Abstract. Copulas have been popular to model dependence for multivariate distributions, but have not been used much in modelling temporal dependence of univariate time series. This paper shows some difficulties with using copulas even for Markov processes: some tractable copulas such as mixtures between copulas of complete co- and counter-monotonicity and independence (Fréchet copulas) are shown to imply quite a restricted type of Markov process, and Archimedean copulas are shown to be incompatible with Markov chains. We also investigate Markov chains that are spreadable, or equivalently, conditionally i.i.d.

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1. Introduction

Copulas, which will be defined in Section 2, describe the dependence of a multivariate distribution that is invariant under monotone (increasing) transformations of each coordinate. In this paper we investigate the dependence that arise in a one-dimensional Markov process. Darsow et al. [1] began studying copulas related to Markov processes, see also [4, Ch. 6.3]. More precisely, they showed what the Kolmogorov-Chapman equations for transition kernels translates to in the language of copulas and introduced some families of copulas $(C_{st})_{s \leq t}$ that are consistent in the sense that $C_{st}$ is the copula of $(X_s, X_t)$ for a Markov process $(X_t)_{t \geq 0}$.

We will in Section 2 introduce a Markov product of copulas $C \ast D$ such that if $C$ gives the dependence of $(X_0, X_1)$ and $D$ the dependence of $(X_1, X_2)$, then $C \ast D$ gives the dependence of $(X_0, X_2)$ for a Markov chain $X_0, X_1, X_2$. An analogy is that of a product of transition matrices of finite state Markov chains, in particular doubly stochastic matrices (whose column sums are all one) since they have uniform stationary distribution.

This approach might at first seem like a sensible way of introducing the machinery of copulas into the field of stochastic processes: Mikosch [3], for example, has criticised the wide-spread use of copulas in many areas and among other things pointed out a lack of understanding of the temporal dependence, in terms of copulas, of most basic stochastic processes.

This paper builds on that of Darsow et al. [1], but with a heavier emphasis on probabilistic, rather than analytic or algebraic, understanding. Our main results are negative, in that we show how
(1) a proposed characterisation of the copulas of time-homogeneous Markov processes fails (Section 3),
(2) Fréchet copulas imply quite strange Markov processes (Section 4),
(3) Archimedean copulas are incompatible with the dependence of Markov chains (Section 5),
(4) a conjectured characterisation of idempotent copulas, related to exchangeable Markov chains, fails (Section 6).

2. Copulas and the Markov product

Definition 1. A copula is a distribution function of a multivariate random variable whose univariate marginal distributions are all uniform on [0, 1].

We will mostly concern ourselves with two-dimensional copulas. In the following all random variables denoted by $U$ have a uniform distribution on [0, 1] (or sometimes (0, 1)).

Definition 2. $\Pi(x, y) = xy$ is the copula of independence: $(U_1, U_2)$ has the distribution $\Pi$ if and only if $U_1$ and $U_2$ are independent.

Definition 3. $M(x, y) = \min(x, y)$ is the copula of complete positive dependence: $(U_1, U_2)$ has the distribution $M$ if and only if $U_1 = U_2$ almost surely (a.s.).

Definition 4. $W(x, y) = \max(x + y - 1, 0)$ is the copula of complete negative dependence: $(U_1, U_2)$ has the distribution $W$ if and only if $U_1 = 1 - U_2$ a.s.

Note that a mixture $\sum_i p_i C_i$ of copulas $C_1, C_2, \ldots$ also is a copula if $p_1, p_2, \ldots$ is a probability distribution since one can interpret the mixture as a randomisation: first chose copula according to the distribution $p_1, p_2, \ldots$ and then draw from the chosen distribution.

It is well known that if $X$ is a (one-dimensional) continuous random variable with distribution function $F$, then $F(X)$ is uniform on [0, 1]. Thus if $(X_1, \ldots, X_n)$ is an $n$-dimensional continuous random variable with joint distribution function $F$ and marginal distributions $(F_1, \ldots, F_n)$, then the random variable $(F_1(X_1), \ldots, F_n(X_n))$ has uniform marginal distributions, i.e. its joint distribution function is a copula, say $C$.

Sklar’s theorem, see [1] Thm. 2.10.9, states that any $n$-dimensional distribution function $F$ with marginals $(F_1, \ldots, F_n)$ can be “factored” into $F(x_1, \ldots, x_n) = C(F_1(x_1), \ldots, F_n(x_n))$ for a copula $C$, which is furthermore unique if the distribution $F$ is continuous. We say that the $n$-dimensional distribution $F$, or the random variable $(X_1, \ldots, X_n)$, has the copula $C$.

Remark 1. When $(X_1, \ldots, X_n)$ does not have a unique copula, all copulas of this random variable agree at points $(u_1, \ldots, u_n)$ where $u_i$ is in the range $R_i$ of the function $x_i \mapsto F_i(x_i)$. One can obtain a unique copula by an interpolation between these points which is linear in each coordinate, and we will, as Darsow et al. [1], speak of this as the copula of such random variables.
Copulas allows for a study of the dependence in a multivariate distribution separately from the marginal distributions. It gives reasonable information about dependence in the sense that the copula is unchanged if \((X_1, \ldots, X_n)\) is transformed into \((g_1(X_1), \ldots, g_n(X_n))\) where \(g_1, \ldots, g_n\) are strictly increasing.

**Example 1.** The notion of copulas makes it possible to take a copula from say a multivariate \(t\)-distribution and marginal distributions from say a normal distribution and combine them into a multivariate distribution where the marginals are normal, but the joint distribution is not multivariate normal. This is sometimes desirable in order to have models with, in a sense, “stronger” dependence than what is possible for multivariate normal distribution.

**Example 2.** \((X_1, X_2)\) has the copula \(\Pi\) if and only if \(X_1\) and \(X_2\) are independent. \((X_1, X_2)\) has the copula \(M\) if and only if \(X_2 = g(X_1)\) for a strictly increasing function \(g\). \((X_1, X_2)\) has the copula \(W\) if and only if \(X_2 = h(X_1)\) for a strictly decreasing function \(h\). (When \(X_1\) and \(X_2\) furthermore have the same marginal distributions they are usually called antithetic random variables.)

In this paper we are in particular interested in the dependence that arise in a Markov process in \(\mathbb{R}\), e.g. the copula of \((X_0, X_1)\) for a stationary Markov chain \(X_0, X_1, \ldots\) By [2, Prop. 8.6], the sequence \(X_0, X_1, \ldots\) constitutes a Markov chain in a Borel space \(S\) if and only if there exist measurable functions \(f_1, f_2, \ldots : S \times [0, 1] \to S\) and i.i.d. random variables \(V_1, V_2, \ldots\) uniform on \([0, 1]\) and all independent of \(X_0\) such that \(X_n = f_n(X_{n-1}, V_n)\) a.s. for \(n = 1, 2, \ldots\) One may let \(f_1 = f_2 = \cdots = f\) if and only if the process is time-homogeneous.

We can without loss of generality let \(S = [0, 1]\) since we can transform the coordinates \(X_0, X_1, \ldots\) monotonely without changing their copula. The copula is clearly related to the function \(f\) above. We have \(f_\Pi(x, u) = u, f_M(x, u) = x\) and \(f_W(x, u) = 1 - x\) with obvious notation.

Darsow et al. [1] introduced an operation on copulas denoted \(*\) which we will call the Markov product.

**Definition 5.** Let \(X_0, X_1, X_2\) be a Markov chain, and let \(C\) be the copula of \((X_0, X_1)\), \(D\) the copula of \((X_1, X_2)\) and \(E\) the copula of \((X_0, X_2)\) (note that \(X_0, X_2\) also is a Markov chain). Then we write \(C * D = E\).

It is also possible to define this operation as an integral of a product of partial derivatives of the copulas \(C\) and \(D\), see [1, eq. (2.10)] or [4, eq. (6.3.2)], but in this paper the probabilistic definition will suffice.

From the definition it should be clear that the operation \(*\) is associative but not necessarily commutative and for all \(C\)

\[ \Pi * C = C * \Pi = \Pi \]
\[ M * C = C * M = C \]
so that $\Pi$ acts as a null element and $M$ as an identity. We write $C^{*n}$ for the $n$-fold Markov product of $C$ with itself and define $C^{*0} = M$. We have $W^{*2} = M$ so $W^{*n} = M$ if $n$ is even and $W^{*n} = W$ is $n$ is odd. In Section 6 we will investigate idempotent copulas $C$, meaning $C^{*2} = C$.

**Example 3.** If $X_0, X_1, \ldots$ is a time-homogeneous Markov chain where $(X_0, X_1)$ has copula $C$, then $C^{*n}$ is the copula of $(X_0, X_n)$ for all $n = 0, 1, \ldots$.

**Definition 6.** For any copula $C(x, y)$ of the random variable $(X, Y)$, we define its transpose $C^T(x, y) = C(y, x)$, the copula of $(Y, X)$.

We can say that $W$ is its own inverse since $W * W = M$.

**Definition 7.** In general we say that a copula $R$ is left-invertible or a right-invertible if there exists a copula $L$ so that $L * R = M$, and we say that $L$ is right-invertible or a left-inverse.

The equation $L * R = M$ implies that any randomness in the transition described by $L$ is undone by $R$, and thus $f_R(x, u)$ must be a function of $x$ alone. A rigourous proof of the last proposition may be found in [11, Thm. 11.1]. Furthermore, if $L$ is a right-invertible copula of $(X, Y)$ then its right-inverse $R$ can be taken as the transpose of $L$, $R = L^T$, since $M$ is the copula of $(X, X)$, and thus $R$ should be the copula of $(Y, X)$ so that $L, R$ correspond to the Markov chain $X, Y, X$. A proof of this can also found in [11, Thm. 7.1].

**Example 4.** Let $L_\theta$ be the copula of the random variable $(X, Y)$ whose distribution is as follows: $(X, Y)$ is uniform on the line segment $y = \theta x$, $0 \leq x \leq 1$ with probability $0 \leq \theta \leq 1$ and $(X, Y)$ is uniform on the line segment $y = 1 - (1 - \theta)x$, $0 \leq x \leq 1$ with probability $1 - \theta$. The function

$$f_{L_\theta}(x, u) = \theta x1(u \leq \theta) + (1 - (1 - \theta)x)1(u > \theta)$$

can be used to describe the transition from $X$ to $Y$. Let $R_\theta = L_\theta^T$. One can take

$$f_{R_\theta}(y, v) = \frac{y}{\theta}1(y \leq \theta) + \frac{1 - y}{1 - \theta}1(y > \theta)$$

to describe the transition from $Y$ to $X$. Note that $f_{R_\theta}(y, v)$ is a function of $y$ only. We also get $f_{R_\theta}(f_{L_\theta}(x, u), v) = f_{M}(x, w) = x$ so that indeed $L_\theta * R_\theta = M$.

The Markov product is linear:

$$\sum_i p_i C_i * \sum_j q_j D_j = \sum_i \sum_{ij} p_i q_j C_i \ast D_j,$$

(1)

since the left hand side can be interpreted as first choosing a $C_i$ with probability $p_i$ as transition mechanism from $X_0$ to $X_1$ and then independently choosing a $D_j$ with probability $q_j$ as transition mechanism from $X_1$ to $X_2$, whereas the right hand side can be interpreted as choosing a combined transition mechanism $C_i \ast D_j$ from $X_0$ to $X_2$ with probability $p_i q_j$. 


For a given Markov process \((X_t)_{t \geq 0}\) in continuous time we will denote the copula of \((X_s, X_t)\) by \(C_{st}\) for \(s \leq t\). For time-homogeneous processes we only write \(C_t\) for the copula of \((X_s, X_{s+t})\) for \(t \geq 0\). Note that for all \(t\)
\[C_{tt} = C_{00} = C_0 = M.\]
Copulas for continuous time Markov processes must obey a Kolmogorov-Chapman-type relationship:
\[C_{rt} = C_{rs} \ast C_{st}, \quad r \leq s \leq t.\]
(2)

3. Some families of copulas

Let \((X_t)_{t \geq 0}\) be a Markov process with transition kernel \(P_{st}(x, \cdot)\) and marginal distributions \((F_t)_{t \geq 0}\). Now
\[C_{st}(F_s(x), F_t(y)) = \mathbb{P}(X_s \leq x, X_t \leq y) = \int_{\mathbb{R}} P_{st}(u, (-\infty, y])dF_s(u),\]
(3)
and from this \(C_{st}\) may be derived in principle.

The expression (3) becomes more manageable if the marginal distributions are uniform, and if the transition kernel furthermore has a density \(f_{st}(x,y)\) we get that the density \(c_{st}(x,y) = \frac{\partial^2}{\partial x \partial y} C_{st}(x,y)\) of the Markov copula equals the transition density: \(c_{st} = f_{st}\).

Example 5. Let \((U_t)_{t \geq 0}\) be a Brownian motion reflected at 0 and 1, with \(\sigma = 1\) and with \(U_0\) uniform on \((0,1)\). This process is stationary and time-homogeneous with
\[c_t(x,y) = \frac{1}{\sqrt{2\pi t}} \sum_{n \in \mathbb{Z}} \left( e^{-\frac{(2n+y-x)^2}{2t}} + e^{-\frac{(2n-y-x)^2}{2t}} \right).\]
It is clear that \(C_t \to M\) as \(t \to 0\), and \(C_t \to \Pi\) as \(t \to \infty\).

It is usually hard to compute transition densities for interesting processes, so another way of obtaining families of Markov copulas is to construct them directly from copulas so that (2) holds. A problem with this approach is that a probabilistic understanding of the process may be lost.

Example 6. Darsow et al. [1] pose the question of whether all time-homogeneous Markov copulas may be expressed as
\[C_t = e^{-at} \left( E + \sum_{n=1}^\infty \frac{a^n t^n}{n!} C^{*n} \right),\]
(4)
where \(a\) is a positive constant and \(E\) and \(C\) are two copulas satisfying \(C \ast E = E \ast C = C\) and \(E\) is idempotent \((E \ast E = E)\). We observe immediately that \(C_0 = E\) according to equation (4), and thus \(E\) cannot be taken arbitrary, but must equal \(M\). However, since \(M\) commutes with all copulas, \(C\) may be arbitrary. As \(M = C^{*0}\) we can rewrite
\[C_t = \sum_{n=0}^\infty \frac{(at)^n}{n!} e^{-at} C^{*n} = \mathbb{E} \left[ C^{*N(t)} \right],\]
(5)
where $N$ is a Poisson process with intensity $a$. We can thus give the following probabilistic interpretation: A Markov process has the Markov copula of equation (5) if it jumps according to the Poisson process $N$ with intensity $a$, and at each jump, it jumps according to the copula $C$. Between jumps it remains constant. This clearly does not cover all possible time-homogeneous Markov processes or Markov copulas, cf. the previous example.

4. Fréchet copulas

In this section we only consider Markov processes in continuous time.

A copula $C$ is said to be in the Fréchet family if $C = \alpha W + (1 - \alpha - \beta)\Pi + \beta M$ for some non-negative constants $\alpha$ and $\beta$ satisfying $\alpha + \beta \leq 1$, [4, p. 12]. Darsow et al. [1] find conditions on the functions $\alpha(s, t)$ and $\beta(s, t)$ in

$$C_{st} = \alpha(s, t)W + (1 - \alpha(s, t) - \beta(s, t))\Pi + \beta(s, t)M$$

so that $C_{st}$ satisfies equation (2). By equation (1) we find

$$\beta(r, t)\alpha(s, t) + \alpha(r, s)\beta(s, t) = \alpha(r, t),$$

$$\alpha(r, t)\alpha(s, t) + \beta(r, s)\beta(s, t) = \beta(r, t).$$

Darsow et al. [1] solved these equations by putting $r = 0$ and defining $f(t) = \alpha(0, t)$ and $g(t) = \beta(0, t)$ which yields

$$\alpha(s, t) = \frac{f(t)g(s) - f(s)g(t)}{g(s)^2 - f(s)^2},$$

$$\beta(s, t) = \frac{g(t)g(s) - f(s)f(t)}{g(s)^2 - f(s)^2}.$$ 

This solution in terms of the functions $f$ and $g$ does not have an immediate probabilistic interpretation and it is therefore hard to give necessary conditions on the functions $f$ and $g$ for (1) and (7) to hold.

We will first investigate the time-homogeneous case, where $\alpha(s, t) = a(t - s)$ and $\beta(s, t) = b(t - s)$ for some functions $a$ and $b$. The equations (6) and (7) are then

$$b(s)a(t) + a(s)b(t) = a(s + t)$$

$$a(s)a(t) + b(s)b(t) = b(s + t)$$

Letting $\rho(t) = a(t) + b(t)$, we find by summing the two equations (8) and (9) that

$$\rho(s)\rho(t) = \rho(s + t).$$

Since $\rho$ is bounded and $\rho(0) = 1$ (since $C_0 = M$), necessarily $\rho(t) = e^{-\lambda t}$ where $\lambda \geq 0$, or $\rho(t) = 1 (t = 0)$. Note that $\rho(t)$ equals the probability that a Poisson process $N_W$ with intensity $\lambda$ has no points in the interval $(0, t]$.

For the moment we disregard the possibility $\rho(t) = 1 (t = 0)$. Since $\rho$ is positive we can define $\sigma(t) = a(t)/\rho(t)$. By dividing both sides of (9) with $\rho(s + t)$ and using (11) we get

$$\sigma(s)\sigma(t) + (1 - \sigma(s))(1 - \sigma(t)) = \sigma(s + t).$$
Now let \( \tau(t) = 1 - 2\sigma(t) \) and equation (11) yields
\[
\tau(s)\tau(t) = \tau(s + t),
\]
and by the same reasoning as for \( \rho \) we get \( \tau(t) = e^{-2\mu t} \) for some \( \mu \geq 0 \) or \( \tau(t) = 1(t = 0) \). We disregard the latter possibility for the moment. Thus \( \sigma(t) = \frac{1}{2} - \frac{1}{2}e^{-2\mu t} = e^{-\mu t} \sinh \mu t \) for some constant \( \mu \geq 0 \). Note that
\[
\sigma(t) = e^{-\mu t} \sinh \mu t = \sum_{k=0}^{\infty} e^{-\mu t} \frac{(\mu t)^{2k+1}}{(2k+1)!},
\]
i.e. \( \sigma(t) \) equals the probability that a Poisson process \( N \) with intensity \( \mu \) has an odd number of points in \((0, t]\).

Thus, we have
\[
C_t = \sigma(t)\rho(t)W + (1 - \rho(t))\Pi + (1 - \sigma(t))\rho(t)M
= e^{-(\lambda+\mu)t} \sinh \mu tW + (1 - e^{-\lambda t})\Pi + e^{-(\lambda+\mu)t} \cosh \mu tM
= \mathbb{P}(N_W(t) \text{ is odd}, N_{\Pi}(t) = 0)W
+ \mathbb{P}(N_{\Pi}(t) \geq 1)\Pi
+ \mathbb{P}(N_W(t) \text{ is even}, N_{\Pi}(t) = 0)M,
\]
where the aforementioned Poisson processes \( N_{\Pi} \) and \( N_W \) are independent.

**Probabilistic interpretation.** The time-homogeneous Markov process with \( C_t \) as copula is therefore rather special. We may without loss of generality assume that all marginal distributions are uniform on \([0, 1]\). It “restarts” — becoming independent of its history — according to a Poisson process \( N_{\Pi} \). Independently of this process, it “switches” by transforming a present value \( U_t \) to \( U_t = 1 - U_{t-} \), and this happens according to a Poisson process \( N_W \). Note that the intensity of either process may be zero.

If \( \tau(t) = 1(t = 0) \) then \( \sigma(t) = \frac{1}{2}1(t > 0) \) so that \( C_t = \rho(t)(\frac{1}{2}W + \frac{1}{2}M) + (1 - \rho(t))\Pi \) for \( t > 0 \). The process can be described as follows. Between points \( t_i < t_{i+1} \) of \( N_{\Pi} \) the collection of random variables \( (U_t)_{t_i \leq t < t_{i+1}} \) are independent and have the distribution \( P(U_t = U_{t_i}) = P(U_t = 1 - U_{t_i}) = \frac{1}{2} \).

If \( \rho(t) = 1(t = 0) \), we have \( C_t = \Pi \) for \( t > 0 \), so that the process is at each moment independent of the value at any other moment, i.e. \( (U_t)_{t \geq 0} \) is a collection of independent random variables.

With the probabilistic interpretation, it is easy to rewrite equation (14) in the form (5), when \( \rho, \sigma > 0 \). The process makes a jump of either “restart” or “switch” type with intensity \( \lambda + \mu \) and each jump is of “restart” type with probability \( \lambda/(\lambda + \mu) \) and of “switch” type with probability \( \mu/(\lambda + \mu) \).

Thus
\[
C_t = \sum_{n=0}^{\infty} \frac{((\lambda + \mu)t)^n}{n!} e^{-(\lambda+\mu)t} \left( \frac{\lambda}{\lambda + \mu}\Pi + \frac{\mu}{\lambda + \mu}W \right)^{\ast n} = \mathbb{E} \left[ C^{\ast N(t)} \right],
\]
where \( C = \frac{\lambda}{\lambda + \mu}\Pi + \frac{\mu}{\lambda + \mu}W \) and \( N \) is a Poisson process with intensity \( \lambda + \mu \).
It is clear that the time-homogeneous process can be generalised to a time-inhomogeneous Markov process by taking $N^\Pi$ and $N^W$ to be independent inhomogeneous Poisson processes. With
\[
\rho(s, t) = \Pr(N^\Pi(t) - N^\Pi(s) = 0) \\
\sigma(s, t) = \Pr(N^W(t) - N^W(s) \text{ is odd})
\]
we get a more general version of the Fréchet copula:
\[
C_{st} = \sigma(s, t)\rho(s, t)W + (1 - \rho(s, t))\Pi + (1 - \sigma(s, t))\rho(s, t)M,
\]
with essentially the same probabilistic interpretation as the time-homogeneous case.

In the time-inhomogeneous case it is also possible to let either or both of the two processes consist of only one point, say $\tau^\Pi$ and/or $\tau^W$ that may have arbitrary distributions on $(0, \infty)$. In addition to this, both in the Poisson case and the single point case, it is possible to add deterministic points to the processes $N^\Pi$ and $N^W$ and still retain the (time-inhomogeneous) Markovianity.

5. Archimedean copulas

If a copula of an $n$-dimensional random variables is of the form
\[
\phi\phi^{-1}(u_1) + \cdots + \phi^{-1}(u_n)
\]
(15)
it is called Archimedean. In order to have an Archimedean copula for the random variable $(X_1, \ldots, X_n)$ for all $n$, $\phi$ must equal the inverse $\phi = \psi^{-1}$ of a Laplace transform $\psi$ of a positive random variable, say $Y$, see [4, Thm. 4.6.2 & Lem. 4.6.5].

Example 7. Let $Y$ be a positive random variable with $\psi(t) = \mathbb{E}[e^{-tY}]$ for $t \geq 0$ and let $\Pr(X_1 \leq -x_1, \ldots, X_n \leq -x_n|Y) = e^{-(x_1 + \cdots + x_n)Y}$ for $x_i \geq 0$, $i = 1, \ldots, n$. One can say that the random variables $X_1, \ldots, X_n$ are conditionally i.i.d. with a negative exponential distribution with intensity $y$ given $Y = y$. Thus
\[
\Pr(X_1 \leq -x_1, \ldots, X_n \leq -x_n) = \mathbb{E}[e^{-(x_1 + \cdots + x_n)Y}] = \psi(x_1 + \cdots + x_n).
\]
Since $t \mapsto \psi(-t)$ is an increasing function from the non-positive real numbers to the non-negative real numbers we have
\[
\Pr(\psi(-X_1) \leq \psi(x_1), \ldots, \psi(-X_n) \leq \psi(x_n)) = \psi(x_1 + \cdots + x_n),
\]
or equivalently,
\[
\Pr(\psi(-X_1) \leq u_1, \ldots, \psi(-X_n) \leq u_n) = \psi(\psi^{-1}(u_1) + \cdots + \psi^{-1}(u_n))
\]
for $0 \leq u_i \leq 1$, $i = 1, \ldots, n$. Hence $(X_1, \ldots, X_n)$ has an Archimedean copula generated by $\phi = \psi^{-1}$. If $P(Y = y) = 1$ for some $y$, then $X_1, \ldots, X_n$ are i.i.d.

Consider a sequence of random variables $X_1, \ldots$ such that the copula of $(X_1, \ldots, X_n)$ is given by (15) for all $n$. Without loss of generality we may assume that the marginal distribution of each $X_i$ is that of the example [7]
above, i.e. $P(X_i \leq x) = \psi(-x)$ for $x \leq 0$, since we can always transform each coordinate monotonically so that it has the proposed distribution after transformation. By the law of large numbers, $\lim_{n \to \infty} \frac{1}{n} \sum_{i=1}^{n} X_i = -1/Y$ a.s., since $E[X_1|Y] = -1/Y$. Therefore the observation of $X_1, \ldots, X_n$ gives more information about $Y$ and thus also $X_{n+1}$ than the observation of only $X_n$, which would be the case if $X_1, \ldots$ were a Markov process. Thus it is not possible to have a Markov process with an Archimedean copula for the distribution of $X_1, \ldots, X_n$ for all $n$, unless all $X_1, \ldots$ are independent.

6. Idempotent copulas

A copula is said to be idempotent if $C \ast C = C$. In this section we will investigate Markov chains with idempotent copulas whose probabilistic structure will turn out to be quite peculiar.

Example 8. Let $I_i = [a_i, b_i]$, $i = 1, 2, \ldots$, be a set of disjoint intervals in $[0, 1]$. Let $I_0 = [0, 1] \setminus \bigcup_{i=1}^{\infty} I_i$ and let $p_i = \lambda(I_i)$ be the Lebesgue measure of each set $I_i$, $i = 0, 1, \ldots$. Consider the random variable $(U, V)$ that has the following distribution: $(U, V)$ is uniform on $I_i \times I_i$ with probability $p_i$ for $i = 1, 2, \ldots$ and $U = V$ with $U$ uniform on $I_0$ with probability $p_0$. Let $D$ be the copula of $(U, V)$. ($D$ is a so-called “ordinal sum” of copies of $\Pi$ and $M$, see [4, Ch. 3.2.2].) We have

$$f_D(x, u) = x \mathbf{1}(x \in I_0) + \sum_{i \geq 1} ((b_i - a_i)u + a_i) \mathbf{1}(x \in I_i).$$

It is easy to check that $f_D(f_D(x, u), v) = f_D(x, v)$ so that $D \ast D = D$, i.e. $D$ is idempotent. If $U_0, U_1, \ldots$ is a Markov chain governed by the copula $D$, then all $U_0, U_1, \ldots$ lie in the same set $I_i$, where the random index $i$ differs from realisation to realisation.

If $C$ is idempotent and $L$ and $R = L^T$ are two copulas satisfying $L \ast R = M$, then also $R \ast C \ast L$ is idempotent. Darsow et al. [1] conjectured that all idempotent copulas could be factored in this form with $C$ as in the example 8. We will show that the class of idempotent copulas, even though they correspond to quite a restricted kind of dependence, is richer than what can be covered by that characterisation. If a Markov chain $X_0, \ldots$, which we without loss of generality assume is in $[0, 1]$, is governed by the copula $R \ast D \ast L$ then all $f_R(X_0, u_0), f_R(X_1, u_1), \ldots$ are in the same set $I_i$ for some random $i$, and there are only countably many such possible sets. Note that $f_R(x, u)$ is a function of $x$ only.

We start with some background on spreadable and exchangeable sequences, with notation from [2], which will be useful.

Definition 8. An infinite sequence $\xi_1, \xi_2, \ldots$ is said to be exchangeable if

$$(\xi_1, \xi_2, \ldots) \overset{d}{=} (\xi_{k_1}, \xi_{k_2}, \ldots)$$

for all permutations $(1, 2, \ldots) \mapsto (k_1, k_2, \ldots)$ which affects a finite set of numbers. The sequence is said to be spreadable if the equality in distribution is required only for strictly increasing sequences $k_1 < k_2 < \cdots$. 

Assuming that $\xi$ takes its values in a Borel space, exchangeability and spreadability are in fact equivalent, and these notions are also equivalent to $E[\xi \in \cdot | \eta] = \eta^\infty$ for a random distribution $\eta$, i.e. equivalent to the sequence being conditionally i.i.d. given $\eta$. Furthermore $\eta = \lim_{n \to \infty} \frac{1}{n} \sum_{k=1}^{n} \delta_{\xi_k}$, the almost sure limit of the empirical distribution of $(\xi_1, \ldots, \xi_n)$, see [2, Thm. 11.10].

We will need the following observation. If a sequence is conditionally i.i.d. given some $\sigma$-algebra $F$, i.e. $E[\xi \in \cdot |F] = \eta^\infty$, then $\sigma(\eta) \subseteq F$.

Let $X_0, X_1, \ldots$ be a Markov chain, whose Markov copula $C$ is idempotent. Thus $C^\infty = C$ for all $n$ and by the Markov property this implies that the sequence is spreadable and hence exchangeable and conditionally i.i.d. Since spreadability implies $(X_0, X_1) \overset{d}{=} (X_0, X_2)$, it is in fact equivalent to the copula being idempotent. This was noted by Darsow et al. [1], but we can take the analysis further by using the fact that the sequence in particular is conditionally i.i.d. given $\sigma(\eta)$, where $\eta$ is as above. Thus, for all $n$

$$P(X_{n+1} \in \cdot | X_0, \ldots, X_n) = P(X_{n+1} \in \cdot | X_n) = P(X_{n+1} \in \cdot | X_0),$$

where the first equality is due to the Markov property and the second is due to the exchangeability. Therefore

$$P(\cap_{i=0}^{n} \{X_i \in A_i\}) = P(X_n \in A_n | X_{n-1} \in A_{n-1}, \ldots, X_0 \in A_0) \cdot P(X_{n-1} \in A_{n-1} | X_{n-2} \in A_{n-2}, \ldots, X_0 \in A_0) \cdots P(X_1 \in A_1)$$

$$= P(X_n \in A_n | X_0 \in A_0) \cdots P(X_1 \in A_1 | X_0 \in A_0) \cdots P(X_0 \in A_0),$$

and thus $X_1, X_2, \ldots$ are conditionally i.i.d. given $X_0$, i.e. $\sigma(\eta) \subseteq \sigma(X_1)$.

Example 8. (Continued.) Note that $\iota$ is a function of $U_0$ since $\iota$ is the index of the set that $U_0$ lies in: $P(U_0 \in I_\iota) = 1$. It is clear that the random variables $U_0, U_1, \ldots$ that constitute the Markov chain of the example are i.i.d. given $U_0$, since all other random variables are either uniformly distributed on $I_\iota$ if $\iota = 1, 2, \ldots$, or identically equal to $U_0$ if $\iota = 0$ (and constant random variables are independent). Here the random measure

$$\eta = \delta_{U_0} 1(\iota = 0) + \sum_{i \geq 1} \frac{1}{p_i} \lambda_I 1(\iota = i)$$

where $\delta_x$ is the point mass at $x$ and $\lambda_I$ is the Lebesgue measure restricted to the set $I$. Since $\eta$ is a function of $X_0$, $\sigma(\eta) \subseteq \sigma(U_0)$.

The following example shows how the proposed characterisation fails.

Example 9. Let $J_x = \{2^{-n}x, n \in \mathbb{Z}\} \cap (0, 1)$ for all $x \in (0, 1)$. It is clear that $\{J_x\}_{x \in [\frac{1}{2}, 1)}$ is a partition of $(0, 1)$. Let $m(x) = \max J_x$. We can construct a stationary Markov chain by letting $U_0$ be uniform on $(0, 1)$ and

$$P(U_{k+1} = 2^{-n}m(x) | U_k = x) = 2^{-(n+1)}$$
for \( n = 0, 1, 2, \ldots \) and \( k = 0, 1, \ldots \). Let \( E \) be the copula of this Markov chain. As function \( f_E \) we can take

\[
f_E(x, u) = \sum_{n=0}^{\infty} 2^{-n} m(x) 1(2^{-(n+1)} \leq u < 2^{-n})
\]

Given \( U_0 = x \) the rest of the values of Markov chain \( U_1, U_2, \ldots \) are independent on \( J_x \), so the process is conditionally i.i.d., and \( E \) is thus idempotent. Here the random measure

\[
\eta = \sum_{n=0}^{\infty} 2^{-(n+1)} \delta_{2^{-n}m(U_0)}
\]

where \( U_0 \) is uniform on \((0, 1)\). Thus \( \sigma(\eta) \subseteq \sigma(U_0) \) is apparent. We note that the cardinality of the set of the disjoint sets \( \{J_x\}_{x \in (\frac{1}{2}, 1]} \) that gives the possible ranges of the Markov chain is uncountable and the copula \( E \) can therefore not be of the form \( L^T \ast D \ast L \).

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