Martingale Functions of Brownian Motion
and its Local Time

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ABSTRACT

We characterize the class of local martingales of the form $H(B_t, L_t)$ for a standard one-
dimensional Brownian motion $B = (B_t)_{t \geq 0}$ and its local time at 0, $L = (L_t)_{t \geq 0}$. The main result
is closely related to work of J. Óblój, who studied the local martingales of the form $H(B_t, \overline{B}_t)$,
where $\overline{B}_t = \sup_{0 \leq s \leq t} B_s$.

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1. Results.

Let $B = (B_t)_{t \geq 0}$ be a standard one-dimensional Brownian motion with $B_0 = 0$, defined on a complete probability space $(\Omega, \mathcal{F}, \mathbb{P})$. Let $(\mathcal{F}_t)_{t \geq 0}$ be the filtration generated by $B$ (augmented by the $\mathbb{P}$-null sets in $\sigma\{B_t : t \geq 0\}$). The local time process $L = (L_t)_{t \geq 0}$ measures the zero set $Z := \{t \geq 0 : B_t = 0\}$. The process $L$ is adapted to $(\mathcal{F}_t)$, continuous, increasing, and flat on the complement of $Z$; and can be constructed as the almost sure limit

$$L_t = \lim_{\epsilon \downarrow 0} \frac{1}{2\epsilon} \int_0^t 1_{\{|B_s| < \epsilon\}} \, ds,$$

the convergence being uniform on compact time intervals. Alternatively, $L$ is characterized by Tanaka’s formula:

$$L_t = |B_t| - \int_0^t \text{sgn}(B_s) \, dB_s, \quad \forall t \geq 0, \quad \text{a.s.}$$

The local time also features in the one-sided variants of Tanaka’s formula; the “positive” case being

$$B_t^+ = \int_0^t 1_{\{B_s > 0\}} \, dB_s + \frac{1}{2} L_t, \quad \forall t \geq 0, \quad \text{a.s.},$$

where $b^+ := b \vee 0$ for a real number $b$.

If $f : [0, \infty] \to \mathbb{R}$ is continuously differentiable, then (1.3) and Itô’s formula yield

$$B_t^+ \cdot f(L_t) = \int_0^t f(L_s) \cdot 1_{\{B_s > 0\}} \, dB_s + \frac{1}{2} F(L_t)$$

where $F(x) := \int_0^x f(u) \, du$, $x \geq 0$. A monotone class argument shows that (1.4) persists for general bounded measurable $f$, and then a truncation argument based on the following result yields the validity of (1.4) when $f$ is merely locally integrable on $[0, \infty[$ (a condition that is clearly necessary as well).

(1.5) **Lemma.** Let $f : [0, \infty] \to \mathbb{R}$ be a measurable function. Then

$$\int_0^t [f(L_s)]^2 \, ds < \infty \quad \forall t \geq 0, \quad \text{a.s.} \quad \iff \quad \int_0^x |f(u)| \, du < \infty, \quad \forall x > 0.$$ 

*Proof.* A theorem of Lévy tells us that

$$\mathbb{E}^\mathbb{P}[\sup_{t \geq 0} |B_t|] = \mathbb{E}^\mathbb{P}[\sup_{t \geq 0} |\mathbb{B}_t - B_t|] = \mathbb{E}^\mathbb{P}[\sup_{t \geq 0} |L_t - B_t|],$$

so the assertion of the lemma follows from [OY; p. 523]; see also [O; p. 962].

Combining the above discussion with the analogous remarks concerning $B_t^- := (-B_t) \vee 0$, we arrive at the following result.
(1.8) Theorem. Fix \( f_+, f_- \in L^1_{\text{loc}} [0, \infty] \) and define
\[
M_t := H(B_t, L_t), \quad t \geq 0,
\]
where
\[
H(x, y) := x^+ \cdot f_+(y) - x^- \cdot f_-(y) - \frac{1}{2} [F_+(y) - F_-(y)],
\]
and
\[
F_\pm(y) := \int_0^y f_\pm(u) \, du, \quad y \geq 0.
\]
Then \( M = (M_t)_{t \geq 0} \) is a continuous \((\mathcal{F}_t)_{t \geq 0}\) local martingale, with stochastic integral representation
\[
M_t = \int_0^t \left[ f_+(L_s) \cdot 1_{\{B_s > 0\}} + f_-(L_s) \cdot 1_{\{B_s < 0\}} \right] \, dB_s,
\]
for all \( t \geq 0 \), almost surely.

Local martingales of the above type find application in [AY] and [RVY]. Two special cases are worth noting: \( f_+ = f_- \) and \( f_+ = -f_- \).

(1.13) Corollary. Let \( f \) be in \( L^1_{\text{loc}} \) and define \( F(x) := \int_0^x f(u) \, du \) as before.

(a) The process \( B_t \cdot f(L_t), \ t \geq 0 \), is a continuous local martingale, and
\[
B_t \cdot f(L_t) = \int_0^t f(L_s) \, dB_s, \quad \forall t \geq 0, \text{a.s.}
\]

(b) The process \( |B_t| \cdot f(L_t) - F(L_t), \ t \geq 0 \), is a continuous local martingale, and
\[
|B_t| \cdot f(L_t) - F(L_t) = \int_0^t f(L_s) \cdot \text{sgn}(B_s) \, dB_s, \quad \forall t \geq 0, \text{a.s.}
\]

Part (a) of Corollary (1.13) is a special case of “balayage” considerations found in [Y; Thm. 2].

The following converse of Theorem (1.8) is the main result of this paper. It complements and (as a consequence of Lévy’s Theorem mentioned previously) generalizes Oblój’s characterization of the local martingale functions of Brownian motion and its running maximum. A footnote on p. 958 of [O] indicates that Oblój has obtained a similar result by the methods of [O]. The proof presented below is a condensed version of an argument found in the second-named author’s Ph. D. thesis [W], and it follows the broad outlines of the approach used in [O].

(1.16) Theorem. Let \( H : \mathbb{R} \times [0, \infty] \to \mathbb{R} \) be a Borel measurable function, with \( H(0, 0) = 0 \), such that \((H(B_t, L_t))_{t \geq 0}\) is a continuous local martingale with respect to \((\mathcal{F}_t)_{t \geq 0}\). Then there exist locally integrable functions \( f_+ \) and \( f_- \) such that, if we define \( F_\pm(y) = \int_0^y f_\pm(u) \, du \) and
\[
\tilde{H}(x, y) := x^+ \cdot f_+(y) - x^- \cdot f_-(y) - \frac{1}{2} [F_+(y) - F_-(y)],
\]
then
\[
H(B_t, L_t) = \tilde{H}(B_t, L_t), \quad \forall t \geq 0, \text{a.s.}
\]

For the following corollary recall that \( \mathcal{Z} := \{ t \geq 0 : B_t = 0 \} \).
(1.19) Corollary. Let $H : \mathbb{R} \times [0, \infty] \to \mathbb{R}$ be a measurable function, with $H(0, 0) = 0$, such that $M_t := H(B_t, L_t)$, $t \geq 0$, is a continuous local martingale with respect to $(\mathcal{F}_t)_{t \geq 0}$. Suppose further that

\begin{equation}
M_t = 0, \quad \forall t \in \mathbb{Z},
\end{equation}

almost surely. Then

\begin{equation}
M_t = B_t \cdot f(L_t), \quad \forall t \geq 0, \text{ a.s.},
\end{equation}

for some $f \in L^1_{\text{loc}}$.

(1.22) Remarks. (a) A direct argument using Itô’s formula shows that if $H$ is of the class $C^{2,1}$ with $H(0, 0) = 0$, and if $M_t := H(B_t, L_t)$ is a (continuous) local martingale, then $M$ must be of the form (1.21); cf. [OY; pp. 522-523]. Notice that (1.16) permits us to make the same deduction under the weaker smoothness condition that $x \mapsto H(x, y)$ is differentiable at $x = 0$ for Lebesgue a.e. $y \geq 0$.

(b) The new results presented in this paper are taken from the second-named author’s doctoral dissertation [W].

(c) The pair $(B, L)$ is a strong Markov process on the state space $E := \mathbb{R} \times [0, \infty[. Under the law $\mathbf{P}^x$ of Brownian motion started at $x \in \mathbb{R}$, the process $(B_t, y + L_t)_{t \geq 0}$ is a realization of this process with starting point $(x, y) \in E$. Let us say that a Borel function $H : E \to \mathbb{R}$ is harmonic provided $M_t := H(B_t, y + L_t)$, $t \geq 0$, is a continuous $\mathbf{P}^x$-local martingale for each starting point $(x, y) \in E$. It is not hard to deduce from (1.8) that if $H$ is given by the right side of (1.17), then $H$ is harmonic. Conversely, if $H$ is harmonic, then there are locally integrable functions $f_+$ and $f_-$ such that $H(x, y)$ is equal to the right side of (1.17) for all $(x, y) \in E$. We sketch the proof. If we start at $(x, y)$ with $x > 0$, then $M_t = H(B_t, y)$ for $0 \leq t \leq T_0$, where $T_z := \inf\{t : B_t = z\}$ for $z \in \mathbb{R}$. As noted already in (b), the harmonic functions of Brownian motion on $]0, \infty[$ with absorbing barrier at 0 are the affine functions. Thus there are Borel functions $\varphi_+$ and $\gamma_+$ mapping $[0, \infty[ \to \mathbb{R}$ such that for each $x > 0$ and $y \geq 0$,

\begin{equation}
M_t = H(B_t, y + L_t) = B_t \cdot \varphi_+(y) + \gamma_+(y), \quad 0 \leq t \leq T_0,
\end{equation}

$\mathbf{P}^x$-a.s. Fix $x > 0$, start the process $(B, L)$ at $(0, 0)$, and consider the local martingale $M$ on the time interval $[T_x, D_x]$, where $D_x := \inf\{t > T_x : B_t = 0\}$. The strong Markov property at time $T_x$ implies that

\begin{equation}
M_t = B_t \cdot \varphi_+(L_t) + \gamma_+(L_t), \quad T_x \leq t \leq D_x,
\end{equation}

$\mathbf{P}^0$-a.s. Contrasting this with the information provided by Theorem (1.16), we deduce that

\begin{equation}
\varphi_+(y) = f_+(y)
\end{equation}
for Lebesgue a.e. $y \geq 0$, because the $P^0$-distribution of $L_{T_y}$ has a strictly positive density with respect to Lebesgue measure. Thus, substituting $\varphi_+$ for $f_+$ we can suppose that, in addition to the conclusion of Theorem (1.16) holding, we have the identity

$$(1.26) \quad H(x, y) = x \cdot f_+(y) + H(0, y), \quad \forall (x, y) \in \mathbb{R} \times [0, \infty[.$$ 

Similarly,

$$(1.27) \quad H(x, y) = x \cdot f_-(y) + H(0, y), \quad \forall (x, y) \in \mathbb{R} \times [-\infty, 0 \times [0, \infty[.$$ 

Together (1.26) and (1.27) yield

$$(1.28) \quad H(x, y) = x^+ \cdot f_+(y) - x^- \cdot f_-(y) + H(0, y), \quad \forall (x, y) \in \mathbb{R} \times [0, \infty[.$$ 

To verify the asserted form of $H(0, y)$, note that (1.28), the local martingale property of $H(B_t, L_t)$, and Theorem (1.8) imply that

$$(1.29) \quad 2H(0, L_t) + F_+(L_t) - F_-(L_t), \quad t \geq 0,$$ 

is a continuous $P^0$-local martingale. This is enough to conclude that $H(0, y) = \lfloor F_-(y) - F_+(y) \rfloor / 2$ for all $y \geq 0$—see the discussion following (2.20) in the proof of Theorem (1.16) found in section 2.

(d) When the function $H$ in Theorem (1.16) is symmetric in its first argument (i.e., when $H(x, y) = G(|x|, y)$ for some $G$), then we recover the main result of [O] because of (1.7)—the distribution of $(|B_t|, L_t)_{t \geq 0}$ is that of a reflecting Brownian motion on $[0, \infty[$ paired with its local time at 0. We record this result for the sake of completeness.

(1.30) **Theorem.** [O; Thm. 2] Let $(R_t)_{t \geq 0}$ be a reflecting Brownian motion on $[0, \infty[$ with $R_0 = 0$, and let $(K_t)_{t \geq 0}$ be its (semimartingale) local time at 0. Let $\Phi : \mathbb{R} \times [0, \infty[ \to \mathbb{R}$ be a Borel measurable function such that $\Phi(R_t, K_t), t \geq 0$, is a continuous local martingale (relative to its natural filtration). Then there is a locally integrable function $g : [0, \infty[ \times \mathbb{R}$ such that

$$(1.31) \quad \Phi(R_t, K_t) - \Phi(0, 0) = R_t \cdot g(K_t) - G(K_t),$$

$$= \int_0^t g(K_s) \, dR_s - \int_0^t g(K_s) \, dK_s,$$

for all $t \geq 0$, almost surely, where $G(x) := \int_0^x g(u) \, du$ for $x \geq 0$.

2. **Proofs.**

**Proof of Theorem (1.16).**

The proof is close in outline to Obłój’s proof of [O; Thm. 1], so certain points will be only sketched.

Let $H : [0, \mathbb{R} \times [0, \infty[ \to \mathbb{R}$ be a Borel function such that $(H(B_t, L_t))_{t \geq 0}$ is a continuous local martingale with respect to the filtration $(\mathcal{F}_t)_{t \geq 0}$. Define $M_t := H(B_t, L_t) - H(B_0, L_0)$. By the
Brownian Local Martingale Representation Theorem, there exists a real-valued predictable process \( \eta \) such that

\[
M_t = \int_0^t \eta_s \, dB_s, \quad \forall t \geq 0, \quad \text{a.s.}
\]

Fix \( 0 < s < t \) and observe that the integrand \( \eta_s \) is equal to

\[
\lim_{v \downarrow s} \frac{\partial}{\partial v} \mathbb{E} \left[ H(B_t, L_t) | B_v \right],
\]

provided \( (H(B_t, L_t))_{t \geq 0} \) is a square integrable martingale. Since the pair \( (B_t, L_t) \) is a Markov process, this makes it intuitively plausible that \( \eta \) takes the form

\[
\eta_s = h(B_s, L_s), \quad \forall s \geq 0 \quad \text{a.s.}
\]

for some Borel function \( h \); see pp. 963–964 in [O] for a more detailed discussion of this point. Summarizing, we now have the following two identities:

\[
M_t = H(B_t, L_t) - H(B_0, L_0),
\]

and

\[
M_t = \int_0^t h(B_s, L_s) \, dB_s.
\]

Define stopping times, for fixed \( x \), by

\[
T_x := \inf \{ t > 0 : B_t = x \}, \quad U_x := \inf \{ t > T_x : B_t = 0 \},
\]

and set

\[
\xi_x := L_{T_x}, \quad R_x := U_x - T_x.
\]

Also, for \( s \geq 0 \), define

\[
\beta_s = B_{T_x + s} - B_{T_x}, \quad D_s = \inf \{ t > s : B_t = 0 \}.
\]

Note that \( t \mapsto L_t \) is constant on \([T_x, T_x + R_x]\), and that \( \xi_x \) (being \( \mathcal{F}_{T_x} \)-measurable) is independent of \( (\beta_s)_{s \geq 0} \). We sometimes write \( \beta^x_s := B_{T_x + s} = x + \beta_s \), a Brownian motion started at \( x \). By expanding

\[
M_{T_x + (t \wedge R_x)} - M_{T_x}
\]

in two different ways using (2.3) and (2.4) we obtain

\[
\int_0^{t \wedge R_x} h(x + \beta_u, \xi_x) \, d\beta_u = H(x + \beta_{t \wedge R_x}, \xi_x) - H(x, \xi_x) \quad \forall t \geq 0 \quad \text{a.s.}
\]
The stochastic integral in (2.5) is a local martingale, hence so is the right side. However this is a local martingale function of (absorbed) Brownian motion and thus is an affine function of that Brownian motion. Hence, almost surely for all \( t \in [0, R_x] \),

\[
(2.6) \quad H(x + \beta_t, \xi_x) - H(x, \xi_x) = f(x, \xi_x) \cdot \beta_t + g(x, \xi_x) = \int_0^t f(x, \xi_x) \, d\beta_u + g(x, \xi_x),
\]

for certain functions \( f \) and \( g \). Taking \( t = 0 \) we find that \( g(x, \xi_x) \) is identically 0. Thus, almost surely for all \( t \in [0, R_x] \),

\[
(2.7) \quad H(x + \beta_t, \xi_x) - H(x, \xi_x) = \int_0^t f(x, \xi_x) \, d\beta_u.
\]

We now verify that \( f(x, y) \) does not depend on \( x \). To this end fix \( x \neq 0 \) and note that, by the independence of \( \beta \) and \( \xi_x \), and the fact that \( \xi_x \) has a density with respect to Lebesgue measure, we obtain

\[
(2.8) \quad \int_0^{t \wedge R_x} h(x + \beta_u, y) \, d\beta_u = \int_0^{t \wedge R_x} f(x, y) \, d\beta_u,
\]

for a.e. \( y \in [0, \infty) \) with respect to Lebesgue measure. Now suppose that \( x > 0 \). Fix \( x' \) such that \( 0 < x' < x \) and define the following:

\[
T' := \inf(u > T_x : B_u = x'), \quad \beta'_s := B_{T' + s}.
\]

Exploiting the fact that the \( \beta' \) path is a fragment of the \( \beta \) path:

\[
\beta'_s = \beta_{s+R'},
\]

where \( R := (T' - T_x) \), we conclude that for \( 0 \leq t \leq (U_x - T') \),

\[
(2.9) \quad \int_0^t f(x', y) \, d\beta'_u = \int_0^t f(x, y) \, d\beta'_u,
\]

which implies that for \( t \in [0, U_x - T'] \) there exists a Lebesgue null set \( N_x \) such that for all \( y \in [0, \infty) \setminus N_x \) we have

\[
(2.10) \quad f(x', y) = f(x, y), \quad \forall x' \in [0, x[.
\]

We now let \( x \) vary through \( \mathbb{N} \) to conclude that there exists a single function \( f_+ : [0, \infty) \to \mathbb{R} \), uniquely determined on \( [0, \infty) \setminus \bigcup_{n \in \mathbb{N}} N_n \), such that

\[
(2.11) \quad H(x + \beta_t, \xi_x) - H(x, \xi_x) = \int_0^t f_+(\xi_x) \, d\beta_u = f_+(\xi_x) \cdot \beta_t,
\]
for $0 \leq t \leq R_x$, a.s. A similar argument holds for $x < 0$ and we thus obtain for $t \in [0, R_x]$, 

$$(2.12) \quad H(x + \beta_t, L_{T_x}) - H(x, L_{T_x}) = \begin{cases} 
\int_0^t f_+(L_{s}) \, d\beta_s, & \text{for } x = \beta_0^+ > 0, \\
\int_0^t f_-(L_{s}) \, d\beta_s, & \text{for } x = \beta_0^+ < 0,
\end{cases}$$

where we have denoted by $f_+$, and $f_-$ the functions corresponding to excursions above and below 0 respectively, and $\xi_x = L_{T_x}$.

The above considerations have involved the first excursion of $B$ (away from 0) to reach the level $x$, but they apply to subsequent excursions as well. A little thought now shows that (2.12) implies (via the Markov property and the fact that the local time is constant over each excursion) the following: For each fixed $r \geq 0$, almost surely on \{${B_r \neq 0}$\},

$$(2.13) \quad H(B_s, L_s) - H(B_r, L_r) = \begin{cases} 
f_+(L_s)(B_s - B_r), & \text{for } B_r > 0, \\
f_-(L_s)(B_s - B_r), & \text{for } B_r < 0,
\end{cases}$$

for all $s \in [r, D_r]$, where $D_r$ is as before: $D_r = \inf\{t > r : B_t = 0\}$. By (2.13) and an approximation argument we may then conclude that

$$(2.14) \quad H(B_t, L_t) - H(0, L_t) = B^+_t \cdot f_+(L_t) - B^-_t \cdot f_-(L_t), \quad \forall t \geq 0, \ a.s.$$ 

By (2.4) and the above discussion, we have computed the Itô integrand $\eta$;

$$(2.15) \quad \eta_s = f_+(L_s) \cdot 1_{\{B_s > 0\}} + f_-(L_s) \cdot 1_{\{B_s < 0\}} \quad \text{for a.e. pair } (s, \omega).$$

In view of (1.1) the local time $L$ enjoys the following symmetry property:

$$(2.16) \quad (B_., L.) \overset{d}{=} (-B_., L.) .$$

From (2.16), (1.5), and the fact that $H(B_t, L_t)_{t \geq 0}$ is a continuous local martingale we now deduce that both $f_+$, and $f_-$ are in $L^1_{loc}$. This in turn allows us to apply (1.8) to conclude that

$$(2.17) \quad B^+_t \cdot f_+(L_t) = \int_0^t f_+(L_s) \cdot 1_{\{B_s > 0\}} \, dB_s + \frac{1}{2} F_+(L_t)$$

and

$$(2.18) \quad B^-_t \cdot f_-(L_t) = -\int_0^t f_-(L_s) \cdot 1_{\{B_s < 0\}} \, dB_s + \frac{1}{2} F_-(L_t),$$

where $F_\pm(y) = \int_0^y f_\pm(u) \, du$. Therefore the following holds,

$$H(B_t, L_t) - H(0, L_t) = f_+(L_t) \cdot B^+_t - f_-(L_t) \cdot B^-_t ,$$

$$(2.19) \quad = \int_0^t f_+(L_s) \cdot 1_{\{B_s > 0\}} \, dB_s + \int_0^t f_-(L_s) \cdot 1_{\{B_s < 0\}} \, dB_s + \frac{1}{2} (F_+(L_t) - F_-(L_t))$$

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for all \( t \geq 0 \), almost surely. This implies that

\[
N_t := H(0, L_t) + \frac{1}{2} [F_+(L_t) - F_-(L_t)], \quad t \geq 0,
\]

is a continuous local martingale. Since the local time \( L \) is flat off the zero set of \( B \), the local martingale \( N \) must have vanishing quadratic variation, hence it must be constant in time. Consequently,

\[
-H(0, L_t) = \frac{1}{2} [F_+(L_t) - F_-(L_t)], \quad \forall t \geq 0, \text{ a.s.},
\]

yielding the main assertion in Theorem (1.16).

Proof of Corollary (1.19).

Let \( M_t = H(B_t, L_t) \) be a continuous local martingale vanishing on the zero set \( Z \) of \( B \). By Theorem (1.16) we have

\[
0 = F_+(L_t) - F_-(L_t), \quad t \in Z,
\]

almost surely. But as \( t \) increases through \( Z \), the local time process \( L \) increases continuously from 0 to \(+\infty\). In other words, \( L(Z) = [0, \infty[ \), almost surely. It follows from this and (2.22) that \( F_+(x) = F_-(x) \) for all \( x \geq 0 \). Consequently, \( f_+ = f_- \) Lebesgue a.e. on \([0, \infty[ \). Define \( f := f_+ \). Since the distribution of \( L_t \) has a density with respect to Lebesgue measure, we have \( f(L_t) = f_+(L_t) = f_-(L_t) \) almost surely, for each fixed \( t > 0 \). Feeding this into (1.17) and (1.18) we deduce that

\[
H(B_t, L_t) = B_t \cdot f(L_t),
\]

first for each fixed \( t > 0 \), and then almost surely for all \( t \geq 0 \) since both sides of (2.23) are continuous in \( t \).

References


