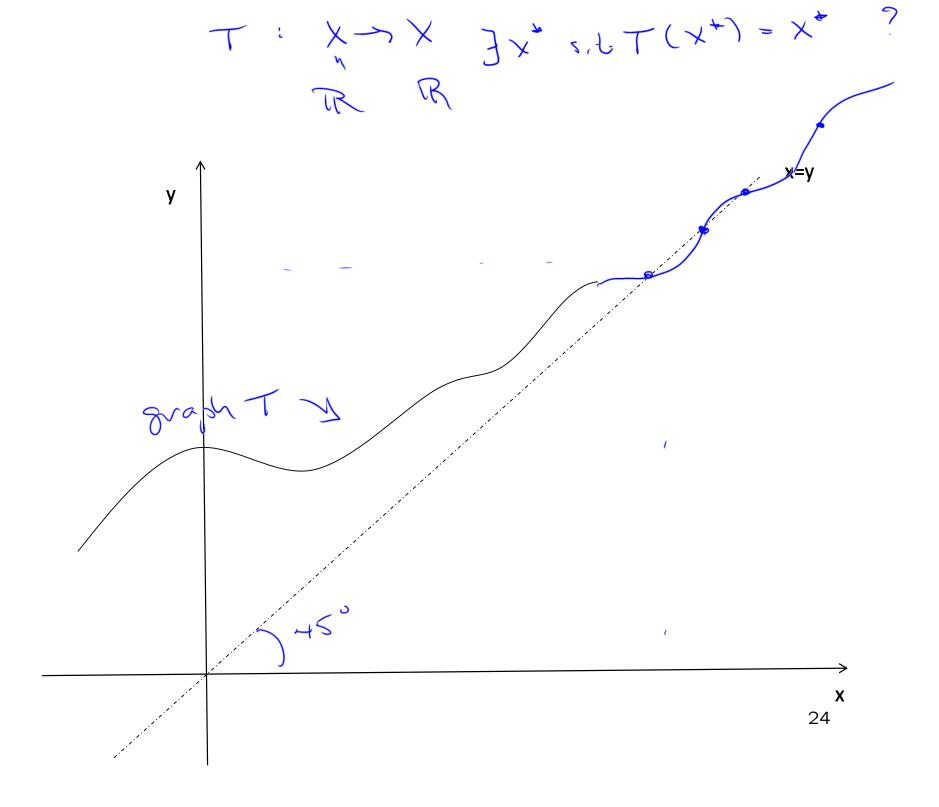
Theorem 10. Every contraction is uniformly continuous.

Proof. Fix
$$\varepsilon > 0$$
. Let $\delta = \frac{\varepsilon}{\beta}$. Then $\forall x,y$ such that $d(x,y) < \delta$,
$$d(T(x),T(y)) \leq \beta d(x,y) < \beta \delta = \varepsilon$$

Note that a contraction is Lipschitz continuous with Lipschitz constant $\beta < 1$ (and hence also uniformly continuous).

Contractions and Fixed Points

Definition 6. A fixed point of an operator T is point $x^* \in X$ such that $T(x^*) = x^*$.



Contraction Mapping Theorem

Theorem 11 (Thm. 7.16, Contraction Mapping Theorem). Let (X,d) be a nonempty complete metric space and $T:X\to X$ a contraction with modulus $\beta<1$. Then

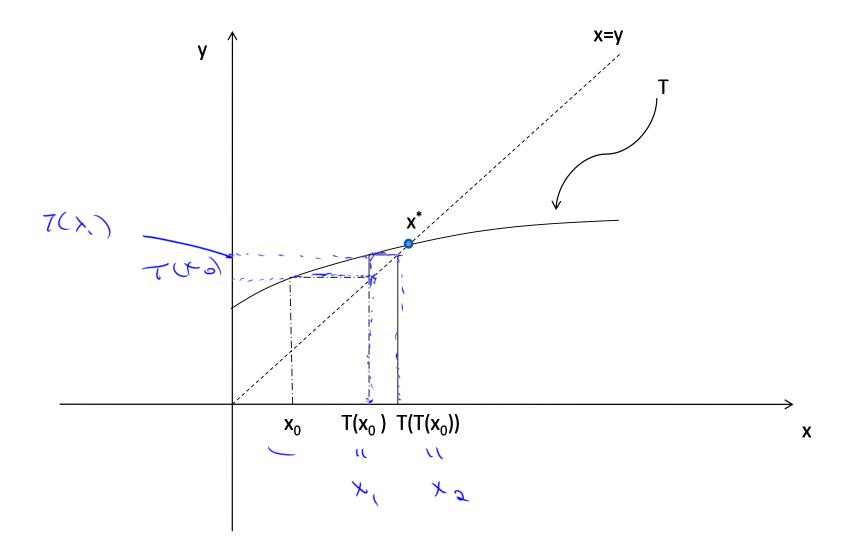
- 1. T has a unique fixed point x^* .
- 2. For every $x_0 \in X$, the sequence $\{x_n\}$ where

$$x_1 = T(x_0), x_2 = T(x_1) = T(T(x_0)), ..., x_n = T(x_{n-1})$$
 for each n converges to x^* .

Note that the theorem asserts both the existence and uniqueness of the fixed point, as well as giving an algorithm to find the fixed point of a contraction.

Also note that the algorithm generates a sequence that converges to the fixed point for any initial point x_0 .

Later in the course we will discuss more general fixed point theorems which, in contrast, only guarantee existence, and are not constructive.



Proof. Define the sequence $\{x_n\}$ as above by first fixing $x_0 \in X$ and then letting $x_n = T(x_{n-1}) = T^n(x_0)$ for n = 1, 2, ..., where $T^n = T \circ T \circ ... \circ T$ is the n-fold iteration of T. We first show that $\{x_n\}$ is Cauchy, and hence converges to a limit x. Then

$$d(x_{n+1}, x_n) = d(T(x_n), T(x_{n-1}))$$

$$\leq \beta d(x_n, x_{n-1}) = \beta d(T(x_{n-1}), T(x_{n-2}))$$

$$\leq \beta^2 d(x_{n-1}, x_{n-2})$$

$$\vdots$$

$$\leq \beta^n d(x_1, x_0)$$

Then for any n > m,

$$d(x_n, x_m) \leq d(x_n, x_{n-1}) + d(x_{n-1}, x_{n-2}) + \dots + d(x_{m+1}, x_m)$$

$$\leq (\beta^{n-1} + \beta^{n-2} + \dots + \beta^m) d(x_1, x_0)$$

$$= d(x_1, x_0) \sum_{\ell=m}^{n-1} \beta^{\ell}$$

$$< d(x_1, x_0) \sum_{\ell=m}^{\infty} \beta^{\ell}$$

$$= \frac{\beta^m}{1 - \beta} d(x_1, x_0) \quad \text{(sum of a geometric series)}$$

Fix $\varepsilon > 0$. Since $\frac{\beta^m}{1-\beta} \to 0$ as $m \to \infty$, choose $N(\varepsilon)$ such that for any $m > N(\varepsilon)$, $\frac{\beta^m}{1-\beta} < \frac{\varepsilon}{d(x_1,x_0)}$. Then for $n,m > N(\varepsilon)$,

$$d(x_n, x_m) \le \frac{\beta^m}{1-\beta} d(x_1, x_0) < \varepsilon$$

Therefore, $\{x_n\}$ is Cauchy. Since (X,d) is complete, $x_n \to x^*$ for some $x^* \in X$.

Next, we show that x^* is a fixed point of T.

$$T(x^*) = T\left(\lim_{n\to\infty} x_n\right)$$

 $= \lim_{n\to\infty} T(x_n)$ since T is continuous
 $= \lim_{n\to\infty} x_{n+1}$
 $= x^*$

so x^* is a fixed point of T.

Finally, we show that there is at most one fixed point. Suppose x^* and y^* are both fixed points of T, so $T(x^*) = x^*$ and $T(y^*) = y^*$.

Then

$$d(x^*, y^*) = d(T(x^*), T(y^*))$$

$$\leq \beta d(x^*, y^*)$$

$$\Rightarrow (1 - \beta)d(x^*, y^*) \leq 0$$

$$\Rightarrow d(x^*, y^*) \leq 0$$

So $d(x^*, y^*) = 0$, which implies $x^* = y^*$.

Continuous Dependence on Paramters

Theorem 12. (Thm. 7.18', Continuous Dependence on Parameters) Let (X,d) and (Ω,ρ) be two metric spaces and $T: X \times \Omega \to X$. For each $\omega \in \Omega$ let $T_\omega: X \to X$ be defined by

$$T_{\omega}(x) = T(x, \omega)$$

Suppose (X,d) is complete, T is continuous in ω , that is $T(x,\cdot)$: $\Omega \to X$ is continuous for each $x \in X$, and $\exists \beta < 1$ such that T_{ω} is a contraction of modulus $\beta \quad \forall \omega \in \Omega$. Then the fixed point function $x^*: \Omega \to X$ defined by

$$x^*(\omega) = T_{\omega}(x^*(\omega))$$

is continuous.

Blackwell's Sufficient Conditions

An important result due to Blackwell gives a set of sufficient conditions for an operator to be a contraction that is particularly useful in dynamic programming problems.

Let X be a set, and let B(X) be the set of all bounded functions from X to \mathbf{R} . Then $(B(X), \|\cdot\|_{\infty})$ is a normed vector space.

Notice that below we use shorthand notation that identifies a constant function with its constant value in \mathbf{R} , that is, we write interchangeably $a \in \mathbf{R}$ and $a: X \to \mathbf{R}$ to denote the function such that $a(x) = a \ \forall x \in X$.

Blackwell's Sufficient Conditions

Theorem 13. (Blackwell's Sufficient Conditions) Consider B(X) with the sup norm $\|\cdot\|_{\infty}$. Let $T:B(X)\to B(X)$ be an operator satisfying

- 1. (monotonicity) $f(x) \le g(x) \ \forall x \in X \Rightarrow (Tf)(x) \le (Tg)(x) \ \forall x \in X$
- 2. (discounting) $\exists \beta \in (0,1)$ such that for every $a \geq 0$ and $x \in X$, $(T(f+a))(x) \leq (Tf)(x) + \beta a$

Then T is a contraction with modulus β .

Proof. Fix $f, g \in B(X)$. By the definition of the sup norm,

$$f(x) \le g(x) + ||f - g||_{\infty} \ \forall x \in X$$

Then

$$(Tf)(x) \le (T(g + ||f - g||_{\infty}))(x) \quad \forall x \in X$$
 (monotonicity)
 $\le (Tg)(x) + \beta ||f - g||_{\infty} \quad \forall x \in X$ (discounting)

Thus

$$(Tf)(x) - (Tg)(x) \le \beta ||f - g||_{\infty} \quad \forall x \in X$$

Reversing the roles of f and g above gives

$$(Tg)(x) - (Tf)(x) \le \beta ||f - g||_{\infty} \quad \forall x \in X$$

Thus

$$||T(f) - T(g)||_{\infty} \le \beta ||f - g||_{\infty}$$

Thus T is a contraction with modulus β