Distributions on an Interval as a Scale-Invariant Combination of Scale-Invariant Functions: Theoretical Explanation of Empirical Marchenko-Pastur-Type Distributions

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Distributions on an Interval as a Scale-Invariant Combination of Scale-Invariant Functions: Theoretical Explanation of Empirical Marchenko-Pastur-Type Distributions

Vladik Kreinovich, Kevin Alvarez, and Chon Van Le

Abstract In many practical situations, we know the lower and upper bounds \( \underline{x} \) and \( \bar{x} \) on possible values of a quantity \( x \). In such situations, the probability distribution of this quantity is also located on the corresponding interval \([\underline{x}, \bar{x}]\). In many such cases, the empirical probability distribution has the form

\[
\rho(x) = \text{const} \cdot (x - \underline{x})^{\alpha_-} \cdot (\bar{x} - x)^{\alpha_+} \cdot x^\alpha.
\]

In the particular case \( \alpha_- = \alpha_+ = 0.5 \) and \( \alpha = -1 \), we get the Marchenko-Pastur distribution that describes the distribution of the eigenvalues of a random matrix. However, in some cases, the empirical distribution corresponds to different values of \( \alpha_- \), \( \alpha_+ \), and \( \alpha \). In this paper, we show that by using the general idea of scale-invariance, we can provide a theoretical explanation for the ubiquity of such Marchenko-Pastur-type distributions.

1 Formulation of the Problem

Some distributions are located on an interval. For many physical and economic quantities \( x \):
- there is a lower bound \( \underline{x} \) on its possible values and
- there is an upper bound \( \bar{x} \) on its possible values.
This means that all possible values on the quantity $x$ are located on the interval $[\underline{x}, \overline{x}]$. In particular, this means that the probability distribution of this quantity is located on this interval.

**Empirical fact.** In economics, as shown, e.g., in [4], many such distributions have the form

$$\rho(x) = \text{const} \cdot (x - \underline{x})^{\alpha_-} \cdot (\overline{x} - x)^{\alpha_+} \cdot x^\alpha. \quad (1)$$

In particular, for $\alpha_- = \alpha_+ = 0.5$ and $\alpha = -1$, we get the Marchenko-Pastur distribution – the distribution of eigenvalues of a random matrix [3]. For example, this is how the eigenvalues of the cross-correlation matrix of different stocks are distributed [4].

However, in other cases, we have distributions of type (1) with different values of $\alpha_-$, $\alpha_+$, and $\alpha$.

**A natural question.** How can we explain the ubiquity of such Marchenko-Pastur-type distributions?

**What we do in this paper.** In this paper, we use the idea of scale invariance to provide a theoretical explanation for this empirical family of distributions.

### 2 Analysis of the Problem and the Resulting Explanation

**Scale-invariance: a brief reminder.** The numerical value of a quantity depends on the choice of a measuring unit. For example, we can describe the price of a financial instrument in Euros, in US Dollars, in Japanese Yen, or in any other currency. The instrument is the same in all cases, but for different currencies, we will get different numerical representations of the same price.

In many situations, there is no reason to select this or that measuring unit, the choice of the unit is just a matter of convention. In such situations, it makes sense to require that the formula $y = f(x)$ describing the dependence between quantities $x$ and $y$ should not change if we replace the original measuring unit for $x$. If we replace the original measuring unit for $x$ by a new unit which is $\lambda$ times smaller, then all the numerical values of this quantity will be multiplied by $\lambda$: $x \rightarrow x' = \lambda \cdot x$.

Of course, for the formula $y = f(x)$ to be valid in the new units, we need to appropriately change the unit for $y$. For example, the formula $y = x^2$ that describes how the area of a square depends on its size does not depend on the choice of units, but if we replace, e.g., meters with centimeters, we need to also replace square meters with square centimeters.

In general, scale-invariance of a function $f(x)$ takes the following form: *For every $\lambda > 0$, there exists a value $\mu(\lambda) > 0$ for which $y = f(x)$ implies $y' = f(x')$, where $x' \overset{\text{def}}{=} \lambda \cdot x$ and $y' \overset{\text{def}}{=} \mu(\lambda) \cdot y$.*
Which functions are scale-invariant? Substituting the expressions $x' = \lambda \cdot x$ and $y' = \mu(\lambda) \cdot y$ into the formula $y' = f(x')$, we get $\mu(\lambda) \cdot y = f(\lambda \cdot x)$. Here, $y = f(x)$, so we get

$$f(\lambda \cdot x) = \mu(\lambda) \cdot f(x).$$

(2) It is known that every continuous (and even every measurable) function $f(x)$ that satisfies the equation (2) for all $x$ and $\lambda$ has the form

$$f(x) = c \cdot x^a,$$

(3) for some constants $c$ and $a$; see, e.g., [1].

Starting point can also be different. For many quantities – e.g., for time – we can also select different starting points. If we replace the original starting point with a new starting point which is $x_0$ units before, then all the numerical values $x$ of this quantity are replaced by new values:

$$x' = x + x_0.$$

If we have a scale-invariant dependence $f(x) = c \cdot (x')^a$ in the new scale, then, in the old scale, this dependence takes the form $y = c \cdot (x + x_0)^a$.

What are natural starting points for functions located on an interval $[x, \overline{x}]$. If we know that a quantity $x$ is always located on an interval $[x, \overline{x}]$, then we have two natural starting points: $x$ and $\overline{x}$. Thus, in addition to the original scale-invariant functions $f(x) = c \cdot x^a$, we also get functions

$$f(x) = c_- \cdot (x - \overline{x})^a,$$

(4) and

$$f(x) = c_+ \cdot (\overline{x} - x)^a.$$

(5) Since we need a single function, we need to combine these functions.

How can we use scale-invariance to combine different functions? We want to combine several functions $y_1 = f_1(x)$, $\ldots$, $y_n = f_n(x)$ into a single quantity $y = F(y_1, \ldots, y_n)$. In view of the above, it makes sense to do it in scale-invariant way. In other words, we want to find a function $F(y_1, \ldots, y_n)$ that has the following property: For every combination of possible values $\lambda_1 > 0, \ldots, \lambda_n > 0$, there should exist a value $\mu(\lambda_1, \ldots, \lambda_n)$ for which $y = F(y_1, \ldots, y_n)$ implies that $y' = F(y_1', \ldots, y_n')$, where $y_1' \defeq \lambda_1 \cdot y_1, \ldots, y_n' \defeq \lambda_n \cdot y_n$, and $y' \defeq \mu(\lambda_1, \ldots, \lambda_n) \cdot y$.

Which combination operations are scale-invariant? Substituting the expressions $y_1' = \lambda_1 \cdot y_1$ and $y' = \mu(\lambda_1, \ldots, \lambda_n) \cdot y$ into the formula $y' = F(y_1', \ldots, y_n')$, we get

$$\mu(\lambda_1, \ldots, \lambda_n) \cdot y = F(\lambda_1 \cdot y_1, \ldots, \lambda_n \cdot y_n).$$

Here, $y = F(y_1, \ldots, y_n)$, so we get

$$F(\lambda_1 \cdot y_1, \ldots, \lambda_n \cdot y_n) = \mu(\lambda_1, \ldots, \lambda_n) \cdot F(y_1, \ldots, y_n).$$

(6)
It is known that every continuous (and even every measurable) function $F(y_1, \ldots, y_n)$ that satisfies the equation (6) for all $y_1, \ldots, y_n$ and $A_1, \ldots, A_n$ has the form

$$y = F(y_1, \ldots, y_n) = C \cdot y_1^{a_1} \cdot \ldots \cdot y_n^{a_n},$$

for some constants $C, a_1, \ldots, a_n$; see, e.g., [1].

**Resulting expression.** In our case, we combine three expressions:

- the expression for $y_1$ described by the formula (4),
- the expression for $y_2$ described by the formula (5),
- the expression for $y_3$ described by the formula (3).

Substituting $n = 3$ and the expressions (4), (5), and (3) for $y_i$, into the formula (7), we conclude that

$$y = c_0 \cdot (x - \bar{x})^{a_-} \cdot (\bar{x} - x)^{a_+} \cdot x^\alpha,$$

where we denoted $c_0 \overset{\text{def}}{=} C \cdot c_{1+ \cdot} \cdot c_{a- \cdot} \cdot c_{a+ \cdot} \cdot a_2 \cdot a_3$, $\alpha_1 \overset{\text{def}}{=} a_1 \cdot a_2 \cdot a_3$, and $\alpha \overset{\text{def}}{=} a_1 \cdot a_2 \cdot a_3$.

For the case when $y$ is the probability density, this is exactly the desired formula (1). So, we have indeed explained the empirical formula (1) by using scale-invariance.

**Comment.** Our explanation is more general that explaining the empirical dependence (1) of the distribution located on an interval.

It also explains, e.g., why in many cases, Bernstein polynomials, i.e., sums of monomials of the type $(x - \bar{x})^{a_-} \cdot (\bar{x} - x)^{a_+}$, provide a good approximation to functions located on an interval; see, e.g., [2].

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