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# **Testing for Multiple Bubbles 2: Limit Theory of Real Time Detectors**

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# Testing for Multiple Bubbles 2: Limit Theory of Real Time Detectors\*

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## Abstract

This paper provides the limit theory of real time dating algorithms for bubble detection that were suggested in Phillips, Wu and Yu (2011, PWY) and Phillips, Shi and Yu (2013b, PSY). Bubbles are modeled using mildly explosive bubble episodes that are embedded within longer periods where the data evolves as a stochastic trend, thereby capturing normal market behavior as well as exuberance and collapse. Both the PWY and PSY estimates rely on recursive right tailed unit root tests (each with a different recursive algorithm) that may be used in real time to locate the origination and collapse dates of bubbles. Under certain explicit conditions, the moving window detector of PSY is shown to be a consistent dating algorithm even in the presence of multiple bubbles. The other algorithms are consistent detectors for bubbles early in the sample and, under stronger conditions, for subsequent bubbles in some cases. These asymptotic results and accompanying simulations guide the practical implementation of the procedures. They indicate that the PSY moving window detector is more reliable than the PWY strategy, sequential application of the PWY procedure and the CUSUM procedure.

*Keywords:* Bubble duration, Consistency, Dating algorithm, Limit theory, Multiple bubbles, Real time detector.

*JEL classification:* C15, C22

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\*The current paper and its empirical companion “Testing for Multiple Bubbles 1: Historical Episodes of Exuberance and Collapse in the S&P 500” build on work that was originally circulated in 2011 in a long paper entitled “Testing for Multiple Bubbles” and a supplement of related technical results. We are grateful to Heather Anderson, Farshid Vahid, Tom Smith and Anthony Lynch for valuable discussions. Phillips acknowledges support from the NSF under Grant Nos. SES 09-56687 and SES 12-58258. Shi acknowledges the Financial Integrity Research Network (FIRN) for funding support. Yu acknowledges the financial support from Singapore Ministry of Education Academic Research Fund Tier 2 under the grant number MOE2011-T2-2-096. Peter C.B. Phillips email: peter.phillips@yale.edu. Shuping Shi, email: shuping.shi@anu.edu.au. Jun Yu, email: yujun@smu.edu.sg.

# 1 Introduction

A recent article by Phillips, Wu and Yu (2011, PWY) developed new econometric methodology for real time bubble detection. When it was applied to Nasdaq data in the 1990s, the algorithm revealed that evidence in the data supported Greenspan’s declaration of ‘irrational exuberance’ in December 1996 and that this evidence of market exuberance had existed for some 16 months prior to that declaration. Greenspan’s remark therefore amounted to an assertion that could have been evidence-based if the test had been conducted at the time.

Greenspan formulated his comment as a question: “How do we know when irrational exuberance has unduly escalated asset values?” It was this very question that the recursive test procedure in PWY was designed to address. Correspondingly, an element of the methodology that is critical for empirical applications and policy assessment is the consistency of the test. Ideally we want a test whose size goes to zero and whose power goes to unity as the sample size passes to infinity. Then in very large samples there will be no false positive declarations of exuberance and no false negative assessments where asset price bubbles are missed.

PWY gave heuristic arguments showing that their recursive methodology produced a consistent test for exuberance and they provided a real time dating algorithm for finding the bubble origination and termination dates that was used in analyzing the Nasdaq data. The present paper provides a rigorous limit theory showing formal test consistency of the PWY bubble detection procedure and the consistency of its associated dating algorithm under certain conditions, notably the existence of a single bubble period in the data.<sup>1</sup> This limit theory is part of a much larger formal investigation undertaken here which examines the asymptotic properties of bubble detection algorithms when there may be multiple episodes of exuberance in the data, under which the PWY procedure does not perform nearly as well. As argued in our companion paper Phillips, Shi and Yu (2013b, PSY), data over long historical periods often include several crises involving financial exuberance and collapse. Bubble detection in this context of multiple episodes of exuberance and collapse is much more complex and is the main subject of the

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<sup>1</sup>The present paper therefore subsumes the results contained in the unpublished working paper of Phillips and Yu (2009) which is referenced in PWY and which first analyzed the asymptotic properties of the PWY procedure.

PSY paper, which develops a new moving window bubble detector that has some substantial advantages for long data series characterised by multiple financial crises.

The dating algorithms of PWY and PSY are now being applied to a wide range of markets that include energy, real estate, and commodities, as well as financial assets<sup>2</sup>. This methodology and its various applications have also attracted the attention of central bank economists, fiscal regulators, and the financial press.<sup>3</sup> It is therefore important that the limit properties and performance characteristics of these dating algorithms be well understood to assist in guiding practitioners about the suitable choice of procedures for implementation in empirical work and policy assessment exercises.

The PWY and PSY strategies for bubble detection and the estimation of any bubble origination and termination dates involve the comparison of a sequence of recursive test statistics with a corresponding critical value sequence, the crossing times of the lines being used to provide the date estimates. The PWY procedure uses recursively calculated right sided unit root test statistics based on a full sample of observations up to the current data point, whereas PSY use a moving window recursion of sup statistics based on a sequence of right sided unit root tests calculated over flexible windows of varying length taken up to the current data point. Inferences from the PWY and PSY strategies about the presence of exuberance in the data, including the dating of any exuberance or collapse, are drawn from these test sequences and the corresponding critical value sequences. The goals of the present paper are to explore the asymptotic and finite sample properties of these two procedures and to build a methodology for analyzing real time detector asymptotics in this context.

Our findings can be summarized as follows. First, under some general conditions both the PWY and PSY detectors are consistent when there is a single bubble in the sample period.

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<sup>2</sup>See Phillips and Yu (2011b), Das et al. (2011), Homm and Breitung (2012), Gutierrez (2013), Bohl et al. (2013), Etienne et al. (2013), among others.

<sup>3</sup>For example, a *Financial Times* article (Meyer, 2013) reports the work of Etienne et al. (2013) which employs the PSY dating algorithm to identify agricultural commodity bubbles. Recent working papers from the Hong Kong Monetary Authority (Yiu et al, 2012) and the Central Bank of Colombia (Gómez-González, et al, 2013) use PSY in studying real estate bubbles in Hong Kong and Columbia. Work for UNCTAD by Gilbert (2010) applies PWY to date bubbles in commodity prices and test congressional testimony reasoning by Masters (2008), and recent financial press articles (Phillips and Yu, 2011a, 2013) use PWY to assess current real estate and world stock market data for evidence of bubbles.

Second, when there are two bubbles in the sample period, the PWY detector for the first bubble is consistent, whereas the PWY estimates associated with the second bubble are duration-dependent. Specifically, the PWY strategy fails to detect the existence of the second bubble (and hence cannot provide consistent date estimates for the timing of that bubble) when the first bubble has longer duration than the second. But when the duration of the second bubble exceeds the first, the PWY strategy can detect the second bubble but only with some delay. Third, the PSY strategy and (under additional conditions) a sequential implementation of the PWY strategy (to each individual bubble in turn) do provide consistent detectors for both bubbles and these results hold irrespective of bubble duration. Thus, the PSY dating algorithm and sequential application of the PWY procedure have desirable asymptotic properties in a multiple bubbles scenario. One disadvantage of sequentially applying the PWY procedure is that sufficient data is needed between bubbles to implement the procedure and therefore some origination dates may not be consistently estimated if the origination date is excluded from the PWY sample recursion.

The paper also reports simulations to evaluate the finite sample performance of these detectors and date estimators, along with an alternative procedure based on CUSUM tests, as proposed in recent work by Hogg and Breitung (2012). The simulation results strongly corroborate the asymptotic theory, indicating that the PSY detector is much more reliable than PWY. On the other hand and with some exceptions that will be discussed in detail below, sequential application of the PWY procedure may perform nearly as well as the PSY algorithm. The performance characteristics of the CUSUM procedure are found to be similar to those of PWY. Overall, the results suggest that the PSY detector is a preferred procedure for practical implementation, especially with long data series involving more than one crisis episode.

The rest of the paper is organized as follows. Section 2 introduces the date stamping procedures that use recursive regressions and right tailed unit root tests of the type considered in PWY and PSY. This section also describes the models used to capture mildly explosive bubble behaviour when there are single and multiple bubble episodes in the data. Section 3 derives the limit theory for the dating procedures under both single bubble and multiple bubble al-

ternatives. Finite sample performance is studied in Section 4 and Section 5 concludes. Two appendices contain supporting lemmas and derivations for the limit theory presented in the paper covering both single and multiple bubble scenarios. A technical supplement to the paper (Phillips, Shi and Yu, 2013c) provides a complete set of additional mathematical derivations that are needed for the limit theory presented here.

## 2 Bubble Dating Algorithms

This Section introduces three different dating algorithms – the original PWY detector, the PSY detector, and a sequential version of the PWY detector. The approach in all of these algorithms is to use recursive right tailed unit root tests to assess evidence for mildly explosive bubble behaviour. In what follows we use the same models, tests, and notation as the companion paper PSY to assist joint reading of the two papers.

The null hypothesis is specified as suggested in Phillips, Shi and Yu (2013a): a random walk (or more generally a martingale) process with an asymptotically negligible drift which we write in the form

$$X_t = kT^{-\eta} + X_{t-1} + \varepsilon_t, \text{ with constant } k \text{ and } \eta > 1/2, \quad (1)$$

where  $T$  is the sample size,  $\varepsilon_t \stackrel{i.i.d}{\sim} (0, \sigma^2)$  and  $X_0 = O_p(1)$ . Under these simple conditions, partial sums of  $\varepsilon_t$  satisfy the functional law

$$T^{-1/2} \sum_{t=1}^{\lfloor T \cdot \rfloor} \varepsilon_t \Rightarrow B(\cdot) := \sigma W(\cdot), \quad (2)$$

where  $W$  is standard Brownian motion. The framework can be extended to allow for martingale difference sequence and more general weakly dependent innovations under conditions that allow the limit theory to continue to hold under the null (1), based on the functional law (2), and under mildly explosive alternatives as in (4) below, the latter based on results in Phillips and Magdalinos (2007a, 2007b). We maintain the *iid* error assumption here to keep the exposition as simple as possible and the paper to manageable length.

The fitted regression model is

$$\Delta X_t = \alpha + \beta X_{t-1} + \varepsilon_t, \quad \varepsilon_t \stackrel{i.i.d}{\sim} (0, \sigma^2), \quad (3)$$

which includes an intercept but no time trend. As in PSY, the fitted model may also be formulated in ADF regression format to allow for any short memory dependence in the innovations. The results given below continue to hold in that event but full extension to this case will substantially complicate derivations that are already extremely lengthy.

The test alternative is a mildly explosive bubble process with either a single bubble or sequence of multiple bubble episodes. The data generating processes that are used to capture bubble effects are extended versions of the PWY bubble model. That model has a single explosive episode and collapse within the sample period  $[1, T]$  and has the following form

$$X_t = X_{t-1}1\{t < \tau_e\} + \delta_T X_{t-1}1\{\tau_e \leq t \leq \tau_f\} + \left( \sum_{k=\tau_f+1}^t \varepsilon_k + X_{\tau_f}^* \right) 1\{t > \tau_f\} + \varepsilon_t 1\{j \leq \tau_f\}. \quad (4)$$

As usual, it is convenient to work with fractions of the sample  $T$  and we use the notation  $t = \lfloor Tr \rfloor$  to denote the integer part of  $Tr$  for  $r \in [0, 1]$ . In the process (4) a mildly explosive bubble runs from  $\tau_e = \lfloor Tr_e \rfloor$  to  $\tau_f = \lfloor Tr_f \rfloor$  with an expansion rate determined by the mildly explosive coefficient  $\delta_T = 1 + cT^{-\alpha}$  with  $c > 0$  and  $\alpha \in (0, 1)$ . When the bubble terminates, the process collapses to a value  $X_{\tau_f}^*$  which equals  $X_{\tau_e}$  plus an  $O_p(1)$  perturbation (i.e.  $X_{\tau_f}^* = X_{\tau_e} + X^*$ ) at period  $\tau_f + 1$ , which represents a re-initialization of the process to a level that relates to the last pre-bubble observation  $X_{\tau_e}$ . The pre-bubble period  $N_0 = [1, \tau_e)$  and post-bubble period  $N_1 = (\tau_f, \tau_T]$  are assumed to follow a pure random walk process.

The model is readily extended to include multiple bubble episodes. Suppose there are  $K$  bubble episodes in the sample period, represented in terms of sample fraction intervals as  $B_i = [\tau_{ie}, \tau_{if}]$  for  $i = 1, 2, \dots, K$ . The shifting dynamics of  $X_t$  are then given by the model

$$X_t = (X_{t-1} + \varepsilon_t) 1\{t \in N_0\} + (\delta_T X_{t-1} + \varepsilon_t) 1\{t \in B_i\} + \sum_{i=1}^K \left( \sum_{l=\tau_{if}+1}^t \varepsilon_l + X_{\tau_{if}}^* \right) 1\{t \in N_i\}, \quad (5)$$

where  $X_{\tau_{if}}^* = X_{\tau_{ie}} + X^*$  and the intervening subperiods  $N_0 = [1, \tau_{1e})$ ,  $N_j = (\tau_{j-1f}, \tau_{je})$  with  $j = 1, \dots, K-1$ , and  $N_K = (\tau_{Kf}, \tau_T]$  are ‘normal’ intervals of pure random walk (or more generally martingale) evolution.



The dating algorithms studied here are implemented repeatedly for observations starting from some initialization  $\lfloor Tr_0 \rfloor$ , where  $r_0$  is the minimum window size required to initiate the regression. For each individual observation  $t = \lfloor Tr \rfloor$ , we suppose that interest centres on whether this particular observation comes from a bubble realization or an interval of normal martingale behavior. Both the PWY and PSY algorithms use data from the same information set that starts from the first observation and goes up to the observation of interest (i.e.  $I_r = \{1, 2, \dots, \lfloor Tr \rfloor\}$ ).

PWY conduct recursive right tailed unit root tests with sample data running from the first observation to the current observation  $t = \lfloor Tr \rfloor$ . The corresponding unit root t statistic at  $t = \lfloor Tr \rfloor$  is denoted  $DF_r$ . PSY conduct recursive right tailed unit root tests repeatedly on a sequence of (backward expanding from observation  $t$ ) windows of data and perform inference based on the sup value of this t statistic sequence. Let  $r_1$  and  $r_2$  denote the start and end points of the regression. The regression window width  $r_w$  then equals  $r_2 - r_1$ . With the end point of the regressions  $r_2$  fixed at  $r$  (so that the test refers to the state of the process at the current observation  $t = \lfloor Tr \rfloor$ ) and  $r_1 \geq 0$ , the backward expanding sample sequence extends the window size  $r_w$  from  $r_0$  to  $r_2$  (which is equivalent to varying  $r_1$  from 0 to  $r_2 - r_0$ ). The corresponding unit root test sequence is denoted by  $\{DF_{r_1}^{r_2}\}_{r_1 \in [0, r_2 - r_0]}$ . The sup value of the test statistic sequence is called the backward SDF statistic and is defined as

$$BSDF_r(r_0) = \sup_{r_1 \in [0, r_2 - r_0], r_2 = r} \{DF_{r_1}^{r_2}\}.$$

The origination and termination dates of any bubbles that are detected are calculated using the first crossing principle. Specifically, in the single bubble scenario, the origination (termination) date of the bubble is the first chronological observation whose DF or BSDF statistic exceeds (goes below) its corresponding critical value. The duration of a bubble is restricted to be longer than a slowly varying (at infinity) quantity such as  $L_T = \delta \log(T)/T$ , where  $\delta$  is a frequency dependent parameter – see PSY for further discussion. The origination and termination estimators are calculated as the crossing times

$$\begin{aligned} PWY & : \hat{r}^e = \inf_{r \in [r_0, 1]} \left\{ r : DF_r > cv^{\beta_T} \right\} \text{ and } \hat{r}^f = \inf_{r \in [\hat{r}^e + L_T, 1]} \left\{ r : DF_r < cv^{\beta_T} \right\}, \\ PSY & : \hat{r}^e = \inf_{r \in [r_0, 1]} \left\{ r : BSDF_r(r_0) > scv^{\beta_T} \right\} \text{ and } \hat{r}^f = \inf_{r \in [\hat{r}^e + L_T, 1]} \left\{ r : BSDF_r(r_0) < scv^{\beta_T} \right\}, \end{aligned} \quad (6)$$

(7)

where  $cv^{\beta_T}$  and  $scv^{\beta_T}$  are the  $100(1 - \beta_T)\%$  critical values of the DF and BSDF statistics.

In the multiple bubbles scenario, estimators associated with the first bubble are defined as in equation (6) and (7), and denoted by  $\hat{r}^{1e}$  and  $\hat{r}^{1f}$ . The origination (termination) of bubble  $i$  (for  $i \geq 2$ ) is the first chronological observation after  $\hat{r}^{i-1f}$  whose DF or BSDF statistic exceeds (goes below) its corresponding critical value. Structurally,

$$PWY : \hat{r}^{ie} = \inf_{r \in [\hat{r}^{i-1f}, 1]} \left\{ r : DF_r > cv^{\beta_T} \right\} \text{ and } \hat{r}^{if} = \inf_{r \in [\hat{r}^{ie} + L_T, 1]} \left\{ r : DF_r < cv^{\beta_T} \right\} \quad (8)$$

$$PSY : \hat{r}^{ie} = \inf_{r \in [\hat{r}^{i-1f}, 1]} \left\{ r : BSDF_r(r_0) > scv^{\beta_T} \right\} \text{ and } \hat{r}^{if} = \inf_{r \in [\hat{r}^{ie} + L_T, 1]} \left\{ r : BSDF_r(r_0) < scv^{\beta_T} \right\}. \quad (9)$$

For the sequential PWY procedure, the dating criteria of the first bubble remains the same (i.e. equation (6)). For all subsequent bubbles, the sequential procedure uses information starting from the termination of the previous bubble and ending at the current observation, i.e.  $I_{i,r} = \{ [T\hat{r}^{i-1f}] + 1, \dots, [Tr] \}$  for  $i \geq 2$ . Importantly, note that the distance between  $r$  and  $\hat{r}^{i-1f}$  needs to be greater than the minimum regression window  $r_0$ , which restricts the capability of this sequential procedure to detect bubble activity in the intervening period  $(\hat{r}^{i-1f}, r_0)$ . The origination and termination dates of bubble  $i$  is then calculated as

$$Seq\_PWY : \hat{r}^{ie} = \inf_{r \in [\hat{r}^{i-1f} + r_0, 1]} \left\{ r : {}_{\hat{r}^{i-1f}}DF_r > cv^{\beta_T} \right\} \text{ and } \hat{r}^{if} = \inf_{r \in [\hat{r}^{ie} + L_T, 1]} \left\{ r : {}_{\hat{r}^{i-1f}}DF_r < cv^{\beta_T} \right\}, \quad (10)$$

where  ${}_{\hat{r}^{i-1f}}DF_r$  is the DF statistic calculated over  $(\hat{r}^{i-1f}, r]$ .

### 3 Asymptotic Properties of the Detectors

The asymptotic performance of the dating algorithms is examined in this section. Under the null hypothesis of no bubble episodes, the limit distributions of the DF and BSDF statistics follow from PSY (Theorem 1). Both the DF and BSDF statistics are special cases of the GSADF statistic introduced in PSY. For the DF statistic, the start point of the regression is  $r_1 = 0$  and the end point  $r_2$  is fixed at  $r$ . Therefore, the limit distribution of the DF statistic under the null

hypothesis is

$$F_r(W) := \frac{\frac{1}{2}r \left[ W(r)^2 - r \right] - \int_0^r W(s) ds W(r)}{r^{1/2} \left\{ r \int_0^r W(s)^2 ds - \left[ \int_0^r W(s) ds \right]^2 \right\}^{1/2}}, \quad (11)$$

where  $W$  is a standard Wiener process. For the BSDF statistic, the end point  $r_2$  is fixed at  $r$  and the start point  $r_1$  varies from 0 to  $r - r_0$ . The limit distribution of the BSDF statistic is

$$F_r(W, r_0) := \sup_{\substack{r_1 \in [0, r-r_0] \\ r_w = r-r_1}} \left\{ \frac{\frac{1}{2}r_w \left[ W(r)^2 - W(r_1)^2 - r_w \right] - \int_{r_1}^r W(s) ds [W(r) - W(r_1)]}{r_w^{1/2} \left\{ r_w \int_{r_1}^r W(s)^2 ds - \left[ \int_{r_1}^r W(s) ds \right]^2 \right\}^{1/2}} \right\}. \quad (12)$$

The asymptotic critical values  $cv^{\beta_T}$  and  $scv^{\beta_T}$  are defined as the  $100(1 - \beta_T)\%$  quantiles of  $F_r(W)$  and  $F_r(W, r_0)$ , respectively. Notice that the significance level  $\beta_T$  depends on the sample size  $T$  and it is assumed that  $\beta_T \rightarrow 0$  as  $T \rightarrow \infty$ . This control ensures that  $cv^{\beta_T}$  and  $scv^{\beta_T}$  diverge to infinity and thereby under the null hypothesis the probabilities of (falsely) detecting a bubble using the DF and BSDF statistics, (6) - (10), tend to zero as  $T \rightarrow \infty$ .

We next derive the limit distributions under mildly explosive alternatives. We consider the case of a single bubble and multiple bubbles separately as the properties of some of the detectors differ markedly in the case of multiple bubbles. The derivations require some careful calculations involving weak convergence arguments and mildly explosive limit theory, paying attention to some subtleties in the orders of magnitude of the various components of the test statistics. The details are provided in the Appendix, together with the technical supplement to the paper (Phillips, Shi and Yu, 2013c).

### Single Bubble Alternative

**Theorem 1.** *Under the data generating process (4), the asymptotic distributions of the  $DF_r$  and  $BSDF_r(r_0)$  statistics are as follows:*

$$DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{-\tau_e} \frac{r_w^{3/2} B(r_e)}{2(r_e - r_1) \int_{r_1}^{r_e} B(s) ds} & \text{if } r \in B \\ -T^{(1-\alpha)/2} \left( \frac{1}{2} cr_w \right)^{1/2} & \text{if } r \in N_1 \end{cases} \quad (13)$$

$$BSDF_r(r_0) \sim_a \begin{cases} F_r(W, r_0) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau-\tau_e} \sup_{r_1 \in [0, r-r_0]} \left\{ \frac{r_w^{3/2} B(r_e)}{2(r_e-r_1) \int_{r_1}^{r_e} B(s) ds} \right\} & \text{if } r \in B \\ -T^{(1-\alpha)/2} \sup_{r_1 \in [0, r-r_0]} \left\{ \left( \frac{1}{2} c r_w \right)^{1/2} \right\} & \text{if } r \in N_1 \end{cases}, \quad (14)$$

where  $B(r) \equiv \sigma W(r)$ .

Evidently, for all three cases the order magnitudes of the DF and BSDF statistics are the same. Specifically, the test statistics diverge to positive infinity when the current observation falls in the explosive bubble period and to negative infinity when it is in a bubble collapsing period. Based on these limit distributions, we have the following consistency results for the date detectors.

**Theorem 2** (PWY detector). *Suppose  $\hat{r}_e$  and  $\hat{r}_f$  are the date estimates obtained from the DF  $t$  statistic crossing times (6). Under the alternative hypothesis of mildly explosive behavior in model (4), if*

$$\frac{1}{cv^{\beta_T}} + \frac{cv^{\beta_T}}{T^{1/2} \delta_T^{\tau-\tau_e}} \rightarrow 0, \quad (15)$$

we have  $\hat{r}_e \xrightarrow{p} r_e$  and  $\hat{r}_f \xrightarrow{p} r_f$  as  $T \rightarrow \infty$ .

**Theorem 3** (PSY detector). *Suppose  $\hat{r}_e$  and  $\hat{r}_f$  are the date estimates obtained from the backward sup DF statistic crossing times (7). Under the alternative hypothesis of mildly explosive behavior in model (4), if*

$$\frac{1}{scv^{\beta_T}} + \frac{scv^{\beta_T}}{T^{1/2} \delta_T^{\tau-\tau_e}} \rightarrow 0, \quad (16)$$

we have  $\hat{r}_e \xrightarrow{p} r_e$  and  $\hat{r}_f \xrightarrow{p} r_f$  as  $T \rightarrow \infty$ .

These results show that both strategies consistently estimate the origination and termination points when there is only a single bubble episode in the sample period. The regularity conditions in Theorems 2 and 3 imply that the orders of magnitude of the critical value expansion rates need to be smaller than  $T^{1/2} \delta_T^{\tau-\tau_e}$  to deliver consistency of  $\hat{r}_e$  and  $\hat{r}_f$ . In effect, for consistent estimation of  $r_e$  the critical value sequence needs to pass to infinity but not too fast – otherwise the signal from the mildly explosive period under the alternative is not strong enough to ensure

that the critical value is exceeded. The first condition  $(cv^{\beta_T}, scv^{\beta_T} \rightarrow \infty)$  ensures that there are no false positives prior to the origination date  $r_e$ . The second condition  $(\frac{cv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_e}}, \frac{scv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_e}} \rightarrow 0)$  ensures that the signal from the data during the mildly explosive period dominates that from the earlier unit root period leading to identifying information that there is now exuberance in the data.

An implicit restriction in these two results is that the minimum window size  $r_0$  is smaller than the origination date of the bubble  $r_e$  (i.e.  $r_0 < r_e$ ) so that the recursive regressions provide information for some  $r \in N_0$  for comparison to identify the origination point. This requirement is also implicit in what follows, in particular in later proofs of consistency of the first bubble origination date in the multiple bubbles scenario as discussed below. In the event that  $r_0 \in (r_e, r_f)$ , then the results given in the second panels of (13) and (14) are relevant and the origination date of the first bubble is determined to be  $r_0$ , so  $r_e$  is estimated with delay.

For consistent estimation of  $r_f$ , both conditions again come into play. The second condition  $(\frac{cv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_e}}, \frac{scv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_e}} \rightarrow 0)$  ensures that there is no underestimation of  $r_f$  asymptotically because for  $r \leq r_f$  the signal from the data during the mildly explosive period continues to dominate. When  $r > r_f$ , the autoregressive estimate is calculated from data that involves the explosive episode as well as post explosive ( $r > r_f$ ) data, which makes the post-collapse data look mean reverting and, as shown in the proofs of Theorems 2 and 3, the test statistics become negative. The expansion condition  $(cv^{\beta_T}, scv^{\beta_T} \rightarrow \infty)$  then ensures that there is no overestimation of  $r_f$  asymptotically.

## Multiple Bubble Alternatives

The limit behavior of the recursive DF and BSDF statistics in the presence of multiple bubbles is much more complicated. The strengths and weaknesses of the various detectors are well illustrated by considering a mildly explosive process with two bubble episodes. We therefore confine much of our discussion here to the case of model (5) with  $K = 2$ . Even in this case, as shown below, there are several possibilities depending on the respective durations of the bubbles.

We start with the case where the duration of the first bubble exceeds that of the second

bubble. Also, to obtain the BSDF asymptotics in Theorems 4 and 5, it is assumed that the distance separating the termination dates of the first and second bubbles exceeds the minimum window size (i.e.  $r_{2e} - r_{1f} > r_0$ ). This requirement seems a natural condition to achieve identification of the second bubble. The effect of its relaxation is considered later.

**Theorem 4.** *Under the data generating process of (5) with  $K = 2$  and  $\tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e}$ , the limit behavior of the recursive statistics  $DF_r$ ,  $BSDF_r(r_0)$  and  $\hat{r}_{1f}DF_r$  is given by:*

$$DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau - \tau_{1e}} \frac{r_w^{3/2} B(r_{1e})}{2(r_{1e} - r_1) \int_{r_1}^{r_{1e}} B(s) ds} & \text{if } r \in B_1 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_1 \cup B_2 \cup N_2 \end{cases} \quad (17)$$

$$BSDF_r(r_0) \sim_a \begin{cases} F_r(W, r_0) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau - \tau_{ie}} \sup_{r_1 \in [0, r - r_0]} \left\{ \frac{r_w^{3/2} B(r_{ie})}{2(r_{ie} - r_1) \int_{r_1}^{r_{ie}} B(s) ds} \right\} & \text{if } r \in B_i \text{ with } i = 1, 2 \\ -T^{(1-\alpha)/2} \sup_{r_1 \in [0, r - r_0]} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_1 \cup N_2 \end{cases} \quad (18)$$

$$\hat{r}_{1f}DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_1 \\ T^{1/2} \delta_T^{\tau - \tau_{2e}} \frac{r_w^{3/2} B(r_{2e})}{2(r_{2e} - r_1) \int_{r_1}^{r_{2e}} B(s) ds} & \text{if } r \in B_2 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_2 \end{cases} \quad (19)$$

Evidently from the first panel (17), it is clear that when the duration of the first bubble exceeds that of the second bubble, the DF statistic diverges to positive infinity when  $r \in B_1$ , whereas for  $r \in N_1 \cup B_2 \cup N_2$ , the statistic is asymptotically equivalent to  $-T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2}$  and tends to negative infinity as  $T \rightarrow \infty$ . Importantly, therefore, the behavior of the DF statistic during the second (shorter) bubble  $B_2$  is the same as it is for the normal martingale periods  $N_1$  and  $N_2$ . Hence, the DF statistic does not have discriminatory power for second bubble detection when the duration of the second bubble is less than that of the first bubble.

From the second panel (18), the behavior of the BSDF statistic in both bubble periods  $B_1$  and  $B_2$  is the same and is distinct from that of the normal periods  $N_0$ ,  $N_1$  and  $N_2$ . Unlike the DF statistic, the BSDF statistic therefore has discriminatory power in detecting both bubbles. From the final panel (19), it is clear that the limit behavior of the sequential DF statistic  $\hat{r}_{1f}DF_r$  is the same as that of the BSDF statistic for  $r \in B_2$  and  $r \in N_2$ . Hence, like BSDF, the sequential DF statistic has discriminatory power for the two bubble periods.

Next consider the case where the duration of the second bubble exceeds that of the first bubble.

**Theorem 5.** *Under the data generating process of (5) with  $K = 2$  and  $\tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e}$ , the limit behavior of the recursive statistics  $DF_r$ ,  $BSDF_r(r_0)$  and  $\hat{r}_{1f}DF_r$  is as follows:*

$$DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau - \tau_{1e}} \frac{r_w^{3/2} B(r_{1e})}{2(r_{1e} - r_1) \int_{r_1}^{r_{1e}} B(s) ds} & \text{if } r \in B_1 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_1 \cup N_2 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in B_2 \text{ and } r_{1f} - r_{1e} > r - r_{2e} \\ T^{1-\alpha/2} \left[ \frac{cr_w^3}{2(r_{1e} - r_1 + r_{2e} - r_{1f})} \right]^{1/2} & \text{if } r \in B_2 \text{ and } r_{1f} - r_{1e} \leq r - r_{2e} \end{cases} \quad (20)$$

$$BSDF_r(r_0) \sim_a \begin{cases} F_r(W, r_0) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau - \tau_{ie}} \sup_{r_1 \in [0, r - r_0]} \left\{ \frac{r_w^{3/2} B(r_{ie})}{2(r_{ie} - r_1) \int_{r_1}^{r_{ie}} B(s) ds} \right\} & \text{if } r \in B_1 \cup B_2 \\ -T^{(1-\alpha)/2} \sup_{r_1 \in [0, r_2 - r_0]} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_1 \cup N_2 \end{cases} \quad (21)$$

$$\hat{r}_{1f}DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_1 \\ T^{1/2} \delta_T^{\tau - \tau_{2e}} \frac{r_w^{3/2} B(r_{ie})}{2(r_{ie} - r_1) \int_{r_1}^{r_{ie}} B(s) ds} & \text{if } r \in B_2 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_2 \end{cases} \quad (22)$$

As is evident in panels (21) and (22) of this theorem, the limit behaviors of the BSDF statistic and sequential DF statistic are identical to those that apply in the earlier case where  $\tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e}$ . Thus both procedures have the same discriminatory capability for identifying bubble episodes in the data. Again, results are very different for the DF statistic where the behavior of the statistic during the second bubble ( $r \in B_2$ ) is contingent on the timing of latest date ( $r$ ) in the recursion. In particular, when  $r \in B_2$ , the limit behavior of the DF statistic depends on the relative length of  $r_{1f} - r_{1e}$  (the duration of the first bubble) and  $r - r_{2e}$  (the segment of the second bubble that is included in data used in the recursion). When  $r_{1f} - r_{1e}$  exceeds  $r - r_{2e}$ , the statistic diverges to negative infinity, just as for the case where  $\tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e}$ . Thus, in this case there is insufficient data to identify the second bubble period. However, as is clear from the final asymptotic expression in (20), behavior changes dramatically as soon as there is more data. Specifically, when the segment of the second

bubble included in the recursive regression exceeds the duration of the first bubble (i.e., when  $r - r_{2e} \geq r_{1f} - r_{1e}$ ) the sign in the limit behavior of the DF statistic changes and the statistic now diverges to positive infinity rather than negative infinity. The order of the magnitude in the divergence also rises (from  $T^{(1-\alpha)/2}$  to  $T^{1-\alpha/2}$ ). It follows that the DF statistic has discriminatory power once there is sufficient data for this test to identify a second bubble - that is, as soon as data from the second bubble dominates that of the first bubble.

With the limit behavior of the recursive tests in hand, results on the consistency properties of the bubble date detectors now follow. It is convenient to separate the results according to each of the recursive tests and contingent conditions regarding duration of the bubbles.

**Theorem 6** (PWY detector). *Suppose  $\hat{r}_{1e}$ ,  $\hat{r}_{1f}$ ,  $\hat{r}_{2e}$  and  $\hat{r}_{2f}$  are obtained from the DF test based on the  $t$  statistic (8). Given the alternative hypothesis of mildly explosive behavior in model (5) with  $K = 2$  and durations satisfying  $\tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e}$ , if*

$$\frac{1}{cv^{\beta_T}} + \frac{cv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_{1e}}} \rightarrow 0,$$

*we have  $\hat{r}_{1e} \xrightarrow{p} r_{1e}$  and  $\hat{r}_{1f} \xrightarrow{p} r_{1f}$  as  $T \rightarrow \infty$ ; and  $\hat{r}_{2e}$  and  $\hat{r}_{2f}$  are not consistent estimators of  $r_{2e}$  and  $r_{2f}$ .*

**Theorem 7** (PWY detector). *Suppose  $\hat{r}_{1e}$ ,  $\hat{r}_{1f}$ ,  $\hat{r}_{2e}$  and  $\hat{r}_{2f}$  are obtained from the DF test based on the  $t$  statistic (8). Given the alternative hypothesis of mildly explosive behavior in model (5) with  $K = 2$  and durations satisfying  $\tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e}$ , if*

$$\frac{1}{cv^{\beta_T}} + \frac{cv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_{1e}}} \rightarrow 0,$$

*we have  $\hat{r}_{1e} \xrightarrow{p} r_{1e}$  and  $\hat{r}_{1f} \xrightarrow{p} r_{1f}$ ; if*

$$\frac{1}{cv^{\beta_T}} + \frac{cv^{\beta_T}}{T^{1-\alpha/2}} \rightarrow 0$$

*we have  $\hat{r}_{2e} \xrightarrow{p} r_{2e} + r_{1f} - r_{1e}$  and  $\hat{r}_{2f} \xrightarrow{p} r_{2f}$  as  $T \rightarrow \infty$ .*

**Theorem 8** (PSY detector). *Suppose  $\hat{r}_{1e}$ ,  $\hat{r}_{1f}$ ,  $\hat{r}_{2e}$  and  $\hat{r}_{2f}$  are obtained from the backward sup DF test based on the  $t$  statistic (9). Given the alternative hypothesis of mildly explosive behavior*



in model (5) with  $K = 2$ , if

$$\frac{1}{scv^{\beta_T}} + \frac{scv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_{ie}}} \rightarrow 0 \text{ with } i = 1, 2,$$

we have  $\hat{r}_{1e} \xrightarrow{p} r_{1e}$ ,  $\hat{r}_{1f} \xrightarrow{p} r_{1f}$ ,  $\hat{r}_{2e} \xrightarrow{p} r_{2e}$  and  $\hat{r}_{2f} \xrightarrow{p} r_{2f}$  as  $T \rightarrow \infty$ .

**Theorem 9** (Sequential PWY detector). *Suppose  $\hat{r}_{1e}$ ,  $\hat{r}_{1f}$ ,  $\hat{r}_{2e}$  and  $\hat{r}_{2f}$  are obtained from sequential application of the DF test based on the  $t$  statistics (6) and (10). Given the alternative hypothesis of mildly explosive behavior in model (5) with  $K = 2$ , if*

$$\frac{1}{cv^{\beta_T}} + \frac{cv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_{ie}}} \rightarrow 0,$$

we have  $\hat{r}_{1e} \xrightarrow{p} r_{1e}$ ,  $\hat{r}_{1f} \xrightarrow{p} r_{1f}$ ,  $\hat{r}_{2e} \xrightarrow{p} r_{2e}$  and  $\hat{r}_{2f} \xrightarrow{p} r_{2f}$  as  $T \rightarrow \infty$ .

Theorems 6 - 9 characterize the consistency properties of the detectors when there are two bubble episodes in the observed data. The results depend on the detector and certain side conditions regarding the duration of the bubbles. Importantly, the PWY strategy consistently estimates the origination and termination of the first bubble but not the second bubble. When the duration of the first bubble exceeds that of the second bubble, the PWY strategy fails to detect the second bubble. When the duration of the second bubble exceeds the first, the PWY recursion detects the presence of a second bubble but with a delay measured by the duration of the first bubble ( $r_{1f} - r_{1e}$ ). The PWY detector is therefore inconsistent in date stamping the second bubble even when the conditions favor its detection. In contrast, the PSY and sequential PWY recursions are both consistent date detectors for the origination and termination of the two bubbles irrespective of their relative durations. These procedures are therefore robust to bubble duration.

Theorems 6 - 9 can be extended to scenarios with multiple bubbles ( $K > 2$ ). In this case, if the duration of bubble  $i + 1$  is less than that of bubble  $i$  for some  $i \in \{1, 2, \dots, K - 1\}$ , then the PWY recursion may, under certain conditions such as increasing duration up to bubble  $i$ , detect the presence of bubble  $i$ , but it will not detect bubble  $i + 1$ . In contrast, the PSY and sequential PWY strategies detect each of the  $K$  bubbles, with fully consistent date detection by the PSY recursion.

We now consider the extreme scenario, mentioned earlier, where the minimum window length  $r_0$  exceeds the distance between the termination dates of the two bubbles. Suppose  $K = 2$ . For the sequential PWY procedure, the first regression after re-initialization from the end point of the first bubble now runs from period  $N_1$  directly to  $N_2$ , so this procedure completely passes over the second bubble and is unable to detect it. Somewhat remarkably however, the PSY strategy still has some detective capability for the second bubble depending on the relative length of  $\tau_{1f} - \tau_{1e}$  and  $\tau_2 - \tau_{2e}$ . Specifically, for observations in the second bubble episode (i.e.  $r \in B_2$ ), their backward expanding regression sample sequences does not include the case of  $\tau_1 \in N_1$  and  $\tau_2 \in B_2$  when  $r_0 > r_{2f} - r_{1f}$ . Hence, the limit behavior of  $BSDF_r(r_0)$  under the two-bubble data generating process is

$$BSDF_r(r_0) \sim_a \begin{cases} -T^{(1-\alpha)/2} \sup_{r_1 \in [0, r_2 - r_0]} \left(\frac{1}{2}cr_w\right)^{1/2} & \text{if } r \in B_2 \text{ and } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ T^{1-\alpha/2} \left(\frac{cr^3}{2(r_{1e} + r_{2e} - r_{1f})}\right)^{1/2} & \text{if } r \in B_2 \text{ and } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}. \quad (23)$$

Then, if  $\tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e}$ , the limit behavior of  $BSDF_r(r_0)$  at  $r \in B_2$  is the same as when  $r \in N_1 \cup N_2$ , so in that event the PSY strategy also cannot detect the second bubble. But when  $\tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e}$ , the limit behavior of  $BSDF_r(r_0)$  at  $r \in B_2$  is divergent with an order magnitude of  $T^{1-\alpha/2}$ . Hence, even though  $r_0 > r_{2f} - r_{1f}$ , the PSY strategy is still able to detect the second bubble (with a delay of  $r_{1f} - r_{1e}$  in the estimated origination date) as long as the duration of the second bubble exceeds the first bubble.

A less extreme scenario is the case where  $r_{2e} - r_{1f} < r_0 \leq r_{2f} - r_{1f}$ . That is, the minimum window size exceeds the distance separating the two bubbles but does not exceed the distance between the termination dates of these two bubbles. In this circumstance, the limit behaviors of  $BSDF_r(r_0)$  and  $\hat{r}_{1f}DF_r$  remain the same as in (21) and (22) for  $r_{1f} + r_0 \leq r \leq r_{2f}$  (the later segment of  $B_2$ ). However, for observations prior to that in  $B_2$ , the  $\hat{r}_{1f}DF_r$  statistic does not exist by construction and the BSDF statistic follows the limit behavior of (23). Therefore, there will be delay in estimates of the second bubble origination date using both the PSY and sequential PWY strategies. However, the delay is potentially smaller using the PSY strategy due to the last panel of (23).

The advantage of the PSY strategy over the sequential PWY procedure is revealed in the simulations reported below which consider some less extreme cases. For instance, when  $r_{3e} - r_{2f} < r_0 < r_{3f} - r_{2f}$  (i.e.  $0.05 < 0.12 < 0.15$ ) as in the first panel of Table 10, the detection rate of the sequential PWY strategy is zero as oppose to 62% for the PSY strategy.

## 4 Simulation Evidence

This section reports simulations to explore the finite sample performance of the PSY, PWY, sequential PWY, and CUSUM procedures for bubble detection. These simulations focus on detection rates and estimation accuracy of the dating algorithms of these procedures. They complement the findings reported in PSY and examine performance characteristics in systems with many bubbles.

Experiments are conducted with generating models that involve up to three separate bubbles. The generating system for single, dual and three bubbles are as in (4) and (5). The parameter settings follow those used in PSY, so that  $y_0 = 100$ ,  $\sigma = 6.79$ ,  $c = 1$  and  $T = 100$ . In the single bubble setting, we explore the sensitivities of the dating strategies to the parameters determining the magnitude of the bubbles (the bubble expansion rate  $\alpha$  and the bubble duration  $d_T = \tau_f - \tau_e$ ), the bubble location parameter  $\tau_e$  and the sample size  $T$ . We focus our attention on the impact of bubble durations in the two bubble and three bubble settings. For each parameter constellation, 5,000 replications were used. Bubbles were identified using respective finite sample 95% quantiles, obtained from simulations with 5,000 replications. The minimum window size has 12 observations.

We report the proportion of samples in which a bubble was successfully detected, along with the empirical mean and standard deviation (in parentheses) of the estimated origination and termination dates. Successful detection of a bubble is defined as an outcome where the estimated origination date is greater than or equal to the true origination date and smaller than the true termination date of that particular bubble (i.e.  $r_{ie} \leq \hat{r}_{ie} < r_{if}$ ).

## 4.1 A Single Bubble

In Tables 1 and 2, the bubble expansion rate  $\alpha$  and bubble duration  $d_T$  can each take three values: specifically, the expansion rate  $\alpha \in \{0.60, 0.55, 0.50\}$  with corresponding autoregressive coefficient  $\delta_T \in \{1.04, 1.05, 1.07\}$  when  $T = 100$ ; and duration is  $d_T \in \{\lfloor 0.10T \rfloor, \lfloor 0.15T \rfloor, \lfloor 0.20T \rfloor\}$ . Evidently for all algorithms the bubble detection rate increases with the value of the autoregressive coefficient  $\delta_T$  and the bubble duration  $d_T$ . Moreover, a higher autoregressive coefficient results in more timely detection of the bubble, whereas longer bubble duration is associated with longer delay (i.e.  $\hat{r}_e - r_e$ ). For instance, the delay in the PSY estimate reduces from 0.05 to 0.03 when  $\delta_T$  increases from 1.04 to 1.07 and the delay increases from 0.04 to 0.06 when the bubble duration extends from  $\lfloor 0.10T \rfloor$  to  $\lfloor 0.20T \rfloor$ .

Table 1: Detection rate and estimation of the origination and termination dates under single bubble DGP and different bubble expansion rates. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \tau_e = \lfloor 0.4T \rfloor, \tau_f - \tau_e = \lfloor 0.15T \rfloor, T = 100$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\alpha = 0.60, \delta_T = 1.04$				
Detection Rate	0.78	0.86	0.80	0.86
$r_e = 0.40$	0.46 (0.04)	0.45 (0.03)	0.46 (0.03)	0.46 (0.03)
$r_f = 0.55$	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)
$\alpha = 0.55, \delta_T = 1.05$				
Detection Rate	0.85	0.91	0.86	0.91
$r_e = 0.40$	0.45 (0.03)	0.44 (0.03)	0.45 (0.03)	0.45 (0.03)
$r_f = 0.55$	0.55 (0.00)	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)
$\alpha = 0.50, \delta_T = 1.07$				
Detection Rate	0.90	0.94	0.91	0.93
$r_e = 0.40$	0.45 (0.03)	0.43 (0.03)	0.45 (0.03)	0.44 (0.03)
$r_f = 0.55$	0.55 (0.00)	0.55 (0.00)	0.55 (0.00)	0.55 (0.01)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

In Table 3, the location parameter  $\tau_e$  varies from  $\lfloor 0.2T \rfloor$  to  $\lfloor 0.6T \rfloor$ . When the bubble originates at a later stage of the sample, the bubble detection rates of all strategies are lower. Table 4 monitors the effects of increasing the sample size from 100 to 400. Evidently, the bubble

Table 2: Detection rate and estimation of the origination and termination dates under single bubble DGP and different bubble durations. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.6, \tau_e = \lfloor 0.4T \rfloor, T = 100$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\tau_f - \tau_e = \lfloor 0.10T \rfloor$				
Detection Rate	0.57	0.71	0.57	0.69
$r_e = 0.40$	0.44 (0.02)	0.44 (0.02)	0.44 (0.02)	0.44 (0.02)
$r_f = 0.50$	0.50 (0.00)	0.50 (0.00)	0.50 (0.01)	0.50 (0.01)
$\tau_f - \tau_e = \lfloor 0.15T \rfloor$				
Detection Rate	0.78	0.86	0.80	0.86
$r_e = 0.40$	0.46 (0.04)	0.45 (0.03)	0.46 (0.03)	0.46 (0.03)
$r_f = 0.55$	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)
$\tau_f - \tau_e = \lfloor 0.20T \rfloor$				
Detection Rate	0.87	0.93	0.88	0.92
$r_e = 0.40$	0.47 (0.04)	0.46 (0.04)	0.47 (0.04)	0.46 (0.04)
$r_f = 0.60$	0.60 (0.01)	0.60 (0.01)	0.60 (0.01)	0.60 (0.01)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

detection rate increases with the sample size as expected. But the time needed to detect bubbles in all algorithms is largely unaffected by the location of the bubble and the sample size.

The most striking finding in Tables 1 - 3 is the superiority of the PSY strategy relative to the other algorithms in the single bubble case. The PSY strategy has a higher rate of bubble detection and provides a more accurate estimate of the origination date. All strategies deliver a good detection rate of the termination date of the bubble, which is no doubt associated with the sharp collapse specification in the model formulation.

## 4.2 Two Bubbles

Two duration scenarios feature in the dual bubble simulations. In one the first bubble has longer duration (Table 5), while in the other the second bubble has longer duration (Table 6). The bubbles originate 20% and 60% into the sample and the expansion rate of the two bubbles is 1.04 (i.e.  $\alpha = 0.6$ ).

In Table 5, the duration of the first bubble is 20% of the total sample. The duration of the

Table 3: Detection rate and estimation of the origination and termination dates under single bubble DGP and different bubble locations. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.6, \tau_f - \tau_e = [0.15T], T = 100$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\tau_e = [0.2T]$				
Detection Rate	0.88	0.91	0.87	0.87
$r_e = 0.20$	0.26 (0.03)	0.25 (0.03)	0.26 (0.03)	0.26 (0.03)
$r_f = 0.35$	0.35 (0.01)	0.35 (0.01)	0.35 (0.01)	0.35 (0.01)
$\tau_e = [0.4T]$				
Detection Rate	0.78	0.86	0.80	0.86
$r_e = 0.40$	0.46 (0.04)	0.45 (0.03)	0.46 (0.03)	0.46 (0.03)
$r_f = 0.55$	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)
$\tau_e = [0.6T]$				
Detection Rate	0.72	0.83	0.74	0.82
$r_e = 0.60$	0.66 (0.03)	0.65 (0.03)	0.66 (0.03)	0.65 (0.03)
$r_f = 0.75$	0.75 (0.01)	0.75 (0.01)	0.75 (0.01)	0.75 (0.01)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

second bubble is shorter than the first one, taking values  $d_T = \tau_{2f} - \tau_{2e} = [0.10T], [0.15T]$ . As anticipated from asymptotic theory, PWY fails to detect the second bubble in this duration scenario. For instance, when  $d_T = [0.10T]$ , the proportion of samples where the second bubble is detected using PWY is negligible (around 0.01). Noticeably, all algorithms perform well in identifying the first bubble. The average delay in detecting this bubble is four to five observations.

The opposite setting is considered in the simulations reported in Table 6. Here the duration of the first bubble is fixed at  $[0.10T]$  and the duration of the second bubble varies from  $[0.10T]$  to  $[0.20T]$ . Several results emerge from the table. First, there is no dramatic performance difference in identifying the first bubble among the dating algorithms. It is interesting to note that, due to its shorter bubble duration, the detection rates for the first bubble are lower than those in Table 5. Second, we observe a significant boost in the second bubble detection rate for the PWY strategy. In particular, when the duration of the second bubble is twice as long as the first, the detection rates of the PWY strategy is 76%. This outcome contrasts sharply with the

Table 4: Detection rate and estimation of the origination and termination dates under single bubble DGP and different sample sizes. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.60, \tau_e = \lfloor 0.4T \rfloor, \tau_f - \tau_e = \lfloor 0.15T \rfloor, \tau_f - \tau_e = \lfloor 0.15T \rfloor$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$T = 100$				
Detection Rate	0.78	0.86	0.80	0.86
$r_e = 0.40$	0.46 (0.04)	0.45 (0.03)	0.46 (0.03)	0.46 (0.03)
$r_f = 0.55$	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)	0.55 (0.01)
$T = 200$				
Detection Rate	0.80	0.93	0.83	0.89
$r_e = 0.40$	0.46 (0.04)	0.45 (0.04)	0.46 (0.04)	0.45 (0.03)
$r_f = 0.55$	0.55 (0.01)	0.54 (0.02)	0.55 (0.02)	0.55 (0.02)
$T = 400$				
Detection Rate	0.86	0.99	0.89	0.86
$r_e = 0.40$	0.46 (0.04)	0.45 (0.04)	0.46 (0.04)	0.45 (0.03)
$r_f = 0.55$	0.55 (0.02)	0.54 (0.04)	0.54 (0.02)	0.54 (0.03)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

PWY detection rates for the second bubble displayed in Table 5. Third, there are relatively long delays in PWY detection of the second bubble. As a case in the point, when the duration of the second bubble is  $\lfloor 0.20T \rfloor$ , the PWY estimate of the origination date of the second bubble is 0.71 with a delay of 11 observations (nearly twice as long as the delay in detection of 6 observations when using PSY). Those findings corroborate closely the asymptotic theory, which shows how the PWY detector consistently estimates the first bubble but only identifies the second bubble with some delay when  $\tau_{2f} - \tau_{2e} > \tau_{1f} - \tau_{1e}$ .

In both experiments (Tables 5 and 6), the performance of the CUSUM procedure follows closely that of the PWY procedure. The PSY and the sequential PWY detectors are much more reliable in all cases, as shown in their higher detection rates and more timely detection of both bubbles. Overall, the findings indicate that the PSY strategy provides the best performance when there are two bubbles in the time series.

Table 5: Detection rate and estimation of the origination and termination dates under two bubble DGP with shorter second bubble durations. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.6, \tau_{1e} = \lfloor 0.20T \rfloor, \tau_{2e} = \lfloor 0.60T \rfloor, \tau_{1f} - \tau_{1e} = \lfloor 0.20T \rfloor, T = 100$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\tau_{2f} - \tau_{2e} = \lfloor 0.10T \rfloor$				
Detection Rate (1)	0.93	0.97	0.93	0.95
$r_{1e} = 0.20$	0.26 (0.04)	0.26 (0.04)	0.26 (0.04)	0.27 (0.04)
$r_{1f} = 0.40$	0.40 (0.01)	0.40 (0.01)	0.40 (0.01)	0.40 (0.01)
Detection Rate (2)	0.01	0.73	0.67	0.03
$r_{2e} = 0.60$	0.67 (0.02)	0.64 (0.02)	0.64 (0.02)	0.66 (0.02)
$r_{2f} = 0.70$	0.70 (0.00)	0.70 (0.00)	0.70 (0.00)	0.70 (0.00)
$\tau_{2f} - \tau_{2e} = \lfloor 0.15T \rfloor$				
Detection Rate (1)	0.93	0.97	0.93	0.95
$r_{1e} = 0.20$	0.26 (0.04)	0.26 (0.04)	0.26 (0.04)	0.27 (0.04)
$r_{1f} = 0.40$	0.40 (0.01)	0.40 (0.01)	0.40 (0.01)	0.40 (0.02)
Detection Rate (2)	0.05	0.89	0.83	0.13
$r_{2e} = 0.60$	0.70 (0.03)	0.65 (0.03)	0.65 (0.03)	0.70 (0.03)
$r_{2f} = 0.75$	0.75 (0.00)	0.75 (0.01)	0.75 (0.01)	0.75 (0.01)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

### 4.3 Three bubbles

Table 7 - 10 report findings for the three bubble case. In Tables 7 - 9, we adjust the duration of one bubble to  $d_T \in \{\lfloor 0.10T \rfloor, \lfloor 0.20T \rfloor\}$  and fix the durations of the other two bubbles. The bubbles originate 15%, 45% and 75% into the sample and the bubble expansion rate is 1.04 in each case.

Results are similar to the two bubble case and are consistent with asymptotic theory in the more complex scenarios of multiple bubbles. First, when the duration of bubble  $i$  (for  $i = 1, 2$ ) is longer than bubble  $i + 1$ , theory indicates that the PWY strategy is not capable of detecting the presence of bubble  $i + 1$ . The simulation findings in Table 7 show that, due to the longer duration of the second bubble where  $d_T = \lfloor 0.20T \rfloor$ , the PWY detection rate is zero for the third bubble, whose duration is  $d_T = \lfloor 0.10T \rfloor$ . Similar results are found in Table 9 where the duration



of the first bubble is longer than the second. An interesting feature of the PWY outcomes is that the presence of a long duration bubble causes weak identification of all subsequent bubbles. In particular, when the first bubble lasts longer than the second and third bubbles (the first panel of Table 9), the PWY detection rates of these two bubbles are 0.00 and 0.01.

Second, the simulations confirm that when the duration of bubble  $i$  is shorter than that of bubble  $i + 1$ , the PWY strategy detects the existence of both bubbles but with a delay in the identification of bubble  $i + 1$ . A case in point occurs in the first panel of Table 8 where the duration of the second bubble is shorter than that of the third bubble. The detection rate of the third bubble using the PWY strategy is 0.68 and the length of the delay in the detection of this bubble is  $[0.13T]$ , more than twice the delay incurred by the PSY detector. Third, just as for the two bubble case, the behaviour of the CUSUM detector resembles that of PWY.

Fourth, the performances of PSY and sequential PWY are invariant to the relative durations among the bubbles. In other words, the frequency of detecting bubble  $i$  and the time needed to detect this bubble depend on the duration of this particular bubble, not on the duration of bubble  $j$  (for  $j \neq i$ ).

Overall best performance is delivered by the PSY algorithm, followed by the sequential PWY strategy. Notice that when the duration of bubble  $i$  is twice as long as the duration of bubble  $i + 1$ , the sequential PWY detection rate of bubble  $i + 1$  rises to a higher level than PSY. For example, in the first panel of Table 7 where  $\tau_{2f} - \tau_{2e} = [0.20T]$  and  $\tau_{3f} - \tau_{3e} = [0.10T]$ , the third bubble detection rate of sequential PWY is 0.81, exceeding that of PSY at 0.73. This is due to the fact that the sequential procedure re-initializes after the collapse of the second bubble and the first regression following re-initialization already covers several observations of the third bubble episode. This situation resembles the case of bubbles occurring at the beginning of the sample, which increases the bubble detection rate as shown in Table 3.

In extreme cases when the first regression after re-initialization covers most observations of the particular bubble episode, the sequential PWY procedure may fail to detect this bubble. Table 10 gives examples that forcefully illustrate this point. In the first panel of the table, the sequential PWY procedure re-initiates at  $[0.65T]$  and the undetectable period (due to the

minimum regression window requirement of 12 observations) following this re-initialization is over the period  $[0.65T]$  to  $[0.77T]$  and covers most of the third bubble episode. As a result, the detection rate of the third bubble episode using the sequential PWY procedure is zero, whereas the detection rate of the third bubble using PSY is 62%. A further example occurs in the bottom panel of the same table. For the same reason, the sequential procedure fails to detect the second bubble episode in 94% of cases – the detection rate reported in the table is only 6%. Noticeably, the unsuccessful detection of the second bubble also leads to a low detection rate for the third bubble, which may be partly explained by the fact that the remaining sample period includes two bubble episodes. In all of these cases the PSY detector works well with a high average detection rate (94%, 62% and 76% for bubbles 1, 2, and 3 respectively) and an average delay of 4-7 observations in detection.

## 5 Conclusions

We develop limit theory for real time dating of the origination and termination of mildly explosive periods using detectors based on the PWY, PSY, and sequential PWY algorithms. All three strategies rely on recursive right tailed unit root tests but involve different types of recursion. The asymptotic performance of the detectors are evaluated using the extended PWY bubble model where mildly explosive bubble episodes are embedded within a longer period of normal stochastic trend behavior.

The PWY date estimates are shown to depend on the number of bubble episodes within the sample period and the relative durations of the bubbles when there are multiple bubble episodes. Specifically, in the single bubble case, the PWY estimators are consistent under some mild regularity conditions. When the sample period includes two bubble episodes, the PWY approach can consistently estimate the first bubble but not the second. The dating accuracy of the second bubble is related to the relative duration of the two bubbles. If the first bubble lasts longer than the second, the PWY strategy cannot detect occurrence of the second bubble. Alternatively, if the duration of the second bubble exceeds the first, the PWY detector finds the second bubble but with some delay even asymptotically. In contrast, the PSY approach

and a sequential implementation of the PWY strategy both provide consistent estimators of all bubbles regardless the number of bubble episodes occurring in the sample period and their relative duration.

Finite sample simulation are strongly confirmative of the asymptotics, indicating that the PSY algorithm is much more reliable as a detector than the PWY strategy. The second best procedure is the sequential PWY strategy. The performance of the CUSUM procedure resembles that of the PWY strategy and has similar disadvantages in multiple bubble cases.

The results obtained here require some detailed and complex calculations to obtain the limit theory of the various recursive detection algorithms. While these results are specific to the bubble model context under study, the methods should be useful in other recursive regression contexts. Also, with some modifications, the results continue to hold under more general conditions on the innovations than those used here. The main requirements are that the weak convergence (2) applies under normal periods and the limit theory for mildly explosive periods applies as it is known to do under general forms of weak dependence (Phillips and Magdalinos, 2007b).

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## APPENDIX A. The Dating Algorithms (a single bubble)

Section A.1 provides some useful preliminary results than characterize the limit behavior of the regression components over the various subperiods of the data. Section A.2 provides test asymptotics and gives proofs of Theorems 1-3 which describe the consistency properties of the PWY and PSY dating strategies.

### A.1: Notation and Useful Preliminary Lemmas

We define the following notation:

- The bubble period  $B = [\tau_e, \tau_f]$ , where  $\tau_e = \lfloor Tr_e \rfloor$  and  $\tau_f = \lfloor Tr_f \rfloor$ .
- The normal market periods  $N_0 = [1, \tau_e)$  and  $N_1 = [\tau_f + 1, \tau_T]$ , where  $\tau = \lfloor Tr \rfloor$  is the last observation of the sample.
- The starting point of the regression  $\tau_1 = \lfloor Tr_1 \rfloor$ , the ending point of the regression  $\tau_2 = \lfloor Tr_2 \rfloor$ , the regression sample size  $\tau_w = \lfloor Tr_w \rfloor$  with  $r_w = r_2 - r_1$  and observation  $t = \lfloor Tp \rfloor$ .
- $B(\cdot) \equiv \sigma W(\cdot)$ , where  $W$  is standard Brownian motion.

We use the data generating process

$$X_t = \begin{cases} X_{t-1} + \varepsilon_t & \text{for } t \in N_0 \\ \delta_T X_{t-1} + \varepsilon_t & \text{for } t \in B \\ X_{\tau_f}^* + \sum_{k=\tau_f+1}^t \varepsilon_k & \text{for } t \in N_1 \end{cases}, \quad (24)$$

where  $\delta_T = 1 + cT^{-\alpha}$  with  $c > 0$  and  $\alpha \in (0, 1)$ ,  $\varepsilon_t \stackrel{iid}{\sim} (0, \sigma^2)$  and  $X_{\tau_f}^* = X_{\tau_e} + X^*$  with  $X^* = O_p(1)$ . Under (24) we have the following lemmas.

**Lemma A1.** *Under the data generating process,*

- (1) For  $t \in N_0$ ,  $X_{t=\lfloor Tp \rfloor} \sim_a T^{1/2} B(p)$ .
- (2) For  $t \in B$ ,  $X_{t=\lfloor Tp \rfloor} = \delta_T^{t-\tau_e} X_{\tau_e} \{1 + o_p(1)\} \sim_a T^{1/2} \delta_T^{t-\tau_e} B(r_e)$ .
- (3) For  $t \in N_1$ ,  $X_{t=\lfloor Tp \rfloor} \sim_a T^{1/2} [B(p) - B(r_f) + B(r_e)]$ .

*Proof.* (1) For  $t \in N_0$ ,  $X_t$  is a unit root process. We know that  $T^{-1/2}X_{t=\lfloor Tp \rfloor} \Rightarrow B(p)$  as  $T \rightarrow \infty$ . (2) For  $t \in B$ , the data generating process

$$X_t = \delta_T X_{t-1} + \varepsilon_t = \delta_T^{t-\tau_e+1} X_{\tau_e-1} + \sum_{j=0}^{t-\tau_e} \delta_T^j \varepsilon_{t-j}.$$

Based on Phillips and Magdalinos (2007a, lemma 4.2), we know that for  $\alpha < 1$ ,

$$T^{-\alpha/2} \sum_{j=0}^{t-\tau_e} \delta_T^{-(t-\tau_e)+j} \varepsilon_{t-j} \xrightarrow{L} X_c \equiv N(0, \sigma^2/2c),$$

as  $t - \tau_e \rightarrow \infty$ . Furthermore, we know that  $T^{-1/2}X_{\tau_e-1} \xrightarrow{L} B(r_e)$  and  $\delta_T \rightarrow 1$  as  $T \rightarrow \infty$ .

Therefore,

$$\begin{aligned} \delta_T^{-(t-\tau_e)} T^{-1/2} X_t &= \delta_T T^{-1/2} X_{\tau_e-1} + T^{-1/2} \sum_{j=0}^{t-\tau_e} \delta_T^{-(t-\tau_e)+j} \varepsilon_{t-j} \\ &= \delta_T T^{-1/2} X_{\tau_e-1} + T^{-(1-\alpha)/2} T^{-\alpha/2} \sum_{j=0}^{t-\tau_e} \delta_T^{-(t-\tau_e)+j} \varepsilon_{t-j} \xrightarrow{L} B(r_e). \end{aligned}$$

This implies that the first term has a higher order than the second term. Hence,

$$X_t = \delta_T^{t-\tau_e} X_{\tau_e} \left\{ 1 + \frac{\sum_{j=0}^{t-\tau_e-1} \delta_T^j \varepsilon_{t-j}}{\delta_T^{t-\tau_e} X_{\tau_e}} \right\} = \delta_T^{t-\tau_e} X_{\tau_e} \{1 + o_p(1)\} \sim_a T^{1/2} \delta_T^{t-\tau_e} B(r_e).$$

(3) For  $t \in N_1$ ,

$$X_t = \sum_{k=\tau_f+1}^t \varepsilon_k + X_{\tau_f}^* = \sum_{k=\tau_f+1}^t \varepsilon_k + X_{\tau_e} + X^* \sim_a T^{1/2} [B(p) - B(r_f) + B(r_e)]$$

due to the fact that  $X_{\tau_e} \sim_a T^{1/2} B(r_e)$ ,  $\sum_{k=\tau_f+1}^t \varepsilon_k \sim_a T^{1/2} [B(p) - B(r_f)]$  and  $X^* = O_p(1)$ .  $\square$

**Lemma A2.** *Under the data generating process,*

(1) For  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_2-\tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_2-\tau_e} \frac{1}{r_w c} B(r_e).$$

(2) For  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_f - \tau_1} \frac{1}{r_w c} B(r_e).$$

(3) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = X_{\tau_e} \frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_f - \tau_e} \frac{1}{r_w c} B(r_e).$$

*Proof.* (1) For  $\tau_1 \in N_0$  and  $\tau_2 \in B$ , we have

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_e-1} X_j + \frac{1}{\tau_w} \sum_{j=\tau_e}^{\tau_2} X_j.$$

The first term is

$$\begin{aligned} \frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_e-1} X_j &= T^{1/2} \frac{\tau_e - \tau_1}{\tau_w} \left( \frac{1}{\tau_e - \tau_1} \sum_{j=\tau_1}^{\tau_e-1} \frac{X_j}{\sqrt{T}} \right) \\ &\sim_a T^{1/2} \frac{r_e - r_1}{r_w} \int_{r_1}^{r_e} B(s) ds. \end{aligned} \quad (25)$$

The second term is

$$\begin{aligned} \frac{1}{\tau_w} \sum_{j=\tau_e}^{\tau_2} X_j &= \frac{X_{\tau_e}}{\tau_w} \sum_{j=\tau_e}^{\tau_2} \delta_T^{j-\tau_e} \{1 + o_p(1)\} \text{ from Lemma A1} \\ &= \frac{X_{\tau_e}}{\tau_w} \frac{\delta_T^{\tau_2 - \tau_e + 1} - 1}{\delta_T - 1} \{1 + o_p(1)\} \\ &= X_{\tau_e} \frac{T^\alpha \delta_T^{\tau_2 - \tau_e} + c \delta_T^{\tau_2 - \tau_e} - T^\alpha}{\tau_w c} \{1 + o_p(1)\} \\ &= X_{\tau_e} \frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_2 - \tau_e} \frac{1}{r_w c} B(r_e). \end{aligned} \quad (26)$$

Furthermore, we have

$$\frac{T^{\alpha-1/2} \delta_T^{\tau_2 - \tau_e}}{T^{1/2}} = \frac{\delta_T^{\tau_2 - \tau_e}}{T^{1-\alpha}} = \frac{e^{c(r_2 - r_e)T^{1-\alpha}}}{T^{1-\alpha}} > 1.$$

This implies that  $\tau_w^{-1} \sum_{j=\tau_e}^{\tau_2} X_j$  has a higher order than  $\tau_w^{-1} \sum_{j=\tau_1}^{\tau_e-1} X_j$ . Hence,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{1}{\tau_w} \sum_{j=\tau_e}^{\tau_2} X_j \{1 + o_p(1)\}$$



$$\begin{aligned}
&= \frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} \text{ from equation (26)} \\
&\sim_a T^{\alpha-1/2} \delta_T^{\tau_2 - \tau_e} \frac{1}{r_w c} B(r_e).
\end{aligned}$$

(2) For  $\tau_1 \in B$  and  $\tau_2 \in N_1$ , we have

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_f} X_j + \frac{1}{\tau_w} \sum_{j=\tau_f+1}^{\tau_2} X_j.$$

The first term is

$$\begin{aligned}
\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_f} X_j &= \frac{X_{\tau_e}}{\tau_w} \sum_{j=\tau_1}^{\tau_f} \delta_T^{j-\tau_e} \{1 + o_p(1)\} \text{ from Lemma A1} \\
&= \frac{X_{\tau_e}}{\tau_w} \frac{\delta_T^{\tau_f - \tau_1 + 1} - 1}{\delta_T - 1} \{1 + o_p(1)\} \\
&= \frac{X_{\tau_e}}{\tau_w} \frac{T^\alpha \delta_T^{\tau_f - \tau_1} + c \delta_T^{\tau_f - \tau_1} - T^\alpha}{c} \{1 + o_p(1)\} \\
&= \frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} \\
&\sim_a T^{\alpha-1/2} \delta_T^{\tau_f - \tau_1} \frac{1}{r_w c} B(r_e).
\end{aligned}$$

The second term is

$$\begin{aligned}
&\frac{1}{\tau_w} \sum_{j=\tau_f+1}^{\tau_2} X_j \\
&= \frac{1}{\tau_w} \sum_{j=\tau_f+1}^{\tau_2} \left[ \sum_{k=\tau_f+1}^j \varepsilon_k + X_{\tau_e} \right] \tag{27} \\
&= T^{1/2} \frac{\tau_2 - \tau_f}{\tau_w} \left[ \frac{1}{\tau_2 - \tau_f} \sum_{j=\tau_f+1}^{\tau_2} \left( T^{-1/2} \sum_{k=\tau_f+1}^j \varepsilon_k \right) \right] + T^{1/2} \frac{\tau_2 - \tau_f}{\tau_w} (T^{-1/2} X_{\tau_e}) \\
&\sim_a T^{1/2} \frac{r_2 - r_f}{r_w} \int_{r_f}^{r_2} [B(s) - B(r_f)] ds + T^{1/2} \frac{r_2 - r_f}{r_w} B(r_e) \\
&= T^{1/2} \frac{\tau_2 - \tau_f}{\tau_w} \left\{ \int_{r_f}^{r_2} [B(s) - B(r_f)] ds - B(r_e) \right\}. \tag{28}
\end{aligned}$$

Furthermore, we have

$$\frac{T^{\alpha-1/2} \delta_T^{\tau_f - \tau_1}}{T^{1/2}} = \frac{\delta_T^{\tau_f - \tau_1}}{T^{1-\alpha}} = \frac{e^{c(r_f - r_1) T^{1-\alpha}}}{T^{1-\alpha}} > 1.$$

This implies that  $\tau_w^{-1} \sum_{j=\tau_1}^{\tau_f} X_j$  has a higher order than  $\tau_w^{-1} \sum_{j=\tau_f+1}^{\tau_2} X_j$ . Hence,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_f - \tau_1} \frac{1}{r_w c} B(r_e).$$

(3) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_e-1} X_j + \frac{1}{\tau_w} \sum_{j=\tau_e}^{\tau_f} X_j + \frac{1}{\tau_w} \sum_{j=\tau_f+1}^{\tau_2} X_j.$$

The first term is

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_e-1} X_j \sim_a T^{1/2} \frac{r_e - r_1}{r_w} \int_{r_1}^{r_e} B(s) ds \text{ from equation (25).}$$

The second term is

$$\begin{aligned} \frac{1}{\tau_w} \sum_{j=\tau_e}^{\tau_f} X_j &= \frac{X_{\tau_e}}{\tau_w} \sum_{j=\tau_e}^{\tau_f} \delta_T^{j-\tau_e} \{1 + o_p(1)\} \text{ from Lemma A1} \\ &= \frac{X_{\tau_e}}{\tau_w} \frac{\delta_T^{\tau_f - \tau_e + 1} - 1}{\delta_T - 1} \{1 + o_p(1)\} \\ &= \frac{X_{\tau_e}}{\tau_w c} \left( T^\alpha \delta_T^{\tau_f - \tau_e} + c \delta_T^{\tau_f - \tau_e} - T^\alpha \right) \{1 + o_p(1)\} \\ &= \frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} \\ &\sim_a T^{\alpha-1/2} \delta_T^{\tau_f - \tau_e} \frac{1}{r_w c} B(r_e). \end{aligned} \tag{29}$$

The third term is

$$\frac{1}{\tau_w} \sum_{j=\tau_f+1}^{\tau_2} X_j \sim_a T^{1/2} \frac{r_2 - r_f}{r_w} \left\{ \int_{r_f}^{r_2} [B(s) - B(r_f)] ds - B(r_e) \right\} \text{ from equation (28).}$$

Furthermore, we know

$$\frac{T^{\alpha-1/2} \delta_T^{\tau_f - \tau_e}}{T^{1/2}} = \frac{e^{c(r_f - r_e) T^{1-\alpha}}}{T^{1-\alpha}} > 1.$$

This implies that  $\tau_w^{-1} \sum_{j=\tau_e}^{\tau_f} X_j$  dominates  $\tau_w^{-1} \sum_{j=\tau_1}^{\tau_e-1} X_j$  and  $\tau_w^{-1} \sum_{j=\tau_f+1}^{\tau_2} X_j$ . Therefore,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_f - \tau_e} \frac{1}{c r_w} B(r_e).$$

□

**Lemma A3.** Define the centered quantity  $\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j$ .

(1) For  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\tilde{X}_t = \begin{cases} -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} & \text{if } t \in N_0 \\ \left[ \delta_T^{t - \tau_e} - \frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} \right] X_{\tau_e} \{1 + o_p(1)\} & \text{if } t \in B \end{cases}.$$

(2) For  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\tilde{X}_t = \begin{cases} \left[ \delta_T^{t - \tau_e} - \frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} \right] X_{\tau_e} \{1 + o_p(1)\} & \text{if } t \in B \\ -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} & \text{if } t \in N_1 \end{cases}.$$

(3) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\tilde{X}_t = \begin{cases} -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\} & \text{if } t \in N_0 \cup N_1 \\ \left[ \delta_T^{t - \tau_e} - \frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} \right] X_{\tau_e} \{1 + o_p(1)\} & \text{if } t \in B \end{cases}.$$

*Proof.* (1) Suppose  $\tau_1 \in N_0$  and  $\tau_2 \in B$ . If  $t \in N_0$ ,

$$\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j = -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\}, \quad (30)$$

where the second term dominates the first term due to the fact that

$$T^{-1/2} X_t \sim_a B(p) \text{ from Lemma A1}$$

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j \sim_a T^{\alpha-1/2} \delta_T^{\tau_2 - \tau_e} \frac{1}{r_w c} B(r_e) \text{ from Lemma A2}$$

and

$$\frac{T^{\alpha-1/2} \delta_T^{\tau_2 - \tau_e}}{T^{1/2}} = \frac{e^{c(r_2 - r_e)T^{1-\alpha}}}{T^{1-\alpha}} > 1.$$

If  $t \in B$ ,

$$\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j = \left[ \delta_T^{t - \tau_e} - \frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} \right] X_{\tau_e} \{1 + o_p(1)\}.$$

(2) Suppose  $\tau_1 \in B$  and  $\tau_2 \in N_1$ . If  $t \in B$ ,

$$\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j = \left[ \delta_T^{t - \tau_e} - \frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} \right] X_{\tau_e} \{1 + o_p(1)\}.$$

If  $t \in N_1$ ,

$$\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j = -\frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\},$$

where the second term dominates the first term due to the fact that

$$\begin{aligned} X_{t=[Tp]} &\sim_a T^{1/2} [B(p) - B(r_f) + B(r_e)] \text{ from Lemma A1} \\ \frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j &\sim_a T^{\alpha-1/2} \delta_T^{\tau_f - \tau_1} \frac{1}{r_w c} B(r_e) \text{ from Lemma A2} \end{aligned}$$

and

$$\frac{T^{\alpha-1/2} \delta_T^{\tau_f - \tau_1}}{T^{1/2}} = \frac{\delta_T^{\tau_f - \tau_1}}{T^{1-\alpha}} = \frac{e^{c(r_f - r_1)T^{1-\alpha}}}{T^{1-\alpha}} > 1.$$

(3) Suppose  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ . If  $t \in N_0$ ,

$$\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j = -\frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\},$$

where the second term dominates the first term due to the fact that

$$\begin{aligned} X_{t=[Tp]} &\sim_a T^{1/2} B(p) \text{ from Lemma A1} \\ \frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j &\sim_a T^{\alpha-1/2} \delta_T^{\tau_f - \tau_e} \frac{1}{r_w c} B(r_e) \text{ from Lemma A2} \end{aligned}$$

and

$$\frac{T^{\alpha-1/2} \delta_T^{\tau_f - \tau_e}}{T^{1/2}} > 1.$$

If  $t \in B$ ,

$$\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j = \left[ \delta_T^{t - \tau_e} - \frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} \right] X_{\tau_e} \{1 + o_p(1)\}.$$

If  $t \in N_1$ ,

$$\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j = -\frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} X_{\tau_e} \{1 + o_p(1)\},$$

since  $X_{t=[Tp]} \sim_a T^{1/2} [B(p) - B(r_f) + B(r_e)]$  (from Lemma A1). □

**Lemma A4.** *The sample variance terms involving  $\tilde{X}_t$  behave as follows.*

(1) For  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \frac{T^\alpha \delta_T^{2(\tau_2-\tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\} \sim_a \frac{T^{1+\alpha} \delta_T^{2(\tau_2-\tau_e)}}{2c} B(r_e)^2.$$

(2) For  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \frac{T^\alpha \delta_T^{2(\tau_f-\tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_f-\tau_e)}}{2c} B(r_e)^2.$$

(3) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \frac{T^\alpha \delta_T^{2(\tau_f-\tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_f-\tau_e)}}{2c} B(r_e)^2.$$

*Proof.* (1) For  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \sum_{j=\tau_1}^{\tau_e} \tilde{X}_{j-1}^2 + \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1}^2.$$

The first term is

$$\begin{aligned} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1}^2 &= \sum_{j=\tau_1}^{\tau_e-1} \frac{T^{2\alpha} \delta_T^{2(\tau_2-\tau_e)}}{\tau_w^2 c^2} X_{\tau_e}^2 \{1 + o_p(1)\} \text{ from Lemma A3} \\ &= \frac{\tau_e - \tau_1}{\tau_w^2 c^2} T^{2\alpha} \delta_T^{2(\tau_2-\tau_e)} X_{\tau_e}^2 \{1 + o_p(1)\} \\ &\sim_a \frac{r_e - r_1}{r_w^2 c} T^{2\alpha} \delta_T^{2(\tau_2-\tau_e)} B(r_e). \end{aligned}$$

Given that

$$\begin{aligned} \sum_{j=\tau_e}^{\tau_2} \delta_T^{2(j-1-\tau_e)} &= \frac{\delta_T^{2(\tau_2-\tau_e)} - \delta_T^{-2}}{\delta_T^2 - 1} = \frac{T^\alpha \delta_T^{2(\tau_2-\tau_e)}}{2c} \{1 + o_p(1)\} \\ \sum_{j=\tau_e}^{\tau_2} \delta_T^{j-1-\tau_e} &= \frac{\delta_T^{\tau_2-\tau_e} - \delta_T^{-1}}{\delta_T - 1} = \frac{T^\alpha \delta_T^{\tau_2-\tau_e}}{c} \{1 + o_p(1)\}, \end{aligned}$$

the second term

$$\sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1}^2$$

$$\begin{aligned}
&= \sum_{j=\tau_e}^{\tau_2} \left[ \delta_T^{j-1-\tau_e} - \frac{T^\alpha \delta_T^{\tau_2-\tau_e}}{\tau_w c} \right]^2 X_{\tau_e}^2 \{1 + o_p(1)\} \\
&= \sum_{j=\tau_e}^{\tau_2} \left[ \delta_T^{2(j-1-\tau_e)} - 2\delta_T^{j-1-\tau_e} \frac{T^\alpha \delta_T^{\tau_2-\tau_e}}{\tau_w c} + \frac{T^{2\alpha} \delta_T^{2(\tau_2-\tau_e)}}{\tau_w^2 c^2} \right] X_{\tau_e}^2 \{1 + o_p(1)\} \\
&= \left[ \frac{T^\alpha \delta_T^{2(\tau_2-\tau_e)}}{2c} - 2 \frac{T^{2\alpha-1} \delta_T^{2(\tau_2-\tau_e)}}{r_w c^2} + \frac{r_2 - r_e + \frac{1}{T}}{r_w^2 c^2} T^{2\alpha-1} \delta_T^{2(\tau_2-\tau_e)} \right] X_{\tau_e}^2 \{1 + o_p(1)\} \\
&= \frac{T^\alpha \delta_T^{2(\tau_2-\tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\} \quad (\text{since } \alpha > 2\alpha - 1) \\
&\sim_a \frac{T^{1+\alpha} \delta_T^{2(\tau_2-\tau_e)}}{2c} B(r_e)^2.
\end{aligned}$$

Since  $1 + \alpha > 2\alpha$ ,  $\sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1}^2$  dominates  $\sum_{j=\tau_1}^{\tau_e} \tilde{X}_{j-1}^2$ . Therefore,

$$\begin{aligned}
\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 &= \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1}^2 \{1 + o_p(1)\} = \frac{T^\alpha \delta_T^{2(\tau_2-\tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\} \\
&\sim_a \frac{T^{1+\alpha} \delta_T^{2(\tau_2-\tau_e)}}{2c} B(r_e)^2.
\end{aligned}$$

(2) For  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1}^2 + \sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1}^2.$$

Given that

$$\begin{aligned}
\sum_{j=\tau_1}^{\tau_f} \delta_T^{2(j-1-\tau_e)} &= \frac{T^\alpha \left[ \delta_T^{2(\tau_f-\tau_e)} - \delta_T^{2(\tau_1-\tau_e-1)} \right]}{2c + c^2 T^{-\alpha}} = \frac{T^\alpha \delta_T^{2(\tau_f-\tau_e)}}{2c} \{1 + o_p(1)\} \\
\sum_{j=\tau_1}^{\tau_f} \delta_T^{j-1-\tau_e} &= \frac{T^\alpha \left[ \delta_T^{\tau_f-\tau_e} - \delta_T^{\tau_1-\tau_e-1} \right]}{c} = \frac{T^\alpha \delta_T^{\tau_f-\tau_e}}{c} \{1 + o_p(1)\},
\end{aligned}$$

the first term is

$$\begin{aligned}
&\sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1}^2 \\
&= \sum_{j=\tau_1}^{\tau_f} \left[ \delta_T^{j-1-\tau_e} - \frac{T^\alpha \delta_T^{\tau_f-\tau_1}}{\tau_w c} \right]^2 X_{\tau_e}^2 \{1 + o_p(1)\}
\end{aligned}$$

$$\begin{aligned}
&= \left[ \frac{T^\alpha \delta_T^{2(\tau_f - \tau_e)}}{2c} - 2 \frac{T^\alpha \delta_T^{\tau_f - \tau_1} T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} + \frac{\tau_f - \tau_1 + 1}{\tau_w^2 c^2} T^{2\alpha} \delta_T^{2(\tau_f - \tau_1)} \right] X_{\tau_e}^2 \{1 + o_p(1)\} \\
&= \left[ \frac{T^\alpha \delta_T^{2(\tau_f - \tau_e)}}{2c} - 2 \frac{\delta_T^{(\tau_f - \tau_1) + (\tau_f - \tau_e)}}{T^{1-2\alpha} r_w c^2} + \frac{r_f - r_1 + \frac{1}{T}}{T^{1-2\alpha} r_w^2 c^2} \delta_T^{2(\tau_f - \tau_1)} \right] X_{\tau_e}^2 \{1 + o_p(1)\} \\
&= \frac{T^\alpha \delta_T^{2(\tau_f - \tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\} \quad (\text{since } \alpha > 2\alpha - 1 \text{ and } \tau_f - \tau_e > \tau_f - \tau_1) \\
&\sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_f - \tau_e)}}{2c} B(r_e)^2.
\end{aligned}$$

The second term is

$$\begin{aligned}
\sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1}^2 &= \sum_{j=\tau_f+1}^{\tau_2} \frac{T^{2\alpha} \delta_T^{2(\tau_f - \tau_1)}}{\tau_w^2 c^2} X_{\tau_e}^2 \{1 + o_p(1)\} \\
&= \frac{\tau_2 - \tau_f}{\tau_w^2 c^2} T^{2\alpha} \delta_T^{2(\tau_f - \tau_1)} X_{\tau_e}^2 \{1 + o_p(1)\} \\
&\sim_a \frac{r_2 - r_f}{r_w^2 c^2} T^{2\alpha} \delta_T^{2(\tau_f - \tau_1)} B(r_e)^2.
\end{aligned}$$

Since  $1 + \alpha > 2\alpha$ ,  $\sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1}^2$  dominates  $\sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1}^2$ . Therefore,

$$\begin{aligned}
\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 &= \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1}^2 \{1 + o_p(1)\} = \frac{T^\alpha \delta_T^{2(\tau_f - \tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\} \\
&\sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_f - \tau_e)}}{2c} B(r_e)^2.
\end{aligned}$$

(3) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1}^2 + \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1}^2 + \sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1}^2.$$

The first term is

$$\begin{aligned}
\sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1}^2 &= \sum_{j=\tau_1}^{\tau_e-1} \frac{T^{2\alpha} \delta_T^{2(\tau_f - \tau_e)}}{\tau_w^2 c^2} X_{\tau_e}^2 \{1 + o_p(1)\} \\
&= \frac{\tau_e - \tau_1}{\tau_w^2 c^2} T^{2\alpha} \delta_T^{2(\tau_f - \tau_e)} X_{\tau_e}^2 \{1 + o_p(1)\}
\end{aligned}$$

$$\sim_a \frac{r_e - r_1}{r_w^2 c^2} T^{2\alpha} \delta_T^{2(\tau_f - \tau_e)} B(r_e)^2.$$

Given that

$$\begin{aligned} \sum_{j=\tau_e}^{\tau_f} \delta_T^{2(j-1-\tau_e)} &= \frac{\delta_T^{2(\tau_f - \tau_e)} - \delta_T^{-2}}{\delta_T^2 - 1} = \frac{T^\alpha \delta_T^{2(\tau_f - \tau_e)}}{2c} \{1 + o_p(1)\} \\ \sum_{j=\tau_e}^{\tau_f} \delta_T^{j-1-\tau_e} &= \frac{\delta_T^{\tau_f - \tau_e} - \delta_T^{-1}}{\delta_T - 1} = \frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{c} \{1 + o_p(1)\}, \end{aligned}$$

the second term

$$\begin{aligned} &\sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1}^2 \\ &= \sum_{j=\tau_e}^{\tau_f} \left[ \delta_T^{j-1-\tau_e} - \frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} \right]^2 X_{\tau_e}^2 \{1 + o_p(1)\} \\ &= \left[ \frac{T^\alpha \delta_T^{2(\tau_f - \tau_e)}}{2c} - 2 \frac{\delta_T^{2(\tau_f - \tau_e)}}{T^{1-2\alpha} r_w c^2} + \frac{r_f - r_e + \frac{1}{T}}{T^{1-2\alpha} r_w^2 c^2} \delta_T^{2(\tau_f - \tau_e)} \right] X_{\tau_e}^2 \{1 + o_p(1)\} \\ &= \frac{T^\alpha \delta_T^{2(\tau_f - \tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\} \quad (\text{since } \alpha > 2\alpha - 1) \\ &\sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_f - \tau_e)}}{2c} B(r_e)^2. \end{aligned}$$

The third term is

$$\begin{aligned} \sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1}^2 &= \sum_{j=\tau_f+1}^{\tau_2} \frac{T^{2\alpha} \delta_T^{2(\tau_f - \tau_e)}}{\tau_w^2 c^2} X_{\tau_e}^2 \{1 + o_p(1)\} \\ &= \frac{\tau_2 - \tau_f}{\tau_w^2 c^2} T^{2\alpha} \delta_T^{2(\tau_f - \tau_e)} X_{\tau_e}^2 \{1 + o_p(1)\} \\ &\sim_a \frac{r_2 - r_f}{r_w^2 c^2} T^{2\alpha} \delta_T^{2(\tau_f - \tau_e)} B(r_e)^2. \end{aligned}$$

Since  $1 + \alpha > 2\alpha$ ,  $\sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1}^2$  dominates the other two terms. Therefore,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1}^2 \{1 + o_p(1)\} = \frac{T^\alpha \delta_T^{2(\tau_f - \tau_e)}}{2c} X_{\tau_e}^2 \{1 + o_p(1)\}$$



$$\sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_f - \tau_e)}}{2c} B(r_e)^2.$$

□

**Lemma A5.** *The sample covariance of  $\tilde{X}_t$  and  $\varepsilon_t$  behaves as follows.*

(1) For  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \{1 + o_p(1)\} \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_2 - \tau_e} X_c B(r_e).$$

(2) For  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j \{1 + o_p(1)\} \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_f - \tau_e} X_c B(r_e).$$

(3) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j \{1 + o_p(1)\} \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_f - \tau_e} X_c B(r_e).$$

*Proof.* (1) For  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j.$$

The first term is

$$\begin{aligned} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j &= \sum_{j=\tau_1}^{\tau_e-1} -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} X_{\tau_e} \varepsilon_j \{1 + o_p(1)\} \\ &= -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} X_{\tau_e} \sum_{j=\tau_1}^{\tau_e-1} \varepsilon_j \{1 + o_p(1)\} \\ &= -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{r_w c} \left( T^{-1/2} X_{\tau_e} \right) \left( T^{-1/2} \sum_{j=\tau_1}^{\tau_e-1} \varepsilon_j \right) \{1 + o_p(1)\} \\ &\sim_a -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{r_w c} B(r_e) [B(r_e) - B(r_1)]. \end{aligned}$$

The second term is

$$\begin{aligned}
& \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \\
&= \sum_{j=\tau_e}^{\tau_2} \left[ \delta_T^{j-1-\tau_e} - \frac{T^\alpha \delta_T^{\tau_2-\tau_e}}{\tau_w c} \right] X_{\tau_e} \varepsilon_j \{1 + o_p(1)\} \\
&= \left[ \sum_{j=\tau_e}^{\tau_2} \delta_T^{j-1-\tau_e} \varepsilon_j - \frac{T^\alpha \delta_T^{\tau_2-\tau_e}}{\tau_w c} \sum_{j=\tau_e}^{\tau_2} \varepsilon_j \right] X_{\tau_e} \{1 + o_p(1)\} \\
&= \left[ T^{\alpha/2} \delta_T^{\tau_2-\tau_e} \left( \frac{1}{T^{\alpha/2}} \sum_{j=\tau_e}^{\tau_2} \delta_T^{-(\tau_2-j+1)} \varepsilon_j \right) - \frac{\delta_T^{\tau_2-\tau_e}}{T^{1/2-\alpha} \tau_w c} \left( \frac{1}{\sqrt{T}} \sum_{j=\tau_e}^{\tau_2} \varepsilon_j \right) \right] X_{\tau_e} \{1 + o_p(1)\} \\
&= T^{\alpha/2} \delta_T^{\tau_2-\tau_e} \left( T^{-\alpha/2} \sum_{j=\tau_e}^{\tau_2} \delta_T^{-(\tau_2-j+1)} \varepsilon_j \right) X_{\tau_e} \{1 + o_p(1)\} \quad (\text{since } \alpha/2 > \alpha - 1/2) \\
&\sim_a T^{(\alpha+1)/2} \delta_T^{\tau_2-\tau_e} X_c B(r_e).
\end{aligned}$$

Since  $(\alpha + 1)/2 > \alpha$ ,  $\sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j$  dominates  $\sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j$ . Therefore,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \{1 + o_p(1)\} \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_2-\tau_e} X_c B(r_e).$$

(2) For  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j.$$

The first term is

$$\begin{aligned}
& \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j \\
&= \sum_{j=\tau_1}^{\tau_f} \left[ \delta_T^{j-1-\tau_e} - \frac{T^\alpha \delta_T^{\tau_f-\tau_1}}{\tau_w c} \right] X_{\tau_e} \varepsilon_j \{1 + o_p(1)\} \\
&= \left[ \sum_{j=\tau_1}^{\tau_f} \delta_T^{j-1-\tau_e} \varepsilon_j - \frac{T^\alpha \delta_T^{\tau_f-\tau_1}}{\tau_w c} \sum_{j=\tau_1}^{\tau_f} \varepsilon_j \right] X_{\tau_e} \{1 + o_p(1)\} \\
&= \left[ T^{\alpha/2} \delta_T^{\tau_f-\tau_e} \left( \frac{1}{T^{\alpha/2}} \sum_{j=\tau_1}^{\tau_f} \delta_T^{-(\tau_f-j+1)} \varepsilon_j \right) - \frac{T^{\alpha+1/2} \delta_T^{\tau_f-\tau_1}}{\tau_w c} \left( \frac{1}{\sqrt{T}} \sum_{j=\tau_1}^{\tau_f} \varepsilon_j \right) \right] X_{\tau_e} \{1 + o_p(1)\}
\end{aligned}$$

$$\begin{aligned}
&= T^{\alpha/2} \delta_T^{\tau_f - \tau_e} \left( T^{-\alpha/2} \sum_{j=\tau_1}^{\tau_f} \delta_T^{-(\tau_f - j + 1)} \varepsilon_j \right) X_{\tau_e} \{1 + o_p(1)\} \\
&\sim_a T^{(\alpha+1)/2} \delta_T^{\tau_f - \tau_e} X_c B(r_e).
\end{aligned}$$

The second term is

$$\begin{aligned}
\sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j &= \sum_{j=\tau_f+1}^{\tau_2} -\frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{\tau_w c} X_{\tau_e} \varepsilon_j \{1 + o_p(1)\} \\
&= -\frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{r_w c} \left( T^{-1/2} X_{\tau_e} \right) \left( T^{-1/2} \sum_{j=\tau_f+1}^{\tau_2} \varepsilon_j \right) \{1 + o_p(1)\} \\
&\sim_a -\frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{r_w c} B(r_e) [B(r_2) - B(r_f)].
\end{aligned}$$

Since  $(\alpha + 1)/2 > \alpha$ ,  $\sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j$  dominates  $\sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j$ . Therefore,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j \{1 + o_p(1)\} \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_f - \tau_e} X_c B(r_e).$$

(3) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j.$$

The first term is

$$\begin{aligned}
\sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j &= \sum_{j=\tau_1}^{\tau_e-1} -\frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} X_{\tau_e} \varepsilon_j \{1 + o_p(1)\} \\
&= -\frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{r_w c} \left( T^{-1/2} X_{\tau_e} \right) \left( T^{-1/2} \sum_{j=\tau_1}^{\tau_e-1} \varepsilon_j \right) \{1 + o_p(1)\} \\
&\sim_a -\frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{r_w c} B(r_e) [B(r_e) - B(r_1)].
\end{aligned}$$

The second term is

$$\sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j$$

$$\begin{aligned}
&= \sum_{j=\tau_e}^{\tau_f} \left[ \delta_T^{j-1-\tau_e} - \frac{T^\alpha \delta_T^{\tau_f-\tau_e}}{\tau_w c} \right] X_{\tau_e} \varepsilon_j \{1 + o_p(1)\} \\
&= \left[ \sum_{j=\tau_e}^{\tau_f} \delta_T^{j-1-\tau_e} \varepsilon_j - \frac{T^\alpha \delta_T^{\tau_f-\tau_e}}{\tau_w c} \sum_{j=\tau_e}^{\tau_f} \varepsilon_j \right] X_{\tau_e} \{1 + o_p(1)\} \\
&= \left[ T^{\alpha/2} \delta_T^{\tau_f-\tau_e} \left( \frac{1}{T^{\alpha/2}} \sum_{j=\tau_e}^{\tau_f} \delta_T^{-(\tau_f-j+1)} \varepsilon_j \right) - \frac{T^{\alpha-1/2} \delta_T^{\tau_f-\tau_e}}{r_w c} \left( \frac{1}{\sqrt{T}} \sum_{j=\tau_e}^{\tau_f} \varepsilon_j \right) \right] X_{\tau_e} \{1 + o_p(1)\} \\
&= T^{\alpha/2+1/2} \delta_T^{\tau_f-\tau_e} \left( T^{-\alpha/2} \sum_{j=\tau_e}^{\tau_f} \delta_T^{-(\tau_f-j+1)} \varepsilon_j \right) (T^{-1/2} X_{\tau_e}) \{1 + o_p(1)\} \\
&\sim_a T^{(\alpha+1)/2} \delta_T^{\tau_f-\tau_e} X_c B(r_e).
\end{aligned}$$

The third term is

$$\begin{aligned}
\sum_{j=\tau_f+1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j &= \sum_{j=\tau_f+1}^{\tau_2} -\frac{T^\alpha \delta_T^{\tau_f-\tau_e}}{\tau_w c} X_{\tau_e} \varepsilon_j \{1 + o_p(1)\} \\
&= -\frac{T^\alpha \delta_T^{\tau_f-\tau_e}}{r_w c} (T^{-1/2} X_{\tau_e}) \left( T^{-1/2} \sum_{j=\tau_f+1}^{\tau_2} \varepsilon_j \right) \{1 + o_p(1)\} \\
&\sim_a -\frac{T^\alpha \delta_T^{\tau_f-\tau_e}}{r_w c} B(r_e) [B(r_2) - B(r_f)].
\end{aligned}$$

Since  $(\alpha + 1)/2 > \alpha$ ,  $\sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j$  dominates the other two terms. Therefore,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j \{1 + o_p(1)\} \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_f-\tau_e} X_c B(r_e).$$

□

**Lemma A6.** *The sample covariance of  $\tilde{X}_{j-1}$  and  $X_j - \delta_T X_{j-1}$  behaves as follows.*

(1) For  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a \frac{r_e - r_1}{r_w} T \delta_T^{\tau_2-\tau_e} B(r_e) \int_{\tau_1}^{r_e} B(s) ds.$$

(2) For  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a -T \delta_T^{2(\tau_f-\tau_e)} B(r_e)^2.$$

(3) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a -T \delta_T^{2(\tau_f - \tau_e)} B(r_e)^2.$$

*Proof.* (1) When  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\begin{aligned} \sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) &= \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} (X_j - X_{j-1} + X_{j-1} - \delta_T X_{j-1}) \\ &= \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \left( \varepsilon_j - \frac{c}{T^\alpha} X_{j-1} \right) \\ &= \sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j - \frac{c}{T^\alpha} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} X_{j-1}. \end{aligned} \tag{31}$$

The first term is

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_2 - \tau_e} X_c B(r_e) \quad (\text{from Lemma A5}).$$

The second term is

$$\begin{aligned} &\frac{c}{T^\alpha} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} X_{j-1} \\ &= \frac{c}{T^\alpha} \sum_{j=\tau_1}^{\tau_e-1} -\frac{T^\alpha \delta_T^{\tau_2 - \tau_e}}{\tau_w c} X_{\tau_e} X_{j-1} \{1 + o_p(1)\} \\ &= -\frac{\delta_T^{\tau_2 - \tau_e}}{\tau_w} X_{\tau_e} \sum_{j=\tau_1}^{\tau_e-1} X_{j-1} \{1 + o_p(1)\} \\ &= -\frac{\tau_e - \tau_1}{\tau_w} T \delta_T^{\tau_2 - \tau_e} \left( T^{-1/2} X_{\tau_e} \right) \left[ \frac{1}{\tau_e - \tau_1} \sum_{j=\tau_1}^{\tau_e-1} \left( T^{-1/2} X_{j-1} \right) \right] \{1 + o_p(1)\} \\ &\sim_a -\frac{r_e - r_1}{r_w} T \delta_T^{\tau_2 - \tau_e} B(r_e) \int_{\tau_1}^{r_e} B(s) ds. \end{aligned}$$

Since  $(\alpha + 1)/2 < 1$ ,  $\frac{c}{T^\alpha} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} X_{j-1}$  dominates  $\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j$ . Therefore,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) = -\frac{c}{T^\alpha} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} X_{j-1} \{1 + o_p(1)\}$$

$$\sim_a \frac{r_e - r_1}{r_w} T \delta_T^{\tau_2 - \tau_e} B(r_e) \int_{r_1}^{r_e} B(s) ds.$$

(2) When  $\tau_1 \in B$  and  $\tau_2 \in N$ ,

$$\begin{aligned} \sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) &= \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j + \tilde{X}_{\tau_f} (X_{\tau_f+1} - \delta_T X_{\tau_f}) + \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} (X_j - X_{j-1} + X_{j-1} - \delta_T X_{j-1}) \\ &= \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j + \tilde{X}_{\tau_f} (X_{\tau_e} + X^* + \varepsilon_{\tau_f+1} - \delta_T X_{\tau_f}) + \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} \left( \varepsilon_j - \frac{c}{T^\alpha} X_{j-1} \right) \\ &= \sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j - \delta_T \tilde{X}_{\tau_f} X_{\tau_f} - \frac{c}{T^\alpha} \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} X_{j-1}. \end{aligned}$$

The first term is

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_f - \tau_e} X_c B(r_e) \quad (\text{from Lemma A5}).$$

The second term is

$$\begin{aligned} \delta_T \tilde{X}_{\tau_f} X_{\tau_f} &= \delta_T \left[ \delta_T^{\tau_f - \tau_e} - \frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{\tau_w c} \right] X_{\tau_e} X_{\tau_f} \{1 + o_p(1)\} \\ &= \delta_T^{\tau_f - \tau_e + 1} X_{\tau_e} X_{\tau_f} \{1 + o_p(1)\} \sim_a T \delta_T^{2(\tau_f - \tau_e)} B(r_e)^2 \end{aligned}$$

due to the fact that

$$\frac{\delta_T^{\tau_f - \tau_e}}{T^{\alpha-1} \delta_T^{\tau_f - \tau_1}} = T^{1-\alpha} \delta_T^{\tau_1 - \tau_e} > 1.$$

The third term is

$$\begin{aligned} &\frac{c}{T^\alpha} \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} X_{j-1} \\ &= \frac{c}{T^\alpha} \sum_{j=\tau_f+2}^{\tau_2} -\frac{T^\alpha \delta_T^{\tau_f - \tau_1}}{\tau_w c} X_{\tau_e} X_{j-1} \{1 + o_p(1)\} \\ &= -\frac{\delta_T^{\tau_f - \tau_1}}{\tau_w} X_{\tau_e} \sum_{j=\tau_f+2}^{\tau_2} X_{j-1} \{1 + o_p(1)\} \\ &= -\frac{\tau_2 - \tau_f - 1}{\tau_w} T \delta_T^{\tau_f - \tau_1} \left( T^{-1/2} X_{\tau_e} \right) \left( \frac{1}{\tau_2 - \tau_f - 1} \sum_{j=\tau_f+2}^{\tau_2} T^{-1/2} X_{j-1} \right) \{1 + o_p(1)\} \end{aligned}$$

$$\sim_a -\frac{r_2 - r_f}{r_w} T \delta_T^{\tau_f - \tau_1} B(r_e) \int_{r_f}^{r_2} B(s) ds.$$

The quantity  $\delta_T \tilde{X}_{\tau_f} X_{\tau_f}$  dominates the other two terms and hence

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) = -\delta_T \tilde{X}_{\tau_f} X_{\tau_f} \{1 + o_p(1)\} \sim_a -T \delta_T^{2(\tau_f - \tau_e)} B(r_e)^2.$$

(3) When  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\begin{aligned} & \sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \\ &= \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} (X_j - X_{j-1} + X_{j-1} - \delta_T X_{j-1}) \\ &+ \tilde{X}_{\tau_f} (X_{\tau_f+1} - \delta_T X_{\tau_f}) + \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} (X_j - X_{j-1} + X_{j-1} - \delta_T X_{j-1}) \\ &= \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \left( \varepsilon_j - \frac{c}{T^\alpha} X_{j-1} \right) \\ &+ \tilde{X}_{\tau_f} (X_{\tau_f+1} - \delta_T X_{\tau_f}) + \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} \left( \varepsilon_j - \frac{c}{T^\alpha} X_{j-1} \right) \\ &= \sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j - \frac{c}{T^\alpha} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} X_{j-1} - \delta_T \tilde{X}_{\tau_f} X_{\tau_f} - \frac{c}{T^\alpha} \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} X_{j-1}. \end{aligned}$$

The first term is

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_f - \tau_e} X_c B(r_e) \quad (\text{from Lemma A5}).$$

The second term is

$$\begin{aligned} & \frac{c}{T^\alpha} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} X_{j-1} \\ &= \frac{c}{T^\alpha} \sum_{j=\tau_1}^{\tau_e-1} -\frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} X_{\tau_e} X_{j-1} \{1 + o_p(1)\} \\ &= -\frac{\delta_T^{\tau_f - \tau_e}}{\tau_w} X_{\tau_e} \sum_{j=\tau_1}^{\tau_e-1} X_{j-1} \{1 + o_p(1)\} \end{aligned}$$

$$\begin{aligned}
&= -\frac{\tau_e - \tau_1}{\tau_w} T \delta_T^{\tau_f - \tau_e} \left( T^{-1/2} X_{\tau_e} \right) \left( \frac{1}{\tau_e - \tau_1} \sum_{j=\tau_1}^{\tau_e-1} T^{-1/2} X_{j-1} \right) \{1 + o_p(1)\} \\
&\sim_a -\frac{r_e - r_1}{r_w} T \delta_T^{\tau_f - \tau_e} B(r_e) \int_{r_1}^{r_e} B(s) ds
\end{aligned}$$

The third term is

$$\begin{aligned}
\delta_T \tilde{X}_{\tau_f} X_{\tau_f} &= \delta_T \left[ \delta_T^{\tau_f - \tau_e} - \frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} \right] X_{\tau_e} X_{\tau_f} \{1 + o_p(1)\} \\
&= \delta_T^{\tau_f - \tau_e + 1} X_{\tau_e} X_{\tau_f} \{1 + o_p(1)\} \sim_a T \delta_T^{2(\tau_f - \tau_e)} B(r_e)^2
\end{aligned}$$

due to the fact that

$$\frac{\delta_T^{\tau_f - \tau_e}}{T^{\alpha-1} \delta_T^{\tau_f - \tau_e}} = T^{1-\alpha} > 1.$$

The fourth term is

$$\begin{aligned}
&\frac{c}{T^\alpha} \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} X_{j-1} \\
&= \frac{c}{T^\alpha} \sum_{j=\tau_f+2}^{\tau_2} -\frac{T^\alpha \delta_T^{\tau_f - \tau_e}}{\tau_w c} X_{\tau_e} X_{j-1} \{1 + o_p(1)\} \\
&= -\frac{\delta_T^{\tau_f - \tau_e}}{\tau_w} X_{\tau_e} \sum_{j=\tau_f+2}^{\tau_2} X_{j-1} \{1 + o_p(1)\} \\
&= -\frac{\tau_2 - \tau_f - 1}{\tau_w} T \delta_T^{\tau_f - \tau_e} \left( T^{-1/2} X_{\tau_e} \right) \left( \frac{1}{\tau_2 - \tau_f - 1} \sum_{j=\tau_f+2}^{\tau_2} T^{-1/2} X_{j-1} \right) \{1 + o_p(1)\} \\
&\sim_a -\frac{r_2 - r_f}{r_w} T \delta_T^{\tau_f - \tau_e} B(r_e) \int_{r_f}^{r_2} B(s) ds.
\end{aligned}$$

The quantity  $\delta_T \tilde{X}_{\tau_f} X_{\tau_f}$  dominates the other three terms and hence

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) = -\delta_T \tilde{X}_{\tau_f} X_{\tau_f} \{1 + o_p(1)\} \sim_a -T \delta_T^{2(\tau_f - \tau_e)} B(r_e)^2.$$

□



## A.2: Test Asymptotics and Proofs of Theorems 1-3.

The fitted regression model for the subperiod unit root test is

$$X_t = \hat{\alpha}_{r_1, r_2} + \hat{\delta}_{r_1, r_2} X_{t-1} + \hat{\varepsilon}_t, \quad t \in [[Tr_1], [Tr_2]] \quad (32)$$

The intercept  $\hat{\alpha}_{r_1, r_2}$  and slope coefficient  $\hat{\delta}_{r_1, r_2}$  are obtained using data over the subperiod  $[r_1, r_2]$ . We calculate the asymptotic distribution of the unit root statistic under the alternative hypothesis. Based on Lemma A4 and Lemma A6, we can obtain the limit distribution of  $\hat{\delta}_{r_1, r_2} - \delta_T$  using

$$\hat{\delta}_T - \delta_T = \frac{\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1})}{\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2}.$$

(1) When  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\hat{\delta}_{r_1, r_2} - \delta_T \sim_a T^{-\alpha} \delta_T^{-(\tau_2 - \tau_{ie})} \frac{r_e - r_1}{r_w} \frac{\int_{r_1}^{r_e} B(s) ds}{B(r_e)};$$

(2) when  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\hat{\delta}_{r_1, r_2} - \delta_T \sim_a -2T^{-\alpha} c;$$

(3) when  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\hat{\delta}_{r_1, r_2} - \delta_T \sim_a -2T^{-\alpha} c.$$

### A.2.1: Limit Behavior of the recursive unit root statistics

The asymptotic distributions of the unit root coefficient Z-statistics are as follows: (1) When  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\begin{aligned} DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\ &= \tau_w (\delta_T - 1) + o_p \left( r_w \frac{T^{1-\alpha}}{\delta_T^{\tau_2 - \tau_e}} \right) \\ &= \frac{\tau_w c}{T^\alpha} + o_p \left( r_w \frac{T^{1-\alpha}}{e^{c(r_2 - r_e) T^{1-\alpha}}} \right) \\ &= r_w c T^{1-\alpha} + o_p(1) \rightarrow \infty; \end{aligned}$$

(2) when  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\begin{aligned}
DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\
&= \frac{\tau_w c}{T^\alpha} + o_p \left( \frac{\tau_w}{T^\alpha} \right) \\
&= (c - 2c) \frac{\tau_w}{T^\alpha} \\
&= -c \tau_w T^{1-\alpha} \rightarrow -\infty;
\end{aligned}$$

(3) when  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\begin{aligned}
DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\
&= \frac{\tau_w c}{T^\alpha} + o_p \left( \frac{\tau_w}{T^\alpha} \right) \\
&= (c - 2c) \frac{\tau_w}{T^\alpha} \\
&= -c \tau_w T^{1-\alpha} \rightarrow -\infty.
\end{aligned}$$

This implies that when  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\hat{\delta}_{r_1, r_2} - 1 \sim_a T^{-\alpha} c \text{ and } T^\alpha \left( \hat{\delta}_{r_1, r_2} - 1 \right) \xrightarrow{L} c;$$

and for the other two cases,

$$\hat{\delta}_{r_1, r_2} - 1 \sim_a -T^{-\alpha} c \text{ and } T^\alpha \left( \hat{\delta}_{r_1, r_2} - 1 \right) \xrightarrow{L} -c.$$

To obtain the asymptotic distributions of the unit root t-statistics, we need first to estimate the standard error of  $\hat{\delta}_{r_1, r_2}$ . (1) When  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$\begin{aligned}
&Var \left( \hat{\delta}_{r_1, r_2} \right) \\
&= \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} \left( \tilde{X}_j - \hat{\delta}_{r_1, r_2} \tilde{X}_{j-1} \right)^2 \\
&= \tau_w^{-1} \left[ \sum_{j=\tau_1}^{\tau_e-1} \left[ \varepsilon_j - \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tilde{X}_{j-1} \right]^2 + \sum_{j=\tau_e}^{\tau_2} \left[ \varepsilon_j - \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \tilde{X}_{j-1} \right]^2 \right] \\
&= \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} \varepsilon_j^2 + \left( \hat{\delta}_{r_1, r_2} - 1 \right)^2 \tau_w^{-1} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1}^2 + \left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \tau_w^{-1} \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1}^2
\end{aligned}$$

$$\begin{aligned}
& -2 \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tau_w^{-1} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j - 2 \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \tau_w^{-1} \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \\
& = \left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \tau_w^{-1} \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1}^2 \\
& \sim_a \frac{2c}{T^\alpha} \frac{(r_e - r_1)^2}{r_w^3} \left[ \int_{r_1}^{r_e} B(s) ds \right]^2.
\end{aligned}$$

The term  $\left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \tau_w^{-1} \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1}^2$  dominates the other terms due to the fact that

$$\begin{aligned}
& \left( \hat{\delta}_{r_1, r_2} - 1 \right)^2 \tau_w^{-1} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1}^2 = O_p(T^{-2\alpha}) O_p\left(T^{2\alpha-1} \delta_T^{2(\tau_2-\tau_e)}\right) = O_p\left(T^{-1} \delta_T^{2(\tau_2-\tau_e)}\right), \\
& \left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \tau_w^{-1} \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1}^2 = O_p\left(\frac{1}{T^{2\alpha} \delta_T^{2(\tau_2-\tau_e)}}\right) O_p\left(T^\alpha \delta_T^{2(\tau_2-\tau_e)}\right) = O_p(T^{-\alpha}), \\
& 2 \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tau_w^{-1} \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j = O_p(T^{-\alpha}) O_p\left(\frac{\delta_T^{\tau_2-\tau_e}}{T^{1-\alpha}}\right) = O_p\left(T^{-1} \delta_T^{\tau_2-\tau_e}\right), \\
& 2 \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \tau_w^{-1} \sum_{j=\tau_e}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = O_p\left(\frac{1}{T^\alpha \delta_T^{\tau_2-\tau_e}}\right) O_p\left(\frac{\delta_T^{\tau_2-\tau_e}}{T^{(1-\alpha)/2}}\right) = O_p\left(T^{-(1+3\alpha)/2}\right).
\end{aligned}$$

(2) When  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$\begin{aligned}
& \tilde{X}_{\tau_f+1} - \hat{\delta}_{r_1, r_2} \tilde{X}_{\tau_f} \\
& = \frac{\delta_T^{\tau_f-\tau_1}}{r_w c T^{1-\alpha}} X_{\tau_e} - \tilde{X}_{\tau_f} - \left[ \hat{\delta}_{r_1, r_2} - 1 \right] \tilde{X}_{\tau_f} \\
& = O_p\left(T^{\alpha-1/2} \delta_T^{\tau_f-\tau_1}\right) - O_p\left(T^{1/2} \delta_T^{\tau_f-\tau_e}\right) - O_p(T^{-\alpha}) O_p\left(T^{1/2} \delta_T^{\tau_f-\tau_e}\right) \\
& = -\tilde{X}_{\tau_f} = -\delta_T^{\tau_f-\tau_e} X_{\tau_e} \{1 + o_p(1)\},
\end{aligned}$$

using the fact that

$$\tilde{X}_{\tau_f} = \left[ \delta_T^{\tau_f-\tau_e} - \frac{\delta_T^{\tau_f-\tau_1}}{r_w c T^{1-\alpha}} \right] X_{\tau_e} \{1 + o_p(1)\} = \delta_T^{\tau_f-\tau_e} X_{\tau_e} \{1 + o_p(1)\}.$$

Therefore,

$$Var\left(\hat{\delta}_{r_1, r_2}\right)$$

$$\begin{aligned}
&= \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} \left( \tilde{X}_j - \hat{\delta}_{r_1, r_2} \tilde{X}_{j-1} \right)^2 \\
&= \tau_w^{-1} \left\{ \sum_{j=\tau_f+2}^{\tau_2} \left[ \varepsilon_j - \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tilde{X}_{j-1} \right]^2 + \sum_{j=\tau_1}^{\tau_f} \left[ \varepsilon_j - \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \tilde{X}_{j-1} \right]^2 \right. \\
&\quad \left. + \left[ \tilde{X}_{\tau_f+1} - \hat{\delta}_{r_1, r_2} \tilde{X}_{\tau_f}^2 - \varepsilon_{\tau_f+1} + \varepsilon_{\tau_f+1} \right]^2 \right\} \\
&= \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} \varepsilon_j^2 + \left( \hat{\delta}_{r_1, r_2} - 1 \right)^2 \tau_w^{-1} \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1}^2 + \left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \tau_w^{-1} \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1}^2 \\
&\quad - 2 \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tau_w^{-1} \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j - 2 \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \tau_w^{-1} \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j + \tau_w^{-1} \tilde{X}_{\tau_f}^2 \\
&= \tau_w^{-1} \tilde{X}_{\tau_f}^2 = \tau_w^{-1} \delta_T^{2(\tau_f - \tau_e)} X_{\tau_e}^2 \{1 + o_p(1)\} \\
&\sim_a \frac{1}{r_w} \delta_T^{2(\tau_f - \tau_e)} B(r_e)^2.
\end{aligned}$$

The term  $\tau_w^{-1} \tilde{X}_{\tau_f}^2$  dominates the other terms due to the fact that

$$\begin{aligned}
&\left( \hat{\delta}_{r_1, r_2} - 1 \right)^2 \tau_w^{-1} \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1}^2 = O_p(T^{-2\alpha}) \left( T^{2\alpha-1} \delta_T^{2(\tau_f - \tau_1)} \right) = O_p \left( \frac{\delta_T^{2(\tau_f - \tau_1)}}{T} \right), \\
&\left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \tau_w^{-1} \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1}^2 = O_p \left( \frac{1}{T^{2\alpha}} \right) O_p \left( T^\alpha \delta_T^{2(\tau_f - \tau_e)} \right) = O_p \left( \frac{\delta_T^{2(\tau_f - \tau_e)}}{T^\alpha} \right), \\
&2 \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tau_w^{-1} \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j = O_p(T^{-\alpha}) O_p \left( T^{\alpha-1} \delta_T^{\tau_f - \tau_1} \right) = O_p \left( \frac{\delta_T^{\tau_f - \tau_1}}{T} \right), \\
&2 \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \tau_w^{-1} \sum_{j=\tau_1}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j = O_p \left( \frac{1}{T^\alpha} \right) O_p \left( T^{(\alpha-1)/2} \delta_T^{\tau_f - \tau_e} \right) = O_p \left( \frac{\delta_T^{\tau_f - \tau_e}}{T^{(1+\alpha)/2}} \right), \\
&\tau_w^{-1} \tilde{X}_{\tau_f}^2 = O_p \left( \delta_T^{2(\tau_f - \tau_e)} \right).
\end{aligned}$$

(3) When  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$\begin{aligned}
&\tilde{X}_{\tau_f+1} - \hat{\delta}_{r_1, r_2} \tilde{X}_{\tau_f} - \varepsilon_{\tau_f+1} \\
&= -\frac{\delta_T^{\tau_f - \tau_e}}{r_w c T^{1-\alpha}} X_{\tau_e} - \tilde{X}_{\tau_f} - \left[ \hat{\delta}_{r_1, r_2} - 1 \right] \tilde{X}_{\tau_f} \\
&= -O_p \left( T^{\alpha-1/2} \delta_T^{\tau_f - \tau_e} \right) - O_p \left( T^{1/2} \delta_T^{\tau_f - \tau_e} \right) - O_p(T^{-\alpha}) O_p \left( T^{1/2} \delta_T^{\tau_f - \tau_e} \right)
\end{aligned}$$

$$= -\tilde{X}_{\tau_f} = -\delta_T^{\tau_f - \tau_e} X_{\tau_e} \{1 + o_p(1)\},$$

using the fact that

$$\tilde{X}_{\tau_f} = \left[ \delta_T^{\tau_f - \tau_e} - \frac{\delta_T^{\tau_f - \tau_e}}{r_w c T^{1-\alpha}} \right] X_{\tau_e} \{1 + o_p(1)\} = \delta_T^{\tau_f - \tau_e} X_{\tau_e} \{1 + o_p(1)\}.$$

$$\begin{aligned} & \text{Var} \left( \hat{\delta}_{r_1, r_2} \right) \\ &= \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} \left( \tilde{X}_j - \hat{\delta}_{r_1, r_2} \tilde{X}_{j-1} \right)^2 \\ &= \tau_w^{-1} \left\{ \sum_{j=\tau_f+2}^{\tau_2} \left[ \varepsilon_j - \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tilde{X}_{j-1} \right]^2 + \sum_{j=\tau_1}^{\tau_e-1} \left[ \varepsilon_j - \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tilde{X}_{j-1} \right]^2 \right. \\ & \quad \left. + \sum_{j=\tau_e}^{\tau_f} \left[ \varepsilon_j - \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \tilde{X}_{j-1} \right]^2 + \tilde{X}_{\tau_f+1} - \hat{\delta}_{r_1, r_2} \tilde{X}_{\tau_f}^2 \right\}^2 \\ &= \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} \varepsilon_j^2 + \left( \hat{\delta}_{r_1, r_2} - 1 \right)^2 \tau_w^{-1} \left[ \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1}^2 + \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1}^2 \right] + \left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \tau_w^{-1} \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1}^2 \\ & \quad - 2 \left( \hat{\delta}_{r_1, r_2} - 1 \right) \tau_w^{-1} \left[ \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j \right] - 2 \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \tau_w^{-1} \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j + \tau_w^{-1} \tau_f^2 \\ &= \tau_w^{-1} \tilde{X}_{\tau_f}^2 = \frac{\delta_T^{2(\tau_f - \tau_e)}}{\tau_w} X_{\tau_e}^2 \{1 + o_p(1)\} \sim_a \frac{\delta_T^{2(\tau_f - \tau_e)}}{r_w} B(r_e)^2. \end{aligned}$$

The term  $\tau_w^{-1} \tilde{X}_{\tau_f}^2$  dominates the other terms due to the fact that

$$\begin{aligned} & \left( \hat{\delta}_{r_1, r_2} - 1 \right)^2 \frac{1}{\tau_w} \left[ \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1}^2 + \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1}^2 \right] = O_p \left( \frac{\delta_T^{2(\tau_f - \tau_e)}}{T} \right), \\ & \left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \frac{1}{\tau_w} \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1}^2 = O_p \left( \frac{\delta_T^{2(\tau_f - \tau_e)}}{T^\alpha} \right), \\ & 2 \left( \hat{\delta}_{r_1, r_2} - 1 \right) \frac{1}{\tau_w} \left[ \sum_{j=\tau_f+2}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j + \sum_{j=\tau_1}^{\tau_e-1} \tilde{X}_{j-1} \varepsilon_j \right] = O_p \left( \frac{\delta_T^{\tau_f - \tau_e}}{T} \right), \\ & 2 \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \frac{1}{\tau_w} \sum_{j=\tau_e}^{\tau_f} \tilde{X}_{j-1} \varepsilon_j = O_p \left( \frac{\delta_T^{\tau_f - \tau_e}}{T^{(1+\alpha)/2}} \right), \end{aligned}$$

$$\tau_w^{-1} \tilde{X}_{\tau_f}^2 = O_p \left( \delta_T^{2(\tau_f - \tau_e)} \right).$$

The asymptotic distributions of the t-statistic

$$DF_{r_1, r_2}^t = \left( \frac{\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2}{\hat{\sigma}^2} \right)^{1/2} \left( \hat{\delta}_{r_1, r_2} - 1 \right)$$

can be calculated as follows:

(1) When  $\tau_1 \in N_0$  and  $\tau_2 \in B$ ,

$$DF_{r_1, r_2}^t \sim_a T^{1/2} \delta_T^{\tau_2 - \tau_e} \frac{r_w^{3/2} B(r_e)}{2(r_e - r_1) \int_{r_1}^{r_e} B(s) ds} \rightarrow \infty.$$

(2) When  $\tau_1 \in B$  and  $\tau_2 \in N_1$ ,

$$DF_{r_1, r_2}^t \sim_a - \left( \frac{1}{2} cr_w \right)^{1/2} T^{(1-\alpha)/2} \rightarrow -\infty.$$

(3) When  $\tau_1 \in N_0$  and  $\tau_2 \in N_1$ ,

$$DF_{r_1, r_2}^t \sim_a - \left( \frac{1}{2} cr_w \right)^{1/2} T^{(1-\alpha)/2} \rightarrow -\infty.$$

Taken together with (11) and (12), these results establish the limit behavior of the unit root statistics  $DF_r$  and  $BADF_r(r_0)$  in Theorem 1 (see also (33) below).

### A.2.2: The PWY strategy

The origination of the bubble expansion and the termination of the bubble collapse based on the DF test are identified as

$$\hat{r}^e = \inf_{r \in [r_0, 1]} \left\{ r : DF_r > cv^{\beta_T} \right\} \text{ and } \hat{r}^f = \inf_{r \in [\hat{r}_e + L_T, 1]} \left\{ r : DF_r < cv^{\beta_T} \right\}.$$

We know that when  $\beta_T \rightarrow 0$ ,  $cv^{\beta_T} \rightarrow \infty$ .

The asymptotic distributions of the DF statistic under the alternative hypothesis are

$$DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau - \tau_e} \frac{r_w^{3/2} B(r_e)}{2(r_e - r_1) \int_{r_1}^{r_e} B(s) ds} \rightarrow \infty & \text{if } r \in B \\ -T^{(1-\alpha)/2} \left( \frac{1}{2} cr_w \right)^{1/2} \rightarrow -\infty & \text{if } r \in N_1 \end{cases}.$$

It is obvious that if  $r \in N_0$ ,

$$\lim_{T \rightarrow \infty} \Pr \left\{ DF_r > cv^{\beta_T} \right\} = \Pr \{ F_r(W) = \infty \} = 0.$$

If  $r \in B$ ,  $\lim_{T \rightarrow \infty} \Pr \{ DF_r > cv^{\beta_T} \} = 1$  provided that  $\frac{cv^{\beta_T}}{T^{1/2}\delta_T^{\tau_2 - \tau_e}} \rightarrow 0$ . If  $r \in N_1$ ,  $\lim_{T \rightarrow \infty} \Pr \left\{ DF_r < cv_r^{\beta_T} \right\} = \lim_{T \rightarrow \infty} \Pr \left\{ -T^{(1-\alpha)/2} \left( \frac{1}{2} cr_w \right)^{1/2} < cv^{\beta_T} \right\} = 1$ .

It follows that for any  $\eta, \gamma > 0$ ,

$$\Pr \{ \hat{r}_e > r_e + \eta \} \rightarrow 0 \text{ and } \Pr \{ \hat{r}_f < r_f - \gamma \} \rightarrow 0$$

due to the fact that  $\Pr \{ DF_{r_e + a_\eta} > cv^{\beta_T} \} \rightarrow 1$  for all  $0 < a_\eta < \eta$  and  $\Pr \{ DF_{r_f - a_\gamma} > cv^{\beta_T} \} \rightarrow 1$  for all  $0 < a_\gamma < \gamma$ . Since  $\eta, \gamma > 0$  is arbitrary and  $\Pr \{ \hat{r}_e < r_e \} \rightarrow 0$  and  $\Pr \{ \hat{r}_f > r_f \} \rightarrow 0$ , we deduce that  $\Pr \{ |\hat{r}_e - r_e| > \eta \} \rightarrow 0$  and  $\Pr \{ |\hat{r}_f - r_f| > \gamma \} \rightarrow 0$  as  $T \rightarrow \infty$ , provided that

$$\frac{1}{cv^{\beta_T}} + \frac{cv^{\beta_T}}{T^{1/2}\delta_T^{\tau_2 - \tau_e}} \rightarrow 0.$$

Therefore, the PWY date detectors  $\hat{r}_e$  and  $\hat{r}_f$  are consistent estimators of  $r_e$  and  $r_f$ . This proves Theorem 2.

### A.2.3: The PSY algorithm

The origination of the bubble expansion and the termination of the bubble collapse based on the backward sup DF test are identified as

$$\hat{r}^e = \inf_{r \in [r_0, 1]} \left\{ r : BSDF_r(r_0) > scv^{\beta_T} \right\} \text{ and } \hat{r}^f = \inf_{r \in [\hat{r}_e + L_T, 1]} \left\{ r_2 : BSDF_r(r_0) < scv^{\beta_T} \right\}.$$

We know that when  $\beta_T \rightarrow 0$ ,  $scv^{\beta_T} \rightarrow \infty$ .

The asymptotic distributions of the backward sup DF statistic under the alternative hypothesis are

$$BSDF_r(r_0) \sim_a \begin{cases} F_r(W, r_0) & \text{if } r \in N_0 \\ T^{1/2}\delta_T^{\tau - \tau_e} \sup_{r_1 \in [0, r - r_0]} \left\{ \frac{r_w^{3/2} B(r_e)}{2(r_e - r_1) \int_{r_1}^{r_e} B(s) ds} \right\} & \text{if } r \in B \\ -T^{(1-\alpha)/2} \sup_{r_1 \in [0, r - r_0]} \left\{ \left( \frac{1}{2} cr_w \right)^{1/2} \right\} \rightarrow \infty & \text{if } r \in N_1 \end{cases}. \quad (33)$$

It is obvious that if  $r \in N_0$ ,

$$\lim_{T \rightarrow \infty} \Pr \left\{ BSDF_r(r_0) > scv^{\beta_T} \right\} = \Pr \{F_{r_2}(W, r_0) = \infty\} = 0.$$

If  $r \in B$ ,  $\lim_{T \rightarrow \infty} \Pr \{BSDF_r(r_0) > scv^{\beta_T}\} = 1$  provided that  $\frac{scv^{\beta_T}}{T^{1/2}\delta_T^{\tau_2 - \tau_e}} \rightarrow 0$ . If  $r \in N_1$ ,  $\lim_{T \rightarrow \infty} \Pr \left\{ BSDF_r(r_0) < scv_r^{\beta_T} \right\} = 1$ .

It follows that for any  $\eta, \gamma > 0$ ,

$$\Pr \{\hat{r}_e > r_e + \eta\} \rightarrow 0 \text{ and } \Pr \{\hat{r}_f < r_f - \gamma\} \rightarrow 0,$$

since  $\Pr \{BSDF_{r_e + a_\eta}(r_0) > scv^{\beta_T}\} \rightarrow 1$  for all  $0 < a_\eta < \eta$  and  $\Pr \{BSDF_{r_f - a_\gamma}(r_0) > scv^{\beta_T}\} \rightarrow 1$  for all  $0 < a_\gamma < \gamma$ . Since  $\eta, \gamma > 0$  is arbitrary and  $\Pr \{\hat{r}_e < r_e\} \rightarrow 0$  and  $\Pr \{\hat{r}_f > r_f\} \rightarrow 0$ , we deduce that  $\Pr \{|\hat{r}_e - r_e| > \eta\} \rightarrow 0$  and  $\Pr \{|\hat{r}_f - r_f| > \gamma\} \rightarrow 0$  as  $T \rightarrow \infty$ , provided that

$$\frac{1}{scv^{\beta_T}} + \frac{scv^{\beta_T}}{T^{1/2}\delta_T^{\tau_2 - \tau_e}} \rightarrow 0.$$

Therefore, the PSY date detectors  $\hat{r}_e$  and  $\hat{r}_f$  are consistent estimators of  $r_e$  and  $r_f$ . This proves Theorem 3.

## APPENDIX B. The Dating Algorithms (two bubbles)

Section B.1 provides preliminary results that characterize the limit behavior of the regression components over subperiods of the data. Section B.2 provides test asymptotics and gives proofs of Theorems 4-9 which describe the consistency properties of the PWY, PSY and sequential PWY dating strategies.

### B.1: Notation and lemmas

- The two bubble periods are  $B_1 = [\tau_{1e}, \tau_{1f}]$  and  $B_2 = [\tau_{2e}, \tau_{2f}]$ , where  $\tau_{1e} = \lfloor Tr_{1e} \rfloor$ ,  $\tau_{1f} = \lfloor Tr_{1f} \rfloor$ ,  $\tau_{2e} = \lfloor Tr_{2e} \rfloor$  and  $\tau_{2f} = \lfloor Tr_{2f} \rfloor$ .
- The normal periods are  $N_0 = [1, \tau_{1e})$ ,  $N_1 = (\tau_{1f}, \tau_{2e})$ ,  $N_2 = (\tau_{2f}, \tau_T]$ , where  $\tau = \lfloor Tr \rfloor$  is the last observation of the sample.



We use the data generating process

$$X_t = \begin{cases} X_{t-1} + \varepsilon_t & \text{for } t \in N_0 \\ \delta_T X_{t-1} + \varepsilon_t & \text{for } t \in B_i \text{ with } i = 1, 2 \\ X_{\tau_{if}}^* + \sum_{k=\tau_{if}+1}^t \varepsilon_k & \text{for } t \in N_i \text{ with } i = 1, 2 \end{cases}, \quad (34)$$

where  $\delta_T = 1 + cT^{-\alpha}$  with  $c > 0$  and  $\alpha \in (0, 1)$ ,  $\varepsilon_t \stackrel{iid}{\sim} (0, \sigma^2)$  and  $X_{\tau_{if}}^* = X_{\tau_{ie}} + X^*$  with  $X^* = O_p(1)$  for  $i = 1, 2$ . We state the following lemmas whose proofs follow arguments closely related to those given in the proofs of Lemmas A1-A6. They are provided in full in the technical supplement (Phillips, Shi and Yu, 2013c; lemmas S1-S6).

**Lemma A7.** *Under the data generating process,*

- (1) For  $t \in N_0$ ,  $X_{t=[Tp]} \sim_a T^{1/2} B(p)$ .
- (2) For  $t \in B_i$  with  $i = 1, 2$ ,  $X_{t=[Tp]} = \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} \{1 + o_p(1)\} \sim_a T^{1/2} \delta_T^{t-\tau_{ie}} B(r_{ie})$ .
- (3) For  $t \in N_i$  with  $i = 1, 2$ ,  $X_{t=[Tp]} \sim_a T^{1/2} [B(p) - B(r_{if}) + B(r_{ie})]$ .

**Lemma A8.** *Under the data generating process,*

- (1) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_2 - \tau_{ie}}}{\tau_w c} X_{\tau_{ie}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_2 - \tau_{ie}} \frac{1}{r_w c} B(r_{ie}).$$

- (2) For  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_{if} - \tau_1}}{\tau_w c} X_{\tau_{ie}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_{if} - \tau_1} \frac{1}{r_w c} B(r_{ie}).$$

- (3) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = X_{\tau_{ie}} \frac{T^\alpha \delta_T^{\tau_{if} - \tau_{ie}}}{\tau_w c} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_{if} - \tau_{ie}} \frac{1}{r_w c} B(r_{ie}).$$

- (4) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ , if  $\tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e}$

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_{1f} - \tau_{1e}}}{\tau_w c} X_{\tau_{1e}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_{1f} - \tau_{1e}} \frac{1}{r_w c} B(r_{1e})$$

and if  $\tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e}$

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_{2f} - \tau_{2e}}}{\tau_w c} X_{\tau_{2e}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_{2f} - \tau_{2e}} \frac{1}{r_w c} B(r_{2e}).$$

(5) For  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ , if  $\tau_{1f} - \tau_1 > \tau_2 - \tau_{2e}$

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_{1f} - \tau_1}}{\tau_w c} X_{\tau_{1e}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_{1f} - \tau_1} \frac{1}{r_w c} B(r_{1e});$$

if  $\tau_{1f} - \tau_1 \leq \tau_2 - \tau_{2e}$

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_2 - \tau_{2e}}}{\tau_w c} X_{\tau_{2e}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_2 - \tau_{2e}} \frac{1}{r_w c} B(r_{2e}).$$

(6) For  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ , if  $\tau_{1f} - \tau_1 > \tau_{2f} - \tau_{2e}$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_{1f} - \tau_1}}{\tau_w c} X_{\tau_{1e}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_{1f} - \tau_1} \frac{1}{r_w c} B(r_1)$$

and if  $\tau_{1f} - \tau_1 \leq \tau_{2f} - \tau_{2e}$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_{2f} - \tau_{2e}}}{\tau_w c} X_{\tau_{2e}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_{2f} - \tau_{2e}} \frac{1}{r_w c} B(r_{2e}).$$

(7) For  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ , if  $\tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e}$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_{1f} - \tau_{1e}}}{\tau_w c} X_{\tau_{1e}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_{1f} - \tau_{1e}} \frac{1}{r_w c} B(r_{1e})$$

and if  $\tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e}$ ,

$$\frac{1}{\tau_w} \sum_{j=\tau_1}^{\tau_2} X_j = \frac{T^\alpha \delta_T^{\tau_2 - \tau_{2e}}}{\tau_w c} X_{\tau_{2e}} \{1 + o_p(1)\} \sim_a T^{\alpha-1/2} \delta_T^{\tau_2 - \tau_{2e}} \frac{1}{r_w c} B(r_{2e}).$$

**Lemma A9.** Define the centered quantity  $\tilde{X}_t = X_t - \tau_w^{-1} \sum_{j=\tau_1}^{\tau_2} X_j$ .

(1) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$\tilde{X}_t = \begin{cases} -\frac{T^\alpha \delta_T^{\tau_2 - \tau_{ie}}}{\tau_w c} X_{\tau_{ie}} \{1 + o_p(1)\} & \text{if } t \in N_{i-1} \\ \left[ \delta_T^{t - \tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_2 - \tau_{ie}}}{\tau_w c} \right] X_{\tau_{ie}} \{1 + o_p(1)\} & \text{if } t \in B_i \end{cases}.$$

(2) For  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\tilde{X}_t = \begin{cases} \left[ \delta_T^{t-\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_{if} - \tau_1}}{\tau_{wc}} \right] X_{\tau_{ie}} \{1 + o_p(1)\} & \text{if } t \in B_i \\ -\frac{T^\alpha \delta_T^{\tau_{if} - \tau_1}}{\tau_{wc}} X_{\tau_{ie}} \{1 + o_p(1)\} & \text{if } t \in N_i \end{cases}$$

(3) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\tilde{X}_t = \begin{cases} -\frac{T^\alpha \delta_T^{\tau_{if} - \tau_{ie}}}{\tau_{wc}} X_{\tau_{ie}} \{1 + o_p(1)\} & \text{if } t \in N_{i-1} \cup N_i \\ \left[ \delta_T^{t-\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_{if} - \tau_{ie}}}{\tau_{wc}} \right] X_{\tau_{ie}} \{1 + o_p(1)\} & \text{if } t \in B_i \end{cases}$$

(4) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ , if  $\tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e}$

$$\tilde{X}_t = \begin{cases} -\frac{T^\alpha \delta_T^{\tau_{1f} - \tau_{1e}}}{\tau_{wc}} X_{\tau_{1e}} \{1 + o_p(1)\} & \text{if } t \in N_i \\ \left[ \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_{1f} - \tau_{1e}}}{\tau_{wc}} X_{\tau_{1e}} \right] \{1 + o_p(1)\} & \text{if } t \in B_i, i = 1, 2, \end{cases}$$

and if  $\tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e}$

$$\tilde{X}_t = \begin{cases} -\frac{T^\alpha \delta_T^{\tau_{2f} - \tau_{2e}}}{\tau_{wc}} X_{\tau_{2e}} \{1 + o_p(1)\} & \text{if } t \in N_i \\ \left[ \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_{2f} - \tau_{2e}}}{\tau_{wc}} X_{\tau_{2e}} \right] \{1 + o_p(1)\} & \text{if } t \in B_i, i = 1, 2, \end{cases}$$

(5) For  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ , if  $\tau_{1f} - \tau_1 > \tau_2 - \tau_{2e}$ ,

$$\tilde{X}_t = \begin{cases} \left[ \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_{1f} - \tau_1}}{\tau_{wc}} X_{\tau_{1e}} \right] \{1 + o_p(1)\} & \text{if } t \in B_i, i = 1, 2, \\ -\frac{T^\alpha \delta_T^{\tau_{1f} - \tau_1}}{\tau_{wc}} X_{\tau_{1e}} \{1 + o_p(1)\} & \text{if } t \in N_1 \end{cases}$$

and if  $\tau_{1f} - \tau_1 \leq \tau_2 - \tau_{2e}$

$$\tilde{X}_t = \begin{cases} \left[ \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_2 - \tau_{2e}}}{\tau_{wc}} X_{\tau_{2e}} \right] \{1 + o_p(1)\} & \text{if } t \in B_i, i = 1, 2, \\ -\frac{T^\alpha \delta_T^{\tau_2 - \tau_{2e}}}{\tau_{wc}} X_{\tau_{2e}} \{1 + o_p(1)\} & \text{if } t \in N_1 \end{cases}$$

(6) For  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ , if  $\tau_{1f} - \tau_1 > \tau_{2f} - \tau_{2e}$ ,

$$\tilde{X}_t = \begin{cases} \left[ \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_{1f} - \tau_1}}{\tau_{wc}} X_{\tau_{1e}} \right] \{1 + o_p(1)\} & \text{if } t \in B_i, i = 1, 2, \\ -\frac{T^\alpha \delta_T^{\tau_{1f} - \tau_1}}{\tau_{wc}} X_{\tau_{1e}} \{1 + o_p(1)\} & \text{if } t \in N_i, i = 1, 2, \end{cases}$$

and if  $\tau_{1f} - \tau_1 \leq \tau_{2f} - \tau_{2e}$ ,

$$\tilde{X}_t = \begin{cases} \left[ \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_{2f}-\tau_{2e}}}{\tau_{wc}} X_{\tau_{2e}} \right] \{1 + o_p(1)\} & \text{if } t \in B_i, i = 1, 2, \\ -\frac{T^\alpha \delta_T^{\tau_{2f}-\tau_{2e}}}{\tau_{wc}} X_{\tau_{2e}} \{1 + o_p(1)\} & \text{if } t \in N_i, i = 1, 2, \end{cases}$$

(7) For  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ , if  $\tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e}$

$$\tilde{X}_t = \begin{cases} -\frac{T^\alpha \delta_T^{\tau_{1f}-\tau_{1e}}}{\tau_{wc}} X_{\tau_{1e}} \{1 + o_p(1)\} & \text{if } t \in N_i, i = 1, 2, \\ \left[ \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_{1f}-\tau_{1e}}}{\tau_{wc}} X_{\tau_{1e}} \right] \{1 + o_p(1)\} & \text{if } t \in B_i, i = 1, 2, \end{cases}$$

and if  $\tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e}$

$$\tilde{X}_t = \begin{cases} -\frac{T^\alpha \delta_T^{\tau_2-\tau_{2e}}}{\tau_{wc}} X_{\tau_{2e}} \{1 + o_p(1)\} & \text{if } t \in N_i, i = 1, 2, \\ \left[ \delta_T^{t-\tau_{ie}} X_{\tau_{ie}} - \frac{T^\alpha \delta_T^{\tau_2-\tau_{2e}}}{\tau_{wc}} X_{\tau_{2e}} \right] \{1 + o_p(1)\} & \text{if } t \in B_i, i = 1, 2, \end{cases}$$

**Lemma A10.** *The sample variance of  $\tilde{X}_t$  has the following limit form:*

(1) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \frac{T^\alpha \delta_T^{2(\tau_2-\tau_{ie})}}{2c} X_{\tau_{ie}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{1+\alpha} \delta_T^{2(\tau_2-\tau_{ie})}}{2c} B(r_{ie})^2.$$

(2) For  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \frac{T^\alpha \delta_T^{2(\tau_{if}-\tau_{ie})}}{2c} X_{\tau_{ie}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{1+\alpha} \delta_T^{2(\tau_{if}-\tau_{ie})}}{2c} B(r_{ie})^2.$$

(3) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \frac{T^\alpha \delta_T^{2(\tau_{if}-\tau_{ie})}}{2c} X_{\tau_{ie}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{1+\alpha} \delta_T^{2(\tau_{if}-\tau_{ie})}}{2c} B(r_{ie})^2.$$

(4) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \begin{cases} \frac{T^\alpha \delta_T^{2(\tau_{1f}-\tau_{1e})}}{2c} X_{\tau_{1e}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_{1f}-\tau_{1e})}}{2c} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e} \\ \frac{T^\alpha \delta_T^{2(\tau_{2f}-\tau_{2e})}}{2c} X_{\tau_{2e}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_{2f}-\tau_{2e})}}{2c} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e} \end{cases}$$

(5) For  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \begin{cases} \frac{T^\alpha \delta_T^{2(\tau_{1f}-\tau_{1e})}}{2c} X_{\tau_{1e}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_{1f}-\tau_{1e})}}{2c} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ \frac{T^\alpha \delta_T^{2(\tau_{2f}-\tau_{2e})}}{2c} X_{\tau_{2e}}^2 \{1 + o_p(1)\} \sim_a T^{\alpha+1} \delta_T^{2(\tau_2-\tau_{2e})} \frac{1}{2c} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}$$

(6) For  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \begin{cases} \frac{T^\alpha \delta_T^{2(\tau_{1f}-\tau_{1e})}}{2c} X_{\tau_{1e}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_{1f}-\tau_{1e})}}{2c} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e} \\ \frac{T^\alpha \delta_T^{2(\tau_{2f}-\tau_{2e})}}{2c} X_{\tau_{2e}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_{2f}-\tau_{2e})}}{2c} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e} \end{cases}$$

(7) For  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2 = \begin{cases} \frac{T^\alpha \delta_T^{2(\tau_{1f}-\tau_{1e})}}{2c} X_{\tau_{1e}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_{1f}-\tau_{1e})}}{2c} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ \frac{T^\alpha \delta_T^{2(\tau_{2f}-\tau_{2e})}}{2c} X_{\tau_{2e}}^2 \{1 + o_p(1)\} \sim_a \frac{T^{\alpha+1} \delta_T^{2(\tau_{2f}-\tau_{2e})}}{2c} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}$$

**Lemma A11.** *The sample covariance of  $\tilde{X}_t$  and  $\varepsilon_t$  has the following limit form:*

(1) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_2 - \tau_{ie}} X_c B(r_{ie}).$$

(2) For  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_{if} - \tau_{ie}} X_c B(r_{ie}).$$

(3) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a T^{(\alpha+1)/2} \delta_T^{\tau_{if} - \tau_{ie}} X_c B(r_{ie}).$$

(4) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a \begin{cases} T^{(1+\alpha)/2} \delta_T^{\tau_{1f} - \tau_{1e}} X_c B(r_{1e}) & \text{if } \tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e} \\ T^{(1+\alpha)/2} \delta_T^{\tau_{2f} - \tau_{2e}} X_c B(r_{2e}) & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e} \end{cases}$$

(5) For  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a \begin{cases} T^{(\alpha+1)/2} \delta_T^{\tau_{1f} - \tau_{1e}} X_c B(r_{1e}) & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ T^{(\alpha+1)/2} \delta_T^{\tau_2 - \tau_{2e}} X_c B(r_{2e}) & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}$$

(6) For  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a \begin{cases} T^{(1+\alpha)/2} \delta_T^{\tau_{1f}-\tau_{1e}} X_c B(r_{1e}) & \text{if } \tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e} \\ T^{(1+\alpha)/2} \delta_T^{\tau_{2f}-\tau_{2e}} X_c B(r_{2e}) & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e} \end{cases}.$$

(7) For  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} \varepsilon_j \sim_a \begin{cases} T^{(\alpha+1)/2} \delta_T^{\tau_{1f}-\tau_{1e}} X_c B(r_{1e}) & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ T^{(\alpha+1)/2} \delta_T^{\tau_2-\tau_{2e}} X_c B(r_{2e}) & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}.$$

**Lemma A12.** *The sample covariance of  $\tilde{X}_{j-1}$  and  $X_j - \delta_T X_{j-1}$  has the following limit form:*

(1) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a \frac{r_{ie} - r_1}{r_w} T \delta_T^{\tau_2 - \tau_{ie}} B(r_{ie}) \int_{r_1}^{r_{ie}} B(s) ds.$$

(2) For  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a -T \delta_T^{2(\tau_{if}-\tau_{ie})} B(r_{ie})^2.$$

(3) For  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a \sim_a -T \delta_T^{2(\tau_{if}-\tau_{ie})} B(r_{ie})^2.$$

(4) For  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a \begin{cases} -T \delta_T^{2(\tau_{1f}-\tau_{1e})} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e} \\ -T \delta_T^{2(\tau_{2f}-\tau_{2e})} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e} \end{cases}.$$

(5) For  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a \begin{cases} -T \delta_T^{2(\tau_{1f}-\tau_{1e})} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ T^\alpha \delta_T^{\tau_2 - \tau_{2e} + \tau_{1f} - \tau_{1e}} \frac{1}{r_w c} B(r_{2e}) B(r_{1e}) & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}.$$

(6) For  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a \begin{cases} -T \delta_T^{2(\tau_{1f}-\tau_{1e})} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e} \\ -T \delta_T^{2(\tau_{2f}-\tau_{2e})} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e} \end{cases}.$$

(7) For  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ ,

$$\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1}) \sim_a \begin{cases} -T \delta_T^{2(\tau_{1f}-\tau_{1e})} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ T^\alpha \delta_T^{\tau_2 - \tau_{2e} + \tau_{1f} - \tau_{1e}} \frac{1}{r_w c} B(r_{2e}) B(r_{1e}) & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}.$$

## B.2: Test asymptotics and Proofs of Theorems 4-9

The fitted regression model for the recursive unit root tests is

$$X_t = \hat{\alpha}_{r_1, r_2} + \hat{\delta}_{r_1, r_2} X_{t-1} + \hat{\varepsilon}_t,$$

where as in (32) above the intercept  $\hat{\alpha}_{r_1, r_2}$  and slope coefficient  $\hat{\delta}_{r_1, r_2}$  are obtained using data over the subperiod  $[r_1, r_2]$ . First, we calculate the asymptotic distribution of the unit root statistic under the alternative hypothesis. Based on Lemma A10 and Lemma A12, we can obtain the limit distribution of  $\hat{\delta}_{r_1, r_2} - \delta_T$  using

$$\hat{\delta}_T - \delta_T = \frac{\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1} (X_j - \delta_T X_{j-1})}{\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2}.$$

(1) When  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$\hat{\delta}_T - \delta_T \sim_a T^{-\alpha} \delta_T^{-(\tau_2 - \tau_{ie})} \frac{r_{ie} - r_1}{r_w} \frac{\int_{r_1}^{r_{ie}} B(s) ds}{B(r_{ie})};$$

(2) when  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\hat{\delta}_T - \delta_T \sim_a -2T^{-\alpha} c;$$

(3) when  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\hat{\delta}_T - \delta_T \sim_a -2T^{-\alpha} c;$$

(4) when  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ ,

$$\hat{\delta}_T - \delta_T \sim_a -2T^{-\alpha} c;$$

(5) when  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ ,

$$\hat{\delta}_T - \delta_T \sim_a \begin{cases} -2T^{-\alpha} c & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ T^{-1} \delta_T^{-(\tau_2 - \tau_{2e}) + (\tau_{1f} - \tau_{1e})} \frac{2B(r_{1e})}{r_w B(r_{2e})} & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases};$$

(6) when  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ ,

$$\hat{\delta}_T - \delta_T \sim_a -2T^{-\alpha} c;$$

(7) when  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ ,

$$\hat{\delta}_T - \delta_T \sim_a \begin{cases} -2T^{-\alpha}c & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ T^{-1}\delta_T^{-(\tau_2 - \tau_{2e}) + (\tau_{1f} - \tau_{1e})} \frac{2B(r_{1e})}{r_w B(r_{2e})} & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}.$$

The asymptotic distributions of the unit root coefficient Z-statistics are as follows: (1) When  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$\begin{aligned} DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\ &= \tau_w (\delta_T - 1) + o_p \left( r_w \frac{T^{1-\alpha}}{\delta_T^{\tau_2 - \tau_{ie}}} \right) \\ &= \frac{\tau_w c}{T^\alpha} + o_p \left( r_w \frac{T^{1-\alpha}}{e^{c(\tau_2 - r_{ie})T^{1-\alpha}}} \right) \\ &= r_w c T^{1-\alpha} + o_p(1) \rightarrow \infty. \end{aligned}$$

(2) When  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\begin{aligned} DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\ &= cr_w T^{1-\alpha} + o_p(r_w T^{1-\alpha}) \\ &= -cr_w T^{1-\alpha} \rightarrow -\infty. \end{aligned}$$

(3) When  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\begin{aligned} DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\ &= cr_w T^{1-\alpha} + o_p(r_w T^{1-\alpha}) \\ &= -cr_w T^{1-\alpha} \rightarrow -\infty. \end{aligned}$$

(4) When  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ ,

$$\begin{aligned} DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\ &= cr_w T^{1-\alpha} + o_p(r_w T^{1-\alpha}) \\ &= -cr_w T^{1-\alpha} \rightarrow -\infty. \end{aligned}$$



(5) When  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ ,

$$\begin{aligned} DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\ &= \begin{cases} cr_w T^{1-\alpha} + o_p(r_w T^{1-\alpha}) & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ cr_w T^{1-\alpha} + o_p\left(\frac{r_w}{\delta_T^{(\tau_2 - \tau_{2e}) - (\tau_{1f} - \tau_{1e})}}\right) & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases} \\ &= \begin{cases} -cr_w T^{1-\alpha} \rightarrow -\infty & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ cr_w T^{1-\alpha} \rightarrow \infty & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}. \end{aligned}$$

(6) When  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ ,

$$\begin{aligned} DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\ &= cr_w T^{1-\alpha} + o_p(r_w T^{1-\alpha}) \\ &= -cr_w T^{1-\alpha} \rightarrow -\infty. \end{aligned}$$

(7) When  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ ,

$$\begin{aligned} DF_{r_1, r_2}^z &= \tau_w \left( \hat{\delta}_{r_1, r_2} - 1 \right) = \tau_w (\delta_T - 1) + \tau_w \left( \hat{\delta}_{r_1, r_2} - \delta_T \right) \\ &= \begin{cases} cr_w T^{1-\alpha} + o_p(r_w T^{1-\alpha}) & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ cr_w T^{1-\alpha} + o_p\left(\frac{r_w}{\delta_T^{(\tau_2 - \tau_{2e}) - (\tau_{1f} - \tau_{1e})}}\right) & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases} \\ &= \begin{cases} -cr_w T^{1-\alpha} \rightarrow -\infty & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ cr_w T^{1-\alpha} \rightarrow \infty & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}. \end{aligned}$$

To obtain the asymptotic distributions of the t-statistics, we need to estimate the standard error of  $\hat{\delta}_{r_1, r_2}$ . (1) When  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$\text{Var} \left( \hat{\delta}_{r_1, r_2} \right) = \left( \hat{\delta}_{r_1, r_2} - \delta_T \right)^2 \tau_w^{-1} \sum_{j=\tau_{ie}}^{\tau_2} \tilde{X}_{j-1}^2 \sim_a \frac{2c}{T^\alpha} \frac{(r_{ie} - r_1)^2}{r_w^3} \left[ \int_{\tau_1}^{r_{ie}} B(s) ds \right]^2.$$

(2) When  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\text{Var} \left( \hat{\delta}_{r_1, r_2} \right) = \tau_w^{-1} \tilde{X}_{\tau_{if}}^2 \sim_a \frac{1}{r_w} \delta_T^{2(\tau_{if} - \tau_{ie})} B(r_{ie})^2.$$

(3) When  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$\text{Var} \left( \hat{\delta}_{r_1, r_2} \right) = \tau_w^{-1} \tilde{X}_{\tau_{if}}^2 \sim_a \frac{\delta_T^{2(\tau_{if} - \tau_{ie})}}{r_w} B(r_{ie})^2.$$

(4) When  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ ,

$$Var\left(\hat{\delta}_{r_1, r_2}\right) = \begin{cases} \tau_w^{-1} \tilde{X}_{\tau_{1f}}^2 \sim_a r_w^{-1} \delta_T^{2(\tau_{1f}-\tau_{1e})} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e} \\ \tau_w^{-1} \tilde{X}_{\tau_{2f}}^2 \sim_a r_w^{-1} \delta_T^{2(\tau_{2f}-\tau_{2e})} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e} \end{cases}.$$

(5) When  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ ,

$$Var\left(\hat{\delta}_{r_1, r_2}\right) = \begin{cases} \tau_w^{-1} \tilde{X}_{\tau_{1f}}^2 \sim_a \delta_T^{2(\tau_{1f}-\tau_{1e})} r_w^{-1} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ \left(\hat{\delta}_{r_1, r_2} - 1\right)^2 \tau_w^{-1} \sum_{j=\tau_{1f}+2}^{\tau_{2e}-1} \tilde{X}_{j-1}^2 \sim_a T^{-1} \delta_T^{2(\tau_2-\tau_{2e})} \frac{r_{2e}-r_{1f}}{r_w^3} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}.$$

(6) When  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ ,

$$Var\left(\hat{\delta}_{r_1, r_2}\right) = \begin{cases} \tau_w^{-1} \tilde{X}_{\tau_{1f}}^2 \sim_a \delta_T^{2(\tau_{1f}-\tau_{1e})} \frac{1}{r_w} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e} \\ \tau_w^{-1} \tilde{X}_{\tau_{2f}}^2 \sim_a \delta_T^{2(\tau_{2f}-\tau_{2e})} \frac{1}{r_w} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e} \end{cases}.$$

(7) When  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ ,

$$Var\left(\hat{\delta}_{r_1, r_2}\right) = \begin{cases} \tau_w^{-1} \tilde{X}_{\tau_{1f}}^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ \left(\hat{\delta}_{r_1, r_2} - 1\right)^2 \tau_w^{-1} \left[ \sum_{j=\tau_1}^{\tau_{1e}-1} \tilde{X}_{j-1}^2 + \sum_{j=\tau_{1f}+2}^{\tau_{2e}-1} \tilde{X}_{j-1}^2 \right] & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases} \\ \sim_a \begin{cases} \delta_T^{2(\tau_{1f}-\tau_{1e})} \frac{1}{r_w} B(r_{1e})^2 & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ T^{-1} \delta_T^{2(\tau_2-\tau_{2e})} \frac{r_{1e}-r_1+r_{2e}-r_{1f}}{r_w^3} B(r_{2e})^2 & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}.$$

The asymptotic distributions of the DF t-statistic can be calculated as

$$DF_{r_1, r_2}^t = \left( \frac{\sum_{j=\tau_1}^{\tau_2} \tilde{X}_{j-1}^2}{\hat{\sigma}^2} \right)^{1/2} \left( \hat{\delta}_{r_1, r_2} - 1 \right).$$

(1) When  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in B_i$  with  $i = 1, 2$ ,

$$DF_{r_1, r_2}^t \sim_a T^{1/2} \delta_T^{\tau_2-\tau_{ie}} \frac{r_w^{3/2} B(r_{ie})}{2(r_{ie}-r_1) \int_{r_1}^{r_{ie}} B(s) ds} \rightarrow \infty;$$

(2) when  $\tau_1 \in B_i$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$DF_{r_1, r_2}^t \sim_a - \left( \frac{1}{2} cr_w \right)^{1/2} T^{(1-\alpha)/2} \rightarrow -\infty;$$

(3) when  $\tau_1 \in N_{i-1}$  and  $\tau_2 \in N_i$  with  $i = 1, 2$ ,

$$DF_{r_1, r_2}^t \sim_a - \left( \frac{1}{2} cr_w \right)^{1/2} T^{(1-\alpha)/2} \rightarrow -\infty;$$

(4) when  $\tau_1 \in N_0$  and  $\tau_2 \in N_2$ ,

$$DF_{r_1, r_2}^t \sim_a - \left( \frac{1}{2} cr_w \right)^{1/2} T^{(1-\alpha)/2} \rightarrow -\infty;$$

(5) when  $\tau_1 \in B_1$  and  $\tau_2 \in B_2$ ,

$$DF_{r_1, r_2}^t \sim_a \begin{cases} - \left( \frac{1}{2} cr_w \right)^{1/2} T^{(1-\alpha)/2} \rightarrow -\infty & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ \left[ \frac{cr_w^3}{2(r_{2e} - r_{1f})} \right]^{1/2} T^{1-\alpha/2} \rightarrow \infty & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases};$$

(6) when  $\tau_1 \in B_1$  and  $\tau_2 \in N_2$ ,

$$DF_{r_1, r_2}^t \sim_a - \left( \frac{1}{2} cr_w \right)^{1/2} T^{(1-\alpha)/2} \rightarrow -\infty;$$

(7) when  $\tau_1 \in N_0$  and  $\tau_2 \in B_2$ ,

$$DF_{r_1, r_2}^t \sim_a \begin{cases} - \left( \frac{1}{2} cr_w \right)^{1/2} T^{(1-\alpha)/2} \rightarrow -\infty & \text{if } \tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e} \\ \left[ \frac{cr_w^3}{2(r_{1e} - r_1 + r_{2e} - r_{1f})} \right]^{1/2} T^{1-\alpha/2} \rightarrow \infty & \text{if } \tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e} \end{cases}.$$

Taken together with (11) and (12), these results establish the limit behavior of the unit root statistics  $DF_r$  and  $BSDF_r(r_0)$  in the two cases considered in theorems 4 and 5 (see also (36) below).

### B.2.1: The PWY Strategy

The origination of the bubble expansion  $r_{1e}, r_{2e}$  and the termination of the bubble collapse  $r_{1f}, r_{2f}$  based on the DF test are identified as

$$\hat{r}_{1e} = \inf_{r \in [r_0, 1]} \left\{ r_2 : DF_r > cv^{\beta_T} \right\} \text{ and } \hat{r}_{1f} = \inf_{r \in [\hat{r}_{1e} + L_T, 1]} \left\{ r_2 : DF_r < cv^{\beta_T} \right\},$$

$$\hat{r}_{2e} = \inf_{r \in [\hat{r}_{1f}, 1]} \left\{ r_2 : DF_r > cv^{\beta_T} \right\} \text{ and } \hat{r}_{2f} = \inf_{r \in [\hat{r}_{2e} + L_T, 1]} \left\{ r_2 : DF_r < cv^{\beta_T} \right\}.$$

We know that when  $\beta_T \rightarrow 0$ ,  $cv^{\beta_T} \rightarrow \infty$ .

**Case I** Suppose  $\tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e}$ . The asymptotic distributions of the DF statistic under the alternative hypothesis are

$$DF_r \sim_a \begin{cases} F_{r_2}(W) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau_2 - \tau_{1e}} \frac{r_w^{3/2} B(r_{1e})}{2(r_{1e} - r_1) \int_{r_1}^{r_{1e}} B(s) ds} & \text{if } r \in B_1 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_1 \cup B_2 \cup N_2 \end{cases}.$$

It is obvious that if  $r \in N_0$ ,

$$\lim_{T \rightarrow \infty} \Pr \left\{ DF_r > cv^{\beta T} \right\} = \Pr \{ F_{r_2}(W) = \infty \} = 0.$$

If  $r \in B_1$ ,  $\lim_{T \rightarrow \infty} \Pr \{ DF_r > cv^{\beta T} \} = 1$  provided that  $\frac{cv^{\beta T}}{T^{1/2} \delta_T^{\tau_2 - \tau_{1e}}} \rightarrow 0$ . If  $r \in N_1$ ,  $\lim_{T \rightarrow \infty} \Pr \{ DF_r < cv^{\beta T} \} = 1$ .

It follows that for any  $\eta, \gamma > 0$ ,

$$\Pr \{ \hat{r}_{1e} > r_{1e} + \eta \} \rightarrow 0 \text{ and } \Pr \{ \hat{r}_{1f} < r_{1f} - \gamma \} \rightarrow 0,$$

due to the fact that  $\Pr \{ DF_{r_{1e} + a_\eta} > cv^{\beta T} \} \rightarrow 1$  for all  $0 < a_\eta < \eta$  and  $\Pr \{ DF_{r_{1f} - a_\gamma} > cv^{\beta T} \} \rightarrow 1$  for all  $0 < a_\gamma < \gamma$ . Since  $\eta, \gamma > 0$  is arbitrary,  $\Pr \{ \hat{r}_{1e} < r_{1e} \} \rightarrow 0$  and  $\Pr \{ \hat{r}_{1f} > r_{1f} \} \rightarrow 0$ , we deduce that  $\Pr \{ |\hat{r}_{1e} - r_{1e}| > \eta \} \rightarrow 0$  and  $\Pr \{ |\hat{r}_{1f} - r_{1f}| > \gamma \} \rightarrow 0$  as  $T \rightarrow \infty$ , provided that

$$\frac{1}{cv^{\beta T}} + \frac{cv^{\beta T}}{T^{1/2} \delta_T^{\tau_2 - \tau_{1e}}} \rightarrow 0.$$

The strategy can therefore consistently estimate both  $r_{1e}$  and  $r_{1f}$ .

Since  $\lim_{T \rightarrow \infty} \Pr \{ DF_r < cv^{\beta T} \} = 1$  when  $r \in N_1 \cup B_2 \cup N_2$ , the strategy **cannot** estimate  $r_{2e}$  and  $r_{2f}$  consistently when  $\tau_{1f} - \tau_{1e} > \tau_{2f} - \tau_{2e}$ . This proves Theorem 6.

**Case II** Suppose  $\tau_{1f} - \tau_{1e} \leq \tau_{2f} - \tau_{2e}$ . The asymptotic distributions of the DF statistic under the alternative hypothesis are

$$DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau - \tau_{1e}} \frac{r_w^{3/2} B(r_{1e})}{2(r_{1e} - r_1) \int_{r_1}^{r_{1e}} B(s) ds} & \text{if } r \in B_1 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_1 \cup N_2 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in B_2 \text{ and } \tau_{1f} - \tau_{1e} > \tau - \tau_{2e} \\ T^{1-\alpha/2} \left[ \frac{cr_w^3}{2(r_{1e} - r_1 + r_{2e} - \tau_{1f})} \right]^{1/2} & \text{if } r \in B_2 \text{ and } \tau_{1f} - \tau_{1e} \leq \tau - \tau_{2e} \end{cases}. \quad (35)$$

It is obvious that if  $r \in N_0$ ,

$$\lim_{T \rightarrow \infty} \Pr \left\{ DF_{r_2} > cv^{\beta T} \right\} = \Pr \{F_r(W) = \infty\} = 0.$$

If  $r \in B_1$ ,  $\lim_{T \rightarrow \infty} \Pr \{DF_r > cv^{\beta T}\} = 1$  provided that  $\frac{cv^{\beta T}}{T^{1/2}\delta_T^{\tau-\tau_{1e}}} \rightarrow 0$ . If  $r \in N_1$ ,  $\lim_{T \rightarrow \infty} \Pr \{DF_r < cv^{\beta T}\} = 1$ .

It follows that for any  $\eta, \gamma > 0$ ,

$$\Pr \{\hat{r}_{1e} > r_{1e} + \eta\} \rightarrow 0 \text{ and } \Pr \{\hat{r}_{1f} < r_{1f} - \gamma\} \rightarrow 0,$$

due to the fact that  $\Pr \{BDF_{r_{1e}+a_\eta} > cv^{\beta T}\} \rightarrow 1$  for all  $0 < a_\eta < \eta$  and  $\Pr \{DF_{r_{1f}-a_\gamma} > cv^{\beta T}\} \rightarrow 1$  for all  $0 < a_\gamma < \gamma$ . Since  $\eta, \gamma > 0$  is arbitrary and  $\Pr \{\hat{r}_{1e} < r_{1e}\} \rightarrow 0$  and  $\Pr \{\hat{r}_{1f} > r_{1f}\} \rightarrow 0$ , we deduce that  $\Pr \{|\hat{r}_{1e} - r_{1e}| > \eta\} \rightarrow 0$  and  $\Pr \{|\hat{r}_{1f} - r_{1f}| > \gamma\} \rightarrow 0$  as  $T \rightarrow \infty$ , provided that

$$\frac{1}{cv^{\beta T}} + \frac{cv^{\beta T}}{T^{1/2}\delta_T^{\tau-\tau_{1e}}} \rightarrow 0.$$

The strategy therefore consistently estimates  $r_{1e}$  and  $r_{1f}$ .

If  $r \in B_2$  and  $\tau_{1f} - \tau_{1e} > \tau - \tau_{2e}$ ,  $\lim_{T \rightarrow \infty} \Pr \{DF_r < cv^{\beta T}\} = 1$  since  $cv^{\beta T} \rightarrow \infty$ . If  $r \in B_2$  and  $\tau_{1f} - \tau_{1e} \leq \tau - \tau_{2e}$ ,  $\lim_{T \rightarrow \infty} \Pr \{DF_r > cv^{\beta T}\} = 1$  provided that  $\frac{cv^{\beta T}}{T^{1-\alpha/2}} \rightarrow 0$  in view of the final panel entry of (35). If  $r \in N_1$ ,  $\lim_{T \rightarrow \infty} \Pr \{DF_r < cv^{\beta T}\} = 1$ . This implies that the strategy cannot identify the second bubble when  $\tau_{1f} - \tau_{1e} > \tau_2 - \tau_{2e}$ . However, when  $\tau_{1f} - \tau_{1e} \leq \tau_2 - \tau_{2e}$  it can identify the second bubble provided that

$$\frac{1}{cv^{\beta T}} + \frac{cv^{\beta T}}{T^{1-\alpha/2}} \rightarrow 0.$$

This suggests that estimated second bubble origination date  $\hat{r}_{2e}$  will be biased, taking values of  $r_{2e} + r_{1f} - r_{1e}$  (in view of the condition  $\tau_{1f} - \tau_{1e} \leq \tau - \tau_{2e}$  under which the final panel entry of (35) holds). The termination point  $r_{2f}$  can be consistently estimated. This proves Theorem 7.

### B.2.2: The PSY algorithm

The origination of the bubble expansion  $r_{1e}, r_{2e}$  and the termination of the bubble collapse  $r_{1f}, r_{2f}$  based on the backward sup DF test are identified as follows:

$$\hat{r}_{1e} = \inf_{r \in [r_0, 1]} \left\{ r : BSDF_r(r_0) > scv^{\beta T} \right\} \text{ and } \hat{r}_{1f} = \inf_{r \in [\hat{r}_{1e} + L_T, 1]} \left\{ r : BSDF_r(r_0) < scv^{\beta T} \right\},$$

$$\hat{r}_{2e} = \inf_{r \in (\hat{r}_{1f}, 1]} \left\{ r : BSDF_r(r_0) > scv^{\beta_T} \right\} \text{ and } \hat{r}_{2f} = \inf_{r \in [\hat{r}_{2e} + L_T, 1]} \left\{ r : BSDF_r(r_0) < scv^{\beta_T} \right\}.$$

We know that when  $\beta_T \rightarrow 0$ ,  $scv^{\beta_T} \rightarrow \infty$ .

The asymptotic distributions of the backward sup DF statistic under the alternative hypothesis are

$$BSDF_r(r_0) \sim_a \begin{cases} F_r(W, r_0) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau - \tau_{ie}} \sup_{r_1 \in [0, r - r_0]} \left\{ \frac{r_w^{3/2} B(r_{ie})}{2(r_{ie} - r_1) \int_{r_1}^{r_{ie}} B(s) ds} \right\} & \text{if } r \in B_i \\ -T^{(1-\alpha)/2} \sup_{r_1 \in [0, r - r_0]} \left( \frac{1}{2} cr_w \right)^{1/2} & \text{if } r \in N_1 \cup N_2 \end{cases}. \quad (36)$$

It is obvious that if  $r \in N_0$ ,

$$\lim_{T \rightarrow \infty} \Pr \left\{ BSDF_r(r_0) > scv^{\beta_T} \right\} = \Pr \{ F_r(W, r_0) = \infty \} = 0.$$

If  $r \in B_i$  with  $i = 1, 2$ ,  $\lim_{T \rightarrow \infty} \Pr \{ BSDF_r(r_0) > scv^{\beta_T} \} = 1$  provided that  $\frac{scv^{\beta_T}}{T^{1/2} \delta_T^{\tau - \tau_{ie}}} \rightarrow 0$ . If  $r \in N_i$  with  $i = 1, 2$ ,  $\lim_{T \rightarrow \infty} \Pr \{ BSDF_r(r_0) < scv^{\beta_T} \} = 1$ .

It follows that for any  $\eta, \gamma > 0$ ,

$$\Pr \{ \hat{r}_{ie} > r_{ie} + \eta \} \rightarrow 0 \text{ and } \Pr \{ \hat{r}_{if} < r_{if} - \gamma \} \rightarrow 0,$$

since  $\Pr \{ BSDF_{r_{ie} + a_\eta}(r_0) > scv^{\beta_T} \} \rightarrow 1$  for all  $0 < a_\eta < \eta$  and  $\Pr \{ BSDF_{r_{if} - a_\gamma}(r_0) > scv^{\beta_T} \} \rightarrow 1$  for all  $0 < a_\gamma < \gamma$ . Since  $\eta, \gamma > 0$  is arbitrary and  $\Pr \{ \hat{r}_{ie} < r_{ie} \} \rightarrow 0$  and  $\Pr \{ \hat{r}_{if} > r_{if} \} \rightarrow 0$ , we deduce that  $\Pr \{ |\hat{r}_{ie} - r_{ie}| > \eta \} \rightarrow 0$  and  $\Pr \{ |\hat{r}_{if} - r_{if}| > \gamma \} \rightarrow 0$  as  $T \rightarrow \infty$ , provided that

$$\frac{1}{scv^{\beta_T}} + \frac{scv^{\beta_T}}{T^{1/2} \delta_T^{\tau - \tau_{ie}}} \rightarrow 0.$$

Therefore, the date-stamping strategy based on the backward sup ADF test can consistently estimate  $r_{1e}$ ,  $r_{1f}$ ,  $r_{2e}$  and  $r_{2f}$ . This proves Theorem 8.

### B.2.3: The sequential PWY procedure

The origination of the bubble expansion  $r_{1e}, r_{2e}$  and the termination of the bubble collapse  $r_{1f}, r_{2f}$  based on the sequential DF test are identified as

$$\hat{r}_{1e} = \inf_{r \in [r_0, 1]} \left\{ r : DF_r > cv^{\beta_T} \right\} \text{ and } \hat{r}_{1f} = \inf_{r \in [\hat{r}_{1e} + L_T, 1]} \left\{ r : DF_r < cv^{\beta_T} \right\},$$

$$\hat{r}_{2e} = \inf_{r \in (\hat{r}_{1f} + r_{0,1}]} \left\{ r :_{\hat{r}_{1f}} DF_r > cv^{\beta_T} \right\} \text{ and } \hat{r}_{2f} = \inf_{r \in [\hat{r}_{2e} + L_T, 1]} \left\{ r :_{\hat{r}_{1f}} DF_r < cv^{\beta_T} \right\}.$$

where  $_{\hat{r}_{1f}} DF_r$  is the DF statistic calculate over  $(\hat{r}_{1f}, r]$ . We know that when  $\beta_T \rightarrow 0$ ,  $cv^{\beta_T} \rightarrow \infty$ .

The asymptotic distributions of the DF statistic under the alternative hypothesis are

$$DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_0 \\ T^{1/2} \delta_T^{\tau - \tau_{1e}} \frac{r_w^{3/2} B(r_{1e})}{2(r_{1e} - r_1) \int_{r_1}^{r_{1e}} B(s) ds} & \text{if } r \in B_1 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_1 \end{cases}$$

and

$$_{\hat{r}_{1f}} DF_r \sim_a \begin{cases} F_r(W) & \text{if } r \in N_1 \\ T^{1/2} \delta_T^{\tau - \tau_{2e}} \frac{r_w^{3/2} B(r_{2e})}{2(r_{2e} - r_1) \int_{r_1}^{r_{2e}} B(s) ds} & \text{if } r \in B_2 \\ -T^{(1-\alpha)/2} \left(\frac{1}{2} cr_w\right)^{1/2} & \text{if } r \in N_2 \end{cases}.$$

It is obvious that if  $r \in N_0$ ,

$$\lim_{T \rightarrow \infty} \Pr \left\{ DF_r > cv^{\beta_T} \right\} = \Pr \{ F_{r_2}(W) = \infty \} = 0.$$

If  $r \in B_1$ ,  $\lim_{T \rightarrow \infty} \Pr \{ DF_r > cv^{\beta_T} \} = 1$  provided that  $\frac{cv^{\beta_T}}{T^{1/2} \delta_T^{\tau - \tau_{1e}}} \rightarrow 0$ . If  $r \in N_1$ ,  $\lim_{T \rightarrow \infty} \Pr \{ DF_r < cv^{\beta_T} \} = 1$  and  $\lim_{T \rightarrow \infty} \Pr \{_{\hat{r}_{1f}} DF_r > cv^{\beta_T} \} = \Pr \{ F_r(W) = \infty \} = 0$ . If  $r \in B_2$ ,  $\lim_{T \rightarrow \infty} \Pr \{_{\hat{r}_{1f}} DF_r > cv^{\beta_T} \} = 1$  provided that  $\frac{cv^{\beta_T}}{T^{1/2} \delta_T^{\tau - \tau_{2e}}} \rightarrow 0$ . This implies that provided that  $\frac{cv^{\beta_T}}{T^{1/2}} \rightarrow 0$ ,  $\lim_{T \rightarrow \infty} \Pr \{_{\hat{r}_{1f}} DF_r > cv^{\beta_T} \} = 1$  for any  $r \in B_2$ . If  $r \in N_2$ ,  $\lim_{T \rightarrow \infty} \Pr \{_{\hat{r}_{1f}} DF_r < cv^{\beta_T} \} = 1$ .

It follows that for any  $\eta, \gamma > 0$ ,

$$\Pr \{ \hat{r}_{1e} > r_{1e} + \eta \} \rightarrow 0 \text{ and } \Pr \{ \hat{r}_{1f} < r_{1f} - \gamma \} \rightarrow 0,$$

since  $\Pr \{ DF_{r_{1e} + a_\eta} > cv^{\beta_T} \} \rightarrow 1$  for all  $0 < a_\eta < \eta$  and  $\Pr \{ DF_{r_{1f} - a_\gamma} > cv^{\beta_T} \} \rightarrow 1$  for all  $0 < a_\gamma < \gamma$ . Since  $\eta, \gamma > 0$  is arbitrary and  $\Pr \{ \hat{r}_{1e} < r_{1e} \} \rightarrow 0$  and  $\Pr \{ \hat{r}_{1f} > r_{1f} \} \rightarrow 0$ , we deduce that  $\Pr \{ |\hat{r}_{1e} - r_{1e}| > \eta \} \rightarrow 0$  and  $\Pr \{ |\hat{r}_{1f} - r_{1f}| > \gamma \} \rightarrow 0$  as  $T \rightarrow \infty$ , provided that

$$\frac{1}{cv^{\beta_T}} + \frac{cv^{\beta_T}}{T^{1/2} \delta_T^{\tau - \tau_{1e}}} \rightarrow 0.$$

Thus, this date-stamping strategy consistently estimates  $r_{1e}$  and  $r_{1f}$ .

For any  $\phi, \kappa > 0$ ,

$$\Pr \{ \hat{r}_{2e} > r_{2e} + \phi \} \rightarrow 0 \text{ and } \Pr \{ \hat{r}_{2f} < r_{2f} - \kappa \} \rightarrow 0,$$

since  $\Pr \{ \hat{r}_{1f} DF_{r_{2e}+a_\phi} > cv^{\beta_T} \} \rightarrow 1$  for all  $0 < a_\phi < \phi$  and  $\Pr \{ \hat{r}_{1f} DF_{r_{2f}-a_\kappa} > cv^{\beta_T} \} \rightarrow 1$  for all  $0 < a_\kappa < \kappa$ . Since  $\phi, \kappa > 0$  is arbitrary and  $\Pr \{ r_{1f} < \hat{r}_{2e} < r_{2e} \} \rightarrow 0$  and  $\Pr \{ \hat{r}_{2f} > r_{2f} \} \rightarrow 0$ , we deduce that  $\Pr \{ |\hat{r}_{2e} - r_{2e}| > \eta \} \rightarrow 0$  and  $\Pr \{ |\hat{r}_{2f} - r_{2f}| > \gamma \} \rightarrow 0$  as  $T \rightarrow \infty$ , provided that

$$\frac{1}{cv^{\beta_T}} + \frac{cv^{\beta_T}}{T^{1/2}\delta_T^{\tau-\tau_{2e}}} \rightarrow 0.$$

Therefore, the alternative sequential implementation of the PWY procedure consistently estimates  $r_{2e}$  and  $r_{2f}$ . This proves Theorem 9.



Table 6: Detection rate and estimation of the origination and termination dates under two bubble DGP with longer second bubble durations. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.6, \tau_{1e} = \lfloor 0.20T \rfloor, \tau_{2e} = \lfloor 0.60T \rfloor, \tau_{1f} - \tau_{1e} = \lfloor 0.10T \rfloor, T = 100$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\tau_{2f} - \tau_{2e} = \lfloor 0.10T \rfloor$				
Detection Rate (1)	0.70	0.76	0.68	0.65
$r_{1e} = 0.20$	0.24 (0.02)	0.24 (0.02)	0.24 (0.02)	0.24 (0.02)
$r_{1f} = 0.30$	0.30 (0.00)	0.30 (0.00)	0.30 (0.01)	0.30 (0.01)
Detection Rate (2)	0.21	0.71	0.59	0.45
$r_{2e} = 0.60$	0.66 (0.02)	0.64 (0.02)	0.64 (0.02)	0.66 (0.02)
$r_{2f} = 0.70$	0.70 (0.00)	0.70 (0.01)	0.70 (0.01)	0.71 (0.00)
$\tau_{2f} - \tau_{2e} = \lfloor 0.15T \rfloor$				
Detection Rate (1)	0.70	0.76	0.68	0.65
$r_{1e} = 0.20$	0.24 (0.02)	0.24 (0.02)	0.24 (0.02)	0.24 (0.02)
$r_{1f} = 0.30$	0.30 (0.00)	0.30 (0.00)	0.30 (0.02)	0.30 (0.01)
Detection Rate (2)	0.53	0.87	0.78	0.77
$r_{2e} = 0.60$	0.69 (0.03)	0.65 (0.03)	0.66 (0.03)	0.68 (0.03)
$r_{2f} = 0.75$	0.75 (0.00)	0.75 (0.01)	0.75 (0.01)	0.75 (0.00)
$\tau_{2f} - \tau_{2e} = \lfloor 0.20T \rfloor$				
Detection Rate (1)	0.70	0.76	0.68	0.65
$r_{1e} = 0.20$	0.24 (0.02)	0.24 (0.02)	0.24 (0.02)	0.24 (0.02)
$r_{1f} = 0.30$	0.30 (0.00)	0.30 (0.00)	0.30 (0.01)	0.30 (0.01)
Detection Rate (2)	0.76	0.93	0.87	0.90
$r_{2e} = 0.60$	0.71 (0.04)	0.66 (0.04)	0.67 (0.04)	0.69 (0.04)
$r_{2f} = 0.80$	0.80 (0.00)	0.80 (0.02)	0.80 (0.01)	0.80 (0.01)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

Table 7: Detection rate and estimates of the origination and termination dates under three bubble DGP with different first bubble durations. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.6, T = 100, \tau_{1e} = [0.15T], \tau_{2e} = [0.45T], \tau_{3e} = [0.75T]$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\tau_{1f} - \tau_{1e} = [0.1T], \tau_{2f} - \tau_{2e} = [0.2T], \tau_{3f} - \tau_{3e} = [0.1T]$				
Detection Rate (1)	0.71	0.73	0.68	0.68
$r_{1e} = 0.15$	0.19 (0.02)	0.19 (0.02)	0.19 (0.02)	0.19 (0.02)
$r_{1f} = 0.25$	0.25 (0.00)	0.25 (0.00)	0.25 (0.00)	0.25 (0.02)
Detection Rate (2)	0.79	0.96	0.92	0.92
$r_{2e} = 0.45$	0.57 (0.04)	0.51 (0.04)	0.52 (0.04)	0.55 (0.04)
$r_{2f} = 0.65$	0.65 (0.00)	0.65 (0.01)	0.65 (0.01)	0.65 (0.01)
Detection Rate (3)	0.00	0.73	0.81	0.01
$r_{3e} = 0.75$	-	0.79 (0.02)	0.79 (0.02)	0.80 (0.03)
$r_{3f} = 0.85$	-	0.85 (0.00)	0.85 (0.00)	0.85 (0.01)
$\tau_{1f} - \tau_{1e} = [0.2T], \tau_{2f} - \tau_{2e} = [0.2T], \tau_{3f} - \tau_{3e} = [0.1T]$				
Detection Rate (1)	0.92	0.94	0.88	0.93
$r_{1e} = 0.15$	0.21 (0.04)	0.21 (0.04)	0.21 (0.04)	0.21 (0.04)
$r_{1f} = 0.35$	0.35 (0.01)	0.35 (0.01)	0.35 (0.01)	0.35 (0.02)
Detection Rate (2)	0.13	1.00	0.95	0.27
$r_{2e} = 0.45$	0.60 (0.03)	0.51 (0.04)	0.50 (0.04)	0.60 (0.03)
$r_{2f} = 0.65$	0.65 (0.00)	0.65 (0.01)	0.65 (0.01)	0.65 (0.00)
Detection Rate (3)	0.00	0.75	0.83	0.00
$r_{3e} = 0.75$	-	0.79 (0.02)	0.78 (0.02)	0.81 (0.02)
$r_{3f} = 0.85$	-	0.85 (0.00)	0.85 (0.00)	0.85 (0.00)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

Table 8: Detection rate and estimates of the origination and termination dates under three bubble DGP with different second bubble durations. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.6, T = 100, \tau_{1e} = [0.15T], \tau_{2e} = [0.45T], \tau_{3e} = [0.75T]$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\tau_{1f} - \tau_{1e} = [0.1T], \tau_{2f} - \tau_{2e} = [0.1T], \tau_{3f} - \tau_{3e} = [0.2T]$				
Detection Rate (1)	0.71	0.73	0.68	0.68
$r_{1e} = 0.15$	0.19 (0.02)	0.19 (0.02)	0.19 (0.02)	0.19 (0.02)
$r_{1f} = 0.25$	0.25 (0.00)	0.25 (0.00)	0.25 (0.00)	0.25 (0.01)
Detection Rate (2)	0.17	0.74	0.64	0.37
$r_{2e} = 0.45$	0.51 (0.02)	0.49 (0.02)	0.49 (0.02)	0.51 (0.02)
$r_{2f} = 0.55$	0.55 (0.00)	0.55 (0.00)	0.55 (0.01)	0.55 (0.01)
Detection Rate (3)	0.68	0.94	0.86	0.87
$r_{3e} = 0.75$	0.88 (0.03)	0.81 (0.04)	0.81 (0.05)	0.86 (0.04)
$r_{3f} = 0.95$	0.95 (0.00)	0.95 (0.01)	0.95 (0.01)	0.95 (0.01)
$\tau_{1f} - \tau_{1e} = [0.1T], \tau_{2f} - \tau_{2e} = [0.2T], \tau_{3f} - \tau_{3e} = [0.2T]$				
Detection Rate (1)	0.71	0.73	0.68	0.68
$r_{1e} = 0.15$	0.19 (0.02)	0.19 (0.02)	0.19 (0.02)	0.19 (0.02)
$r_{1f} = 0.25$	0.25 (0.00)	0.25 (0.00)	0.25 (0.00)	0.25 (0.02)
Detection Rate (2)	0.79	0.96	0.90	0.92
$r_{2e} = 0.45$	0.57 (0.04)	0.51 (0.04)	0.52 (0.04)	0.54 (0.04)
$r_{2f} = 0.65$	0.65 (0.00)	0.65 (0.01)	0.65 (0.01)	0.65 (0.01)
Detection Rate (3)	0.13	0.96	0.92	0.22
$r_{3e} = 0.75$	0.91 (0.02)	0.81 (0.04)	0.80 (0.04)	0.90 (0.03)
$r_{3f} = 0.95$	0.95 (0.00)	0.95 (0.02)	0.95 (0.01)	0.95 (0.01)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

Table 9: Detection rate and estimation of the origination and termination dates under three bubble DGP with different third bubble durations. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.6, T = 100, \tau_{1e} = [0.15T], \tau_{2e} = [0.45T], \tau_{3e} = [0.75T]$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\tau_{1f} - \tau_{1e} = [0.2T], \tau_{2f} - \tau_{2e} = [0.1T], \tau_{3f} - \tau_{3e} = [0.1T]$				
Detection Rate (1)	0.92	0.94	0.88	0.93
$r_{1e} = 0.15$	0.21 (0.04)	0.21 (0.04)	0.21 (0.04)	0.21 (0.04)
$r_{1f} = 0.35$	0.35 (0.00)	0.35 (0.01)	0.35 (0.01)	0.35 (0.01)
Detection Rate (2)	0.00	0.75	0.84	0.01
$r_{2e} = 0.45$	-	0.49 (0.02)	0.49 (0.02)	0.51 (0.02)
$r_{2f} = 0.55$	-	0.55 (0.00)	0.55 (0.01)	0.55 (0.01)
Detection Rate (3)	0.01	0.76	0.68	0.05
$r_{3e} = 0.75$	0.82 (0.02)	0.79 (0.02)	0.79 (0.02)	0.81 (0.02)
$r_{3f} = 0.85$	0.85 (0.00)	0.85 (0.00)	0.85 (0.00)	0.85 (0.00)
$\tau_{1f} - \tau_{1e} = [0.2T], \tau_{2f} - \tau_{2e} = [0.1T], \tau_{3f} - \tau_{3e} = [0.2T]$				
Detection Rate (1)	0.92	0.94	0.88	0.93
$r_{1e} = 0.15$	0.21 (0.04)	0.21 (0.04)	0.21 (0.04)	0.21 (0.04)
$r_{1f} = 0.35$	0.35 (0.00)	0.35 (0.01)	0.35 (0.01)	0.35 (0.01)
Detection Rate (2)	0.00	0.62	0.06	0.01
$r_{2e} = 0.40$	-	0.47 (0.00)	0.47 (0.01)	0.45 (0.03)
$r_{2f} = 0.50$	-	0.50 (0.00)	0.50 (0.01)	0.50 (0.01)
Detection Rate (3)	0.01	0.76	0.17	0.06
$r_{3e} = 0.75$	0.82 (0.02)	0.79 (0.02)	0.81 (0.02)	0.81 (0.02)
$r_{3f} = 0.85$	0.85 (0.00)	0.85 (0.00)	0.55 (0.00)	0.85 (0.00)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.

Table 10: Detection rate and estimates of the origination and termination dates under three bubble DGP and special examples. Parameters are set to:  $y_0 = 100, c = 1, \sigma = 6.79, \alpha = 0.6, T = 100, \tau_{1e} = \lfloor 0.15T \rfloor$ . Figures in parentheses are standard deviations.

	PWY	PSY	Seq	CUSUM
$\tau_{1f} - \tau_{1e} = \lfloor 0.1T \rfloor, \tau_{2f} - \tau_{2e} = \lfloor 0.2T \rfloor, \tau_{3f} - \tau_{3e} = \lfloor 0.10T \rfloor, \tau_{2e} = \lfloor 0.45T \rfloor, \tau_{3e} = \lfloor 0.70T \rfloor$				
Detection Rate (1)	0.72	0.74	0.68	0.69
$r_{1e} = 0.15$	0.19 (0.02)	0.19 (0.02)	0.19 (0.02)	0.19 (0.02)
$r_{1f} = 0.25$	0.25 (0.00)	0.25 (0.00)	0.25 (0.00)	0.25 (0.02)
Detection Rate (2)	0.79	0.95	0.90	0.91
$r_{2e} = 0.45$	0.57 (0.04)	0.51 (0.04)	0.51 (0.04)	0.55 (0.04)
$r_{2f} = 0.65$	0.65 (0.00)	0.65 (0.01)	0.65 (0.01)	0.65 (0.01)
Detection Rate (3)	0.00	0.62	0.00	0.01
$r_{3e} = 0.70$	-	0.77 (0.00)	-	0.75 (0.03)
$r_{3f} = 0.80$	-	0.80 (0.00)	-	0.80 (0.01)
$\tau_{1f} - \tau_{1e} = \lfloor 0.2T \rfloor, \tau_{2f} - \tau_{2e} = \lfloor 0.1T \rfloor, \tau_{3f} - \tau_{3e} = \lfloor 0.10T \rfloor, \tau_{2e} = \lfloor 0.40T \rfloor, \tau_{3e} = \lfloor 0.75T \rfloor$				
Detection Rate (1)	0.72	0.94	0.88	0.93
$r_{1e} = 0.15$	0.21 (0.04)	0.21 (0.04)	0.21 (0.04)	0.21 (0.04)
$r_{1f} = 0.35$	0.35 (0.00)	0.35 (0.01)	0.35 (0.01)	0.35 (0.01)
Detection Rate (2)	0.00	0.62	0.06	0.01
$r_{2e} = 0.40$	-	0.47 (0.00)	0.47 (0.01)	0.45 (0.03)
$r_{2f} = 0.50$	-	0.50 (0.00)	0.50 (0.01)	0.50 (0.01)
Detection Rate (3)	0.01	0.76	0.17	0.06
$r_{3e} = 0.75$	0.82 (0.02)	0.79 (0.02)	0.81 (0.02)	0.81 (0.02)
$r_{3f} = 0.85$	0.85 (0.00)	0.85 (0.00)	0.85 (0.00)	0.85 (0.00)

Note: Calculations are based on 5,000 replications. The minimum window has 12 observations.