Financial Mathematics

Functions and expressions



Let A and B be sets.

A function $f: A \rightarrow B$ is a rule that assigns, to each element of A, an element of B.

 $\forall a \in A$, the element of B assigned to a by f is denoted f(a).

Define $f: \{1,2,3\} \rightarrow \{4,5,6,7\}$ by f(1) = 5, f(2) = 5, f(3) = 6.

When f is clear, we sometimes use:

$$1\mapsto 5, \ 2\mapsto 5, \ 3\mapsto 6.$$



Let \dot{A} and \dot{B} be sets.

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 $\forall a \in A$, the element of B assigned to a by f is denoted f(a).

e.g.: used exactly once Define
$$f: \{1,2,3\} \rightarrow \{4,5,6,7\}$$
 by

$$\{1,2,3\}
ightarrow \{4,5,6,7\}$$
 by $1 \mapsto 5$,

$$2 \mapsto 5$$
,

$$3 \mapsto 6$$
.

$$1 \mapsto 5$$
, $2 \mapsto 5$, $3 \mapsto 6$.

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e.g.: all must be used exactly once unused, and that's OK Define f:\{1,2,3\} \rightarrow \{4,5,6,7\} by 1 \mapsto 5 \quad \text{used twice,} \\ 2 \mapsto 5, \\ 3 \mapsto 6.
```



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e.g.:

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 $\forall a \in A$, the element of B assigned to a by f is denoted f(a).

e.g.: function unchanged Define
$$f:\{1,2,3\} \rightarrow \{5,6\}$$
 by

Define $f: \{1, 2, 3\} \rightarrow \{3\}$ $1 \mapsto 5,$ $2 \mapsto 5,$ $3 \mapsto 6.$

Define
$$f: \mathbb{R} \to \mathbb{R}$$
 by

 $\forall x \in \mathbb{R}, \ f(x) = x^2.$



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 $3 \mapsto 6$.

Define $f:\{1,2,3\} \rightarrow \{5,6\}$ by $1 \mapsto 5, \\ 2 \mapsto 5.$

Define $f: \mathbb{R} \to [0, \infty)$ by $f(x) = x^2$.



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Notational Convention

Suppose $G: \mathbb{R}^3 \to \mathbb{R}$ is some function.

To plug $(2,3,4) \in \mathbb{R}^3$ into G, we do not usually write G((2,3,4)), but rather G(2,3,4).

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Either is correct, strongly but G(2,3,4) is preferred.



The image of a function $f:A \to B$ is $f(A) := \{f(a) \mid a \in A\}.$

A fn $f: A \to B$ is onto C if f(A) = C.

" $f:A \rightarrow B$ is onto" or " $f:A \rightarrow B$ is surjective" means: " $f:A \rightarrow B$

means: "f:A o B is onto B"

A function $f: A \to B$ is **one-to-one** (a.k.a. **1-1**,**injective**) if, $\forall a, a' \in A$, $a \neq a' \Rightarrow f(a) \neq f(a')$

Define $g:\{1,2,3\} \to \{1,2\}$ by two numbers $1 \mapsto 2$, map to one number $2 \mapsto 2$, means "onto $\{1,2\}$ "

Then $g:\{1,2,3\} o \{1,2\}$ is onto, but not 1-1

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 $\begin{array}{c} 1 \mapsto 2, \\ 2 \mapsto 3. \end{array} \text{ means "onto } \{1,2,3\}"$

Then $g:\{1,2\} \rightarrow \{1,2,3\}$ is 1-1, but not onto.

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(a.k.a. 1-1,injective) if, $\forall a, a' \in A$, $a \neq a' \Rightarrow f(a) \neq f(a')$

Define $g: \{1, 2, 3\} \rightarrow \{7, 8, 9\}$ by two numbers map to one number $2 \mapsto 8$, means, "onto {7,8,9}"

Then $g: \{1, 2, 3\} \rightarrow \{7, 8, 9\}$ is neither 1-1

Define
$$g: \{1,2,3\} \rightarrow \{4,5,6\}$$
 by $1 \mapsto 5$, $2 \mapsto 6$, $3 \mapsto 4$.

Then $g: \{1,2,3\} \rightarrow (4,5,6\}$ is bijective. Define $h: \{4,5,6\} \rightarrow \{1,2,3\}$ by out of order $6 \mapsto 2$, $4 \mapsto 3$.

We say $f:A \to B$ is **bijective** if $f:A \to B$ is both 1-1 and onto.



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Define
$$h:\{4,5,6\}
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 by $4\mapsto 3, \ 5\mapsto 1, \ 6\mapsto 2.$

Then,
$$\forall x \in \{1, 2, 3\}$$
, $h(g(x)) = x$ and, $\forall y \in \{4, 5, 6\}$, $g(h(y)) = y$.

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 $6\mapsto 2.$

Then, $\forall x \in \{1, 2, 3\}$, h(g(x)) = x and, $\forall y \in \{4, 5, 6\}$, g(h(y)) = y.

We say that g and h are inverses.

A function $f: A \rightarrow B$ is bijective iff f has an inverse $B \rightarrow A$.



If
$$\phi:A\to B$$
 and $\psi:B\to C$, " ϕ then ψ " then $\psi\circ\phi:A\to C$ is defined by "the composite of ψ and ϕ " $(\psi\circ\phi)(a)=\psi(\phi(a)).$

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If $\phi:A\to B$ and $\psi:B\to C$, " ϕ then ψ " then $\psi\circ\phi:A\to C$ is defined by "the composite of ψ and ϕ " $(\psi\circ\phi)(a)=\psi(\phi(a)).$

Def'n: For any set A, "the identity on A"

 $\operatorname{id}_A:A\to A$ is defined by: $\operatorname{id}_A(x)=x.$

Then, $\forall x \in \{1, 2, 3\}$, $(h \circ g)(x) = x^{h \circ g} = \operatorname{id}_{\{1, 2, 3\}}$ and, $\forall y \in \{4, 5, 6\}$, $(g \circ h)(y) = y \cdot_{g \circ h} = \operatorname{id}_{\{4, 5, 6\}}$ We say that g and h are inverses.

A function $f: A \rightarrow B$ is bijective iff f has an inverse $B \rightarrow A$.



If
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Fact: If
$$\phi:A\to B$$
, if $\psi:B\to C$, and if $\chi:C\to D$, then $(\chi\circ\psi)\circ\phi=\chi\circ(\psi\circ\phi)$

composition is associative



$$\begin{array}{c} \alpha: \{1,2,3\} \rightarrow \{1,2,3\} \\ 1 \mapsto 2 \\ 2 \mapsto 3 \\ 3 \mapsto 1 \end{array}$$

$$\beta: \{1,2,3\} \rightarrow \{1,2,3\}$$

$$1 \mapsto 2$$

$$2 \mapsto 1$$

$$3 \mapsto 3$$



composition is associative



$$f(t) = t^{2}$$

$$f(t)$$

greatest lower bound Defin:Let $b \in \mathbb{R}$, $S \subset \mathbb{R}$. We say b is the inf (or glb) of S, and write $b = \inf S$, infimum \forall lower bound a for S, we have a < b. If, in addition, $b \in S$, lminimum then we say that b is the min of S, and write $b = \min S$. Defin:Let $b \in \mathbb{R}$, $S \subset \overline{\mathbb{R}}$. least upper bound We say b is the sup (or lub) of S, and write $b = \sup S$, supremum \forall upper bound a for S, we have a > b. If, in addition, $b \in S$, maximum then we say that b is the \max of S, and write $b = \max S$

Say f is real-valued and defined on A. Defin: $\sup f := \sup f(A)$, $f(a) \mid a \in A$ and $\lim f \subseteq \mathbb{R}$. $\sup f(x) =: \sup_{s \in A} f(s) \text{ etc.}$

Def'n:Let
$$b \in \overline{\mathbb{R}}$$
, $S \subseteq \overline{\mathbb{R}}$.

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If, in addition, $b \in S$, then we say that b is the \max of S, and write $b = \max S$.

etc.

Def'n:
$$\sup_A f := \sup_{C(A)} f(A)$$

$$\sup_{x \in A} f(x) =: \sup_{s \in A} f(s) \text{ etc.}$$

e.g.:
$$\sup_{(-2,5)} (\bullet)^3 = \sup_{(-2,5)} (-8,125) = 125$$

$$\sup_{x \in (-2,5)} x^3 = \sup_{s \in (-2,5)} s^3 \qquad etc.$$

SUP −2<*s*<5

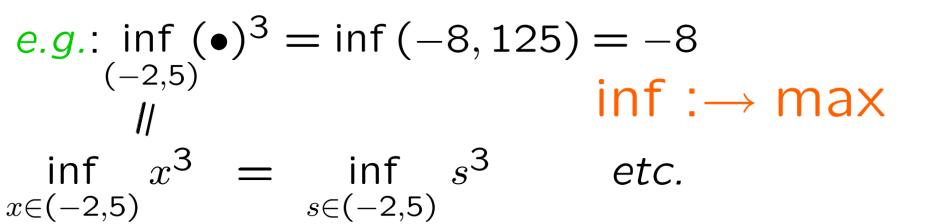


-2 < x < 5

Def'n:
$$\inf f := \inf f(A)$$

$$\inf_{x \in A} f(x) =: \inf_{s \in A} f(s) \quad etc.$$

-2 < x < 5



-2 < s < 5



etc.

Def'n:
$$\max_A f := \max_f(A)$$

e.g.:
$$\max_{(-2.5)} (\bullet)^3$$
, $\max(-8, 125)$,

 $(-2,5): \to [-2,5]$ $\max_{x \in (-2,5)} x^3, \quad \max_{s \in (-2,5)} s^3, \quad etc. ,$

$$\max_{-2 < x < 5} x^3 , \max_{-2 < s < 5} s^3 , \text{ etc.}$$

Say
$$f$$
 is real-valued and defined on A .
Def'n: $\max_A f := \max_A f(A)$

-2 < x < 5

e.g.:
$$\max_{[-2,5]} (\bullet)^3 = \max[-8, 125] = 125$$

$$\max_{x \in [-2,5]} x^3 = \max_{s \in [-2,5]} s^3 \qquad etc.$$

max

-2 < s < 5



etc.

Def'n:
$$\min f := \min f(A)$$

$$\min_{A} f(x) = \min_{s \in A} f(s) \quad etc.$$

-2 < x < 5

 $\min_{x \in [-2,5]} x^3 = \min_{s \in [-2,5]}$ etc. etc. -2<s<5

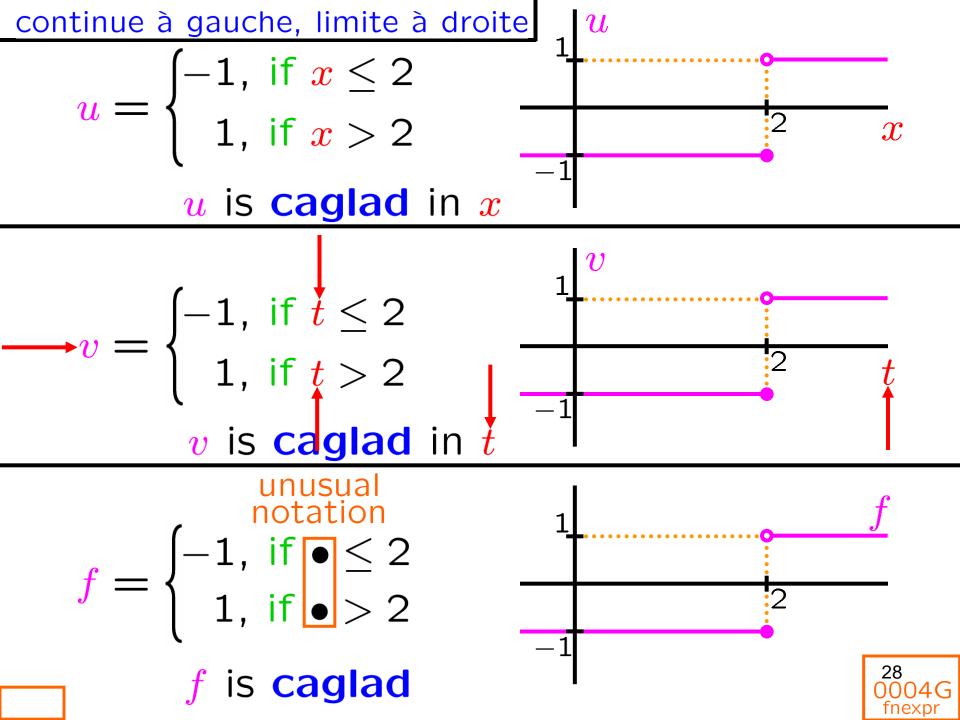


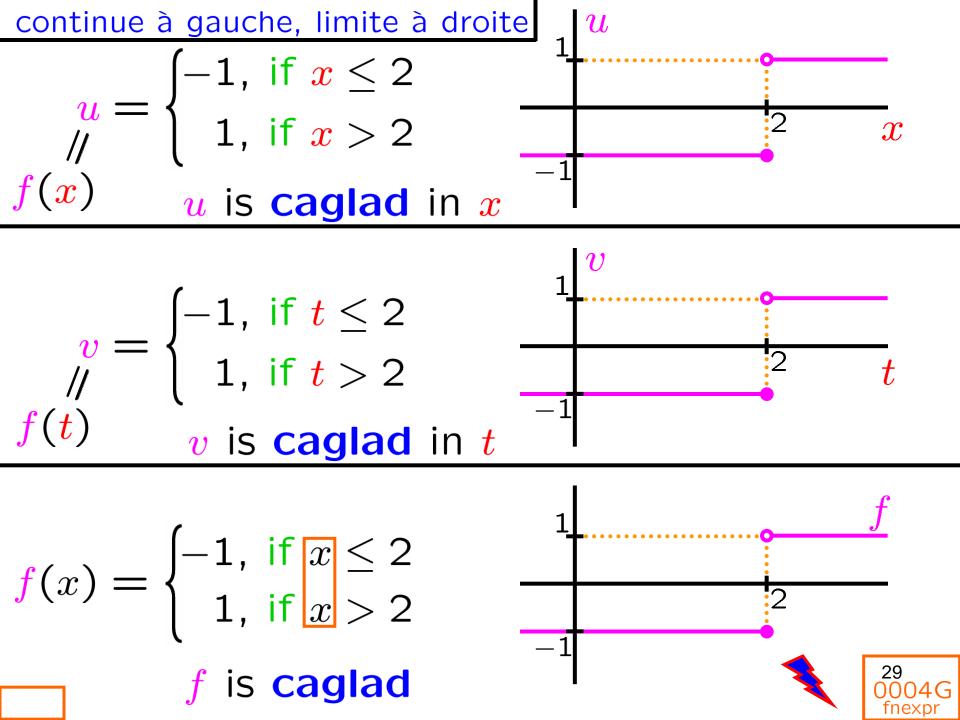
Th'm (Extreme Value Theorem):

If f is continuous on a compact interval I,

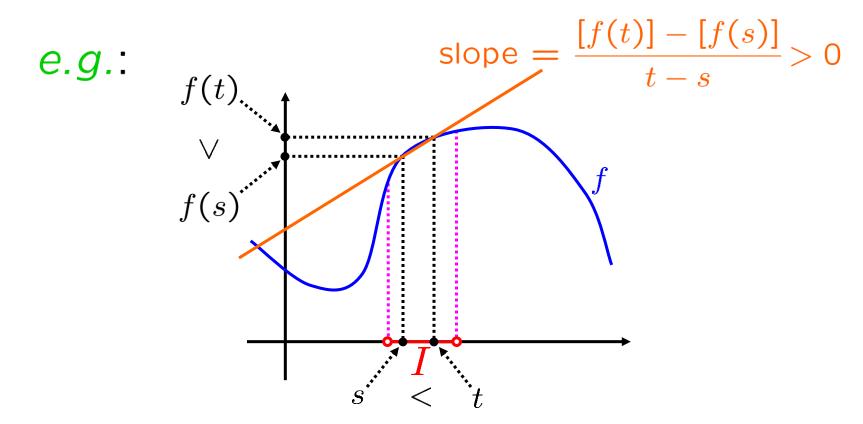
then both $\max_{I} f$ and $\min_{I} f$ exist.







A function f is called **increasing on** I if f(s) < f(t) whenever $s, t \in I$ and s < t.



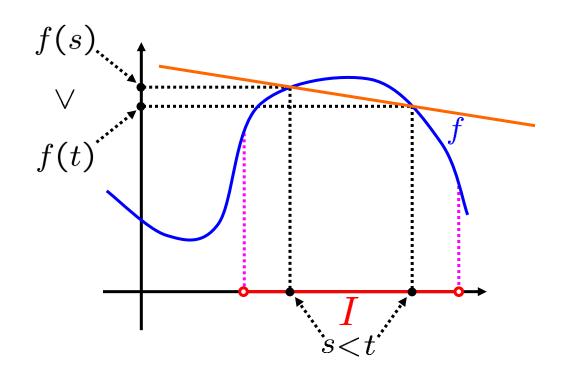
"secant lines run uphill"

(slopes > 0)



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non-*e.g.*:

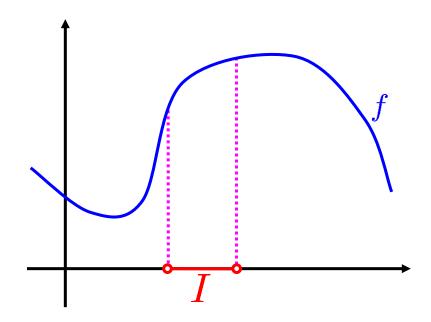


"there's a secant line that does not run uphill"



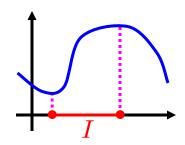
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e.g.:

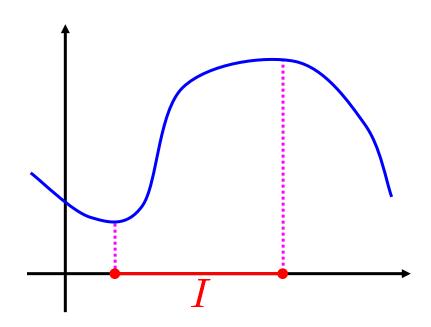


Typical to make the interval as large as possible. . .

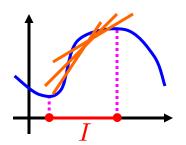
A function f is called increasing on I if f(s) < f(t) whenever $s, t \in I$ and s < t.



e.g.:

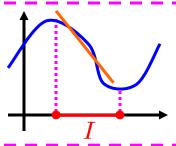


- A function f is called **increasing on** I if f(s) < f(t) whenever $s, t \in I$ and s < t.
- "secant lines run uphill" (slopes > 0)



A function f is called **decreasing on** I if f(s) > f(t) whenever $s, t \in I$ and s < t.

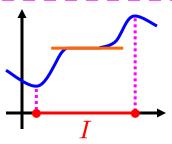
"secant lines run downhill" (slopes < 0)



(semi-increasing)

A function f is called **nondecreasing on** I if $f(s) \le f(t)$ whenever $s, t \in I$ and $s \le t$.

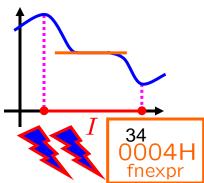
"secant lines don't run downhill" (slopes ≥ 0)



(semi-decreasing)

A function f is called **nonincreasing on** I if $f(s) \ge f(t)$ whenever $s, t \in I$ and $s \le t$.

"secant lines don't run uphill" (slopes ≤ 0)



Rescaling functions and expressions (a.k.a. scalar multiplication)

If $f:A \to \mathbb{R}$ is a function, and if $c \in \mathbb{R}$ is a number, then $cf:A \to \mathbb{R}$ is the function defined by (cf)(x) = c[f(x)]. e.g.: Let $F := f(x) = x^3$. $4F = (4f)(x) = 4x^3$

Rescaling functions and expressions (a.k.a. scalar multiplication) If $f:A\to\mathbb{R}$ is a function, and if $c\in\mathbb{R}$ is a number, then $cf:A\to\mathbb{R}$ is the function defined by (cf)(x)=c[f(x)]. 1 4ff e.g.: Let $F:=f(x)=x^3$.

In these lectures, typically, scalar := real number

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Context: real number, complex number, p-adic number, etc.

Rescaling functions and expressions (a.k.a. scalar multiplication)

If $f:A\to\mathbb{R}$ is a function, and if $c\in\mathbb{R}$ is a scalar, could also say "constant" then $cf:A\to\mathbb{R}$ is the function defined by (cf)(x)=c[f(x)].4f e.g.: Let $F:=f(x)=x^3.$ 4F = $(4f)(x)=4x^3$

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A scalar is a number.

Context: real number, complex number, p-adic number, etc.



Addition of functions

If $f:A\to\mathbb{R}$ and $g:B\to\mathbb{R}$ are functions, then $f+g:A\cap B\to\mathbb{R}$ is the function defined by (f+g)(x)=[f(x)]+[g(x)].

e.g.: Let
$$F := f(x) = x^3 + 2x$$

and $G := g(x) = 2x^3 - 6x$.
 $F + G = (f + g)(x) = 3x^3 - 4x$

e.g.: Let $Q := q(x) = \ln x$

and
$$R := r(x) = \sqrt{1 - x}$$
.
 $Q + R = (q + r)(x) = [\ln x] + \sqrt{1 - x}$

$$egin{aligned} q:(\mathsf{0},\infty)&
ightarrow\mathbb{R}\ r:(-\infty,1]&
ightarrow\mathbb{R}\ q+r:(\mathsf{0},1]&
ightarrow\mathbb{R} \end{aligned}$$

Linear operations and linear combinations

Def'n: The linear operations are scalar multiplication and addition.

Def'n: \forall integers $j \in [1, n]$, let $f_j : A_j \to \mathbb{R}$ be a function. Let $c_1, \ldots, c_n \in \mathbb{R}$.

The linear combination of f_1, \ldots, f_n with coefficients c_1, \ldots, c_n is $c_1 f_1 + \cdots + c_n f_n$.

e.g.: The linear combination of sin and coswith coefficients 2 and $-\sqrt{2}$ is the function $2\sin -\sqrt{2}\cos : \mathbb{R} \to \mathbb{R}$ def'd by $(2\sin -\sqrt{2}\cos)(x) = 2(\sin x) - \sqrt{2}(\cos x)$.



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The linear combination of $f_1(x), \ldots, f_n(x)$ with coefficients c_1, \ldots, c_n is $c_1[f_1(x)] + \cdots + c_n[f_n(x)]$.

e.g.: The linear combination of $\sqrt{1-x}$ and $\ln x$ with coefficients -1 and 4 is $H:=-\sqrt{1-x}+4\ln x$.

Domain of $H: x \in (-\infty, 1] \cap (0, \infty) = (0, 1]$



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e.g.: The linear combination of $\sqrt{1-t}$ and $\ln t$ with coefficients -1 and 4



Domain of H: $t \in (-\infty, 1] \cap (0, \infty) = (0, 1]$



Def'n: A polynomial in x is a finite

linear combination of $1, x, x^2, x^3, x^4, \dots$

e.g.:
$$4 + 7x + 8x^2$$
 degree = 2 $2 - 6x + 3x^2 + \pi x^3 - ex^4$ degree = 4 8 degree = 0 $x^{1000000}$ degree = 1000000 $2 - 7x^{900901}$ plex degree = googol plex = $10^{10^{100}}$

The degree of a polynomial in x is the maximum of the exponents on x.



Def'n: A polynomial in t is a finite linear combination of $1,t,t^2,t^3,t^4,\ldots$

e.g.:
$$4 + 7t + 8t^2$$
 degree = 2 $2 - 6t + 3t^2 + \pi t^3 - et^4$ degree = 4 8 degree = 0 $t^{1000000}$ degree = 1000000 $2 - 7t^{90090}$ plex degree = googol plex = $10^{10^{100}}$

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Def'n: A polynomial is a finite

linear combination of $1, \bullet, \bullet^2, \bullet^3, \bullet^4, \ldots$

The degree of a polynomial is the maximum of the exponents.



Let P(x) be a polynomial in x. SKILL degree of P(x) := Find degree of poly highest power of x appearing in P(x) e.g.: $3x + 4x^5 - 2x + 7$ has degree 5

Constant means degree 0 Constant polynomials: 2, 7, -8, π , etc. Linear means degree 1 Linear polynomials: 2x + 5, $ex - \sqrt{2}$, etc. Quadratic means degree 2

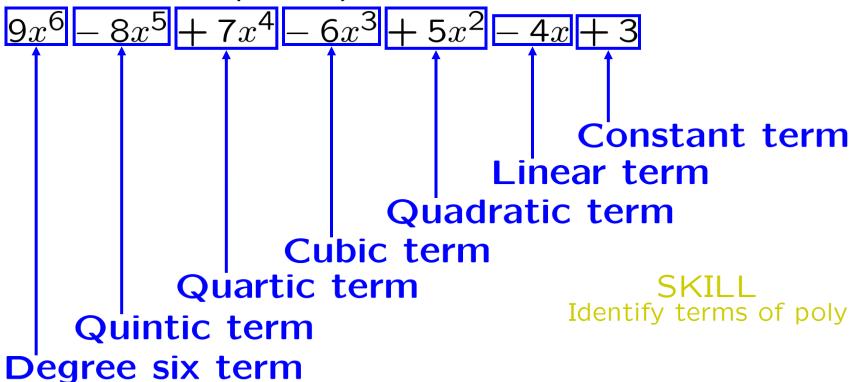
Quadratic polynomials: $-7x^2 - 4x + 8$, etc.

Cubic means degree 3 Cubic polynomials: $2x^3 - \pi x^2 + 6x + 1$, etc.

Quartic means degree 4
Quartic polynomials: $8x^4 - 4x^3 + 2x^2 + 4x + 6$, etc.

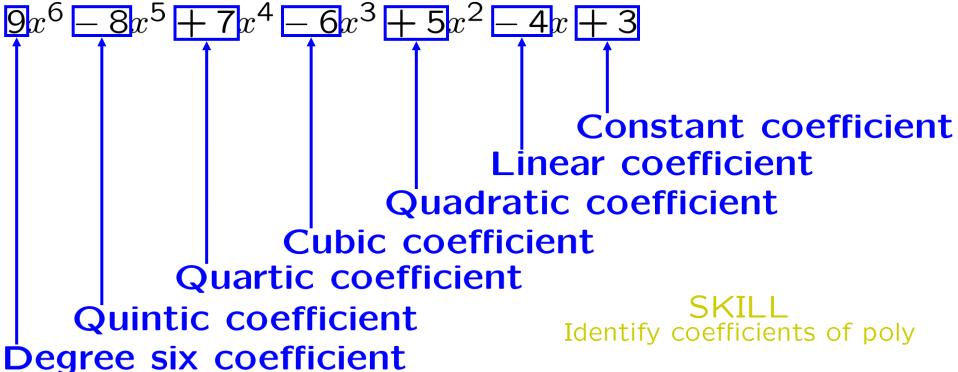
Quintic means degree 5 Quintic polynomials: $4x^5 - \pi x^4 + 2x^3 - ex^2 + \frac{46}{5000}$

A degree six (sextic) polynomial:



The coefficients are the numbers. . .

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Leading coefficient := the coefficient on the highest degree term.

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$$9x^6 - 8x^5 + 7x^4 - 6x^3 + 5x^2 - 4x + 3$$

SKILL Identify leading coefficient of poly

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A degree six (sextic) polynomial:

$$9x^6 - 8x^5 + 7x^4 - 6x^3 + 5x^2 - 4x + 3$$

SKILL Identify leading term of poly



Leading term := the highest degree term

Definition: A function $f: \mathbb{R} \to \mathbb{R}$ is exponentially bounded if

$$\exists A, B > 0 \text{ s.t., } \forall x \in \mathbb{R},$$
 $|f(x)| < Ae^{B|x|}.$

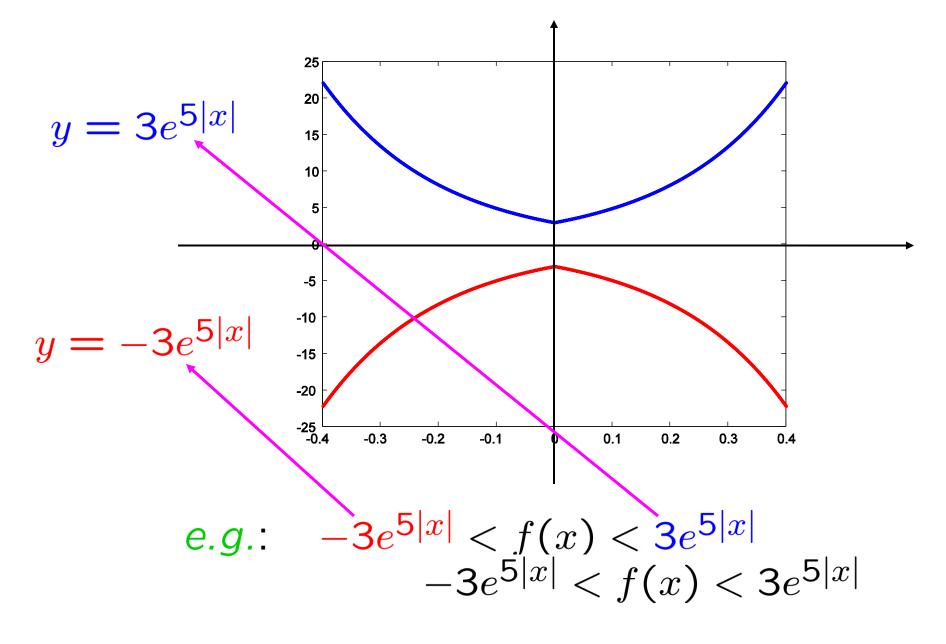
$$p: \rightarrow f(x) \qquad q: \rightarrow Ae^{B|x|}$$

$$|p| < q \text{ iff } -q < p < q \qquad |p| = \text{dist}(p,0)$$

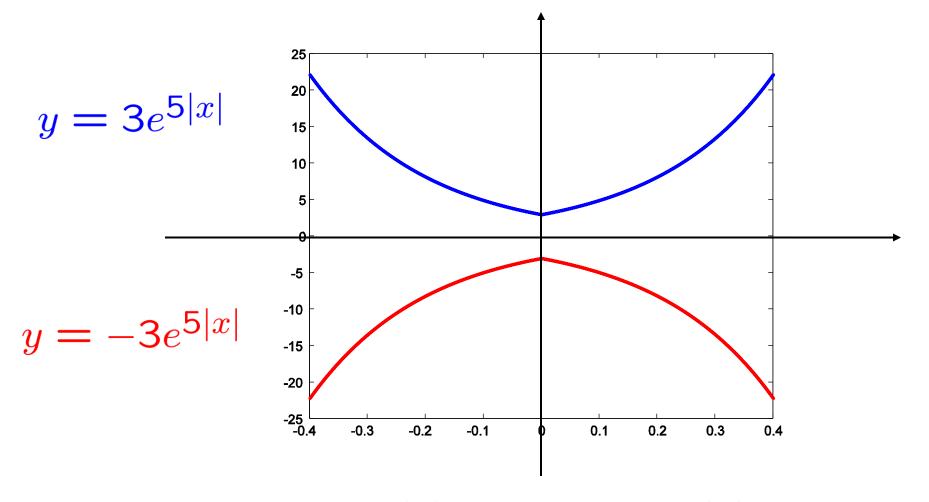
$$|f(x)| < Ae^{B|x|} \quad \text{iff } -Ae^{B|x|} < f(x) < Ae^{B|x|}$$

e.g.:
$$-3e^{5|x|} < f(x) < 3e^{5|x|}$$
 implies f is exp-bdd.









e.g.:
$$-3e^{5|x|} < f(x) < 3e^{5|x|}$$

means that the graph of f stays between the red and blue graphs above.



Definition: A function $f: \mathbb{R} \to \mathbb{R}$ is exponentially bounded if

$$\exists A, B > 0 \text{ s.t., } \forall x \in \mathbb{R},$$
 $|f(x)| < Ae^{B|x|}.$

Some exp-bdd expressions of x:

ANY polynomial in x

$$3x^7e^{4x} + \cos x + 10^{10^{100}}$$

$$(5e^{2x+7}-8)_{+}$$

 e^{x^2} is not exp-bdd in x.



