NONPARAMETRIC TESTS OF THE MARKOV HYPOTHESIS IN CONTINUOUS-TIME MODELS[1]

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We propose several statistics to test the Markov hypothesis for β-mixing stationary processes sampled at discrete time intervals. Our tests are based on the Chapman-Kolmogorov equation. We establish the asymptotic null distributions of the proposed test statistics, showing that Wilks' phenomenon holds.We compute the power of the test and provide simulations to investigate the finite sample performance of the test statistics when the null model is a diffusion process, with alternatives consisting of models with a stochastic mean reversion level, stochastic volatility and jumps.

1. Introduction. Among stochastic processes, those that satisfy the Markov property represent an important special case. The Markov property restricts the effective size of the filtration that governs the dynamics of the process. In a nutshell, only the current value of X is relevant to determine its future evolution. This restriction simplifies model-building, forecasting and time series inference. Can it be tested on the basis of discrete observations? It is not practical to approach the testing problem in the form of a restriction on the filtration, the size of any alternative filtration being essentially unrestricted. Furthermore, the continuous-time filtration is not observable on the basis of discrete observations, especially if we do not have high frequency data and asymptotically the sampling interval remains fixed.

Instead, we propose to test the Markov property at the level of the discrete-frequency transition densities of the process. Given a time-homogeneous stochastic process $X = \{X_t\}_{t\geq 0}$ on $\mathbb{R}^m$, with the standard probability space $(\Omega; \mathcal{F}; P)$ and filtration $\mathcal{F}_t \subset \mathcal{F}$, we consider families of conditional probability functions $P(\cdot|x, \Delta)$ of $X_{t+\Delta}$ given $X_t = x$: for each Borel measurable function ψ, $E[\psi(X_{t+\Delta})|\mathcal{F}_t] = \int \psi(y)P(dy|X_t, \Delta)$.

If X is time-homogeneous Markovian, then its transition densities satisfy the Chapman-Kolmogorov equation:

$$P(\cdot|x, \Delta + \tau) = \int_S P(\cdot|y, \Delta)P(dy|x, \tau) \tag{1}$$

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for all $\Delta > 0$ and $\tau > 0$ and x in the support S of X. Suppose that we collect n observations on X on $[0, T]$ sampled every Δ units of time. We will assume that Δ is fixed; asymptotics are therefore with $T \to \infty$. High frequency asymptotics, by contrast, assume that $\Delta \to 0$. and T can be fixed or T diverges. This asymptotic setup could have been considered, but it is not necessary here as we are able to test the hypothesis on the basis of discrete data at a fixed interval with no requirement for high frequency data; high frequency asymptotics would of course also generate different asymptotic properties for the tests we propose.

If we set $\tau = \Delta$ in (1), then we can estimate the transition densities at the desired frequencies on the basis of these discrete observations. On the left hand side of the equation, the transition density at interval 2Δ can be estimated simply by retaining every other observation in the same data sample. To avoid unnecessary restrictions on the data generating process, we will employ nonparametric estimators of the transition densities. Given these, equation (1) then becomes a testable implication of the Markov property for X.

Conversely, Kolmogorov's construction (see for example, Revuz and Yor (1994), Chapter III, Theorem 1.5) allows one to parameterize Markov processes using transition functions. Namely, given a transition function P and a probability measure π on $\mathbb{R}^m$ serving as the initial distribution, there exists a unique probability measure such that the coordinate process X is Markovian with respect to $\sigma(X_u, u \leq t)$, has transition function P; and X_0 has π as its distribution. When π is the invariant probability measure of P, the process is a stationary Markov process. Therefore, given an initial distribution, a Markov's process X is determined by its transition densities.

Transition densities play a crucial role in many contexts. In mathematical finance, arbitrage considerations in finance make many pricing problems linear; as a result, they depend upon the computation of conditional expectations, for which knowledge of the transition function is essential. Also, inference strategies relying on maximum-likelihood or Bayesian methods require the transition density of the process. Specification testing procedures for stochastic processes also make use of the transition densities: see, e.g., Aït-Sahalia (1996), Hong and Li (2005), Chen and Gao (2004), Chen et al. (2008), Gao and Casas (2008) and Aït-Sahalia et al. (2009). All these models, estimation methods and tests assume that the process is Markovian.

Stochastic volatility models are a very broad class of non-Markovian models, due to the latency of the volatility state variable. They have been popular in financial asset pricing and modeling (see, e.g., Fouque et al. (2000)). Parameters in stochastic volatility models are much harder to estimate and the associated pricing formulas are also different from those derived based on Markovian diffusion models and depend on the assumptions made on the correlation structure between the innovations to prices and volatility (as in, e.g., Heston (1993)). Other examples include models for the term structure of interest rates, which may be Markovian or not (see, e.g., Heath et al. (1992)), and in fact one popular approach in mathematical finance consists in restricting term structure models to be Markovian (see, e.g., Caverhill (1994)). In other words, many financial econometrics models are based on the Markovian assumption and this fundamental assumption needs to be tested before they can be applied. In all these cases, testing whether the underlying process is Markovian is essential in helping to decide which family of models to use and whether a diffusion model is adequate.

We will propose test statistics for this purpose. Asymptotic null distributions of test statistics are established and we show that Wilks' phenomenon holds for several of those test statistics. The power functions of the tests are also computed for contiguous alternatives. We find that the proposed tests can detect alternatives with an optimal rate in the context of nonparametric testing procedures.

The remainder of paper is organized as follows. In Section 2, we briefly describe the nonparametric estimation of the transition functions of the process. In Section 3, we propose several test statistics for checking the Markov hypothesis. In Section 4, we establish their asymptotic null distributions and compute their power. Simulation results are reported in Section 5. Technical conditions and proofs of the mathematical results are given in Section 6.

2. Nonparametric estimation of the transition density and distribution functions.

To estimate nonparametrically the transition density of observed process X, we use the locally linear method suggested by Fan et al. (1996). The process X is sampled at regular time points $\{i\Delta,\ i = 1, \dots, n+2\}$. We make the dependence on the transition function and related quantities on Δ implicit by redefining

$$X_i = X_{i\Delta},\ i = 1, \dots, n+2,$$

which is assumed to be a stationary and β-mixing process.

For ease of exposition, we describe the estimation of the transition density and distribution when $m = 1$, i.e. X is a process on the line. We also define $Y_i = Y_{i\Delta} = X_{(i+1)\Delta}$ and $Z_i = Z_{i\Delta} = X_{(i+2)\Delta}$. Let b_1 and b_2 denote two bandwidths and K and W two kernel functions. Observe that as $b_2 \to 0$

$$E\left[K_{b_2}(Z_i - z)|Y_i = y\right] \approx p(z|y, \Delta), \tag{2}$$

where $K_{b_2}(z) = K(z/b_2)/b_2$ and $p(z|y,\Delta)$ is the transition density of $X_{(i+1)\Delta}$ given $X_{i\Delta}$. The left-hand side of (2) is the regression function of the random variable $K_{b_2}(Z_i - z)$ given $Y_i = y$. Hence, locally linear fit can be used to estimate this regression function. For each given x, one minimizes

$$\sum_{i=1}^{n} \{K_{b_2}(Z_i - z) - \alpha - \beta(Y_i - y)\}^2 W_{b_1}(Y_i - y) \tag{3}$$

with respect to the the local parameters α and β, where $W_{b_1}(z) = W(z/b_1)/b_1$. The resulting estimate of the conditional density is simply $\hat{\alpha}$. The estimator can be explicitly expressed as

$$\hat{p}(z|y,\Delta) = n^{-1}\sum_{i=1}^{n} W_n(Y_i - y, y; b_1)K_{b_2}(Z_i - z), \tag{4}$$

where W_n is the effective kernel induced by the local linear fit. Explicitly, it is given by

$$W_n(z,y;b_1) = W_{b_1}(z)\frac{s_{n,2}(y) - b_1^{-1}z s_{n,1}(y)}{s_{n,0}(y)s_{n,2}(y) - s_{n,1}^2(y)},$$

where

$$s_{n,j}(y) = \frac{1}{n}\sum_{i=1}^{n}\left(\frac{Y_i - y}{b_1}\right)^j W_{b_1}(Y_i - y).$$

Note that the effective kernel W_n depends on the sampling data points and the location y. This is the key to the design adaptation and location adaptation property of the locally linear fit.

From (4), a possible estimate of the transition distribution $P(z|y,\Delta) = P(Z_i < z|Y_i = y, \Delta)$ is given by

$$\hat{P}(z|y,\Delta) = \int_{-\infty}^{z}\hat{p}(t|y,\Delta)\,dt = \frac{1}{n}\sum_{i=1}^{n} W_n(Y_i - y, y; b_1)\bar{K}\left(\frac{Z_i - z}{b_2}\right),$$

where $\bar{K}(u) = \int_u^\infty K(t)\,dt$. Let $b_2 \to 0$, then

$$\hat{P}(z|y,\Delta) = \frac{1}{n}\sum_{i=1}^{n} W_n(Y_i - y, y; b_1)I(Z_i < z), \tag{5}$$

where we drop the term in which $Z_i = z$ would contribute the value $\bar{K}(0)$. This does not affect the asymptotic property of $\hat{P}$. Actually, (5) is really the locally linear estimator of the regression function:

$$P(z|y,\Delta) = E\left[I(Z_i < z)|Y_i = y\right].$$

3. Nonparametric tests for the Markov hypothesis in discretely sampled continuous-time models. The tests we propose are based on the fact that, for X to be Markovian, its transition function must satisfy the Chapman-Kolmogorov equation in the form for densities equivalent to (1),

$$p(z|x,2\Delta) = r(z|x,2\Delta) \tag{6}$$

where

$$r(z|x,2\Delta) \equiv \int_{y\in S} p(z|y,\Delta)p(y|x,\Delta)dy. \tag{7}$$

for all $(x,z) \in S^2$.

Under time-homogeneity of the process X, the Markov hypothesis can then be tested in the form H_0 against H_1, where

$$\begin{cases} H_0 : p(z|x, 2\Delta) - r(z|x, 2\Delta) = 0 \text{ for all } (x, z) \in S^2 \\ H_1 : p(z|x, 2\Delta) - r(z|x, 2\Delta) \neq 0 \text{ for some } (x, z) \in S^2 \end{cases} . \tag{8}$$

This test corresponds to a nonparametric null hypothesis versus a nonparametric alternative hypothesis.

Both $p(y|x, \Delta)$ and $p(z|x, 2\Delta)$ can be estimated from data sampled at interval Δ, thanks to time homogeneity. In fact, the successive pairs of observed data $\{(X_i, Y_i)\}_{i=1}^{n+1}$, form a sample from the distribution with conditional density $p(y|x, \Delta)$, from which the estimator $\hat{p}(y|x, \Delta)$ can be constructed and then $\tilde{r}(z|x, 2\Delta)$ as indicated in equation (7) can be computed. Meanwhile, the successive pairs $(X_1, Z_1), (X_2, Z_2), \ldots$, form a sample from the distribution with conditional density $p(z|x, 2\Delta)$ which can be used to form the direct estimator by drawing a parallel to (4):

$$\hat{p}(z|x, 2\Delta) = \frac{1}{n} \sum_{i=1}^{n} W_n(X_i - x, x; h_1) K_{h_2}(Z_i - z),$$

where h_1 and h_2 are two bandwidths, localizing respectively the x- and z- domain.

In other words, the test compares a direct estimator of the 2Δ-interval conditional density, $\hat{p}(z|x, 2\Delta)$, to an indirect estimator of the 2Δ-interval conditional density, $\tilde{r}(z|x, 2\Delta)$, obtained by (7). If the process is actually Markovian, then the two estimates should be close (for some distance measure) in a sense made precise by the use of the statistical distributions of these estimators.

If instead of 2Δ transitions we test the replicability of $j\Delta$ transitions, where j is an integer greater than or equal to 2, there is no need to explore all the possible combinations of these $j\Delta$ transitions in terms of shorter ones $(1, j-1), (1, j-2), \ldots$: verifying equation (6) for one combination is sufficient as can be seen by a recursion argument. In the event of a rejection of H_0 in (8), there is no need to consider transitions of order j. In general, a vector of "transition equalities" can be tested in a single pass in a method of moments framework with as many moment conditions as transition intervals.

We propose two classes of tests for the hypothesis problem (8) based on nonparametric estimation of the transition densities and distributions. To be more specific, since

$$r(z|x, 2\Delta) = E\left[p(z|Y_i, \Delta)|X_i = x\right], \tag{9}$$

the function $r(z|x, 2\Delta)$ can also be estimated by regressing nonparametrically $\hat{p}(z|Y_i, \Delta)$ on X_i. This avoids integration in (7) and makes implementation and theoretical studies easier. Employing the local linear smoother for (9), we obtain the following estimator:

$$\hat{r}(z|x, 2\Delta) = n^{-1} \sum_{i=1}^{n} W_n(X_i - x, x, h_3) \hat{p}(z|Y_i, \Delta),$$

where h_3 is a bandwidth in this smoothing problem. Under H_0 in (8), the logarithm of the likelihood function is estimated as

$$\ell(H_0) = \sum_{i=1}^{n} \log \hat{r}(Z_i|X_i, 2\Delta),$$

after ignoring the initial stationary density $\pi(X_1)$. This likelihood can be compared with

$$\ell(H_1) = \sum_{i=1}^{n} \log \hat{p}(Z_i|X_i, 2\Delta),$$

which leads to the generalized likelihood ratio (GLR) test statistic (see Fan et al. (2001))

$$\sum_{i=1}^{n} \log\{\hat{r}(Z_i|X_i, 2\Delta)/\hat{p}(Z_i|X_i, 2\Delta)\}.$$

Since the nonparametric regression functions cannot be estimated well when (X_i, Z_i) is in the boundary region, the above GLR test statistic is reduced to

$$T_0 = \sum_{i=1}^{n} \log\{\hat{r}(Z_i|X_i, 2\Delta)/\hat{p}(Z_i|X_i, 2\Delta)\} w^*(X_i, Z_i),$$

where w^* is a weight function selected to reduce the influences of the unreliable estimates in the sparse region. Admittedly, $\ell(H_1)$ is not the estimated log-likelihood under H_1 in (8), but is used to create a discrepancy measure. To see this, note that under H_0, $\hat{p}$ and $\hat{r}$ are approximately the same. By Taylor's expansion, we have

$$\begin{aligned} T_0 \approx & \sum_{i=1}^{n} \frac{\hat{p}(Z_i|X_i, 2\Delta) - \hat{r}(Z_i|X_i, 2\Delta)}{\hat{p}(Z_i|X_i, 2\Delta)} w^*(X_i, Z_i) \\ & + \frac{1}{2} \sum_{i=1}^{n} \left\{ \frac{\hat{p}(Z_i|X_i, 2\Delta) - \hat{r}(Z_i|X_i, 2\Delta)}{\hat{p}(Z_i|X_i, 2\Delta)} \right\}^2 w^*(X_i, Z_i). \end{aligned}$$

To avoid unnecessary technicalities, we ignore the first term and consider the second term

$$T_1^* = \sum_{i=1}^{n} \left\{ \frac{\hat{p}(Z_i|X_i, 2\Delta) - \hat{r}(Z_i|X_i, 2\Delta)}{\hat{p}(Z_i|X_i, 2\Delta)} \right\}^2 w^*(X_i, Z_i), \tag{10}$$

which is the χ^2-type of test statistics. A natural alternative statistic to T_1^* is

$$T_1 = \sum_{i=1}^{n} \{\hat{p}(Z_i|X_i, 2\Delta) - \hat{r}(Z_i|X_i, 2\Delta)\}^2 w(X_i, Z_i). \tag{11}$$

The resulting test statistics T_1^* and T_1 are discrepancy measures between $\hat{p}$ and $\hat{r}$ in the L_2-distance. Discrepancy-measure based test statistics receive attention and achieve success in the literature. Other discrepancy norms such as the L_∞ distance can also be investigated in the current setting. See the seminal work by Bickel and Rosenblatt (1973), Azzalini et al. (1989) and Härdle and Mammen (1993). They are not qualitatively different as shown in the classical goodness of fit tests.

Since the testing problem (8) is equivalent to the following testing problem:

$$\begin{cases} H_0 : P(z|x,2\Delta) - R(z|x,2\Delta) = 0 \text{ for all} \, (x,z) \in S^2 \\ H_1 : P(z|x,2\Delta) - R(z|x,2\Delta) \neq 0 \text{ for some} \, (x,z) \in S^2 \end{cases} \tag{12}$$

with, in light of (9),

$$R(z|x,2\Delta) = \int_{-\infty}^{z} r(t|x,2\Delta)\, dt = E\{P(z|Y,\Delta)|X = x\},$$

then transition distribution-based tests can be formulated too. Let $\hat{P}(z|x,2\Delta)$ be the direct estimator for the 2Δ-transition distribution:

$$\hat{P}(z|x,2\Delta) = \frac{1}{n}\sum_{i=1}^{n} W_n(X_i - x, x; h_1) I(Z_i < z). \tag{13}$$

Regressing the transition distribution $P(z|X_j,\Delta)$ on X_{j-1} yields $\hat{R}(z|x,2\Delta)$:

$$\hat{R}(z|x,2\Delta) = n^{-1}\sum_{i=1}^{n} W_n(X_i - x, x; h_3)\hat{P}(z|Y_i,\Delta), \tag{14}$$

where $\hat{P}(z|y,\Delta) = n^{-1}\sum_{i=1}^{n} W_n(Y_i - y, y; b_1) I(Z_i < z)$. Similarly to (11), for the testing problem (12), the transition distribution-based test will be

$$T_2 = \sum_{i=1}^{n} \{\hat{P}(Z_i|X_i,2\Delta) - \hat{R}(Z_i|X_i,2\Delta)\}^2 \omega(X_i), \tag{15}$$

where the weight function $\omega(\cdot)$ is chosen to depend on only x-variable, because $\hat{P}(z|x,2\Delta)$ is a nonparametric estimator of the conditional distribution function and we need only to weight down the contribution from the sparse regions in the x-coordinate.

Note that the test statistic T_2 involves only one-dimensional smoothing. Hence, it is expected to be more stable than T_1, and the null distribution of T_2 can be better approximated by the asymptotic null distribution. This will be justified by the theorems in the next section.

The choice between the transition density and distribution based tests reflects different degrees of smoothness of alternatives that we wish to test. In a simpler problem of the traditional goodness-of-fit tests, this has been thoroughly studied in Fan (1996). Essentially, the transition density based tests are more powerful in detecting local deviations whereas the transition distribution based test are more powerful for detecting global deviations.

4. Asymptotic properties.

4.1. *Assumptions.* We assume the following conditions. These conditions are frequently imposed for nonparametric studies for dependent data.

Assumption (A1). *The observed time series* $\{X_i\}_{i=1}^{n+2}$ *is strictly stationary with time-homogenous* $j\Delta$*-transition density* $p(X_{i+j}|X_i, j\Delta)$.

Assumption (A2). *The kernel functions* W *and* K *are symmetric and bounded densities with bounded supports, and satisfy the Lipschitz condition.*

Assumption (A3). *The weight function* $w(x, z)$ *has a continuous second-order derivative with a compact support* Ω^*.

Assumption (A4). *The stationary process* $\{X_i\}$ *is* β*-mixing with the exponential decay rate* $\beta(n) = O(e^{-\lambda n})$ *for some* $\lambda > 0$.

Assumption (A5). *The functions* $p(y|x;\Delta)$ *and* $p(z|x; 2\Delta)$ *have continuous second-order partial derivatives with respect to* (x, y) *and* (x, z) *on the set* Ω^*. *The invariant density* $\pi(x)$ *of* $\{X_i\}$ *has a continuous second-order derivative for* $x \in \Omega^*_x$, *a project of the set* Ω^* *onto the* x*-axis. Moreover,* $\pi(x) > 0$, $p(y|x, \Delta) > 0$, *and* $p(z|x, 2\Delta) > 0$ *for all* $(x, y) \in \Omega^*$ *and* $(x, z) \in \Omega^*$.

Assumption (A6). *The joint density* $p_{1\ell}(x_1, x_\ell)$ *of* (X_1, X_ℓ) *for* $\ell > 1$ *is bounded by a constant independent of* ℓ. *Put* $g_{1\ell}(x_1, x_\ell) = p_{1\ell}(x_1, x_\ell) - \pi(x_1)\pi(x_\ell)$. *The function* $g_{1\ell}$ *satisfies the Lipschitz condition: for all* (x', y') *and* (x, y) *in* Ω^*,

$$|g_{1\ell}(x, y) - g_{1\ell}(x', y')| \le C\sqrt{(x - x')^2 + (y - y')^2}.$$

Assumption (A7). *The bandwidths* h_i*'s and* b_i *are of the same order and satisfy:* $nh_1^3/\log n \to \infty$ *and* $nh_1^5 \to 0$.

Assumption (A8). *The bandwidth* h_1 *converges to zero in such a way that* $nh_1^{9/2} \to 0$ *and* $nh_1^{3/2} \to \infty$.

4.2. *Asymptotic null distributions.* To introduce our asymptotic results, we need the following notation. For any integrable function $f(x)$, let $||f||^2 = \int f^2(x)\,dx$ and

$$s(z|x, 2\Delta) = \int p^2(z|y, \Delta)p(y|x, \Delta)\,dy = E\left[p^2(z|Y_1, \Delta)|X_1 = x\right].$$

Note that the sampled observations $\{X_{n+2-i}\}_{i=0}^{n+1}$ is a reverse Markov process under the null model. We also use $p^*(x|z, 2\Delta)$ to denote the 2Δ-transition density of the reverse process and let

$$s^*(x|z, 2\Delta) = \int p^{*2}(y|z, \Delta)p^*(x|y, \Delta)\,dy.$$

Denote by

$$\Omega_{11} = \int w(x,z)p^2(z|x,2\Delta)\,dxdz, \quad \Omega_{12} = \int w(x,z)p^3(z|x,2\Delta)\,dxdz,$$

$$\Omega_{13} = \int w(x,z)s(z|x,2\Delta)p(z|x,2\Delta)\,dx\,dz,$$

$$\Omega_{14} = \int w(x,z)r^2(z|x,2\Delta)p(z|x,2\Delta)\,dx\,dz,$$

$$\Omega_{15} = \int w(x,z)s^*(x|z,2\Delta)p^*(x|z,2\Delta)[\pi(z)/\pi(x)]^2\,dx\,dz,$$

$$\Omega_2 = \int w^2(x,z)p^4(z|x,2\Delta)\,dxdz.$$

For a kernel function $K(\cdot)$, let $K^*(\cdot) = K * K(\cdot)$ and $K_h(\cdot) = h^{-1}K(\cdot/h)$. Denote by $V(x,z)$ the conditional variance function of $P(z|Y,\Delta)$, given $X = x$. Then, it is easy to see that

$$\begin{aligned}\Omega_{13} - \Omega_{14} &= \int w(x,z)V(x,z)p(z|x,2\Delta)\,dxdz \\ &= E\{V(X,Z)w(X,Z)|X = x\}.\end{aligned}$$

Throughout the paper, we use the notation $T_n \overset{a}{\sim} \chi^2_{a_n}$ for a diverging sequence of constants a_n to represent that

$$(T_n - a_n)/\sqrt{2a_n} \xrightarrow{\mathcal{D}} \mathcal{N}(0,1).$$

Theorem 1. *Assume Conditions (A1)-(A7) hold. If* $\{X_i\}$ *is Markovian,*

$$(T_1 - \mu_1)/\sigma_1 \xrightarrow{\mathcal{D}} \mathcal{N}(0,1),$$

where

$$\begin{aligned}\mu_1 = {}& \Omega_{11}||W||^2||K||^2/(h_1h_2) - \Omega_{12}||W||^2h_1^{-1} \\ &+ (\Omega_{13} - \Omega_{14})||W||^2/h_3 + \Omega_{15}||K||^2/b_2,\end{aligned}$$

and $\sigma_1^2 = 2\Omega_2||W*W||^2||K*K||^2/(h_1h_2)$. *Furthermore,* $r_1T_1 \overset{a}{\sim} \chi^2_{a_n}$, *where* $a_n = r_1\mu_1$ *and* $r_1 = 2\mu_1/\sigma_1^2$.

The test statistic T_1^*, as far as its null distribution is concerned, can be regarded as a special case of T_1, with the weight function $w(x,z) = p^{-2}(z|x,2\Delta)w^*(x,z)$. Correspondingly, let Ω_{1j}^* denote Ω_{1j} with $w(x,z)$ replaced by $p^{-2}(z|x,2\Delta)w^*(x,z)$ and Ω_2^* defined similarly. Then, we have

Corollary 1. *Under the conditions in Theorem 1 with w replaced by w^*, $r_1^* T_1^* \overset{a}{\sim} \chi^2_{a_n^*}$, where*

$$r_1^* = \frac{\Omega_{11}^* ||W||^2 ||K||^2}{\Omega_2^* ||W * W||^2 ||K * K||^2}(1 + o(1)),$$

$$a_n^* = \frac{{\Omega_{11}^*}^2 ||W||^4 ||K||^4}{\Omega_2^* ||W * W||^2 ||K * K||^2} \frac{1}{h_1 h_2}(1 + o(1)).$$

The r_1^* is asymptotically a constant depending on only the kernels and the weight function. The degree of freedom a_n^* is independent of nuisance parameters. This reflects that the Wilks phenomenon continues to hold in the current situation.

Theorem 2. *Under Conditions (A1)-(A6) and (A8), if $\{X_i\}$ is Markovian,*

$$(T_2 - \mu_2)/\sigma_2 \xrightarrow{\mathcal{D}} \mathcal{N}(0, 1),$$

where

$$\mu_2 = \frac{1}{6h_1} ||W||^2 \int \omega(x) \{1 + 6 h_1 h_3^{-1} E[V(X_\Delta, Z_\Delta) | X_\Delta = x]\}\, dx,$$

and $\sigma_2^2 = ||W * W||^2 ||\omega||^2 / (45 h_1)$. Furthermore, $r_2 T_2 \overset{a}{\sim} \chi^2_{b_n}$, where $b_n = r_2 \mu_2$ and $r_2 = 2\mu_2/\sigma_2^2$.

Comparing Theorems 1 and 2, it is seen that asymptotic variance of T_1 is an order of magnitude larger than that of T_2. Therefore, the null distribution of T_2 can be more stably approximated than that of T_1. On the other hand, the degrees of freedom in T_1 are larger than in T_2, and the transition density based tests are more omnibus, capable of testing a wider class of alternative hypothesis.

4.3. *Power under contiguous alternative models.* To assess the power of the tests, we consider the following contiguous alternative sequence for T_1:

$$H_{1n} :\ p(z|x, 2\Delta) - r(z|x, 2\Delta) = g_n(x, z), \tag{16}$$

where g_n satisfies $E[g_n^2(X, Z)] = O(\delta_n^2)$ and $\mathrm{var}[g_n^2(X, Z)] \le M(E[g_n^2(X, Z)])^2$ for a constant $M > 0$ and a sequence δ_n going to zero as $n \to \infty$. Then the power of the test statistic T_1 can be approximated using the following theorem.

Theorem 3. *Under Conditions (A1)-(A7), if $n h_1 h_2 \delta_n^2 = O(1)$, then under the alternative hypothesis H_{1n},*

$$(T_1 - \mu_1 - d_{1n})/\sigma_{1n} \xrightarrow{\mathcal{D}} \mathcal{N}(0, 1),$$

where $d_{1n} = nE\{g_n^2(X, Z) w(X, Z)\}(1 + o(1))$, and $\sigma_{1n} = \sqrt{\sigma_1^2 + 4\sigma_{1A}^2}$ with

$$\sigma_{1A}^2 = nE[g_n^2(X, Z) w^2(X, Z) \{p(Z|X, 2\Delta) - p^2(Z|X, 2\Delta)\}^2].$$

Using Theorem 1, one can construct an approximate level-α test based on T_1. Let c_α be the critical value such that

$$P\{(T_1-\mu_1)/\sigma_1 \geq c_\alpha | H_0\} \leq \alpha.$$

Then we have the following result, which demonstrates that the test statistic T_1 can detect alternatives at rate $\delta_n = O(n^{-2/5})$.

Theorem 4. *Under Conditions (A1)-(A6), T_1 can detect alternatives with rate $\delta_n = O(n^{-2/5})$ when $h_1 = c_1 n^{-1/5}$ and $h_2 = c_2 n^{-1/5}$ for some constants c_1 and c_2. Specifically, if $\delta_n = dn^{-2/5}$ for a constant d, then*

$$\text{(i)}\ \limsup_{d\to 0}\limsup_{n\to\infty} P\{(T_1-\mu_1)/\sigma_1 \geq c_\alpha | H_{1n}\} \leq \alpha;$$

$$\text{(ii)}\ \liminf_{d\to \infty}\liminf_{n\to\infty} P\{(T_1-\mu_1)/\sigma_1 \geq c_\alpha | H_{1n}\} = 1.$$

Similarly to (16), we consider the following alternative sequence to study of the power of the test statistic T_2:

$$H_{2n}: P(z|x,2\Delta) - R(z|x,2\Delta) = G_n(x,z),$$

where $G_n(x,z)$ satisfies $E[G_n^2(X,Z)] = O(\rho_n^2)$ and $\mathrm{var}(G_n^2(X,Z)) \leq M(E[G_n^2(X,Z)])^2$ for a constant $M>0$ and a sequence ρ_n tending to zero. Then using the following theorem one can calculate the power of the test statistic T_2.

Theorem 5. *Under Conditions (A1)-(A6) and (A8), if $nh_1h_3\rho_n^2 = O(1)$, then under the alternative hypothesis H_{2n},*

$$(T_2-\mu_2-d_{2n})/\sigma_{2n} \xrightarrow{\mathcal{D}} \mathcal{N}(0,1),$$

where $d_{2n} = nE[G_n^2(X,Z)\omega(X)] + O(nh_1^2\rho_n + \rho_n h_1^{-1})$, $\sigma_{2n}^2 = \sigma_2^2 + 4\sigma_{2A}^2$, and

$$\sigma_{2A}^2 = nE\Big[\int G_n(X,Z)\omega(X)I(Z<z)P(dz|X,2\Delta)\Big]^2$$
$$- nE\Big[\int G_n(X,Z)\omega(X)P(z|X,2\Delta)P(dz|X,2\Delta)\Big]^2.$$

Parallel to Theorem 4, the following theorem demonstrates the optimality of the test.

Theorem 6. *Under Conditions (A1)-(A6), T_2 can detect alternatives with rate $\rho_n = O(n^{-4/9})$ when $h_1 = c_* n^{-2/9}$ for some constant c_*.*

From Theorem 6, T_2 can detect alternatives at rate $O(n^{-4/9})$. Using an argument similar to Fan and Jiang (2005), we can also establish the minimax rate, $O(n^{-4/9})$, of the test. Note that the rate is optimal according to Ingster (1993), Spokoiny (1996) and Lepski and Spokoiny (1999). Compared with Theorem 4, it is seen that T_2 is more powerful than T_1 for testing the Markov hypothesis. This is due to the fact that the alternative under consideration for T_2 is global, namely, the density under the alternative is basically globally shifted away from the null hypothesis. On the other hand, T_1 and T_1^* are more powerful than T_2 for detecting local features of the alternative hypothesis. We will now explore these features in simulations.

5. Simulations. An important application of our test methods is to verify the Markov property in the context where the null model is a diffusion process, since it is often assumed in modern financial theory and practice that the observation process comes from an underlying diffusion. Hence, we consider simulations for the diffusion models.

To use the test statistics, one needs to find their null distributions. Theoretically the asymptotic null distributions may be used to determine the $p-$values of the test statistics. However, in practical applications the asymptotic distributions do not necessarily give accurate approximations, since the local sample size nh_1h_2 may not be large enough. This phenomenon is shared by virtually all nonparametric kinds of tests where some form of functional estimation is used.

We will mainly focus on the finite sample performance of the test statistic T_1^*, since it possesses the Wilks property which facilitates bandwidth selection and determination of the null distribution using a bootstrap method. Since the asymptotic null distribution of T_1^* is independent of nuisance parameters/functions under the null hypothesis, for a finite sample it does not sensitively depend on the nuisance parameters/functions. Therefore, the null distribution can be approximated by bootstraps, by fixing nuisance parameters/functions at their reasonable estimates, as in Fan and Jiang (2007) in a different context.

In general, different bootstrap approximations to the null distributions are needed for different null models, partially due to the large family of null models with the Markov property. We will illustrate this method for the Ornstein-Uhlenbeck model, which in financial mathematics is used for instance as the Vasicek (1977) model for interest rates. For other parametric models, our approach can similarly be applied.

The Ornstein-Uhlenbeck model employed as the null hypothesis is

$$dX_t = \kappa(\alpha - X_t)dt + \sigma dW_t, \tag{17}$$

where W_t is a Brownian motion and the parameters are set as $\kappa = 0.2$, $\alpha = 0.085$, $\sigma = 0.08$, which are realistic for interest rates over long periods. We simulated the model $1,000$ times. In each simulation, we draw a sample with sample size $n = 2,400$ and weekly sampling interval $\Delta = 1/52$ using for this purpose a higher frequency Euler approximation, or an exact discretization. The bandwidth selection for the test statistic T_1^* is performed using the simple empirical rule proposed by Hyndman and Yao (2002). Alternative methods include the cross-validation approaches of Fan and Yim (2004) and Hall et al. (2004), but their computation is intensive especially when repeated many times in Monte Carlos.

Given a sample from the model, we fit the model using the least squares method and obtain the residuals of the fit, and then generate bootstrap samples using the residual-based bootstrap method. For each simulation, we obtained three bootstrap samples (this is merely for the reduction of computation cost; using more sample will not fundamentally alter the results) and computed the test statistic T_1^* using the same bandwidths as for the original sample in the simulation. Pooling together

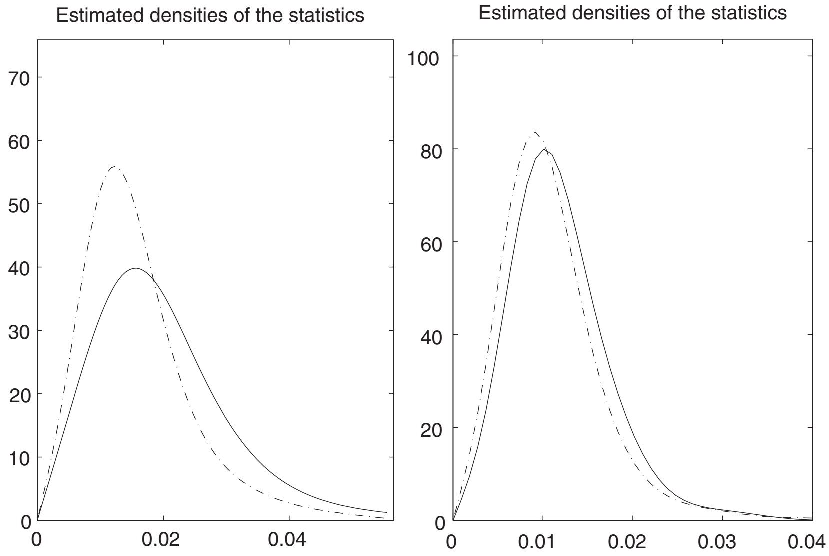

FIG. 1. *Estimated densities. Left panel:* $n = 1,200$*; right panel:* $n = 2,400$*. Solid — true, dotted — the bootstrap approximation.*

		Parameter θ					
s	level α	0.0	0.2	0.4	0.6	0.8	1.0
100	0.01	0.011	1	1	1	1	1
	0.05	0.055	1	1	1	1	1
10	0.01	0.011	0.010	0.070	0.228	0.580	0.846
	0.05	0.055	0.019	0.123	0.549	0.901	0.989

Table 1

Power of the test against $H_{1\theta}$***.***

the bootstrap samples from each simulation, we obtained $3,000$ bootstrap statistics. Their sampling distributions, computed via the kernel density estimate, is taken as the distribution of the bootstrap method. By using the kernel density estimation method, the distribution of the realized values of the test statistic T_1^* in simulations is obtained as the true distribution (except for the Monte Carlo errors).

Figure 1 displays the estimated densities for T_1^*. Not surprisingly, the bootstrapped distributions get much closer to the true ones as the sample sizes increase. In our experience, the bootstrap approximations start to become adequate for sample sizes starting at about $2,400$.

To investigate the power of the test statistics, we employ various sequences of alternatives indexed by a parameter $\theta = 0$, 0.2, 0.4, 0.6, 0.8, 1.0. One of the main ways for an otherwise Markovian model to become non-Markovian is to restrict too much its state space. For instance, consider a bivariate diffusion model. Taken jointly,

		Parameter θ					
s	level α	0.0	0.2	0.4	0.6	0.8	1.0
1000	0.01	0.013	0.402	0.660	0.762	0.813	0.817
	0.05	0.067	0.557	0.768	0.845	0.878	0.905
100	0.01	0.013	0.028	0.183	0.372	0.492	0.573
	0.05	0.067	0.098	0.340	0.527	0.627	0.697
10	0.01	0.013	0.007	0.020	0.017	0.032	0.088
	0.05	0.067	0.037	0.052	0.070	0.122	0.218

Table 2

Power of the test against $H_{2\theta}$.

the two components are Markovian, but taken in isolation a single component may not be:

1. Alternative model with missing state variable in the drift: we first consider the situation where the null model (17) is missing a state variable, in this case X mean-revers to the stochastic level $\theta\alpha_t + (1-\theta)\alpha$ under the alternative

   $$H_{1\theta} : dX_t = \kappa\left(\theta\alpha_t + (1-\theta)\alpha - X_t\right)\, dt + \sigma\, dW_t,$$

   where α_t is the random process

   $$d\alpha_t = \kappa_1(a - \alpha_t)\, dt + \sigma_1\, dB_t,$$

   with B_t a the Brownian motion independent of W_t, $\kappa_1 = \kappa/s$, $a = s\alpha$, and $\sigma_1 = \sigma/2$, with $s = 100$ and 10. When $\theta \neq 0$, the alternatives are non-Markovian. The results in the first part of Table 1 show that the test statistic rejects the null hypothesis when the observations are drawn under $H_{1\theta}$.

2. Alternative model with missing state variable in volatility: next, we consider alternative models where volatility is stochastic,

   $$H_{2\theta} : dX_t = \kappa(\alpha - X_t)\, dt + ((1-\theta)\sigma + \theta\sigma_t)\, dW_t,$$

   where $\sigma_t = \sqrt{Y_t}$ is a random process following the Cox et al. (1985) model

   $$dY_t = \kappa_2(b - Y_t)\, dt + \sigma_2 Y_t^{1/2}\, dB_{2t},$$

   where B_{2t} is a standard Brownian motion independent of W_t, $\kappa_2 = \kappa/s$, $b = s\alpha$, and $\sigma_2 = \sigma/2$, with $s = 1,000$, 100, and 10. When $\theta \neq 0$, the alternatives are also non-Markovian.

3. Alternative model with missing state variable in jumps: finally, we consider a model with compound Poisson jumps

   $$H_{3\theta} : dX_t = \kappa(\alpha - X_t)\, dt + \sigma\, dW_t + J_t\, dN_t(\theta),$$

   where $N_t(\theta)$ is a Poisson process with stochastic intensity θ and jump size 1, while J_t is a the jump size. We will consider two types of jump sizes:

		Parameter θ					
Jump Type	level α	0.0	0.2	0.4	0.6	0.8	1.0
i	0.01	0.010	0.009	0.023	0.003	0.016	0.009
	0.05	0.059	0.048	0.054	0.054	0.058	0.056
ii	0.01	0.010	0.514	0.774	0.888	0.940	0.951
	0.05	0.059	0.533	0.796	0.894	0.946	0.961

Table 3

Power of the test against $H_{3\theta}$.

i. J_t is independent of $\mathcal{F}_t$ and follows $N(0, \sigma_1^2)$ with $\sigma_1 = \sigma/2$, which makes $H_{3\theta}$ Markovian;

ii. J_t follows the CIR model:

$$dJ_t = \kappa(a - J_t)\,dt + \sigma_1 J_t^{1/2}\;dB_{3t},$$

where B_{3t} is a standard Brownian motion independent of W_t, $K = 0.2$, $a = 0.085$, and $\sigma_1 = 0.08/2$. Then J_t is not independent of $\mathcal{F}_t$. This leads to alternatives $H_{3\theta}$ which are not Markovian for $\theta \neq 0$.

The alternative models considered here are β-mixing. For example, in the first alternative $H_{1\theta}$, the joint process (X_t, α_t) is an affine process and it is β-mixing. Hence, X_t is β-mixing. A similar argument applies to two other alternatives. In fact, for the first alternative $H_{1\theta}$, the time series $(X_{i\Delta}, \alpha_{i\Delta})$ can be written as a bivariate autoregressive model. Hence, it is β-mixing with the choice of parameters. Note that for all of the above alternatives, when θ is small, the null and alternative models are nearly impossible to differentiate. In the limit where $\theta = 0$, the null and the alternative are identical. Therefore, it can be expected that, when $\theta = 0$, the power of test should be close to the significance level; and as θ deviates more from 0, the power should increase. Also we can expect that our tests will be able to detect only the type ii jumps but not the type i jump, since for the type i jump the alternatives are Markovian.

The simulated powers are reported in Tables 1-3. The null distribution of the normalized test statistics does not depend sensitively on choice of bandwidth, whereas the power depends on the choice of bandwidth and the alternative under consideration. As expected, our test is fairly powerful for detecting non-Markovian alternatives $H_{k\theta}$ $(k = 1, 2, 3)$, at least in situations where the alternative is sufficiently far from the null. For $H_{3\theta}$, the test has, as it should, no power to identify the type i alternatives but is powerful for discriminating against the type ii alternatives. This illustrates well the sensitivity and specificity of our tests.

6. Technical proofs.

6.1. *Technical Lemmas.* We now introduce some technical lemmas, whose proofs can be found in the supplemental material of this paper. To save the space, some notations in the lemmas will appear later in the course of proofs of the main theorems.

Lemma 1. *Suppose that W is symmetric and continuous with a bounded support. If $h \to 0$ and $nh \to \infty$, then*

$$W_n(z, x; h) = \{\frac{1}{\mu_0(W)\pi(x)} - \frac{z}{h}\frac{h\pi'(x)}{\pi^2(x)\mu_0(W)} + O_p(\rho_n(h))\}W_h(z) + O_p(\rho_n(h))\frac{z}{h}W_h(z),$$

uniformly for $x \in \Omega^*$, where $O_p(\rho_n(h))$ does not depend on z, where $\mu_0(W) = \int W(u)du$.

Lemma 2. *Under conditions (A1)-(A6),*

(i) for $k = 0, 1$,

$$\sup_{(y,z)\in\Omega^*} |n^{-1}\sum_{i=1}^{n} b_1^{-k}(Y_i - y)^k W_{b_1}(Y_i - y)\varepsilon_i(z)| = O\{\sqrt{(\log n)/(nb_1b_2)}\};$$

(ii) for $k = 0, 1$,

$$\sup_{(x,z)\in\Omega^*} \Big|\frac{1}{n}\sum_{j=1}^{n} h_3^{-k}(X_j - x)^k W_{h_3}(X_j - x)e_j(z)\Big| = O_p\{\sqrt{\log(n)/(nh_3)}\};$$

(iii) $\sup_{(x,z)\in\Omega^*} \Big|\frac{1}{n}\sum_{j=1}^{n} q^*(x, Z_j)\varepsilon_{j+1}(z)\Big| = O_p\{\sqrt{\log(n)/(nb_2)}\}$;

(iv) $\sup_{(x,z)\in\Omega^*} |\frac{1}{n}\sum_{j=1}^{n} W_{h_1}(X_j - x)\varepsilon_j^*(z)| = O_p\{\sqrt{(\log n)/(nh_1h_2)}\}$.

Lemma 3. *Under conditions (A1)-(A6), we have*

$$\xi_n(x, y) \equiv \frac{1}{n}\sum_{i=1}^{n} r_{n1}(x, Y_i)\varepsilon_i(z) = O_p(\sqrt{n^{-1}b_1\log n}\,),$$

uniformly for $(x, z) \in \Omega^*$, where r_{n1} is defined right after (32).

Lemma 4. *Suppose the conditions (A1)-(A5) hold. Then*

$$\eta_n(x, z) \equiv n^{-1}\sum_{i=1}^{n} r_n^*(x, Y_i)\varepsilon_i(z) = O\{\sqrt{[(b_1^4 + h_3^4)\log n]/(nb_2)}\,\},$$

uniformly for $(x, y) \in \Omega^*$, where $r_n^*(\cdot, \cdot)$ is defined in (34).

Lemma 5. *Under Conditions (A1)-(A6),* *(i)* $\sum_{1\le i<j\le n}[\tilde{\psi}(i,j)-\tilde{\psi}(i)-\tilde{\psi}(j)+\tilde{\psi}(0)]=o_p(h_1^{-1})$.

(ii) $(n-1)\sum_{i=1}^{n}[\tilde{\psi}(i)-\tilde{\psi}(0)]=o_p(h_1^{-1})$.

Lemma 6. *Assume Conditions (A1)-(A5) hold. Then we have*

(i) under Condition (A6),

$$\begin{aligned}\frac{1}{2}n(n-1)\tilde{\psi}(0)=&\ \Omega_{11}||W||^2||K||^2/(h_1h_2)-\Omega_{12}||W||^2/h_1\\&+\Omega_{13}||W||^2/h_3-\Omega_{14}||W||^2/h_3\\&+\Omega_{15}||K||^2/b_2+O(n^{-2});\end{aligned}$$

(ii) under Condition (A7),

$$\begin{aligned}\frac{1}{2}n(n-1)\tilde{\phi}(0)=&\ \frac{1}{6h_1}||W||^2\int\omega(x)\\&\times\{1+6h_1h_3^{-1}E[V(X_\Delta,Z_\Delta)|X_\Delta=x]\}\,dx+O(1).\end{aligned}$$

Lemma 7. *Assume that Conditions (A1)-(A5) hold. Then we have*

(i) under Condtion (A6),

$$\sigma_{1n}^{-1}\sum_{1\le i<j\le n}\psi^*(i,j)\xrightarrow{\mathcal{D}}\mathcal{N}(0,1),$$

where $\sigma_{1n}^2=2\Omega_2||W*W||^2||K*K||^2/(n^2h_1h_2)$.

(ii) under Condition (A7),

$$\sigma_{2n}^{-1}\sum_{1\le i<j\le n}\phi^*(i,j)\xrightarrow{\mathcal{D}}\mathcal{N}(0,1),$$

where $\sigma_{2n}^2=||W*W||^2||w||^2/(45n^2h_1)$.

6.2. *Preliminaries.* Since the test statistics T_1 and T_1^* compare the difference between $\hat{p}(z|x,2\Delta)$ and $\hat{r}(z|x,2\Delta)$, we derive an asymptotic expression for this difference under H_0 before giving the proofs of theorems. In addition, in order to streamline our arguments, we will introduce some technical lemmas and put them behind the proofs of theorems. The arguments employed here uses techniques from the U-statistic and nonparametric smoothing.

First let us introduce some notations. Let $\rho_n(h)=h^2+\sqrt{\log n/(nh)}$, $\mu_0(W)=\int W(x)\,dx$, and$\mu_2(W)=\int x^2W(x)\,dx$. Denote by $m(y,z)=E\{K_{b_2}(Z_j-z)|Y_j=y\}$, $m^*(x,z)=E\{K_{h_2}(Z_j-z)|X_j=x\}$, $m_1(y,z)=\partial m(y,z)/\partial y$, and $m_1^*(x,z)=\partial m^*(x,z)/\partial x$.

Using an elementary property of the local linear smoother (see for example Fan and Yao (2003)), we obtain that

$$\hat{p}(z|x,2\Delta) - p(z|x,2\Delta) = A_n^*(x,z) + B_n^*(x,z) + C_n^*(x,z), \tag{18}$$

where $\varepsilon_j^*(z) = K_{h_2}(Z_j - z) - m^*(X_j, z)$,

$$A_n^*(x,z) = \frac{1}{n}\sum_{j=1}^n W_n(X_j - x, x; h_1)\varepsilon_j^*(z), \tag{19}$$

$$B_n^*(x,z) = \frac{1}{n}\sum_{j=1}^n W_n(X_j - x, x; h_1)\{m^*(X_j,z) - m^*(x,z) - m_1^*(x,z)(X_j - x)\},$$

$$C_n^*(x,z) = m^*(x,z) - p(z|x,2\Delta).$$

By a second order Taylor expansion,

$$B_n^*(x,z) = \frac{1}{n}\sum_{j=1}^n W_n(X_j - x, x; h_1)\frac{h_1^2}{2} m_2^*(\tilde{x}_j, z)\Big(\frac{X_j - x}{h_1}\Big)^2,$$

where $m_2^*(\tilde{x}, z) = \frac{\partial^2 m^*(x,z)}{\partial^2 x}\Big|_{x=\tilde{x}_j}$, and $\tilde{x}_j$ lies between X_j and x. By Fan et al. (1996), it is easy to show that

$$B_n^*(x,z) = O_p(h_1^2) \quad \text{and} \quad C_n^*(x,z) = O_p(h_2^2), \tag{20}$$

uniformly for $(x,z) \in \Omega^*$. By the definition of $\hat{r}$, we have

$$\hat{r}(z|x,2\Delta) - r(z|x,2\Delta) = L_{n1}(x,z) + L_{n1}^*(x,z), \tag{21}$$

where

$$L_{n1}(x,z) = \frac{1}{n}\sum_{j=1}^n W_n(X_j - x, x; h_3)\{\hat{p}(z|Y_j,\Delta) - p(z|Y_j,\Delta)\},$$

$$L_{n1}^*(x,z) = \frac{1}{n}\sum_{j=1}^n W_n(X_j - x, x; h_3)\{p(z|Y_j,\Delta) - r(z|x,2\Delta)\}.$$

Subtracting (21) from (18), we obtain that, under $H_0 : p(z|x,2\Delta) = r(z|x,2\Delta)$,

$$\begin{aligned}\hat{p}(z|x,2\Delta) - \hat{r}(z|x,2\Delta) = {}& A_n^*(x,z) + B_n^*(x,z)\\ &+ C_n^*(x,z) - L_{n1}(x,z) - L_{n2}(x,z) - L_{n3}(x,z),\end{aligned} \tag{22}$$

where

$$L_{n2}(x,z) = n^{-1}\sum_{j=1}^n W_n(X_j - x, x; h_3)\{p(z|Y_j,\Delta) - r(z|X_j,2\Delta)\},$$

$$L_{n3}(x,z) = n^{-1}\sum_{j=1}^{n} W_n(X_j - x, x; h_3)\{r(z|X_j, 2\Delta) - r(z|x, 2\Delta)\}.$$

By the continuity of $\partial^2 r(z|x, 2\Delta)/\partial x^2$, it is easy to show that

$$L_{n3}(x,z) = O_p(h_3^2), \text{ uniformly for } (x,z) \in \Omega^*. \tag{23}$$

Therefore, by (20), (22) and (23),

$$\hat{p}(z|x, 2\Delta) - \hat{r}(z|x, 2\Delta) = [A_n^*(x,z) - L_{n2}(x,z)] - L_{n1}(x,z) + O_p(\sum_{i=1}^{3} h_i^2). \tag{24}$$

Let $e_j(z) = p(z|Y_j, \Delta) - r(z|X_j, 2\Delta)$. Then it can be rewritten that

$$L_{n2}(x,z) = \frac{1}{n}\sum_{j=1}^{n} W_n(X_j - x, x; h_3)e_j(z). \tag{25}$$

Note that $r(z|X_j, 2\Delta) = E\{p(z|Y_j, \Delta)|X_j\}$. It follows that $E[e_j(z)|X_j] = 0$ and $\mathrm{Var}[e_j(z)] = O(1)$ uniformly for z and $j = 1\ldots, n$. Applying Lemma 1 with $z = X_j - x$ and $h = h_3$, we obtain that

$$\begin{aligned} W_n(X_j - x, x; h_3) = {} & \Big\{\frac{1}{\mu_0\pi(x)} - \frac{X_j - x}{h_3}\frac{h_3\pi'(x)}{\pi^2(x)\mu_0} + O_p(\rho_n(h_3))\Big\}W_{h_3}(X_j - x) \\ & + O_p(\rho_n(h_3))\frac{X_j - x}{h_3}W_{h_3}(X_j - x), \end{aligned} \tag{26}$$

uniformly for $x \in \Omega^*$, where $O_p(\rho_n(h_3))$ does not depend on j. Therefore,

$$L_{n2}(x,z) = L_{n21}(x,z) - L_{n22}(x,z) + L_{n23}(x,z) + L_{n24}(x,z),$$

where

$$L_{n21}(x,z) = \frac{1}{\mu_0(W)\pi(x)}n^{-1}\sum_{j=1}^{n} W_{h_3}(X_j - x)e_j(z),$$

$$L_{n22}(x,z) = \frac{h_3\pi'(x)}{\mu_0(W)\pi^2(x)}n^{-1}\sum_{j=1}^{n}\frac{X_j - x}{h_3}W_{h_3}(X_j - x)e_j(z),$$

$$L_{n23}(x,z) = O_p(\rho_n(h_3))n^{-1}\sum_{j=1}^{n} W_{h_3}(X_j - x)e_j(z),$$

$$L_{n24}(x,z) = O_p(\rho_n(h_3))n^{-1}\sum_{j=1}^{n}\frac{X_j - x}{h_3}W_{h_3}(X_j - x)e_j(z).$$

By Lemma 2(ii), we have $L_{n21}(x,z) = O_p\{\sqrt{(\log n)/(nh_3)}\}$ and

$$L_{n22}(x,z) = O_p\{h_3\sqrt{(\log n)/(nh_3)}\} = O_p\{\sqrt{(h_3\log n)/n}\},$$

uniformly for $(x, z) \in \Omega^*$. Then

$$L_{n23}(x, z) = O_p\{\rho_n(h_3)\sqrt{(\log n)/(nh_3)}\} = o_p\{\sqrt{(h_3 \log n)/n}\},$$

and $L_{n24}(x, z) = o_p\{\sqrt{(h_3 \log n)/n}\}$, uniformly for $(x, z) \in \Omega^*$. Then

$$L_{n2}(x, z) = \frac{1}{\mu_0(W)\pi(x)} \frac{1}{n} \sum_{j=1}^{n} W_{h_3}(X_j - x)e_j(z) + O_p\{\sqrt{(h_3 \log n)/n}\},$$

uniformly for $(x, z) \in \Omega^*$. Note that from (19) and (25)

$$A_n^*(x, z) - L_{n2}(x, z) = \frac{1}{n} \sum_{j=1}^{n} \Big[W_n(X_j - x, x; h_1)\varepsilon_j^*(z) \tag{27}$$

$$- W_n(Y_j - x, x; h_3)e_{j+1}(z) \Big] + r_n(x, z), \tag{28}$$

where

$$r_n(x, z) = -\frac{1}{n} W_n(X_1 - x, x; h_3)e_1(z) + \frac{1}{n} W_n(Y_n - x, x; h_3)e_{n+1}(z),$$

which is of order $O_p(1/(nh_3)) = o_p\{\sqrt{(h_3 \log n)/n}\}$, uniformly for $(x, z) \in \Omega^*$. Let $\varepsilon_i(z) = K_{b_2}(Z_i - z) - m(Y_i, z)$. Then, similar to (18), we have

$$\hat{p}(z|y, \Delta) - p(z|y, \Delta) = A_n(y, z) + B_n(y, z) + C_n(y, z), \tag{29}$$

where $A_n(y, z) = n^{-1} \sum_{i=1}^{n} W_n(Y_i - y, y; b_1)\varepsilon_i(z)$, $B_n(y, z) = O_p(b_1^2)$, and $C_n(y, z) = O_p(b_1^2)$, uniformly for $(y, z) \in \Omega^*$. It follows from the definition of L_{n1} that

$$L_{n1}(x, z) = n^{-1} \sum_{i=1}^{n} W_n(X_j - x, x; h_3)A_n(Y_j, z)$$

$$+ n^{-1} \sum_{i=1}^{n} W_n(X_j - x, x; h_3)[B_n(Y_j, z) + C_n(Y_j, z))]. \tag{30}$$

Using Lemma 1, we get

$$A_n(y, z) = A_{n1}(y, z) - A_{n2}(y, z) + A_{n3}(y, z) + A_{n4}(y, z),$$

where

$$A_{n1}(y, z) = \frac{1}{\mu_0 \pi(y)} n^{-1} \sum_{i=1}^{n} W_{b_1}(Y_i - y)\varepsilon_i(z),$$

$$A_{n2}(y, z) = \frac{b_1 \pi'(y)}{\mu_0 \pi^2(x)} n^{-1} \sum_{i=1}^{n} \frac{Y_i - y}{b_1} W_{b_1}(Y_i - y)\varepsilon_i(z),$$

$$A_{n3}(y, z) = O_p(\rho_n(b_1))n^{-1} \sum_{i=1}^{n} W_{b_1}(Y_i - y)\varepsilon_i(z),$$

$$A_{n4}(y,z) = O_p(\rho_n(b_1))n^{-1}\sum_{i=1}^{n}\frac{Y_i - y}{b_1}W_{b_1}(Y_i - y)\varepsilon_i(z).$$

Using Lemma 2(i), we obtain that

$$A_{n3}(y,z) = O_p(\rho_n(b_1))O_p\Big(\sqrt{\frac{\log n}{nb_1b_2}}\Big),$$

and

$$A_{n4}(y,z) = O_p(\rho_n(b_1))O_p\Big(\sqrt{\frac{\log n}{nb_1b_2}}\Big),$$

uniformly for $(y,z) \in \Omega^*$. Then

$$A_n(y,z) = A_{n1}(y,z) - A_{n2}(y,z) + O_p(\rho_n(b_1))\sqrt{(\log n)/(nb_1b_2)},$$

uniformly for $(y,z) \in \Omega^*$. This combined with (30) and Condition (A6) yields that

$$L_{n1}(x,z) = L_{n11}(x,z) - L_{n12}(x,z) + L_{n13}(x,z) + O_p\{(\log n)/(nb_1^{3/2})\}, \tag{31}$$

where $L_{n11}(x,z) = n^{-1}\sum_{j=1}^{n} W_n(X_j - x, x; h_3)A_{n1}(Y_j, z)$,

$$L_{n12}(x,z) = n^{-1}\sum_{j=1}^{n} W_n(X_j - x, x; h_3)A_{n2}(Y_j, z),$$

$$L_{n13}(x,z) = n^{-1}\sum_{j=1}^{n} W_n(X_j - x, x; h_3)[B_n(Y_j, z) + C_n(Y_j, z)].$$

Note that, by Lemma 2(i), $A_{n1}(y,z) = O_p\{\sqrt{(\log n)/(nb_1b_2)}\,\}$, uniformly for $(y,z) \in \Omega^*$. Using Lemma 1, we obtain that

$$L_{n11}(x,z) = M_{n11}(x,z) + M_{n12}(x,z) + O_p\{(\log n)/(nb_1^{3/2})\}, \tag{32}$$

where

$$M_{n11}(x,z) = \frac{1}{\mu_0^2\pi(x)}\frac{1}{n^2}\sum_{j=1}^{n}\sum_{i=1}^{n} W_{h_3}(X_j - x)W_{b_1}(Y_i - Y_j)\pi^{-1}(Y_j)\varepsilon_i(z),$$

$$M_{n12}(x,z) = \frac{h_3\pi'(x)}{\mu_0^2\pi^2(x)}\frac{1}{n^2}\sum_{j=1}^{n}\sum_{i=1}^{n}\frac{X_j - x}{h_3}W_{h_3}(X_j - x)W_{b_1}(Y_i - Y_j)\pi^{-1}(Y_j)\varepsilon_i(z).$$

Let

$$M_{n11}^*(x,y) = n^{-1}\sum_{j=1}^{n} W_{h_3}(X_j - x)W_{b_1}(y - Y_j)\pi^{-1}(Y_j),$$

$g_n(x,y) = E[M_{n11}^*(x,y)]$, and $r_{n1}(x,y) = M_{n11}^*(x,y) - g_n(x,y)$. Then

$$M_{n11}(x,z) = \frac{1}{\mu_0^2\pi(x)}\frac{1}{n}\sum_{i=1}^{n} g_n(x,Y_i)\varepsilon_i(z) + \frac{1}{\mu_0^2\pi(x)}\frac{1}{n}\sum_{i=1}^{n} r_{n1}(x,Y_i)\varepsilon_i(z).$$

By Lemma 3,

$$M_{n11}(x,z) = \frac{1}{\mu_0^2\pi(x)}\frac{1}{n}\sum_{i=1}^{n} g_n(x,Y_i)\varepsilon_i(z) + O_p\{\sqrt{(b_1\log n)/n}\,\}. \tag{33}$$

uniformly for $(x,z)\in\Omega^*$. Similar to Lemma 2(iii), the first term on the righthand side of (33) is $O_p\{\sqrt{(\log n)/(nb_2)}\}$, uniformly for $(x,z)\in\Omega^*$. Hence,

$$\sup_{(x,z)\in\Omega^*}|M_{n11}(x,z)| = O_p\{\sqrt{(\log n)/(nb_2)}\,\}.$$

Similarly, we have

$$\sup_{(x,z)\in\Omega^*}|M_{n12}(x,z)| = O_p\{h_3\sqrt{(\log n)/(nb_2)}\,\} = O_p\{\sqrt{(b_1\log n)/n}\,\}.$$

By the symmetry of the kernel function and Taylor's expansion, it can be shown that

$$\begin{aligned} g_n(x,y) &= E\Big[\pi^{-1}(Y_1)W_{b_1}(y-Y_1)W_{h_3}(X_1-x)\Big]\\ &= \mu_0^2 p(y|x,\Delta)\pi(x)/\pi(y) + O(b_1^2+h_3^2)\\ &\equiv \mu_0^2 p^*(x|y,\Delta) + O(b_1^2+h_3^2), \end{aligned}$$

uniformly for $(x,y)\in\Omega^*$, where $p^*(x|y,\Delta)$ is the one-Δ transition density of the reverse series $\{X_{n+2-i}\}_{i=1}^{n+1}$, i.e. the conditional density of X_1 given $Y_1=y$. Note that g_n is a deterministic function. It follows that

$$g_n(x,Y_i) = \mu_0^2 p^*(x|Y_i,\Delta) + r_n^*(x,Y_i), \tag{34}$$

where $r_n^*(x,Y_i)$ is $\sigma(Y_i)$-measurable and is of order $O(b_1^2+h_3^2)$ for $(x,Y_i)\in\Omega^*$. This combined with (33) leads to

$$\begin{aligned} L_{n11}(x,z) = {}& \frac{1}{n}\sum_{i=1}^{n} q^*(x,Y_i)\varepsilon_i(z) + \frac{O(1)}{n}\sum_{i=1}^{n} r_n^*(x,Y_i)\varepsilon_i(z)\\ &+ O_p(\{\log n/(nb_1^{3/2}\} + \{b_1(\log n)/n\}^{1/2}), \end{aligned} \tag{35}$$

where $q^*(x,y) = p(y|x,\Delta)/\pi(y)$. The first term in (35) is obviously

$$\frac{1}{n}\sum_{i=1}^{n} q^*(x,Z_i)\varepsilon_{i+1}(z) + O_p(\frac{1}{nb_1}).$$

By Lemma 4, the second term in (35) is $O_p(\sqrt{(b_1^4+h_3^4)\log(n)/(nb_2)})$, uniformly for $(x,z)\in\Omega^*$. Then uniformly for $(x,z)\in\Omega^*$,

$$L_{n11}(x,z) = \frac{1}{n}\sum_{i=1}^{n} q^*(x,Z_i)\varepsilon_{i+1}(z) + O_p(\{\log n/(nb_1^{3/2})\} + \{b_1(\log n)/n\}^{1/2}).$$

In the same argument, $L_{n12}(x,z)$ is dominated by $L_{n11}(x,z)$ and is of order

$$b_1 L_{n11}(x,z) = O_p(\{\log n/(nb_1^{3/2})\} + \{b_1 \log n/n\}^{1/2}),$$

which combined with (31) leads to

$$\begin{aligned} L_{n1}(x,z) = {} & \frac{1}{n}\sum_{i=1}^{n} q^*(x,Z_i)\varepsilon_{i+1}(z) + L_{n13}(x,z) \\ & + O_p(\{\log n/(nb_1^{3/2}\} + \{b_1 \log n/n\}^{1/2}), \end{aligned} \tag{36}$$

uniformly for $(x,z) \in \Omega^*$. This together with (24) and (28) yields the following asymptotic expression:

$$\hat{p}(z|x,2\Delta) - \hat{r}(z|x,2\Delta) = T_{n1}(x,z) + T_{n2}(x,z) + T_{n3}(x,z) + T_{n4}(x,z), \tag{37}$$

where

$$\begin{aligned} T_{n1}(x,z) &= \frac{1}{n}\sum_{j=1}^{n}\Big[W_n(X_j - x, x; h_1)\varepsilon_j^*(z) \\ &\qquad - W_n(Y_j - x, x; h_3)e_{j+1}(z) - q^*(x,Z_j)\varepsilon_{j+1}(z)\Big], \\ T_{n2}(x,z) &= n^{-1}\sum_{j=1}^{n} W_n(X_j - x, x; h_3)[B_n(Y_j,z) + C_n(Y_j,z)], \\ T_{n3}(x,z) &= B_n^*(x,z) + C_n^*(x,z) + L_{n3}(x,z), \\ T_{n4}(x,z) &= O_p(\{\log n/(nh_1^{3/2}\} + \{b_1 \log n/n\}^{1/2} + \log n/(nb_1^{3/2}\}), \end{aligned}$$

uniformly for $(x,z) \in \Omega^*$.

6.3. *Proofs of Theorems.* We now give the proofs of our main results.

Proof of Theorem 1. *(i) Approximate T_1 by a U-statistic.* Let $w_i = w(X_i, Z_i)$. By (37) and the definition of T_1, we have

$$\begin{aligned} T_1 &= \sum_{i=1}^{n} w_i[T_{n1}(X_i,Z_i) + T_{n2}(X_i,Z_i) + T_{n3}(X_i,Z_i) + T_{n4}(X_i,Z_i)]^2 \\ &= \sum_{i=1}^{n}\sum_{k=1}^{4} w_i T_{nk}^2(X_i,Z_i) + 2\sum_{i=1}^{n} w_i T_{n1}(X_i,Z_i)T_{n2}(X_i,Z_i) \\ &\quad + 2\sum_{i=1}^{n} w_i T_{n1}(X_i,Z_i)T_{n3}(X_i,Z_i) + 2\sum_{i=1}^{n} w_i T_{n2}(X_i,Y_i)T_{n3}(X_i,Y_i) \\ &\quad + 2\sum_{i=1}^{n} w_i[T_{n1}(X_i,Z_i) + T_{n2}(X_i,Z_i) + T_{n3}(X_i,Z_i)]T_{n4}(X_i,Z_i) \\ &\equiv T_{11} + T_{12} + T_{13} + T_{14} + T_{15}. \end{aligned}$$

By Lemmas 1 and 2, $T_{n1}(x,z) = O_p\{\sqrt{(\log n)/(nh_1h_2)}\}$. Note that $T_{n2}(x,z) = O_p(b_1^2)$, $T_{n3}(x,z) = O_p(h_1^2)$, uniformly for $(x,z) \in \Omega^*$. It is straightforward to verify that $T_{14} = O_p(nh_1^4) = o(1/h_1)$, $T_{15} = o_p(1/\sqrt{h_1h_2})$. Using the same argument as for (A.2) in , we obtain $T_{12} = o_p(1/\sqrt{h_1h_2})$ and $T_{13} = o_p(1/\sqrt{h_1h_2})$. Therefore,

$$T_1 = \sum_{i=1}^n \sum_{k=1}^4 w_i T_{nk}^2(X_i, Z_i) + o_p(h_1^{-1}).$$

Note that

$$\sum_{i=1}^n w_i T_{n2}^2(X_i, Z_i) = O_p(nh_1^4) = o_p(1/h_1),$$

$$\sum_{i=1}^n w_i T_{n3}^2(X_i, Z_i) = o_p(1/h_1),$$

and

$$\sum_{i=1}^n w_i T_{n4}^2(X_i, Z_i) = o_p(1/h_1).$$

It follows that

$$\begin{aligned} T_1 &= \sum_{i=1}^n w_i T_{n1}^2(X_i, Z_i) + o_p(h_1^{-1}) \\ &\equiv \tilde{T}_1 + o_p(h_1^{-1}). \end{aligned}$$

It can be rewritten that

$$\tilde{T}_1 = \sum_{i=1}^n w_i [B_{n1}^*(X_i, Z_i) - B_{n2}^*(X_i, Z_i) - B_{n3}(X_i, Z_i)]^2,$$

where $B_{n1}^*(x,z) = \frac{1}{n}\sum_{j=1}^n W_n(X_j - x, x; h_1)\varepsilon_j^*(z)$,

$$B_{n2}^*(x,z) = \frac{1}{n}\sum_{j=1}^n W_n(Y_j - x, x; h_3) e_{j+1}(z),$$

and

$$\begin{aligned} B_{n3}(x,z) &= \frac{1}{n}\sum_{j=1}^n q^*(x, Z_j)\varepsilon_{j+1}(z) \\ &= \frac{1}{n}\frac{1}{\pi(x)}\sum_{j=1}^n p(Z_j|x,\Delta)\pi(x)\pi^{-1}(Z_j)\varepsilon_{j+1}(z). \end{aligned}$$

Applying Lemmas 1 and 2 and using Condition (A5), we obtain that

$$\tilde{T}_1 = \sum_{i=1}^n w_i \{B_{n1}(X_i, Z_i) - B_{n2}(X_i, Z_i) - B_{n3}(X_i, Z_i)\}^2 + o_p(h_1^{-1}),$$

where $B_{n1}(x,z) = \frac{1}{n}\frac{1}{\pi(x)}\sum_{j=1}^{n} W_{h_1}(X_j - x)\varepsilon_j^*(z)$, and

$$B_{n2}(x,z) = \frac{1}{n}\frac{1}{\pi(x)}\sum_{j=1}^{n} W_{h_3}(Y_j - x)e_{j+1}(z).$$

Hence,

$$T_1 = \sum_{i=1}^{n} w_i\{B_{n1}(X_i,Z_i) - B_{n2}(X_i,Z_i) - B_{n3}(X_i,Z_i)\}^2 + o_p(h_1^{-1}).$$

Let $\xi(i,j) = W_{h_1}(X_j - X_i)\varepsilon_j^*(Z_i) - W_{h_3}(Y_j - X_i)e_{j+1}(Z_i) - q(X_i,Z_j)\varepsilon_{j+1}(Z_i)$, and

$$\psi(i,j,k) = n^{-2}w_i\pi^{-2}(X_i)\xi(i,j)\xi(i,k),$$

where $q(x,z) = p(z|x,\Delta)\pi(x)/\pi(z) = p^*(x|z,\Delta)$. Then

$$T_1 = \sum_{i,j,k=1}^{n} \psi(i,j,k) + o_p(h_1^{-1}).$$

(ii) Derive the asymptotics using the asymptotic theory for the U-statistic. Let

$$B_{11} = \sum_{i<j<k}\{\psi(i,j,k) + \psi(i,k,j) + \psi(j,i,k) + \psi(j,k,i) + \psi(k,i,j) + \psi(k,j,i)\},$$

$$B_{12} = \sum_{i\neq j}[\psi(i,j,j) + \psi(j,i,j) + \psi(j,j,i)], \text{ and } B_{13} = \sum_{i=1}^{n}\psi(i,i,i).$$

Then

$$T_1 = B_{11} + B_{12} + B_{13} + o_p(h_1^{-1}). \tag{38}$$

Let $\psi^*(i,j,k) = \psi(i,j,k) + \psi(i,k,j) + \psi(j,i,k) + \psi(j,k,i) + \psi(k,i,j) + \psi(k,j,i)$. Then $\psi^*(i,j,k)$ is symmetrical about (i,j,k), and hence $B_{11} = \sum_{i<j<k}\psi^*(i,j,k)$. Using Hoeffding's decomposition, we obtain that

$$B_{11} = \sum_{i<j<k}\Phi(i,j,k) + (n-2)\sum_{1\leq i<j\leq n}\psi^*(i,j), \tag{39}$$

where

$$\Phi(i,j,k) = \psi^*(i,j,k) - \psi^*(i,j) - \psi^*(i,k) - \psi^*(j,k),$$

$\psi^*(i,j) = \int\psi^*(i,j,k)\,dF(x_k,y_k,z_k)$, and F is the distribution of (X_k,Y_k,Z_k). Applying the lemma with $\delta = 1/3$ in Gao and King (2004), we can show that $E\{\sum_{i<j<k}\Phi(i,j,k)\}^2 = o(h_1^{-2})$. Therefore, the first term on the right hand side of (39) is $o_p(h_1^{-1})$, so that

$$B_{11} = (n-2)\sum_{1\leq i<j\leq n}\psi^*(i,j) + o_p(h_1^{-1}). \tag{40}$$

By the Markovian property of $\{X_i\}$, $E[\psi^*(i,j)] = 0$. Hence, up to a negnectable term of order $o_p(h_1^{-1})$, B_{11} is a U-statistic with mean zero. Define $\tilde{\psi}(i,j) = \psi(i,i,j) + \psi(i,j,i) + \psi(j,i,i) + \psi(j,j,i) + \psi(j,i,j) + \psi(i,j,j)$, $\tilde{\psi}(i) = \int \tilde{\psi}(i,j)\, dF(x_j, y_j, z_j)$, and $\tilde{\psi}(0) = E[\tilde{\psi}(i)]$. Then we have

$$B_{12} = \sum_{1 \le i < j \le n} \tilde{\psi}(i,j).$$

Since $\tilde{\psi}(i,j)$ is a symmetrical kernel, using the Hoeffding decomposition, we obtain that

$$\begin{aligned} B_{12} &= \sum_{1 \le i < j \le n} [\tilde{\psi}(i,j) - \tilde{\psi}(i) - \tilde{\psi}(j) + \tilde{\psi}(0)] \\ &\quad + (n-1)\sum_{i=1}^{n}[\tilde{\psi}(i) - \tilde{\psi}(0)] + \frac{1}{2}n(n-1)\tilde{\psi}(0). \end{aligned} \tag{41}$$

By Lemma 5,

$$B_{12} = \frac{1}{2}n(n-1)\tilde{\psi}(0) + o_p(h_1^{-1}). \tag{42}$$

Note that $B_{13} \ge 0$. By straightforward calculation on the mean of B_{13}, it can be shown that

$$B_{13} = O_p(n/(n^2 h_1^2 h_2^2)) = o_p(h_1^{-1}). \tag{43}$$

Therefore, combination of (38) and (40)-(43) leads to

$$T_1 = \frac{1}{2}n(n-1)\tilde{\psi}(0) + (n-2)\sum_{1 \le i < j \le n} \psi^*(i,j) + o_p(h_1^{-1}). \tag{44}$$

By Lemma 6(i),

$$\frac{1}{2}n(n-1)\tilde{\psi}(0) = \mu_1 + o_p(h_1^{-1}).$$

Applying Lemma 7(i), we obtain that

$$(n-2)\sum_{i<j} \psi^*(i,j)/\sigma_1 \xrightarrow{\mathcal{D}} \mathcal{N}(0,1),$$

where $\sigma_1^2 = 2\Omega_2 ||W * W||^2 ||K * K||^2/(h_1 h_2)$. Therefore, the result of this theorem holds.

Proof of Theorem 2. The proof is similar to that of Theorem 1.

(i) *Asymptotic expression for* $\hat{P}(z|x, 2\Delta) - \hat{R}(z|x, 2\Delta)$. By the definitions in (13) and (14),

$$\begin{aligned} \hat{P}(z|x, 2\Delta) - P(z|x, 2\Delta) &= \frac{1}{n}\sum_{i=1}^{n} W_n(X_i - x, x; h_1) \\ &\quad \times [I(Z_i < z) - P(z|x, 2\Delta)], \end{aligned} \tag{45}$$

$$\hat{R}(z|x,2\Delta) - R(z|x,2\Delta) = S_{n1}(x,z) + S_{n2}(x,z), \tag{46}$$

where $S_{n1}(x,z) = n^{-1}\sum_{i=1}^{n} W_n(X_i - x, x; h_3)[\hat{P}(z|Y_i,\Delta) - P(z|Y_i,\Delta)]$, and

$$S_{n2}(x,z) = n^{-1}\sum_{i=1}^{n} W_n(X_i - x, x; h_3)[P(z|Y_i,\Delta) - R(z|x,2\Delta)]. \tag{47}$$

Let $u_i(z,\Delta) = I(Z_i < z) - P(z|Y_i,\Delta)$. Then $E[u_i(z,\Delta)] = 0$. By (5),

$$\hat{P}(z|y,\Delta) - P(z|y,\Delta) = n^{-1}\sum_{i=1}^{n} W_n(Y_i - y, y; b_1)[I(Z_i < z) - P(z|y,\Delta)].$$

This can be rewritten as

$$\hat{P}(z|y,\Delta) - P(z|y,\Delta) = P_{n1}(y,z) + P_{n2}(y,z), \tag{48}$$

where

$$P_{n1}(y,z) = n^{-1}\sum_{i=1}^{n} W_n(Y_i - y, y; b_1)u_i(z,\Delta),$$

$$P_{n2}(y,z) = n^{-1}\sum_{i=1}^{n} W_n(Y_i - y, y; b_1)[P(z|Y_i,\Delta) - P(z|y,\Delta)].$$

By Lemma 1 and the symmetry of the kernel function $W(\cdot)$, and by using Taylor's expansion, it is easy to show that

$$P_{n2}(y,z) = (\partial^2/\partial y^2)P(z|y,\Delta)b_1^2 + o_p(b_1^2) = O_p(b_1^2), \tag{49}$$

uniformly for $(y,z) \in \Omega^*$. Hence,

$$\hat{P}(z|y,\Delta) - P(z|y,\Delta) = P_{n1}(y,z) + O_p(b_1^2), \tag{50}$$

uniformly for $(y,z) \in \Omega^*$. Then

$$S_{n1}(x,z) = n^{-1}\sum_{i=1}^{n} W_n(X_i - x, x; h_3)P_{n1}(Y_i,z) + O_p(b_1^2), \tag{51}$$

uniformly for $(x,z) \in \Omega^*$. Using the same arguments as those for $L_{n11}(x,z)$ between (32) and (37), we obtain that

$$\begin{aligned} S_{n1}(x,z) &= \frac{1}{n}\sum_{i=1}^{n} q^*(x,Y_i)u_i(z,\Delta) \\ &\quad + O_p(\{\log n/(nb_1^{3/2})\} + \{b_1(\log n)/n\}^{1/2}) \\ &= \frac{1}{n}\sum_{i=1}^{n} q^*(x,Z_i)u_{i+1}(z,\Delta) \\ &\quad + O_p\left(\frac{\log n}{nb_1^{3/2}} + \{b_1(\log n)/n\}^{1/2}\right). \end{aligned} \tag{52}$$

Rewrite $S_{n2}(x,z)$ as

$$S_{n2}(x,z) = S_{n21}(x,z) + S_{n22}(x,z),$$

where

$$S_{n21}(x,z) = n^{-1}\sum_{i=1}^{n} W_n(X_i - x, x; h_3)[P(z|Y_i,\Delta) - R(z|X_i, 2\Delta)],$$

$$S_{n22}(x,z) = n^{-1}\sum_{i=1}^{n} W_n(X_i - x, x; h_3)[R(z|X_i, 2\Delta) - R(z|x, 2\Delta)].$$

By the continuity of $\partial^2 R(z|x,2\Delta)/\partial x^2$ and the same argument as that for (49), $S_{n22}(x,z) = O_p(h_3^2)$, uniformly for $(x,z)\in\Omega^*$. Let $e_i^*(z) = P(z|Y_i,\Delta) - R(z|X_i,2\Delta)$. Then $E[e_i^*(z)|X_i] = 0$, and

$$\begin{aligned} S_{n2}(x,z) &= n^{-1}\sum_{i=1}^{n} W_n(X_i - x, x; h_3)e_i^*(z) + O_p(h_3^2) \\ &= n^{-1}\sum_{i=1}^{n} W_n(Y_i - x, x; h_3)e_{i+1}^*(z) + O_p(h_3^2). \qquad (53) \end{aligned}$$

By (45) and (46), under H_0, we have

$$\hat{P}(z|x,2\Delta) - \hat{R}(z|x,2\Delta) = -S_{n1}(x,z) - S_{n2}(x,z) + S_{n3}(x,z), \qquad (54)$$

where, with $u_j^*(z,2\Delta) = I(Z_j < z) - P(z|X_j, 2\Delta)$,

$$\begin{aligned} S_{n3}(x,z) &= \frac{1}{n}\sum_{i=1}^{n} W_n(X_i - x, x; h_1)[I(Z_i < z) - P(z|x,2\Delta)] \\ &= \frac{1}{n}\sum_{i=1}^{n} W_n(X_i - x, x; h_1)u_i^*(z,2\Delta) \\ &\quad + \frac{1}{n}\sum_{i=1}^{n} W_n(X_i - x, x; h_1)[P(z|X_i,2\Delta) - P(z|x,2\Delta)]. \end{aligned}$$

Similar to (49), the second term above is of order $O_p(h_1^2)$,

$$S_{n3}(x,z) = \frac{1}{n}\sum_{i=1}^{n} W_n(X_i - x, x; h_1)u_i^*(z,2\Delta) + O_p(h_1^2), \qquad (55)$$

uniformly for $(x,z)\in\Omega^*$. Combination of (52)-(55) yields that

$$\hat{P}(z|x,2\Delta) - \hat{R}(z|x,2\Delta) = T_{n1}^*(x,z) + T_{n2}^*(x,z) + T_{n3}^*(x,z), \qquad (56)$$

where

$$T_{n1}^*(x,z) = \frac{1}{n}\sum_{j=1}^{n}[W_n(X_j - x, x; h_1)u_j^*(z, 2\Delta)$$
$$- W_n(Y_j - x, x; h_3)e_{j+1}^*(z) - q^*(x, Z_j)u_{j+1}(z,\Delta)],$$
$$T_{n2}^*(x,z) = O_p(b_1^2 + h_1^2 + h_3^2), \text{ uniformly for } (x,z) \in \Omega^*, \text{ and}$$
$$T_{n3}^*(x,z) = O_p(\{\log n/(nb_1^{3/2})\} + \{b_1(\log n)/n\}^{1/2}), \text{ uniformly for } (x,z)\in\Omega^*.$$

(ii) *Asymptotic normality of* T_2 . Similar to (44), we have

$$T_2 = \frac{1}{2}n(n-1)\tilde{\phi}(0) + (n-2)\sum_{1\le i<j\le n}\phi^*(i,j) + o_p(h^{-1}), \tag{57}$$

where $\tilde{\phi}(0)$ and $\phi^*(i,j)$ are defined the same as $\tilde{\psi}(0)$ and $\psi^*(i,j)$, respectively, but with ψ replaced by

$$\phi(i,j,k) = n^2 w_i \pi^{-2}(X_i)\eta(i,j)\eta(i,k),$$

where

$$\eta(i,j) = W_{h_1}(X_j - X_i)u_j^*(Z_i, 2\Delta) - W_{h_3}(Y_j - X_i)e_{j+1}^*(Z_i) - q(X_i, Z_j)u_{j+1}(Z_i,\Delta).$$

By Lemma 6(ii), we have

$$\frac{1}{2}n(n-1)\tilde{\phi}(0) = \mu_2 + o_p(h_1^{-1}). \tag{58}$$

By Lemma 7(ii), we have

$$(n-2)\sum_{i<j}\phi^*(i,j)/\sigma_2 \xrightarrow{\mathcal{D}} \mathcal{N}(0,1). \tag{59}$$

Combination of (57)-(59) completes the proof of the theorem.

Proof of Theorem 3. Under H_{1n}, $p(z|x,2\Delta) = r(z|x,2\Delta) + g_n(x,z)$. Similar to (22), we have under H_{1n}

$$\hat{p}(z|x,2\Delta) - \hat{r}(z|x,2\Delta) = Q_n(x,z) + g_n(x,z).$$

where

$$Q_n(x,z) = A_n^*(x,z) + B_n^*(x,z) + C_n^*(x,z) - L_{n1}(x,z) - L_{n2}(x,z) - L_{n3}(x,z).$$

Then

$$T_1 = \sum_{i=1}^{n} Q_n^2(X_i,Z_i)w_i + \sum_{i=1}^{n} g_n^2(X_i,Z_i)w_i$$
$$+ 2\sum_{i=1}^{n} g_n(X_i,Z_i)Q_n(X_i,Z_i)w_i. \tag{60}$$

Since $\delta_n^2 = O(\frac{1}{nh_1h_2})$, it can be shown that

$$\sum_{i=1}^n g_n^2(X_i, Z_i)w_i = nE\Big[g_n^2(X, Z)w(X, Z)\Big] + o_p(1/\sqrt{h_1h_2}). \tag{61}$$

By (20) and (23), $B_n^*(x, z) = O_p(h_1^2)$, $C_n^*(x, z) = O_p(h_2^2)$, and $L_{n3}(x, z) = O_p(h_3^2)$, uniformly for $(x, z) \in \Omega^*$. It follows from the Hölder inequality that

$$\begin{aligned} & 2\sum_{i=1}^n w_i g_n(X_i, Z_i)[B_n^*(X_i, Z_i) + C_n^*(X_i, Z_i) - L_{n3}(X_i, Z_i)] \\ & = O_p(n\delta_n(h_1^2 + h_2^2 + h_3^2)). \end{aligned} \tag{62}$$

Combination of (60)-(62) yields that

$$\begin{aligned} T_1 &= \sum_{i=1}^n Q_n^2(X_i, Z_i)w_i + nE\Big[g_n^2(X, Z)w(X, Z)\Big] \\ &\quad + 2\sum_{i=1}^n g_n(X_i, Z_i)w_i[A_n^*(X_i, Z_i) - L_{n2}(X_i, Z_i) - L_{n1}(X_i, Z_i)] \\ &\quad + \{o_p(1/\sqrt{h_1h_2}) + O_p(n\delta_n(h_1^2 + h_2^2 + h_3^2))\} \\ &\equiv T_{11} + T_{12} + T_{13} + o_p(1/\sqrt{h_1h_2}). \end{aligned} \tag{63}$$

T_{11} can be dealt with in the same way as in the proof of Theorem 1. It is asymptotically normal with mean μ_1 and variance σ_1^2 given in Theorem 1. By the definition, $T_{12} = d_{1n}$. We now study the third term T_{13}. By (28) and (36), T_{13} admits the following decomposition:

$$\begin{aligned} \frac{1}{2}T_{13} &= \sum_{i=1}^n g_n(X_i, Z_i)w_i[A_n^*(X_i, Z_i) - L_{n2}(X_i, Z_i) - L_{n1}(X_i, Z_i)] \\ &= \sum_{i=1}^n g_n(X_i, Z_i)w_i\frac{1}{n}\sum_{j=1}^n\big\{W_n(X_j - X_i, X_i; h_1)\varepsilon_j^*(Z_i) \\ &\quad - W_n(Y_j - X_i; X_i; h_3)e_{j+1}(Z_i) - q^*(X_i, Z_j)\varepsilon_{j+1}(Z_i)\big\} \\ &\quad + o_p(1/\sqrt{h_1h_2}) + O(n\delta_n(b_1^2 + b_2^2)) + O(\delta_n h_1^{-1}h_2^{-1}) \\ &= \sum_{i\neq j}\frac{1}{n}g_n(X_i, Z_i)w_i\pi^{-1}(X_i)\big\{W_{h_1}(X_j - X_i)\varepsilon_j^*(Z_i) \\ &\quad - W_{h_3}(Y_j - X_i)e_{j+1}(Z_i) - q^*(X_i, Z_j)\varepsilon_{j+1}(Z_i)\big\} \\ &\quad + o_p(1/\sqrt{h_1h_2}) + O(n\delta_n(b_1^2 + b_2^2)) + O(\delta_n h_1^{-1}h_2^{-1}) \\ &\equiv \sum_{i\neq j}\varphi(i, j) + o_p(1/\sqrt{h_1h_2}) + O(n\delta_n(b_1^2 + b_2^2)) + O(\delta_n/(h_1h_2)). \end{aligned}$$

The first term above is a U-statistics with the typical element $\varphi(i,j)$. Let $\varphi^*(i,j) = \varphi(i,j) + \varphi(j,i)$. Then $\varphi^*(i,j)$ is a symmetric kernel and

$$T_{13} = \sum_{1\le i<j\le n} \varphi^*(i,j) + O(\delta_n/(h_1h_2)) + o_p(1/\sqrt{h_1h_2}).$$

Put $\tilde{\varphi}(i) = \int \varphi^*(i,j)\,dF_j$ and $\tilde{\varphi}(i,j) = \varphi^*(i,j) - \tilde{\varphi}(i) - \tilde{\varphi}(j)$. Then by the Hoeffding decomposition, we have

$$\sum_{1\le i<j\le n} \varphi^*(i,j) = \sum_{1\le i<j\le n} \tilde{\varphi}(i,j) + (n-1)\sum_{i=1}^{n} \tilde{\varphi}(i).$$

It is easy to show that $E[h_1h_2\tilde{\varphi}(i,j)]^{2(1+\delta)} = O(\delta_n^{2(1+\delta)} n^{-2(1+\delta)} h_1h_2)$. Therefore, applying the lemma with $\delta = 1$ of Gao and King (2004), we obtain that

$$E\Big\{ \sum_{1\le i<j\le n} \tilde{\varphi}(i,j)\Big\}^2 = o(1/(h_1h_2)).$$

Therefore,

$$T_{13} = (n-1)\sum_{i=1}^{n} \tilde{\varphi}(i) + o_p(1/\sqrt{h_1h_2}) + O(\delta_n/(h_1h_2)). \tag{64}$$

By the definition of $\tilde{\varphi}_i$, it can be written that

$$\begin{aligned}\tilde{\varphi}(i) &= \frac{2}{n} g_n(X_i,Z_i)w(X_i,Z_i)\pi^{-1}(X_i)\int \big\{W_{h_1}(x_j - X_i)\varepsilon_j^*(Z_i) \\ &\quad - W_{h_3}(y_j - X_i)e_{j+1}(Z_i) - q^*(X_i,z_j)\varepsilon_{j+1}(Z_i)\big\}\,dF_j \\ &\equiv \tilde{\varphi}_1(i) + \tilde{\varphi}_2(i) + \tilde{\varphi}_3(i),\end{aligned}$$

where

$$\tilde{\varphi}_1(i) = \frac{2}{n} g_n(X_i,Z_i)w(X_i,Z_i)\pi^{-1}(X_i)\int W_{h_1}(x_j - X_i)\varepsilon_j^*(Z_i)\,dF_j,$$

$$\tilde{\varphi}_2(i) = -\frac{2}{n} g_n(X_i,Z_i)w(X_i,Z_i)\pi^{-1}(X_i)\int W_{h_3}(y_j - X_i)e_{j+1}(Z_i)\,dF_j,$$

and $\tilde{\varphi}_3(i) = -\frac{2}{n} g_n(X_i,Z_i)w(X_i,Z_i)\pi^{-1}(X_i)\int q^*(X_i,z_j)\varepsilon_{j+1}(Z_i)\,dF_j$. Then by the Fubini theorem and by taking iterative expectation, $E[\tilde{\varphi}(i)] = 0$. Using the central limit theorem for the β-mixing process, we get

$$\frac{(n-1)}{2\sigma_{1A}} \sum_{i=1}^{n} \tilde{\varphi}(i) \xrightarrow{\mathcal{D}} \mathcal{N}(0,1),$$

where $\sigma_{1A}^2 = \frac{1}{4} nE[(n-1)^2\tilde{\varphi}^2(i)]$. By directly calculating the integration, it can be shown that

$$\tilde{\varphi}_1(i) = \frac{2}{n} g_n(X_i,Z_i)w(X_i,Z_i)[p(Z_i|X_i,2\Delta) - p^2(Z_i|X_i,2\Delta)](1+o(1)),$$

$\tilde{\varphi}_2(i) = o(g_n(X_i, Z_i)/n)$, and $\tilde{\varphi}_3(i) = o(g_n(X_i, Z_i)/n)$. Therefore,

$$\sigma_{1A}^2 = nE[g_n^2(X_1, Z_1)w^2(X_1, Z_1)\{p(Z_i|X_i, 2\Delta) - p^2(Z_i|X_i, 2\Delta)\}^2] + o(1/(h_1h_2)).$$

By straightforward calculation, it can be shown that the covariance between T_{11} and T_{13} can be ignored. It follows that the result of the theorem holds.

Proof of Theorem 4. (i) For any given small $\eta > 0$, when d is small enough, $|d_{1n}/\sigma_{1n}| \leq \eta$ and $\sigma_{1n} = \sigma_1(1 + o(1))$. Under H_0, with the selected bandwidths,

$$(T_1 - \mu_1)/\sigma_1 = O_p(1).$$

Therefore, the sequence of critical values c_α (depending on n) is bounded in probability. Similarly, under H_{1n}, with the selected bandwidths,

$$(T_1 - \mu_1 - d_{1n})/\sigma_{1n} = O_p(1). \tag{65}$$

Note that

$$\begin{aligned} P\{(T_1 - \mu_1)/\sigma_1 > c_\alpha|H_{1n}\} &= P\{(T_1 - \mu_1 - d_{1n})/\sigma_{1n} > (c_\alpha\sigma_1 - d_{1n})/\sigma_{1n}|H_{1n}\} \\ &\leq P\{(T_1 - \mu_1 - d_{1n})/\sigma_{1n} > c_\alpha\sigma_1/\sigma_{1n} - \eta|H_{1n}\}. \end{aligned}$$

It follows from Theorem 3 and Slutsky's theorem that

$$\limsup_{d\to 0} \limsup_{n\to\infty} P\{(T_1 - \mu_1)/\sigma_1 \geq c_\alpha|H_{1n}\} \leq \alpha.$$

(ii) For any given $M > 0$, by taking d sufficiently large, there exists an N, when $n > N$, $d_{1n}/\sigma_{1n} \geq M$. Therefore,

$$P\{(T_1 - \mu_1)/\sigma_1 > c_\alpha|H_{1n}\} \geq P\{(T_1 - \mu_1 - d_{1n})/\sigma_{1n} > c_\alpha\sigma_1/\sigma_{1n} - M|H_{1n}\}.$$

By (65), we have

$$\liminf_{d\to\infty} \liminf_{n\to\infty} P\{(T_1 - \mu_1)/\sigma_1 > c_\alpha|H_{1n}\} = 1.$$

Proof of Theorems 5 and 6. We put the proofs in the supplemental materials.

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Supplement: Additional Technical Details

Proof of Theorem 5. The proof of this theorem is similar to that of Theorem 3, which is now described below. Note that

$$\begin{aligned}
T_2 &= \sum_{i=1}^{n}\{\hat{P}(Z_i|X_i,2\Delta) - R(Z_i|X_i,2\Delta)\}^2\omega(X_i)\\
&= \sum_{i=1}^{n}\{\hat{P}(Z_i|X_i,2\Delta) - P(Z_i|X_i,2\Delta)\}^2\omega(X_i)\\
&+ \sum_{i=1}^{n}\{P(Z_i|X_i,2\Delta) - R(Z_i|X_i,2\Delta)\}^2\omega(X_i)\\
&+ 2\sum_{i=1}^{n}\omega(X_i)[\hat{P}(Z_i|X_i,2\Delta) - P(Z_i|X_i,2\Delta)][P(Z_i|X_i,2\Delta) - R(Z_i|X_i,2\Delta)]\\
&\equiv T_{21} + T_{22} + T_{23}.
\end{aligned}$$

Since $\rho_n^2 = O(1/(nh_1))$, under H_{2n},

$$T_{22} = \sum_{i=1}^{n} G_n^2(X_i,Z_i)\omega(X_i) = nE[G_n^2(X,Z)\omega(X)] + O_p(h^{-1/2}) = d_{2n} + o_p(1/\sqrt{h_1}).$$

By Theorem 2,

$$T_{21} \overset{d}{\simeq} AN(\mu_2, \sigma_2^2).$$

Similar to (50), we have the following decomposition

$$\hat{P}(z_i|x_i,2\Delta) - P(z_i|x_i,2\Delta) = P_n(x_i,z_i) + O_p(b_1^2),$$

uniformly for $(x_i,z_i) \in \Omega^*$, where $P_n(x,z) = n^{-1}\sum_{j=1}^{n} W_n(X_j - x; x, h_1)u_j^*(z,2\Delta)$ and $u_j^*(z,2\Delta) = I(Z_j < z) - P(z|X_j,2\Delta)$. Then

$$\begin{aligned}
T_{23} &= 2\sum_{i=1}^{n} G_n(X_i,Z_i)P_n(X_i,Z_i)\omega(X_i) + O_p(nb_1^2\rho_n)\\
&= 2\sum_{i=1}^{n}\sum_{j=1}^{n}\frac{G_n(X_i,Z_i)}{n\pi(X_i)}\omega(X_i)W_{h_1}(X_j - X_i)\\
&\times [I(Z_j < Z_i) - P(Z_i|X_j,2\Delta)] + o_p(\frac{1}{\sqrt{h_1}})\\
&= 2\sum_{i\neq j}\frac{G_n(X_i,Z_i)}{n\pi(X_i)}\omega(X_i)W_{h_1}(X_j - X_i)[I(Z_j < Z_i) - P(Z_i|X_j,2\Delta)]\\
&+ o_p(\frac{1}{\sqrt{h_1}}) + O(\rho_n h_1^{-1}).
\end{aligned}$$

Similar to the proof of Theorem 3, the first term above is a U-statistic which is asymptotically normal with mean zero and variance $4\sigma_{2A}^2$. Note that the U-statistic is asymptotically uncorrelated with T_{21}. Combination of the above results leads to the result of the theorem.

Proof of Theorem 6. The argument is similar to that for Theorem 4 and omitted for saving space.

Proof of Lemma 1. By the definition of W_n, we have

$$\begin{aligned} W_n(z,x;h) &= W_h(z)s_{n,0}^{-1}(x) - h^{-1}zW_h(z)s_{n,1}(x)/[s_{n,0}(x)s_{n,2}(x) - s_{n,1}^2(x)] \\ &\quad + W_h(z)s_{n,0}^{-1}(x)s_{n,1}^2(x)/[s_{n,0}(x)s_{n,2}(x) - s_{n,1}^2(x)], \end{aligned} \tag{66}$$

where $s_{n,j}(\cdot)$ are defined in §2. By straightforward algebra, it can be shown that uniformly for $x \in \Omega^*$, $E[s_{n0}(x)] = \mu_0(W)\pi(x) + O(h^2)$, $E[s_{n1}(x)] = h\mu_2(W)\pi'(x) + O(h^2)$, and $E[s_{n2}(x)] = \mu_2(W)\pi(x) + O(h^2)$. Then using the same argument as for Lemma 6.1 of Fan and Yao (2003), we obtain that uniformly for x

$$s_{n0}^{-1}(x) = \frac{1}{\mu_0(W)\pi(x)} + O_p(\rho_n(h)),$$

$$s_{n1}(x)/[s_{n0}(x)s_{n2}(x) - s_{n,1}^2(x)] = \frac{h\pi'(x)}{\mu_0(W)\pi^2(x)} + O_p(\rho_n(h)),$$

$$s_{n0}^{-1}(x)s_{n1}^2(x)/[s_{n0}(x)s_{n2}(x) - s_{n,1}^2(x)] = O_p(\rho_n(h)).$$

This together with (66) yields the result of the lemma.

Proof of Lemma 2. Since (ii)-(iv) can be proved in the same line as for (i), we here give only the proof of (i). The arguments for $k = 0$ and 1 are similar, so we consider only the case with $k = 0$. Note that by taking iterative expectation

$$E[W_{b_1}(Y_i - y)K_{b_2}(Z_i - z)] = E[W_{b_1}(Y_i - y)m(Y_i, z)],$$

it follows that

$$\begin{aligned} & n^{-1}\sum_{i=1}^n W_{b_1}(Y_i - y)\varepsilon_i(z) \\ &= n^{-1}\sum_{i=1}^n \{W_{b_1}(Y_i - y)K_{b_2}(Z_i - z) - E[W_{b_1}(Y_i - y)K_{h2}(Z_i - z)]\} \\ &- n^{-1}\sum_{i=1}^n \{W_{b_1}(Y_i - y)m(Y_i, z) - E[W_{b_1}(Y_i - y)m(Y_i, z)]\}. \end{aligned}$$

Applying Lemmas 1 and 2 of Aït-Sahalia et al. (2009), we know that, uniformly for $(y,z) \in \Omega^*$, the first term above is $O_p(\sqrt{\frac{\log n}{nh_1h_2}})$ and the second term above is $O_p(\sqrt{\log(n)/(nh_1)})$. Therefore, the result of this lemma holds.

Proof of Lemma 3. The proof consists of the following 3 steps:

Claim (i): $E[\xi_n(x,y)] = o(\sqrt{n^{-1}b_1}\,)$.

Let $s = |j-i|$. Recalling that $g_n(x, Y_i))$ is $\sigma(Y_i)$-measurable, we have

$$\begin{aligned}E[r_{n1}(x,Y_i)\varepsilon_i(z)] &= E[M^*_{n11}(x,Y_i)\varepsilon_i(z)]\\ &= \frac{1}{n}\sum_{j\colon s>M\log n} E\{W_{h_3}(X_j-x)W_{b_1}(Y_i-Y_j)\pi^{-1}(Y_j)\varepsilon_i(z)\}\\ &\quad+\frac{1}{n}\sum_{j\colon s\le M\log n} E\{W_{h_3}(X_j-x)W_{b_1}(Y_i-Y_j)\pi^{-1}(Y_j)\varepsilon_i(z)\}\\ &\equiv \eta_{n1}+\eta_{n2}.\end{aligned}$$

Note that $\varepsilon_i(z) = K_{b_2}(Z_i - z) - m(Y_i, z)$. Then applying Lemma B of Lee (1990), page 52, we obtain that for a large M and $s > M\log n$

$$\begin{aligned}&E\{W_{h_3}(X_j-x)W_{b_1}(Y_i-Y_j)\pi^{-1}(Y_j)\varepsilon_i(z)\}\\ &\quad=\int W_{h_3}(x_j-x)W_{b_1}(y_i-y_j)\pi^{-1}(y_j)\varepsilon_i(z)\,dF(y_i,z_i,x_j,y_j)\\ &\quad=\int W_{h_3}(x_j-x)W_{b_1}(y_i-y_j)\pi^{-1}(y_j)\varepsilon_i(y)\,dF(y_i,z_i)\,dF(x_j,y_j)+o((\log n)/(nb_2)).\end{aligned}$$

By first integrating out (x_j, y_j) and then taking iterative expectation, the first term is zero. Then $\eta_{n1} = o((\log n)/(nb_2))$. Since there are at most $O(\log n)$ terms in the summation of η_{n2} and each is of order $O(b_2^{-1})$, we have $\eta_{n2} = O((\log n)/(nb_2))$. Therefore,

$$E[\xi_n(x,y)] = O((\log n)/(nb_2)) = o(\sqrt{n^{-1}b_1}\,).$$

Claim (ii): $E[\xi_n^2(x,y)] = O(n^{-1}b_1)$.

It can be written that

$$\begin{aligned}\xi_n^2(x,y) &= \frac{1}{n^2}\sum_{i=1}^n r_{n1}^2(x,Y_i)\varepsilon_i^2(z)+\frac{1}{n^2}\sum_{i,j=1(i\ne j)}^n r_{n1}(x,Y_i)r_{n1}(x,Y_j)\varepsilon_i(z)\varepsilon_j(z)\\ &\equiv \xi_{n1}(x,z)+\xi_{n2}(x,z).\end{aligned}\tag{67}$$

First, we show that $E[\xi_{n1}(x,z)] = O(b_1/n)$. By the definition of r_{n1}, we have

$$\xi_{n1}(x,z) = \xi_{n11}(x,z)+\xi_{n12}(x,z)+\xi_{n13}(x,z),$$

where

$$\begin{aligned}\xi_{n11}(x,z) &= n^{-4}\sum_{i,\ell,m=1}^n W_{b_1}(Y_i-Y_\ell)W_{h_3}(X_\ell-x)\\ &\qquad\times W_{b_1}(Y_i-Y_m)W_{h_3}(X_m-x)\pi^{-1}(Y_\ell)\pi^{-1}(Y_m)\varepsilon_i^2(z),\end{aligned}$$

$$\xi_{n12}(x,y) = -2n^{-3}\sum_{i,\ell=1}^{n} W_{b_1}(Y_i - Y_\ell)W_{h_3}(X_\ell - x)\pi^{-1}(Y_\ell)g_n(x,Y_i)\varepsilon_i^2(z),$$

$$\xi_{n13}(x,z) = n^{-2}\sum_{i=1}^{n} g_n^2(x,Y_i)\varepsilon_i^2(z).$$

Let $s = |i-\ell|$ and $S = \{(i,\ell) : s > M\log n;\ i,\ell = 1,\ldots,n\}$. Using Lemma B of Lee (1990), page 52, we have

$$\begin{aligned} & n^{-3}\sum_{(i,\ell)\in S} E\Big\{W_{b_1}(Y_i - Y_\ell)W_{h_3}(X_\ell - x)\pi^{-1}(Y_\ell)g_n(x,Y_i)\varepsilon_i^2(z)\Big\} \\ & = n^{-3}\sum_{(i,\ell)\in S}\int W_{b_1}(y_i - y_\ell)W_{h_3}(x_\ell - x)\pi^{-1}(y_\ell)g_n(x,y_i)\varepsilon_i^2(z)\,dF_i\,dF_\ell \\ & + Cn^{-1}\beta^{1/2}(M\log n)\sqrt{\frac{1}{b_1h_3b_2^3}}. \end{aligned} \tag{68}$$

By choosing a sufficiently large M, it can be shown that the second term in (68) is of order $o(b_1/n)$. By straightforward calculation, the first term in (68) can be shown as

$$n^{-1}\mu^4E[\varepsilon_i^2(z)p^2(x,Y_i)/\pi^2(Y_i)] + O(b_1/n).$$

In addition, by taking iterative expectation, it can be shown that

$$\begin{aligned} & n^{-3}\sum_{(i,\ell)\notin S} E\Big\{W_{h_1}(Y_i - Y_\ell)W_{h_3}(X_\ell - x)\pi^{-1}(Y_\ell)g_n(x,Y_i)\varepsilon_i^2(z)\Big\} \\ & \le O(\frac{n\log n}{n^3b_2^3}), \end{aligned}$$

since there are only $O(n\log n)$ terms involved. Therefore,

$$E[\xi_{n12}(x,z)] = -2n^{-1}\mu^4E[\varepsilon_i^2(z)p^2(x,Y_i)/\pi^2(Y_i)] + O(b_1/n).$$

Similarly, we have

$$E[\xi_{n11}(x,z)] = n^{-1}\mu^4E[\varepsilon_i^2(z)p^2(x,Y_i)/\pi^2(Y_i)] + O(b_1/n).$$

By (34), we have

$$E[\xi_{n13}(x,z)] = n^{-1}\mu^4E[\varepsilon_i^2(z)p^2(x,Y_i)/\pi^2(Y_i)] + O(b_1/n).$$

Then

$$E[\xi_{n1}(x,z)] = O(n^{-1}b_1). \tag{69}$$

In the following, we will show that

$$E[\xi_{n2}(x,z)] = o(n^{-1}b_1). \tag{70}$$

In fact, by the definition of r_{n1}, we have

$$E[\xi_{n2}(x,z)] = K_{n1} + K_{n2} + K_{n3} + K_{n4},$$

where with M^*_{n11} and g_n defined right after (32)

$$\begin{aligned} K_{n1} &= n^{-2}\sum_{i\neq j} E\big\{M^*_{n11}(x,Y_i)M^*_{n11}(x,Y_j)\varepsilon_i(z)\varepsilon_j(z)\big\},\\ K_{n2} &= -n^{-2}\sum_{i\neq j} E\big\{M^*_{n11}(x,Y_i)g_n(x,Y_j)\varepsilon_i(z)\varepsilon_j(z)\big\},\\ K_{n3} &= -n^{-2}\sum_{i\neq j} E\big\{M^*_{n11}(x,Y_j)g_n(x,Y_i)\varepsilon_i(z)\varepsilon_j(z)\big\},\\ K_{n4} &= n^{-2}\sum_{i\neq j} E\big\{g_n(x,Y_i)g_n(x,Y_j)\varepsilon_i(z)\varepsilon_j(z)\big\}. \end{aligned}$$

Note that $g_n(x,Y_i) \in \sigma(Y_i)$ and $g_n(x,Y_j) \in \sigma(Y_j)$. By the Markovian property, we have $K_{n4} = 0$. By the definition of M^*_{n11}, it can be rewritten that

$$K_{n3} = -n^{-3} \sum_{i,j,m=1(i\neq j)}^{n} E\Big\{W_{b_1}(Y_j - Y_m)W_{h_3}(X_m - x)\pi^{-1}(Y_m)g_n(x,Y_i)\varepsilon_i(z)\varepsilon_j(z).\Big\}$$

Let $s = \max(|i-m|, |j-m|)$ and

$$S = \{(i,j,m) :\ s > M\log n;\ i,j,m = 1,\dots,n; i \neq j\}.$$

Using the Markovian property and Lemma B of Lee (1990), page 52, we have

$$\begin{aligned} &\Big|n^{-3}\sum_{(i,j,m)\in S} E\Big\{W_{b_1}(Y_j - Y_m)W_{h_3}(X_m - x)\pi^{-1}(Y_m)g_n(x,Y_i)\varepsilon_i(z)\varepsilon_j(z)\Big\}\Big|\\ &\le C\beta^{1/2}(M\log n)\sqrt{\frac{1}{b_1h_3b_2^2}} \end{aligned} \tag{71}$$

for a generic constant C. By choosing a sufficiently large M and using the condition (A3), the above term is of order $o(b_1/n)$. Uisng Straightforward calculation and taking iterative expectation, we establish that

$$\begin{aligned} &\Big|n^{-3}\sum_{(i,j,m)\notin S} E\Big\{W_{b_1}(Y_j - Y_m)W_{h_3}(X_m - x)\pi^{-1}(Y_m)g_n(x,Y_i)\varepsilon_i(z)\varepsilon_j(z)\Big\}\Big|\\ &\le O(\frac{n\log^2 n}{n^3 b_1}) = o(b_1/n), \end{aligned}$$

since there are only $O(n\log^2 n)$ terms involved. Therefore, $K_{n3} = o(b_1/n)$. Similarly, $K_{n2} = o(b_1/n)$. In the following, we will show that

$$K_{n1} = o(b_1/n), \tag{72}$$

which combined with the above results leads to (70). In fact, if letting $s^* = \max\{\min(|i-\ell|,|i-m|), \min(|j-\ell|,|j-m|)\}$ and

$$S^* = \{(i,j,\ell,m) : \ s^* > M \log n;\ i,j,\ell,m = 1,\ldots,n;\ i \neq j\}, \tag{73}$$

similarly to (71), we get

$$\begin{aligned} & n^{-4} \sum_{(i,j,\ell,m)\in S^*} E\Big\{W_{b_1}(Y_i - Y_\ell)W_{h_3}(X_\ell - x)\pi^{-1}(Y_\ell) \\ & \times W_{b_1}(Y_j - Y_m)W_{h_3}(X_m - x)\pi^{-1}(Y_m)\varepsilon_i(z)\varepsilon_j(z)\Big\} \\ & = o(b_1/n). \end{aligned}$$

In addition, we have

$$\begin{aligned} & \Big| n^{-4} \sum_{(i,j,\ell,m)\notin S^*} E\Big\{W_{b_1}(Y_i - Y_\ell)W_{h_3}(X_\ell - x)\pi^{-1}(Y_\ell) \\ & \times W_{b_1}(Y_j - Y_m)W_{h_3}(X_m - x)\pi^{-1}(Y_m)\varepsilon_i(z)\varepsilon_j(z)\Big\}\Big| \\ & \le O(\frac{n^2 \log^2 n}{n^4 b_2}) = o(b_1/n), \end{aligned}$$

since there are only $O(n^2 \log^2 n)$ terms involved. Combination of the above results yields (72), and hence (70) holds. Therefore, by (67), (69) and (70),

$$E[\xi_n^2(x,z)] = O(n^{-1}b_1), \tag{74}$$

Claim (iii) $\sup_{(x,z)\in\Omega^*} \xi_n(x,z) = O_p(\sqrt{n^{-1}b_1 \log n}\,)$.

By claims (i) and (ii) and the Markov inequality, we have

$$\xi_n(x,z) = O_p(\sqrt{n^{-1}b_1}).$$

Using an argument similar to that for Lemma 6.1 in Fan and Yao (2003), we obtain that

$$\sup_{(x,z)\in\Omega^*} \xi_n(x,z) = O_p(\sqrt{n^{-1}b_1 \log n}\,),$$

which completes the proof of the lemma.

Proof of Lemma 4. Recall that $r_n^*(x, Y_i)$ is $\sigma(Y_i)$-measurable and of order $O(b_1^2 + h_3^2)$. It follows that $E[\eta_n(x,z)] = 0$, and by stationarity and β-mixing property

$$\begin{aligned} \mathrm{Var}[\eta_n(x,z)] &= \frac{1}{n^2}\Big\{\sum_{i=1}^n E[r_n^{*2}(x,Y_i)\varepsilon_i^2(z)] \\ &\quad + 2\sum_{k=1}^{n-1}(1-\frac{k}{n})\,\mathrm{Cov}(r_n^*(x,Y_1)\varepsilon_1(z), r_n^*(x,Y_{1+k})\varepsilon_{1+k}(z))\Big\} \\ &= O((b_1^4 + h_3^4)/(nb_2)). \end{aligned}$$

Furthermore, using the same argument as for the uniform convergence result of Mack and Sliverman (1982) for geometrically mixing processes, we obtain that (for details of the proof, see also Theorem 5.3 and Lemma 6.1 in Fan and Yao (2003))

$$\eta_n(x,z) = O\{\sqrt{[(b_1^4+h_3^4)\log n]/(nb_2)}\,\},$$

uniformly for $(x,z)\in\Omega^*$.

Proof of Lemma 5. We denote by C a generic constant which may vary in different situations.

(i). A direct calculation yields that

$$E\{n^2h_1^2h_2^2[\tilde\psi(i,j)-\tilde\psi(i)-\tilde\psi(j)+\tilde\psi(0)]\}^4 \le Ch_1h_2,$$

Then applying Lemma 3.2 of Hjellvik et al. (1998), we obtain that

$$E\{n^2h_1^2h_2^2\sum_{i<j}[\tilde\psi(i,j)-\tilde\psi(i)-\tilde\psi(j)+\tilde\psi(0)]\}^2 \le Cn^2\sqrt{h_1h_2}.$$

Therefore,

$$\sum_{i<j}\{\tilde\psi(i,j)-\tilde\psi(i)-\tilde\psi(j)+\tilde\psi(0)\} = O_p(\{n^2\sqrt{h_1h_2}/[n^4h_1^4h_2^4]\}^{1/2}) = o_p(h_1^{-1}).$$

(ii). The result holds from the central limit theorem of the β-mixing process:

$$(n-1)\sum_{i=1}^n[\tilde\psi(i)-\tilde\psi(0)] \xrightarrow{\mathcal{D}} \mathcal{N}(0,n^{-1}h_1^{-2}h_2^{-2}),$$

which leads to $(n-1)\sum_{i=1}^n[\tilde\psi(i)-\tilde\psi(0)] = O_p(n^{-1/2}h_1^{-1}h_2^{-1}) = o_p(h_1^{-1})$.

Proof of Lemma 6. (i) By Markov's property of $\{X_i\}$, we have

$$\int\psi(i,i,j)\,dF_j\,dF_i=0,\ \int\psi(i,j,i)\,dF_j\,dF_i=0,$$

$$\int\psi(j,j,j)\,dF_j\,dF_i=0,\ \text{and}\quad \int\psi(j,i,j)\,dF_j\,dF_i=0.$$

Then by the definition of $\tilde\psi(0)$,

$$\tilde\psi(0)=\int\int\{\psi(i,j,j)+\psi(j,i,i)\}\,dF_j\,dF_i.$$

Therefore,

$$\tilde\psi(0) = 2n^{-2}\int w_i\pi^{-2}(x_i)\{W_{h_1}(x_j-x_i)\varepsilon_j^*(z_i)-W_{h_3}(y_j-x_i)e_{j+1}(z_i) \\ - q(x_i,z_j)\varepsilon_{j+1}(z_i)\}^2\,dF_i\,dF_j.$$

Expanding the quadratic term, we obtain that

$$\tilde{\psi}(0) = \sum\nolimits_{j=1}^{6} \tilde{\psi}_j,$$

where

$$\tilde{\psi}_1 = 2n^{-2} \int w_i \pi^{-2}(x_i) W_{h_1}^2(x_j - x_i) \varepsilon_j^{*2}(z_i)\, dF_i\, dF_j,$$

$$\tilde{\psi}_2 = 2n^{-2} \int w_i \pi^{-2}(x_i) W_{h_3}^2(y_j - x_i) e_{j+1}^2(z_i)\, dF_i\, dF_j,$$

$$\tilde{\psi}_3 = 2n^{-2} \int w_i \pi^{-2}(x_i) q^2(x_i, z_j) \varepsilon_{j+1}^2(z_i)\, dF_i\, dF_j,$$

$$\tilde{\psi}_4 = -4^{-2} \int w_i \pi^{-2}(x_i) W_{h_1}(x_j - x_i) W_{h_3}(y_j - x_i) \varepsilon_j^*(z_i) e_{j+1}(z_i)\, dF_i\, dF_j,$$

$$\tilde{\psi}_5 = -4n^{-2} \int w_i \pi^{-2}(x_i) W_{h_1}(x_j - x_i) q(x_i, z_j) \varepsilon_j^*(z_i) \varepsilon_{j+1}(z_i)\, dF_i\, dF_j,$$

$$\tilde{\psi}_6 = 4n^{-2} \int w_i \pi^{-2}(x_i) W_{h_3}(x_j - x_i) q(x_i, z_j) e_{j+1}(z_i) \varepsilon_{j+1}(z_i)\, dF_i\, dF_j.$$

Simple algebra yields that

$$\tilde{\psi}_4 = O(n^{-2}),\ \tilde{\psi}_5 = O(n^{-2}),\ \text{and } \tilde{\psi}_6 = O(n^{-2}).$$

Hence,

$$\tilde{\psi}(0) = \tilde{\psi}_1 + \tilde{\psi}_2 + \tilde{\psi}_3 + O(n^{-2}). \tag{75}$$

By a straightforward calculation,

$$\begin{aligned}
\tilde{\psi}_1 &= 2n^{-2} \int w_i \pi^{-2}(x_i) W_{h_1}^2(x_j - x_i) K_{h_2}^2(z_j - z_i)\, dF_i\, dF_j \\
&\quad + 2n^{-2} \int w_i \pi^{-2}(x_i) W_{h_1}^2(x_j - x_i) m^{*2}(x_j, z_i)\, dF_i dF_j \\
&\quad - 4n^{-2} \int w_i \pi^{-2}(x_i) W_{h_1}^2(x_j - x_i)\, K_{h_2}(z_j - z_i) m^*(x_j, z_i)\, dF_i dF_j \\
&= \frac{2||W||^2||K||^2}{n^2 h_1 h_2} \int w(x, z) p^2(z|x, 2\Delta)\, dx\, dz \\
&\quad - \frac{2||W||^2}{n^2 h_1} \int w(x, z) p^3(z|x, 2\Delta)\, dx dz + O(n^{-2}) \\
&= 2\Omega_{11}||W||^2||K||^2/(n^2 h_1 h_2) - 2\Omega_{12}||W||^2/(n^2 h_1) + O(n^{-2}).
\end{aligned}$$

Similarly,

$$\begin{aligned}
\tilde{\psi}_2 &= 2n^{-2}\int w_i\pi^{-2}(x_i)W_{h_3}^2(y_j-x_i)p^2(z_i|z_j,\Delta)\,dF_j\,dF_i\\
&+2n^{-2}\int w_i\pi^{-2}(x_i)W_{h_3}^2(y_j-x_i)r^2(z_i|y_j,2\Delta)\,dF_j\,dF_i\\
&-4n^{-2}\int w_i\pi^{-2}(x_i)W_{h_3}^2(y_j-x_i)p(z_i|z_j,\Delta)r(z_i|y_j,2\Delta)\,dF_j\,dF_i\\
&=\frac{2||W||^2}{n^2h_3}\int w(x,z)s(z|x,2\Delta)p(z|x,2\Delta)\,dx\,dz\\
&-\frac{2||W||^2}{n^2h_3}\int w(x,z)r^2(z|x,2\Delta)p(z|x,2\Delta)\,dx\,dz+O((n-1)^{-2})\\
&=2(\Omega_{13}-\Omega_{14})||W||^2/(n^2h_3)+O(n^{-2}).
\end{aligned}$$

and

$$\begin{aligned}
\tilde{\psi}_3 &= 2n^{-2}\int w_ip^2(z_j|x_i,\Delta)\pi^{-2}(z_j)K_{b_2}^2(z_{j+1}-z_i)\,dF_j\,dF_i\\
&+2n^{-2}\int w_ip^2(z_j|x_i,\Delta)\pi^{-2}(z_j)m^2(z_j,z_i)\,dF_j\,dF_i\\
&-4n^{-2}\int w_ip^2(z_j|x_i,\Delta)\pi^{-2}(z_j)K_{b_2}(z_{j+1}-z_i)m(z_j,z_i)\,dF_j\,dF_i\\
&=2n^{-2}\int w_ip^2(z_j|x_i,\Delta)\pi^{-2}(z_j)K_{b_2}^2(z_{j+1}-z_i)\,dF_j\,dF_i+O(n^{-2}).
\end{aligned}$$

Note that $p(y|x,\Delta)=p^*(x|y,\Delta)\pi(y)/\pi(x)$, $w^*(x)=w(x,z)p^2(z|x,2\Delta)$, and

$$s^*(x|z,2\Delta)=\int p^{*2}(x|y,\Delta)p^*(y|z,\Delta)\,dy.$$

It follows that

$$\begin{aligned}
\tilde{\psi}_3 &= \frac{2||K||^2}{n^2b_2}\int w_ip^{*2}(x_i|z_j,\Delta)\pi^{-2}(x_i)p(z_i|z_j,\Delta)\pi(z_j)\,dz_j\,dF_i+O(n^{-2})\\
&=\frac{2||K||^2}{n^2b_2}\int w_ip^{*2}(x_i|z_j,\Delta)\pi^{-2}(x_i)p^*(z_j|z_i,\Delta)\pi(z_i)\,dz_j\,dF_i+O(n^{-2})\\
&=\frac{2||K||^2}{n^2b_2}\int w_ip^2(z_i|x_i,2\Delta)s^*(x_i|z_i,2\Delta)p^{-1}(z_i|x_i,2\Delta)\frac{\pi(z_i)}{\pi(x_i)}\,dx_idz_i+O(n^{-2}).\\
&=\frac{2||K||^2}{n^2b_2}\int w^*(x_i)s^*(x_i|z_i,2\Delta)p^{*-1}(x_i|z_i,2\Delta)\,dx_idz_i+O(n^{-2})\\
&=2\Omega_{15}||K||^2/(n^2b_2)+O(n^{-2}).
\end{aligned}$$

Combination of the above results leads to the first result of the lemma.

(ii) Similarly to (75), we have

$$\tilde{\phi}(0) = \tilde{\phi}_1 + \tilde{\phi}_2 + O(n^{-2}),$$

where

$$\begin{aligned}\tilde{\phi}_1 &= \frac{2}{n^2}\int \omega(x_i)\pi^{-2}(x_i)W_{h_1}^2(x_j - x_i)u_j^{*2}(z_i, 2\Delta)\, dF_i dF_j,\\ \tilde{\phi}_2 &= \frac{2}{n^2}\int \omega(x_i)\pi^{-2}(x_i)W_{h_3}^2(y_j - x_i)e_{j+1}^{*2}(z_i)\, dF_i dF_j.\end{aligned}$$

By definition of u_j^*,

$$\begin{aligned}\tilde{\phi}_1 &= \frac{2}{n^2}\int \omega(x_i)\pi^{-2}(x_i)W_{h_1}^2(x_j - x_i)I(z_j < z_i)\, dF_i\, dF_j\\ &+ \frac{2}{n^2}\int \omega(x_i)\pi^{-2}(x_i)W_{h_1}^2(x_j - x_i)P^2(z_i|x_j, 2\Delta)\, dF_i dF_j\\ &- \frac{4}{n^2}\int \omega(x_i)\pi^{-2}(x_i)W_{h_1}^2(x_j - x_i)\, I(z_j < z_i)P(z_i|x_j, 2\Delta)\, dF_i dF_j\\ &\equiv \tilde{\phi}_{11} + \tilde{\phi}_{12} - \tilde{\phi}_{13}.\end{aligned}$$

By simple calculation, $\tilde{\phi}_{11} = ||W||^2 \int \omega(x)\, dx/(n^2h_1)(1 + o(1))$,

$$\tilde{\phi}_{12} = \frac{2}{3}||W||^2 \int \omega(x)\, dx/(n^2h_1)(1 + o(1)),$$

and $\tilde{\phi}_{13} = \frac{4}{3}||W||^2 \int \omega(x)\, dx/(n^2h_1)(1 + o(1))$. Then

$$\tilde{\phi}_1 = \frac{1}{3}||W||^2 \int \omega(x)\, dx/(n^2h_1)(1 + o(1)).$$

Note that $e_{j+1}^*(z_i) = P(z_i|Z_j, \Delta) - R(z_i|Y_j, 2\Delta)$. It follows from straightforward calculation that

$$\begin{aligned}\tilde{\phi}_2 &= \frac{2||W||^2}{n^2h_3}\int \omega(x_i)\pi^{-1}(x_i)\{E[P^2(z_i|Y_\Delta, \Delta)|X_\Delta = x_i] - R^2(z_i|x_i, 2\Delta)\}\, dF_i + O(n^{-2})\\ &= \frac{2||W||^2}{n^2h_3}\int \omega(x)E[V(X_\Delta, Z_\Delta)|X_\Delta = x]\, dx + O(n^{-2}).\end{aligned}$$

Therefore,

$$\begin{aligned}\tilde{\phi}(0) = ||W||^2 &\int \omega(x)\, dx/(3n^2h_1)\\ &+ \frac{2||W||^2}{n^2h_3}\int \omega(x)E[V(X_\Delta, Z_\Delta)|X_\Delta = x]\, dx + O(n^{-2}),\end{aligned}$$

and hence (ii) holds.

Proof of Lemma 7. (i) Note that from the definition of $\psi^*(i,j)$ and the mean zero property of $\psi(i,j,k)$,

$$\psi^*(i,j) = \int [\psi(k,i,j) + \psi(k,j,i)]\, dF(x_k, y_k, z_k).$$

Let $u_i(x_k, z_k) = W_{h_1}(x_i - x_k)\varepsilon_i^*(z_k) - W_{h_3}(y_i - x_k)e_{i+1}(z_k) - q(x_k, z_i)\varepsilon_{i+1}(z_k)$. Then

$$\begin{aligned}\psi^*(i,j) &= 2\int \psi(k,i,j)\, dF_k\\ &= \frac{2}{n^2}\int w_k \pi^{-2}(x_k) u_i(x_k, z_k) u_j(x_k, z_k)\, dF_k.\end{aligned}$$

Expanding the product term, $u_i(x_k, z_k)u_j(x_k, z_k)$, we obtain that

$$\psi^*(i,j) = \psi_1^*(i,j) + \cdots + \psi_9^*(i,j),$$

where

$$\psi_1^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) W_{h_1}(x_i - x_k) W_{h_1}(x_j - x_k)\varepsilon_i^*(z_k)\varepsilon_j^*(z_k)\, dF_k,$$

$$\psi_2^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) W_{h_1}(x_i - x_k) W_{h_3}(y_j - x_k)\varepsilon_i^*(z_k) e_{j+1}(z_k)\, dF_k,$$

$$\psi_3^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) W_{h_1}(x_i - x_k) q(x_k, z_j)\varepsilon_i^*(z_k)\varepsilon_{j+1}(z_k)\, dF_k,$$

$$\psi_4^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) W_{h_3}(y_i - x_k) W_{h_1}(x_j - x_k) e_{i+1}(z_k)\varepsilon_j^*(z_k)\, dF_k,$$

$$\psi_5^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) W_{h_3}(y_i - x_k) W_{h_3}(y_j - x_k) e_{i+1}(z_k) e_{j+1}(z_k)\, dF_k,$$

$$\psi_6^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) W_{h_3}(y_i - x_k) q(x_k, z_j) e_{i+1}(z_k)\varepsilon_{j+1}(z_k)\, dF_k,$$

$$\psi_7^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) q(x_k, z_i) W_{h_1}(x_j - x_k)\varepsilon_{i+1}(z_k)\varepsilon_j^*(z_k)\, dF_k,$$

$$\psi_8^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) q(x_k, z_i) W_{h_3}(y_j - x_k)\varepsilon_{i+1}(z_k) e_j(z_k)\, dF_k,$$

$$\psi_9^*(i,j) = 2n^{-2}\int w_k \pi^{-2}(x_k) q(x_k, z_i) q(x_k, z_j)\varepsilon_{i+1}(z_k)\varepsilon_{j+1}(z_k)\, dF_k.$$

Simple algebra shows that for $i < j$,

$$\begin{aligned}
&\text{(a)} \int \{n^2\psi_2^*(i,j)\}^2 \, dF_i \, dF_j = O(h_3^{-1}) = o(1/(h_1h_2)),\\
&\text{(b)} \int \{n^2\psi_3^*(i,j)\}^2 \, dF_i dF_j = O(h_2^{-1}) = o(1/(h_1h_2));\\
&\text{(c)} \int \{n^2\psi_4^*(i,j)\}^2 \, dF_i dF_j = O(h_3^{-1}) = o(1/(h_1h_2));\\
&\text{(d)} \int \{n^2\psi_5^*(i,j)\}^2 \, dF_i dF_j = O(h_3^{-1}) = o(1/(h_1h_2));\\
&\text{(e)} \int \{n^2\psi_m^*(i,j)\}^2 \, dF_i dF_j = O(1), \quad \text{for } m = 6,7,8;\\
&\text{(f)} \int \{n^2\psi_9^*(i,j)\}^2 \, dF_i \, dF_j = O(h_2^{-1}) = o(1/(h_1h_2)).
\end{aligned}$$

In the following, we calculate $\int \{n^2\psi_1^*(i,j)\}^2 \, dF_i \, dF_j$. For convenience of exposition, we let $W^*(u) = W * W(u)$ and $K^*(u) = K * K(u)$. Then we have

$$n^2\psi_1^*(i,j) = C_{n1} - C_{n2} - C_{n3} + C_{n4}, \tag{76}$$

where

$$\begin{aligned}
C_{n1} &= 2\int w_k \pi^{-2}(x_k) W_{h_1}(x_i - x_k) W_{h_1}(x_j - x_k) K_{h_2}(z_i - z_k) K_{h_2}(z_j - z_k) \, dF_k,\\
C_{n2} &= 2\int w_k \pi^{-2}(x_k) W_{h_1}(x_i - x_k) W_{h_1}(x_j - x_k) K_{h_2}(z_i - z_k) m^*(x_j, z_k) \, dF_k,\\
C_{n3} &= 2\int w_k \pi^{-2}(x_k) W_{h_1}(x_i - x_k) W_{h_1}(x_j - x_k) K_{h_2}(z_j - z_k) m^*(x_i, z_k) \, dF_k,\\
C_{n4} &= 2\int w_k \pi^{-2}(x_k) W_{h_1}(x_i - x_k) W_{h_1}(x_j - x_k) m^*(x_i, z_k) m^*(x_j, z_k) \, dF_k.
\end{aligned}$$

Simple calculations yield that

$$\begin{aligned}
C_{n1} &= 2w(x_i, z_i) W_{h_1}^*(x_i - x_j) K_{h_2}^*(z_i - z_j) p(z_i|x_i, 2\Delta)\pi^{-1}(x_i) + O(1),\\
C_{n2} &= 2w(x_i, z_i) W_{h_1}^*(x_i - x_j) m^*(x_j, z_i) p(z_i|x_i, 2\Delta)\pi^{-1}(x_i) + O(1),\\
C_{n3} &= 2w(x_i, z_j) W_{h_1}^*(x_i - x_j) m^*(x_i, z_j) p(z_j|x_i, 2\Delta)\pi^{-1}(x_j) + O(1),\\
C_{n4} &= 2w(x_i, z_j) W_{h_1}^*(x_i - x_j) \int m^*(x_i, z_j) m^*(x_j, z_k)\pi^{-1}(x_k) \, dz_k p(z_i|x_i, 2\Delta) + O(1).
\end{aligned}$$

It follows that

$$\begin{aligned}E\{n^2\psi_1^*(i,j)\}^2 &= 4\int w^2(x_i,z_i)W_{h_1}^{*2}(x_i-x_j)K_{h_2}^{*2}(z_i-z_j)\\ &\quad\times p^2(z_i|x_i,2\Delta)\pi^{-2}(x_i)\,dF_i\,dF_j(1+o(1))\\ &= \frac{4}{h_1h_2}||W^*||^2||K^*||^2\int w^2(x_i,z_i)p^4(z_i|x_i,2\Delta)\,dx_i\,dz_i(1+o(1))\\ &= \frac{4}{h_1h_2}\Omega_2||W*W||^2||K*K||^2+o(\frac{1}{h_1h_2}).\end{aligned}$$

Then by Hölder's inequality,

$$E\{n^2\psi^*(i,j)\}^2 = \frac{4}{h_1h_2}\Omega_2||W*W||^2||K*K||^2(1+o(1)).$$

By the Markov property, we have $E[\psi^*(i,j)]=0$. Let $U_n=\sum_{1\le i<j\le n}\psi^*(i,j)$. Then

$$\begin{aligned}\sum_{1\le i<j\le n}\operatorname{Var}(\psi^*(i,j)) &= \frac{1}{2}n(n-1)\operatorname{Var}(\psi^*(1,2))\\ &= \frac{2}{n^2h_1h_2}\Omega_2||W*W||^2||K*K||^2(1+o(1))\\ &= \sigma_{1n}^2(1+o(1)).\end{aligned}$$

It is easy to verify the conditions in Lemma 3.2 of Hjellvik et al. (1998) hold for U_n. Applying the lemma to U_n, we obtain that

$$\sigma_n^{-1}U_n \xrightarrow{\mathcal{D}} \mathcal{N}(0,1). \tag{77}$$

(ii) Similarly to (76), we have

$$n^2\phi_1^*(i,j) = D_{n1}-D_{n2}-D_{n3}+D_{n4},$$

where

$$D_{n1} = 2\int w_k\pi^{-2}(x_k)W_{h_1}(x_i-x_k)W_{h_1}(x_j-x_k)I(z_i<z_k)I(z_j<z_k)\,dF_k,$$

$$D_{n2} = 2\int w_k\pi^{-2}(x_k)W_{h_1}(x_i-x_k)W_{h_1}(x_j-x_k)I(z_i<z_k)P(z_k|x_j,2\Delta)\,dF_k,$$

$$D_{n3} = 2\int w_k\pi^{-2}(x_k)W_{h_1}(x_i-x_k)W_{h_1}(x_j-x_k)I(z_j<z_k)P(z_k|x_i,2\Delta)\,dF_k,$$

$$D_{n4} = 2\int w_k\pi^{-2}(x_k)W_{h_1}(x_i-x_k)W_{h_1}(x_j-x_k)P(z_k|x_i,2\Delta)P(z_k|x_j,2\Delta)\,dF_k.$$

By symmetry of $W(\cdot)$ and using a change of variable for integration, it can be shown that

$$\begin{aligned}D_{n1} &= 2\int w_k\pi^{-1}(x_k)W_{h_1}(x_i-x_k)W_{h_1}(x_j-x_k)I(z_i\vee z_j<z_k)\,P(dz_k|x_k,2\Delta)\,dx_k\\ &= -2w(\bar{x}_{ij})\pi^{-1}(\bar{x}_{ij})W_{h_1}^*(x_i-x_j)[1-P(z_i\vee z_j|\bar{x}_{ij},2\Delta)]+O(h_1),\end{aligned}$$

where $\bar{x}_{ij} = (x_i + x_j)/2$ and $z_i \vee z_j = \max(z_i, z_j)$. Similarly, we have

$$\begin{aligned}
D_{n2} &= -w(\bar{x}_{ij})\pi^{-1}(\bar{x}_{ij})W^*_{h_1}(x_i - x_j)[1 - P^2(z_i|\bar{x}_{ij}, 2\Delta)] + O(h_1),\\
D_{n3} &= -w(\bar{x}_{ij})\pi^{-1}(\bar{x}_{ij})W^*_{h_1}(x_i - x_j)[1 - P^2(z_j|\bar{x}_{ij}, 2\Delta)] + O(h_1),\\
D_{n4} &= -\frac{2}{3}w(\bar{x}_{ij})\pi^{-1}(\bar{x}_{ij})W^*_{h_1}(x_i - x_j) + O(h_1).
\end{aligned}$$

Therefore,

$$\begin{aligned}
n^2\phi_1^*(i,j) = -2w(\bar{x}_{ij})\pi^{-1}(\bar{x}_{ij})W^*_{h_1}(x_i - x_j)\big\{\frac{1}{3} + \frac{1}{2}P^2(z_i|\bar{x}_{ij}, 2\Delta)\\
+ \frac{1}{2}P^2(z_j|\bar{x}_{ij}, 2\Delta) - P(z_i \vee z_j|\bar{x}_{ij}, 2\Delta)\big\} + O(h_1).
\end{aligned}$$

It is direct to verify that

$$\begin{aligned}
E[n^2\phi_1^*(i,j)]^2 = 4h_1^{-1}||W^*||^2 \int w^2(x_i)\big\{\frac{1}{3} + \frac{1}{2}P^2(z_i|x_i, 2\Delta)\\
+ \frac{1}{2}P^2(z_j|x_i, 2\Delta) - P(z_i \vee z_j|dx_i, 2\Delta)\big\}^2\\
\times P(dz_i|dx_i, 2\Delta)P(dz_j|dx_i, 2\Delta) + O(h_1).
\end{aligned}$$

By a change of variable, we have

$$\begin{aligned}
E[n^2\phi_1^*(i,j)]^2 &= 4h_1^{-1}||W^*||^2||w||^2 \int_0^1\int_0^1 \{\frac{1}{3} + \frac{1}{2}(s^2 + t^2) - s \vee t\}^2\, dsdt + O(h_1)\\
&= 2||W * W||^2||w||^2/(45h_1) + O(h_1) = 2n^2\sigma_{2n}^2 + O(h_1).
\end{aligned}$$

Therefore, similarly to (77), we obtain that

$$\sigma_{2n}^{-1}\sum_{i<j}\phi^*(i,j) \xrightarrow{\mathcal{D}} \mathcal{N}(0,1).$$