

ERROR ESTIMATES FOR APPROXIMATE SOLUTIONS TO BELLMAN EQUATIONS ASSOCIATED WITH CONTROLLED JUMP-DIFFUSIONS

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ABSTRACT. We derive error estimates for approximate (viscosity) solutions of Bellman equations associated to controlled jump-diffusion processes, which are fully nonlinear integro-partial differential equations. Two main results are obtained: (i) error bounds for a class of monotone approximation schemes, which under some assumptions includes finite difference schemes, and (ii) bounds on the error induced when the original Lévy measure is replaced by a finite measure with compact support, an approximation process that is commonly used when designing numerical schemes for integro-partial differential equations. Our proofs use and extend techniques introduced by Krylov and Barles-Jakobsen.

1. INTRODUCTION

We are interested in deriving error estimates for numerical schemes for fully nonlinear degenerate elliptic integro-partial differential equation of Bellman type. These nonlocal equations take the form

$$(1.1) \quad H(x, u(x), Du(x), D^2u(x), u(\cdot)) = 0 \quad \text{in } \mathbb{R}^N,$$

where, for any $(x, r, p, X) \in \mathbb{R}^N \times \mathbb{R} \times \mathbb{R}^N \times \mathbb{S}^N$ and any sufficiently regular function u , the nonlinear functional (Hamiltonian) $H = H(x, r, p, X, u(\cdot))$ is defined by

$$(1.2) \quad H(x, r, p, X, u(\cdot)) = \sup_{\theta \in \Theta} \left\{ -\frac{1}{2} \text{tr} [a^\theta(x)X] - b^\theta(x) \cdot p - \mathcal{J}^\theta u(x) + c^\theta(x)r - f^\theta(x) \right\},$$

where $a^\theta(x) = \sigma^\theta(x)\sigma^\theta(x)^\top$, while the integral operator \mathcal{J}^θ is defined by

$$(1.3) \quad \mathcal{J}^\theta u(x) = \int_E [u(x + \eta^\theta(x, z)) - u(x) - \mathbf{1}_{|z| < 1} \eta^\theta(x, z) Du(x)] \nu(dz).$$

Here \mathbb{S}^N is the set of symmetric $N \times N$ matrices, and Θ is a closed subset of Euclidean space. The coefficients $\sigma^\theta, b^\theta, \eta^\theta, c^\theta, f^\theta$ take values in $\mathbb{R}^{N \times P}, \mathbb{R}^N, \mathbb{R}^N, \mathbb{R}, \mathbb{R}$ and are assumed to be sufficiently regular (typically Lipschitz continuous in x).

In (1.3), $\nu(dz)$ is a given Radon measure on $E = \mathbb{R}^M \setminus \{0\}$, the so-called Lévy measure which typically possesses a singularity at the origin. The term (1.3) degenerates whenever the jump amplitude η^θ is zero on $\{|z| > 0\}$.

Because of the degeneracy in the integral operator and the second order differential operator (the diffusion matrix $a^\theta(x)$ is merely nonnegative definite) we

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call equation (1.1) degenerate elliptic. Such equations may not possess smooth solutions (not even in the linear case), and the appropriate notion of solutions is that of viscosity solutions. The theory of viscosity solutions for (pure) partial differential equations is highly developed [22, 28], and there has been an interest in recent years to apply this theory to integro-partial differential equations [1, 2, 3, 4, 5, 7, 12, 13, 14, 29, 34, 35, 42, 43, 44, 45, 46, 48, 49]. Of particular relevance to the present paper are the works [34, 35].

Nonlocal integro-partial differential equations such as (1.1) arise when one attempts to solve stochastic optimal control problems with the dynamic programming approach, see [28] for the case of no jumps. Examples include various types of portfolio optimization problems in which the risky assets follow jump-diffusion (Lévy) processes possessing discontinuous sample paths, see for example [12, 13, 14, 43] and the references cited therein. The value function of such a control problem is believed to be the unique viscosity solution of a Bellman equation of the form (1.1). So far rigorous proofs exist only in particular cases [30]. When Θ is a singleton the equation (1.1) reduces to a linear integro-partial differential equation. Such equations are relevant in the pricing theory of financial derivatives, see [20].

The standard model for the price evolution of stocks (and other risky assets) is the geometric Brownian motion, which assumes that the stock returns are normally distributed. However, it turns out that the normal distribution poorly fits the stock returns, at least on sufficiently small time scales. Indeed, the returns distributions are, for example, leptokurtic and have longer and fatter tails than the normal distribution. To improve upon the shortcomings of the standard model, many jump-diffusion models have been suggested in the literature over the years, see, e.g., [20, 47] for the most popular models. The empirical fact that Lévy processes with discontinuous sample paths tend to better model, e.g., stock prices is one main reason for the (renewed) interest in stochastic optimal control of jump-diffusion processes and option pricing in markets based on such processes.

We are interested in approximation schemes for nonlocal equations such as (1.1) and their convergence properties. The approximation schemes that we have in mind are typically those based on the finite difference method and the so-called control or semi-Lagrangian schemes. We refer to [39] for a general introduction to finite difference (Markov chain) schemes for stochastic control problems, see also [16, 25, 28]. For control schemes we refer to [41, 19]. We will not consider control schemes in this paper, but our framework can be applied also to such schemes.

There are few works on numerical schemes for fully nonlinear degenerate integro-partial differential equations, but see the discussion about jump-diffusion processes in [39]. Furthermore, in [26, 27] a finite difference (Markov chain) scheme along the lines of [39] is proposed and shown to converge to the unique viscosity solution for a singular stochastic optimal control problem of investment-consumption type, with the underlying risky asset being based on an exponential second order singular Lévy model. The construction and analysis of numerical schemes for linear integro-partial differential equations arising as pricing equations in financial markets of jump-diffusion type is currently an active field of research, see the recent papers [17, 18, 20, 21, 24, 40], where one can pay particular attention to the paper [21] inasmuch as it contains error bounds for linear equations with constant coefficients.

Although there is a well-established theory for proving convergence of approximate (viscosity) solutions to second order equations [10, 22, 28], see also [39] for probabilistic proofs, the question of error estimates is much more difficult and remained open until the recent works by Krylov [36, 37, 38] and Barles and Jakobsen [8, 9, 31] on finite difference schemes and more generally on monotone approximation schemes for (convex) Bellman equations associated with controlled diffusions.

Herein we use these recent advances for second order partial differential equations to derive error estimates for integro-partial differential equations.

In this paper we are interested in deriving error estimates for monotone approximation schemes for the integro-partial differential equation (1.1). We write a general monotone approximation scheme abstractly as

$$(1.4) \quad S(h, x, u_h(x), [u_h]_x) = 0, \quad x \in \mathbb{R}^N,$$

where $h = (h_1, h_2) \in \mathbb{R}^N \times \mathbb{R}^M$ denotes the discretization parameters; $h_1 > 0$ is the x -mesh size (approximation of derivatives), while $h_2 > 0$ is the z -mesh size (approximation of the integral), $u_h : \mathbb{R}^N \rightarrow \mathbb{R}$ is the solution of the scheme (1.4), and $[u_h]_x$ is a function defined at x in terms of (possibly all) values of u_h . Roughly speaking, we assume that (1.4) is a consistent, monotone (S is nondecreasing in the $u_h(x)$ - slot and nonincreasing in the $[u_h]_x$ - slot), and uniformly continuous approximation of (1.1) (precise conditions will be given in the next section).

Our first main result is an explicit estimate for the pointwise difference between the unique viscosity solution u of (1.1) and the solution u_h of the scheme (1.4). To prove the error estimate we use the classical idea of considering a sequence of smooth approximate solutions u_ε of (1.1); if such a sequence exists and one has a bound on the derivatives of u_ε and $\|u - u_\varepsilon\|_{L^\infty(\mathbb{R}^N)}$, then the consistency condition and comparison properties of the scheme allow us to plug u_ε into S to get an estimate for $\|u_\varepsilon - u_h\|_{L^\infty(\mathbb{R}^N)}$. These results immediately imply an estimate of $\|u - u_h\|_{L^\infty(\mathbb{R}^N)}$ depending on h and ε . Optimizing with respect to ε we obtain the desired rate of convergence. However, it is not easy to implement this strategy, as it is well explained in [8, 9, 36, 37, 38]. Following an idea of Krylov, which he refers to as the method of “shaking the coefficients”, we introduce the auxiliary equation

$$(1.5) \quad \max_{|e| \leq \varepsilon} [H(x + e, u^\varepsilon, Du^\varepsilon, D^2u^\varepsilon, u^\varepsilon(\cdot))] = 0 \text{ in } \mathbb{R}^N.$$

Taking into account the convexity of H , we then regularize via convolution the unique viscosity solution u^ε of (1.5) to obtain a sequence of subsolutions u_ε of (1.1). With this and the consistency/comparison principle for the scheme, we can produce an upper estimate for $u - u_h$. To obtain the lower estimate, we follow Barles and Jakobsen [8]: We exchange the role of the problem and of the scheme, and introduce the auxiliary scheme

$$(1.6) \quad \max_{|e| \leq \varepsilon} [S(h, x + e, u_h^\varepsilon(x), [u_h^\varepsilon]_x)] = 0,$$

and then proceed in a similar way as for the upper bound. However to conclude here it is necessary to introduce a strong assumption on the scheme (1.6), see Assumption (D) Section 3. In the pure PDE case such an assumption is satisfied for (1) finite difference methods with state independent diffusion coefficients [8], (2) control type schemes with general diffusion coefficients [8], and (3) finite difference schemes when the diffusion coefficients are state dependent with specific (but still rather general) structure [38]. Herein we check assumption (D) only in case (1), while we consider case (3) in a follow-up paper [15] (with partially different methods).

Having established an error estimate for a general class of approximation schemes of the form (1.4), an application is presented next, in which we apply it to a finite difference scheme based on upwind (one-sided) differencing of the first order derivatives, central differencing of the second order derivatives, and an integration rule to approximate the integro operator. In this application we assume that σ^θ does not depend on x (case (1) above) and that the Lévy measure $\nu(dz)$ is bounded and compactly supported. The existence and uniqueness of a solution to the numerical scheme follow from standard fixed point considerations.

In the general case in which the Lévy measure can be unbounded as well as have unbounded support, we do not directly discretize the integral operator as it stands in (1.1). In particular, due to the second order singularity of the Lévy measure, we follow [6, 26, 27, 21] and replace (1.1) by an approximate equation in which this singularity has been replaced by an additional diffusion term, accounting for the infinite activity of the Lévy process at the origin. To be more precise, for $r > 0$ small and $R > 0$ large we introduce a truncated domain $\{z : r < |z| < R\}$ and a truncated Lévy measure $\nu_{r,R}(dz)$:

$$\nu_{r,R}(dz) = \mathbf{1}_{r < |z| < R} \nu(dz),$$

where $\mathbf{1}$ denotes the characteristic function and the truncated domain not only accounts for the unboundedness at the origin of the Lévy measure, but also the unboundedness of the domain E . The approximate equation then reads

$$(1.7) \quad H_{r,R}(x, u(x), Du(x), D^2u(x), u(\cdot)) = 0 \quad \text{in } \mathbb{R}^N,$$

where the approximate Hamiltonian $H_{r,R}$ is obtained by replacing a^θ and \mathcal{J}^θ in (1.2) by $a^\theta + a_{r,R}^\theta$ and $\mathcal{J}_{r,R}^\theta$, respectively. The additional diffusion coefficient $a_{r,R}^\theta$ is supposed to be chosen such that it is a model for the infinite activity of the original Lévy process at origin (we suggest several choices of $a_{r,R}^\theta$), while $\mathcal{J}_{r,R}^\theta$ is the integral operator obtained by replacing the Lévy measure $\nu(dz)$ in (1.3) by the truncated measure $\nu_{r,R}(dz)$. As the measure $\nu_{r,R}(dz)$ is bounded and compactly supported, the integro-partial differential equation (1.7) can be discretized by the finite difference scheme introduced earlier.

To control the error induced by truncating the Lévy measure and by introducing the additional diffusion coefficient, we need to have an estimate on the difference between the viscosity solution u of the original equation (1.1) and the viscosity solution $u_{r,R}$ of the perturbed equation (1.7). Such an estimate follows from the recent continuous dependence result proved in [34]. However, it turns out that in some cases we can have better results by using the same approximation method we used to prove the error bounds for the numerical schemes, and this is the approach we take in this paper. A key feature of our results is that they reveal how the choice of $a_{r,R}^\theta$ influences the accuracy of our approximations.

Finally, let us mention that by combining the methods in this paper with those in [31], we can treat time dependent problems. Moreover, we can include certain x -dependence in σ^θ by using the recent methods of Krylov [38], or a completely general x -dependence in σ^θ (at the expense of lower convergence rates) following the arguments of [9]. The details will be presented in future work.

This paper is organized as follows: In Section 2 we introduce some notations to be used throughout this paper, list various conditions regarding the coefficients of the equation (1.1), and recall the definition of viscosity solutions as well as some well-posedness/regularity results for integro-partial differential equations. In Section 3 we provide precise conditions on the approximation scheme (1.4) along with the statement and proof of the main error estimate. In Section 4 we present a finite difference scheme for (1.1) and we verify the conditions needed to apply the error estimate from Section 3, under the assumption the Lévy measure is bounded and compactly supported. In Section 5 we derive bounds on the error induced when a general Lévy measure is replaced by a finite measure with compact support. Finally, in Section 6 we prove some technical results used elsewhere in the text.

2. PRELIMINARIES

In this section we will explain our notation, list the main assumptions, define what we mean by a (viscosity) solution of (1.1), and state some well-posedness results for such solutions.

For $\mathcal{O} \subset \mathbb{R}^N$ we denote by $USC(\mathcal{O})$, $LSC(\mathcal{O})$, $C(\mathcal{O})$, $C^{0,1}(\mathcal{O})$, $C^n(\mathcal{O})$, $C^\infty(\mathcal{O})$ respectively the spaces of upper semicontinuous functions, lower semicontinuous functions, continuous functions, bounded Lipschitz continuous functions, n times continuously differentiable functions, and infinitely differentiable functions on \mathcal{O} . The subscript “ b ” will denote bounded functions and the subscript “ pol ” will denote polynomial growth at infinity. For example if $f : \mathcal{O} \rightarrow \mathbb{R}$ belongs to $C_{\text{pol}}(\mathcal{O})$, then there is a $m \in \mathbb{N}$ such that

$$|f(x)| \leq C(1 + |x|^m), \text{ for all } x \in \mathcal{O}.$$

We will use the following norms

$$|f|_0 = \sup_{x \in \mathbb{R}^N} |f(x)|, \quad [f]_1 = |Df|_0, \quad \text{and} \quad |f|_1 = |f|_0 + [f]_1.$$

In general we will denote by $D^i f$, for $i \in \mathbb{N}$, the vector of the i th order partial derivatives of f . For $r > 0$ and $x \in \mathbb{R}^N$ we define $B(x, r) = \{y \in \mathcal{O} : |y - x| < r\}$. Moreover, for $0 < \kappa < 1$ we define

$$(2.1) \quad E_\kappa = \left\{ z \in \mathbb{R}^M : 0 < |z| < \kappa \right\}, \quad \text{and} \quad E^\kappa = E - E_\kappa.$$

We let $\mathbf{1}_{\mathcal{O}}(z)$ denote the characteristic function of the set \mathcal{O} , and finally, for $\varepsilon > 0$ we define a sequence of mollifiers $(\rho_\varepsilon)_\varepsilon$ as

$$(2.2) \quad \rho_\varepsilon(x) = \frac{1}{\varepsilon^N} \rho\left(\frac{x}{\varepsilon}\right),$$

where ρ is a positive $C^\infty(\mathbb{R}^N)$ function with unit mass and support in $B(0, 1)$.

In this paper we will use the following assumptions (cf. equation (1.1)):

(A.1) ν is a positive radon measure on E such that

$$\int_{E_1} |z|^2 \nu(dz) + \int_{E^1} e^{\ell|z|} \nu(dz) < \infty$$

for some given $\ell > 0$, where E_1 and E^1 are defined above.

(A.2) There exists $M > 0$ such that for any $\theta \in \Theta$

$$|\sigma^\theta|_1 + |b^\theta|_1 + |c^\theta|_1 + |f^\theta|_1 \leq M,$$

$$|\eta^\theta(\cdot, z)|_1 \leq M \left(|z| \mathbf{1}_{E_1}(z) + e^{\ell|z|} \mathbf{1}_{E^1}(z) \right),$$

where $\mathbf{1}_{E_1}, \mathbf{1}_{E^1}$ are characteristic functions defined above.

(A.3') There exists $\lambda > 0$ such that, for all $x \in \mathbb{R}$ and for all $\theta \in \Theta$,

$$c^\theta(x) \geq \lambda.$$

Under assumption (A.1) the measure ν may have a singularity at $z = 0$. Furthermore, under (A.1), the integro-term in (1.1), and hence also the equation itself, is well-defined in the class of C_{pol}^2 functions. This follows from the exponential decay at infinity of ν and the fact that the singularity at $z = 0$ is integrable for any C^2 function u (to see this do a second order Taylor expansion). It is well known that under the above assumptions the solutions to (1.1) need not be smooth, so that a concept of weak solutions needs to be employed. It turns out that a good concept of weak solutions is that of viscosity solutions.

Definition 2.1. A function $u \in USC(\mathbb{R}^N)$ ($u \in LSC(\mathbb{R}^N)$) is a viscosity subsolution (supersolution) of (1.1) if for every $x \in \mathbb{R}^N$ and $\phi \in C_{\text{pol}}^2(\mathbb{R}^N)$ such that x is a global maximum (minimum) for $u - \phi$,

$$H(x, u(x), D\phi(x), D^2\phi(x), \phi(\cdot)) \leq 0 \quad (\geq 0).$$

Next we want to give an equivalent definition of viscosity solutions. To do that, we split the integral term $\mathcal{J}^\theta u$ into two parts:

$$(2.3) \quad \mathcal{J}^\theta(u, \phi)(x) = \mathcal{J}_\kappa^\theta \phi(x) + \mathcal{J}^{\theta, \kappa}(u, D\phi(x))(x),$$

where $0 < \kappa < 1$, E_κ and E^κ are defined in (2.1), and

$$\begin{aligned} \mathcal{J}_\kappa^\theta \phi(x) &= \int_{E_\kappa} \left[\phi(x + \eta^\theta(x, z)) - \phi(x) - \eta^\theta(x, z) D\phi(x) \right] \nu(dz), \\ \mathcal{J}^{\theta, \kappa}(u, p)(x) &= \int_{E^\kappa} \left[u(x + \eta^\theta(x, z)) - u(x, t) - \mathbf{1}_{|z| < 1} \eta^\theta(x, z) p \right] \nu(dz). \end{aligned}$$

It is easy to see that $\mathcal{J}_\kappa^\theta \phi$ is well-defined when $\phi \in C^2(\mathbb{R}^N)$ and that $\mathcal{J}^{\theta, \kappa}(u, p)$ is well-defined for $p \in \mathbb{R}^N$ when $u \in LSC_{\text{pol}}(\mathbb{R}^N) \cup USC_{\text{pol}}(\mathbb{R}^N)$. In addition, it is easy to establish the following result (see for example [44]):

Lemma 2.1. *If (A.1) and (A.2) hold, and $\phi \in C^2(\mathbb{R}^N)$, then*

$$\lim_{\kappa \rightarrow 0} \mathcal{J}_\kappa^\theta(\phi)(x) = 0$$

uniformly in $x \in \mathbb{R}^N$ and $\theta \in \Theta$.

We can rewrite (1.1) as

$$(2.4) \quad H_\kappa(x, u(x), Du(x), D^2u(x), u(\cdot), u(\cdot)) = 0.$$

where

$$\begin{aligned} &H_\kappa(x, \phi, p, X, \phi(\cdot), v(\cdot)) \\ &= \sup_{\theta \in \Theta} \left\{ -\frac{1}{2} \text{tr}[\sigma^\theta \sigma^{\theta \top} X] - b^\theta(x)p - \mathcal{J}_\kappa^\theta \phi(x) - \mathcal{J}^{\theta, \kappa}(v, p)(x) + c^\theta(x)\phi - f^\theta(x) \right\}. \end{aligned}$$

Now we state an equivalent definition of viscosity solutions (see for example [44]).

Lemma 2.2 (Alternative definition). *Assume (A.1), (A.2), and (A.3') hold. A function $u \in USC_{\text{pol}}(\mathbb{R}^N)$ ($u \in LSC_{\text{pol}}(\mathbb{R}^N)$) is a viscosity subsolution (supersolution) of (1.1) if and only if for every $x \in \mathbb{R}^N$ and $\phi \in C^2(\mathbb{R}^N)$ such that x is a global maximizer (minimizer) for $u - \phi$,*

$$H_\kappa(x, u(x), D\phi(x), D^2\phi(x), u(\cdot), \phi(\cdot)) \leq 0 \quad (\geq 0) \text{ for every } \kappa \in (0, 1).$$

With the use of this equivalent definition and the maximum principle for semiconvex functions adapted to integro-PDEs in [35], it is standard to prove existence, uniqueness, and regularity results, see, e.g., [4, 7, 35, 34, 44]. Here we state such results without proofs.

Theorem 2.3. *Assume (A.1), (A.2), and (A.3') hold.*

(i) *There exists a unique viscosity solution $u \in C_b(\mathbb{R}^N)$ of equation (1.1) which is Hölder continuous, i.e., there is a $\delta \in (0, 1]$ such that*

$$|u(x) - u(y)| \leq C|x - y|^\delta \quad \text{for all } x, y \in \mathbb{R}^N.$$

(ii) *There exists a constant λ_0 depending only on N , $\sup_\theta[\sigma^\theta]_1$, $\sup_\theta[b^\theta]_1$, and $\sup_\theta \int_E [\eta^\theta(\cdot, z)]_1^2 \nu(dz)$ such that if $\lambda \geq \lambda_0$, then the viscosity solution u of (1.1) is Lipschitz continuous ($\delta = 1$ above).*

(iii) *Let $u, -v \in USC_b(\mathbb{R}^N)$. If u and v are respectively viscosity sub- and supersolutions of (1.1), then $u \leq v$ in \mathbb{R}^N .*

In the remaining part of this paper we always make the following assumption:

(A.3) For all $x \in \mathbb{R}$ and for all $\theta \in \Theta$,

$$c^\theta(x) \geq \lambda_0,$$

where λ_0 is defined in Theorem 2.3 (ii).

Hence, in this paper the viscosity solutions to (1.1) are always Lipschitz continuous. However, the results in this paper extend easily to the general case (any $\lambda > 0$ and Hölder continuous solutions) by approximation - we refer to [8] where this is explained in the pure diffusion case.

3. AN ABSTRACT FRAMEWORK FOR OBTAINING ERROR BOUNDS

In this section we develop an abstract framework for deriving error bounds for approximate solutions to integro-partial differential equations like (1.1). We begin by stating and explaining a set of conditions that have to be imposed on the general approximation scheme (1.4). Then we state and prove the main error bound.

We impose the following conditions on our approximation scheme (1.4):

(C.1) (*Monotonicity of the scheme*) There exists $\bar{\lambda} > 0$ such that, for every $h \geq 0$, $x \in \mathbb{R}^N$, $\zeta \in \mathbb{R}$, $\mu \geq 0$, and bounded function u, v such that $u \leq v$ in \mathbb{R}^N , then

$$S(h, x, \zeta + \mu, [u + \mu]_x) \geq S(h, x, \zeta, [v]_x) + \bar{\lambda}\mu.$$

(C.2) (*Regularity*) For every $h > 0$ and $\phi \in C_b(\mathbb{R}^N)$, $x \mapsto S(h, x, \phi(x), [\phi]_x)$ is bounded, continuous on \mathbb{R}^N and $\zeta \mapsto S(h, x, \zeta, [\phi]_x)$ is uniformly continuous for bounded ζ , uniformly with respect to $x \in \mathbb{R}^N$.

(C.3) (*Consistency*) There exist $n \in \mathbb{N}$, $K_i, \bar{K}_i, k_i, \bar{k}_i \geq 0$, $i = 1, \dots, n$, such that for every $v \in C^n(\mathbb{R}^N)$, $h \geq 0$, and $x \in \mathbb{R}^N$

$$|H(x, v, Dv, D^2v, v(\cdot)) - S(h, x, v(x), [v]_x)| \leq \sum_{i=1}^n |D^i v|_0 (K_i h^{k_i} + \bar{K}_i h^{\bar{k}_i}).$$

(C.4) (*Convexity*) Let $(\rho_\varepsilon)_{\varepsilon>0}$ be the mollifiers defined in Section 2. For every $v \in C^{0,1}(\mathbb{R}^N)$, there exists a constant $\kappa > 0$ such that for every x and h

$$\int_{\mathbb{R}^N} S(h, x, v(x - e), [v(\cdot - e)]_x) \rho_\varepsilon(e) de \geq S(h, x, (v * \rho_\varepsilon)(x), [v * \rho]_x) - \kappa\varepsilon.$$

(C.5) (*Commutation with translations*) For any $h > 0$ small enough, $0 \leq \varepsilon \leq 1$, $y \in \mathbb{R}^N$, $\zeta \in \mathbb{R}$, $v \in C_b(\mathbb{R}^N)$ and $|e| \leq \varepsilon$, we have

$$S(h, y, \zeta, [v]_{y-e}) = S(h, y, \zeta, [v(\cdot - e)]_y).$$

Assumption (C.4) is natural here because (1.1) is convex. By Jensen's inequality, it holds for any scheme (1.4) which is convex in $(u_h(x), [u_h]_x)$ [8].

Definition 3.1. A function $u \in C_b(\mathbb{R}^N)$ is a subsolution (supersolution) of the scheme (1.4) if

$$S(h, x, u(x), [u]_x) \leq 0 (\geq 0) \quad \text{in } \mathbb{R}^N.$$

From assumptions (C.1) and (C.2) we can derive a comparison result for the scheme (1.4) (see [8]) implying uniqueness in the $C_b(\mathbb{R}^N)$ class of solutions.

Lemma 3.1. Assume (C.1) and (C.2) hold and let $u, v \in C_b(\mathbb{R}^N)$. If u and v are sub- and supersolutions of (1.4) respectively, then $u \leq v$ in \mathbb{R}^N .

Before we state the final assumption on the scheme, we will try to explain why it appears. To this end, we outline first the proof of an upper bound on the error. We use the regularization procedure discussed in the introduction. Following a clever idea by Krylov [37], we introduce the intermediate equation (1.5), which has the same structure as equation (1.1) (consider (θ, e) as the new control parameters), and the following existence, uniqueness, and convergence results hold:

Lemma 3.2. *Assume (A.1) - (A.3) hold and let $0 \leq \varepsilon \leq 1$. Then there exists a unique viscosity solution $u^\varepsilon \in C^{0,1}(\mathbb{R}^N)$ to (1.5) satisfying*

$$|u^\varepsilon|_1 \leq C \quad \text{and} \quad |u^\varepsilon - u|_0 \leq C\varepsilon,$$

where the constant C is independent of ε .

The existence, uniqueness, and regularity part of this lemma follows directly from Theorem 2.3, while the error estimate follows from Theorem 6.2 in Section 6.

We mollify u^ε and prove that $u_\varepsilon := u^\varepsilon * \rho_\varepsilon$ is a viscosity subsolution of (1.1):

Lemma 3.3. *Assume (A.1) - (A.3) hold. Then the function u_ε defined above is a viscosity subsolution of (1.1).*

This result follows from Theorem 6.4 (cf. Section 6), see also the proof below for similar arguments. Using the properties of u_ε and a classical argument using consistency and monotonicity of the scheme, followed by a minimization over ε , then leads to the upper bound on $u - u_h$ (see the proof of Theorem 3.4 below).

To conclude we also need a lower bound on $u - u_h$. To get this bound, the idea is to reverse the roles of u and u_h [8, 36]. So we introduce the intermediate scheme (1.6). Now it turns out that assumptions (A.1) - (A.3) and (C.1) - (C.5) are not strong enough to ensure existence, uniqueness, and convergence results for u_h^ε similar to Lemma 3.2. Instead we will simply impose the existence of such results as a condition on the approximation scheme (1.6):

- (D) For $h > 0$ small enough and $0 \leq \varepsilon \leq 1$, the scheme (1.6) has a solution $u_h^\varepsilon \in C^{0,1}(\mathbb{R}^N)$. Moreover there is a constant C , independent of h and ε , such that

$$|u_h^\varepsilon|_1 \leq C \quad \text{and} \quad |u_h^0 - u_h^\varepsilon| \leq C\varepsilon,$$

where u_h^0 is the solution of (1.4).

This assumption has to be checked every time a particular scheme is studied. We will do so for a class of finite difference schemes in Section 4. If the second order coefficient σ in (1.1) is independent of x , this assumption probably holds for most schemes of interest satisfying (C.1) - (C.5), and this is the case we will consider in Section 4. The case when σ depends on x is much harder and will be considered in a future work. For pure diffusions there are results for so-called control schemes [8] and for a class of finite difference schemes [38]. We also mention [9] (see also [37]) where assumption (D) is avoided altogether, and results are obtained for any consistent, stable, and monotone scheme (again in the pure diffusion case).

Now we state the main error estimate for the abstract scheme (1.4).

Theorem 3.4. *Assume (A.1) - (A.3) and (C.1) - (C.3) hold. Let u be the viscosity solution of (1.1) and u_h the solution of the scheme (1.4).*

(a) *Then the following upper bound on the error holds:*

$$u - u_h \leq C(h_1^\delta + h_2^{\bar{\delta}}) \quad \text{in } \mathbb{R}^N,$$

where

$$\delta = \min_{i:K_i>0} \frac{k_i}{i} \quad \text{and} \quad \bar{\delta} = \min_{i:\bar{K}_i>0} \frac{\bar{k}_i}{i},$$

and $K_i, \bar{K}_i, k_i, \bar{k}_i$ are defined in (C.3).

(b) If in addition (C.4), (C.5), and (D) hold, then the following lower bound on the error holds:

$$-C(h_1^\delta + h_2^\delta) \leq u - u_h \quad \text{in } \mathbb{R}^N.$$

Remark 3.5. For (D) to hold, we need that $\bar{\lambda} > \bar{\lambda}_0$ for some $\bar{\lambda}_0 > 0$. This is similar to the situation for equation (1.1), see assumption (A.3) in Section 2. Warning: If either $\lambda < \lambda_0$ or $\bar{\lambda} < \bar{\lambda}_0$, and $\frac{\lambda}{\lambda_0} \neq \frac{\bar{\lambda}}{\bar{\lambda}_0}$, then we will get *different* exponents in the upper and lower bounds on the error! We refer to [8] where this point is explained in the pure diffusion case.

The proof is an extension of the proof given in [8] (see also [36]).

Proof. We start by proving the the upper bound on $u - u_h$.

As we have seen above, by Lemmas 3.2 and 3.3 $u_\varepsilon = \rho_\varepsilon * u^\varepsilon$ is a subsolution of (1.1). By Lemma 3.2 and properties of mollifiers it follows that $u_\varepsilon \in C^\infty(\mathbb{R}^N)$, $|u_\varepsilon|_{0,1} \leq C$, and $|D^i u_\varepsilon|_0 \leq C\varepsilon^{1-i}$. By (C.3) we then have

$$\begin{aligned} & H(x, u_\varepsilon, Du_\varepsilon, D^2 u_\varepsilon, u_\varepsilon(\cdot)) - S(h, x, u_\varepsilon(x), [u_\varepsilon]_x) \\ & \geq - \sum_{i=1}^n |D^i u_\varepsilon|_0 \left(K_i h_1^{k_i} + \bar{K}_i h_2^{\bar{k}_i} \right) \\ & \geq -C \sum_{i=1}^n \varepsilon^{1-i} \left(K_i h_1^{k_i} + \bar{K}_i h_2^{\bar{k}_i} \right) =: C(h_1, h_2, \varepsilon), \end{aligned}$$

for all $x \in \mathbb{R}^N$, and Lemma 3.3 now yields

$$S(h, x, u_\varepsilon(x), [u_\varepsilon]_x) \leq C(h_1, h_2, \varepsilon) \quad \text{in } \mathbb{R}^N.$$

From (C.1) it follows that $u_\varepsilon - C(h_1, h_2, \varepsilon)/\bar{\lambda}$ is a subsolution of (1.6), and therefore by the comparison principle for the scheme (Lemma 3.1) we get

$$u_\varepsilon - u_h \leq C(h_1, h_2, \varepsilon)/\bar{\lambda} \quad \text{in } \mathbb{R}^N.$$

From Lemma 3.2 and properties of mollifiers we have $|u - u_\varepsilon|_0 \leq C\varepsilon$. We conclude that

$$u - u_h \leq C(h_1, h_2, \varepsilon)/\bar{\lambda} + C\varepsilon \quad \text{in } \mathbb{R}^N,$$

and the upper bound follows after a minimization over ε .

The proof of the lower bound on $u - u_h$ is derived similarly: the key idea is to interchange the role of the scheme and the equation.

Let $u_h^\varepsilon \in C^{0,1}(\mathbb{R}^N)$ be the solution of the scheme (1.6) given by assumption (D). Apply the change of variable $y = x + e$, and observe that by (C.5) we have

$$(3.1) \quad S(h, y, u_h^\varepsilon(y - e), [u_h^\varepsilon(\cdot - e)]_y) \leq 0 \quad \text{in } \mathbb{R}^N \quad \text{for all } |e| \leq \varepsilon.$$

As before, we consider

$$u_h^\varepsilon * \rho_\varepsilon(x) = \int_{\mathbb{R}^N} u_h^\varepsilon(x - e) \rho_\varepsilon(e) de.$$

Multiply (3.1) by $\rho_\varepsilon(e)$, integrate with respect to e , and use (C.4) to see that

$$(3.2) \quad \begin{aligned} 0 & \geq \int_{\mathbb{R}^N} S(h, y, u_h^\varepsilon(y - e), [u_h^\varepsilon(\cdot - e)]_x) \rho_\varepsilon(e) de \\ & \geq S(h, y, (u_h^\varepsilon * \rho_\varepsilon)(y), [u_h^\varepsilon * \rho_\varepsilon]_y) - K\varepsilon. \end{aligned}$$

From assumption (D) and properties of mollifiers $u_h^\varepsilon * \rho_\varepsilon \in C^\infty(\mathbb{R}^N)$, $|u_h^\varepsilon * \rho_\varepsilon|_{0,1} \leq C$, and $|D^i u_h^\varepsilon * \rho_\varepsilon|_0 \leq C\varepsilon^{1-i}$. Then (C.3) yields

$$\begin{aligned} & S(h, x, (u_h^\varepsilon * \rho_\varepsilon)(x), [u_h^\varepsilon * \rho_\varepsilon]_x) \\ & \quad - H(x, u_h^\varepsilon * \rho_\varepsilon, D(u_h^\varepsilon * \rho_\varepsilon), D^2(u_h^\varepsilon * \rho_\varepsilon), (u_h^\varepsilon * \rho_\varepsilon)(\cdot)) \\ & \geq - \sum_{i=1}^n |D^i u_h^\varepsilon * \rho_\varepsilon|_0 \left(K_i h_1^{k_i} + \bar{K}_i h_2^{\bar{k}_i} \right) \\ & \geq -C \sum_{i=1}^n \varepsilon^{1-i} \left(K_i h_1^{k_i} + \bar{K}_i h_2^{\bar{k}_i} \right) =: \bar{C}(h_1, h_2, \varepsilon), \end{aligned}$$

so by (3.2) we see that

$$H(x, u_h^\varepsilon * \rho_\varepsilon, D(u_h^\varepsilon * \rho_\varepsilon), D^2(u_h^\varepsilon * \rho_\varepsilon), (u_h^\varepsilon * \rho_\varepsilon)(\cdot)) \leq C\varepsilon + \bar{C}(h_1, h_2, \varepsilon) \quad \text{in } \mathbb{R}^N.$$

Assumption (A.3) now implies that $u_h^\varepsilon * \rho_\varepsilon - (C\varepsilon + \bar{C}(h_1, h_2, \varepsilon))/\lambda$ is a subsolution of (1.1), and the comparison principle (Theorem 2.3 (iii)) yields

$$u_h^\varepsilon * \rho_\varepsilon - u \leq (C\varepsilon + \bar{C}(h_1, h_2, \varepsilon))/\lambda \quad \text{in } \mathbb{R}^N.$$

From (D) and properties of mollifiers we see that

$$|u_h - u_h^\varepsilon * \rho_\varepsilon|_0 \leq C\varepsilon \quad \text{in } \mathbb{R}^N,$$

so we have

$$u_h - u = u_h - u_h^\varepsilon * \rho_\varepsilon + u_h^\varepsilon * \rho_\varepsilon - u \leq C(\varepsilon + \bar{C}(h_1, h_2, \varepsilon)) \quad \text{in } \mathbb{R}^N.$$

Minimizing with respect to ε then leads to the desired result. \square

In the next section we apply Theorem 3.4 to a particular finite difference scheme for (1.1), under the assumptions that σ is independent of x and the Lévy measure $\nu(dz)$ is finite and compactly supported. How to deal with general Lévy measures is the topic of Section 5. We deal with more general σ 's in [15].

4. FINITE DIFFERENCE SCHEMES

In this section we apply the abstract result from Section 3 to a class of monotone finite difference schemes. To simplify matters we assume that the second order coefficient σ is independent of x . The general case is much harder and will be addressed elsewhere (with partially different methods). Note that the equation still can be degenerate and that in general solutions are no more than Lipschitz continuous under our assumptions. We also assume $\nu(dz)$ is a bounded measure with compact support in E (in which case we may relax slightly the assumptions on the jump vector η). The general case can always be reduced to this case by applying the truncation procedures discussed in Section 5.

We use the following assumptions in this section:

(A.1') ν is a positive Radon measure on E such that

$$\int_E e^{\ell|z|} \nu(dz) < \infty \quad \text{and} \quad \int_{E \setminus B(0,R)} \nu(dz) = 0$$

for some given $\ell > 0$ and $R > 0$.

(A.2') There exists $M > 0$ such that for any $\theta \in \Theta$

$$|\sigma^\theta|_1 + |b^\theta|_1 + |c^\theta|_1 + |f^\theta|_1 \leq M \quad \text{and} \quad |\eta^\theta(\cdot, z)|_1 \leq M e^{\ell|z|}.$$

Since $\nu(dz)$ is a bounded measure, we may rewrite (1.1) in the form

$$(4.1) \quad \sup_{\theta \in \Theta} \left\{ -\operatorname{tr} \left[\frac{1}{2} a^\theta D^2 u(x) \right] - \bar{b}^\theta(x) Du(x) + c^\theta(x) u(x) - \mathcal{I}u(x) - f^\theta(x) \right\} = 0,$$

where

$$\bar{b}^\theta(x) = b^\theta(x) - \int_{E_1} \eta^\theta(x, z) \nu(dz), \quad \mathcal{I}u(x) = \int_E \left(u(x + \eta^\theta(x, z)) - u(x) \right) \nu(dz).$$

Observe that by (A.1') and (A.2') there holds $\bar{b}^\theta \in C^{0,1}(\mathbb{R}^N)$.

Let us now discuss how to discretize the integro-partial differential equation (4.1). We begin with the integral part of this equation. Note that any reasonable approximation of the integral $\int_E f(z) \nu(dz)$ has the form $\sum_{\alpha \in \mathcal{P}} f(Z_\alpha) \omega_\alpha$, where $\alpha = (\alpha_1, \dots, \alpha_M) \in \mathcal{P} \subset \mathbb{Z}^M$ is a multiindex and $\{Z_\alpha\}_\alpha$ and $\{\omega_\alpha\}_\alpha$ denote respectively the nodes and weights specific to each integration method.

To simplify matters we take $Z_\alpha = h_2 \alpha$, $\alpha \in \mathcal{P}$, and consider the following quadrature rule:

$$(4.2) \quad Q_{h_2}[f] := \sum_{\alpha \in \mathcal{P}} f(h_2 \alpha) \omega_\alpha \approx \int_E f(z) \nu(dz).$$

By (A.1') we may assume that $\mathcal{P} \subset \mathbb{Z}^M$ is bounded. Note that if $\omega_\alpha \geq 0$ for every $\alpha \in \mathcal{P}$, then this approximation is obviously monotone. We assume that the following error bound holds for some $\bar{n} \in \mathbb{N}$:

$$(4.3) \quad E_{h_2}[\phi] := \left| \int_E \phi(z) \nu(dz) - Q_{h_2}[\phi] \right| \leq C h_2^{\bar{n}} |D^{\bar{n}} \phi|_0,$$

for every sufficiently smooth function ϕ . This bound is satisfied by most commonly used quadrature rules, in particular it is satisfied for all compound rules based on simple rules that are exact for polynomials of degree \bar{n} . This class includes the Newton-Cotes and Gauss rules as well as multidimensional product rules based on these rules. We discuss the Newton-Cotes rules in Subsection 4.2. For a general reference on numerical integration we refer to [23].

By discretizing all integrals in (4.1) using the quadrature rule Q_{h_2} at every point $x \in \mathbb{R}^N$, we get the following intermediate approximation of (4.1):

$$(4.4) \quad \sup_{\theta \in \Theta} \left\{ -\operatorname{tr} \left[\frac{1}{2} a^\theta D^2 u(x) \right] - \bar{b}^{\theta, h_2}(x) Du(x) + c^\theta(x) u(x) - Q_{h_2}[u(x + \eta^\theta(x, \cdot)) - u(x)] - f^\theta(x) \right\} = 0,$$

where we have set $\bar{b}^{\theta, h_2}(x) := b^\theta(x) - Q_{h_2}[\eta^\theta(x, \cdot) \mathbf{1}_{B(0,1)}]$. By assumptions (A.1') and (A.2'), $|Q_{h_2}[\eta^\theta]|_1$ and $|\bar{b}^{\theta, h_2}|_1$ are bounded independently of h_2 and θ .

Next we discretize the differential equation part of (4.4). For this purpose we use a straightforward monotone finite difference scheme. This scheme is studied in the

book [39]. To define the scheme, we need the following finite difference operators:

$$\begin{aligned}\Delta_{x_i}^\pm w(x) &= \pm \frac{1}{h_1} [w(x \pm e_i h_1) - w(x)], \\ \Delta_{x_1}^2 w(x) &= \frac{1}{h_1^2} [w(x + e_1 h_1) - 2w(x) + w(x - e_1 h_1)], \\ \Delta_{x_i x_j}^+ w(x) &= \frac{1}{2h_1^2} [2w(x) + w(x + e_i h_1 + e_j h_1) + w(x - e_i h_1 - e_j h_1)] \\ &\quad - \frac{1}{2h_1^2} [w(x + e_i h_1) + w(x - e_i h_1) + w(x + e_j h_1) + w(x - e_j h_1)], \\ \Delta_{x_i x_j}^- w(x) &= \frac{1}{2h_1^2} [w(x + e_i h_1) + w(x - e_i h_1) + w(x + e_j h_1) + w(x - e_j h_1)] \\ &\quad - \frac{1}{2h_1^2} [2w(x) + w(x + e_i h_1 - e_j h_1) + w(x - e_i h_1 + e_j h_1)].\end{aligned}$$

Using the notation $z^+ := \max(z, 0)$ and $z^- := (-z)^+$ (so that $z = z^+ - z^-$ and $|z| = z^+ + z^-$) for any real number z , we can then write the full scheme as

$$(4.5) \quad \hat{H}(h_2, x, u_h(x), \Delta_{x_i}^\pm u_h(x), \Delta_{x_i}^2 u_h(x), \Delta_{x_i x_j}^\pm u_h(x), u_h(\cdot)) = 0,$$

where

$$\begin{aligned}\hat{H}(h_2, x, r, p_i^\pm, A_{ii}, A_{ij}^\pm, u(\cdot)) \\ := \sup_{\theta \in \Theta} \left\{ \sum_{i=1}^N \left[-\frac{a_{ii}^\theta}{2} A_{ii} + \sum_{\substack{j=1 \\ j \neq i}}^N \left(-\frac{(a_{ij}^\theta)^+}{2} A_{ij}^+ + \frac{(a_{ij}^\theta)^-}{2} A_{ij}^- \right) \right. \right. \\ \left. \left. - (\bar{b}_i^{\theta, h_2})^+(x) p_i^+ + (\bar{b}_i^{\theta, h_2})^-(x) p_i^- \right] \right. \\ \left. - Q_{h_2} [u(x + \eta^\theta(x, z)) - u(x)] + c^\theta(x) r - f^\theta(x) \right\}.\end{aligned}$$

Now we assume that (A.1'), (A.2'), and (A.3) holds, and $h_1, h_2 < 1$. In addition, we use the following assumptions:

(B.1) $a^\theta := \sigma^\theta \sigma^{\theta^\top}$ is a constant matrix.

(B.2) $a_{ii}^\theta - \sum_{\substack{j=1 \\ j \neq i}}^N |a_{ij}^\theta| \geq 0$, $\theta \in \Theta$, $i = 1, \dots, N$ and $\omega_\alpha \geq 0$, $\alpha \in \mathcal{P}$.

(B.3) $\sum_{i=1}^N \left[a_{ii}^\theta - \sum_{\substack{j=1 \\ j \neq i}}^N |a_{ij}^\theta| + |\bar{b}_i^{\theta, h_2}|_0 + \sum_{\alpha \in \mathcal{P}} \omega_\alpha \right] \leq 1$, $\theta \in \Theta$, $h_2 < 1$.

(B.4) $|D_z^{\bar{n}} \eta^\theta(x, \cdot) \mathbf{1}_{B(0, R)}|_0 \leq C$, $x \in \mathbb{R}^N$, $\theta \in \Theta$, where \bar{n}, R are defined in (4.3), (A.1') respectively.

Assumption (B.1) is used to simplify the proof of condition (D) in Section 3 for the scheme (4.5). The general case is much more involved and will be considered elsewhere. Assumption (B.2) implies that the scheme is monotone and contains the standard requirement that a should be diagonally dominant. Assumption (B.3) will always hold after a proper rescaling of the equation. Finally, the regularity assumption (B.4) is necessary if we want to use the error bound (4.3) when the quadrature rule (4.2) is applied to η^θ and $u(x + \eta^\theta)$. This assumption can be

dropped if we replace η^θ in (1.1) by a smooth approximation and then keep proper track of the error that we make in the process. However, since this additional step complicates the presentation, we skip it and employ instead condition (B.4).

Theorem 4.1. *Assume that (A.1'), (A.2'), (A.3), (B.1) - (B.4), and (4.3) hold. Assume also that $\lambda > \bar{\lambda}_0$ (cf. Remark 3.5) and that $h_1, h_2 < 1$ are sufficiently small. Let u be the viscosity solution of (4.1) and u_h be the solution of the finite difference scheme (4.5). Then*

$$|u - u_h|_0 \leq C(h_1^{1/2} + h_2).$$

Before proving this theorem we will give several remarks and an example.

4.1. Remarks. The result $Ch_1^{1/2}$ for the pure differential part is consistent with previous results by Krylov and Barles-Jakobsen [36, 37, 8]. We refer to [31] where the rate 1/2 is derived in the pure PDE case. Note that by increasing the order of the quadrature rule (i.e., increasing \bar{n}) one does not improve the corresponding order in the error bound; the result is always Ch_2 . This fact and the reduction of rate observed in this result is a consequence of the lack of regularity of u (the viscosity solution u is here merely Lipschitz continuous). In fact when the Lévy measure is bounded and the solution is Lipschitz continuous, we can always take $\bar{n} = 1$ in (4.3) for any monotone quadrature formula that integrates constants exactly (this includes most commonly used quadrature rules). To illustrate this claim, let us check it for the Riemann sum approximation, i.e., (4.2) with weights $\omega_\alpha = \nu(h_2\alpha + [0, h_2]^M)$. Indeed, we have

$$\begin{aligned} & \sum_{\alpha \in \mathcal{P}} f(h_2\alpha)\omega_\alpha - \int_E f(z)\nu(dz) \\ &= \sum_{\alpha \in \mathcal{P}} \int_{h_2\alpha + [0, h_2]^M} (f(h_2\alpha) - f(z))\nu(dz) \\ &= \sum_{\alpha \in \mathcal{P}} \int_{h_2\alpha + [0, h_2]^M} \int_0^1 Df((1-t)h_2\alpha + tz)(z - h_2\alpha) dt \nu(dz), \end{aligned}$$

which implies the following error bound (cf. (4.3)):

$$E_{h_2}[f] \leq h_2 \int_E |Df(z)| \nu(dz) \leq |\nu(E)| |Df|_0 h_2.$$

Combining this with Theorem 4.1 yields

Corollary 4.2. *Suppose all the assumptions in Theorem 4.1 hold with $\bar{n} = 1$ and that the quadrature rule in (4.5) is based on a simple quadrature rule that integrates constants exactly. Then*

$$|u - u_h|_0 \leq C(h_1^{1/2} + h_2).$$

4.2. The Newton-Cotes formulas. We now discuss the Newton-Cotes formulas, see, e.g., [23]. These formulas are the simplest one-dimensional quadrature formulas and include the trapezoidal and Simpson's rules. The simple Newton-Cotes formulas are obtained by (i) dividing the interval of integration $[a, b]$ into \bar{n} equally sized subintervals, yielding $\bar{n} + 1$ equidistributed nodes when the endpoints are included, (ii) interpolating the integrand using Lagrange interpolation and the nodes from (i), and (iii) integrating the Lagrange interpolant (which is a polynomial). This leads to the formula

$$(4.6) \quad Q_{sNC, \bar{n}}[f; a, b] := \frac{b-a}{\bar{n}} \sum_{i=0}^{\bar{n}} f(z_i)\omega_i \approx \int_a^b f(z)\nu(dz),$$

where the subscript “ sNC ” stands for “simple Newton-Cotes” and

$$\omega_i = (-1)^{\bar{n}-i} \frac{\bar{n}}{b-a} \int_0^{\bar{n}} \frac{t(t-1)\dots(t-\bar{n})}{(t-i)i!(\bar{n}-i)!} \nu(d\phi(t)) \quad \text{where } \phi(t) = a + (b-a)t.$$

When $\nu(dz) = dz$ the first few rules are

$$\begin{aligned} Q_{sNC,1}[f; a, b] &= h \frac{f_0 + f_1}{2} \quad (\text{trapezoidal rule}), \\ Q_{sNC,2}[f; a, b] &= \frac{h}{6} (f_0 + 4f_1 + f_2) \quad (\text{Simpson's rule}), \\ Q_{sNC,3}[f; a, b] &= \frac{3h}{8} (f_0 + 3f_1 + 3f_2 + f_3), \end{aligned}$$

where $h = (b-a)/\bar{n}$ and $f_i = f(a+hi)$, $i = 0, \dots, \bar{n}$.

For $\bar{n} \leq 8$ the simple Newton-Cotes formulas are monotone. In practice it is the compound formulas $Q_{NC,\bar{n}}[f; a, b]$ that are used, that is, we subdivide $[a, b]$ into N_s equally sized intervals and apply the simple quadrature rule on each interval:

$$(4.7) \quad Q_{NC,\bar{n}}[f; a, b] := \sum_{i=0}^{N_s-1} Q_{sNC,\bar{n}}[f; y_i, y_{i+1}] \approx \int_a^b f(z) \nu(dz),$$

where $y_i = a + i \frac{b-a}{N_s}$. In the compound rules there are $N_s \bar{n} + 1$ nodes and the step size is $h = \frac{b-a}{N_s \bar{n}}$. If the integrand f is sufficiently smooth, the error can be bounded as follows:

$$E_{NC,\bar{n}}[f] := \left| \int_a^b f(z) dz - Q_{NC,\bar{n}}[f] \right| \leq \begin{cases} C_{\bar{n}} h^{\bar{n}} |D^{\bar{n}} f|_0, & \text{for } \bar{n} \text{ odd,} \\ C_{\bar{n}} h^{\bar{n}+1} |D^{\bar{n}+1} f|_0, & \text{for } \bar{n} \text{ even,} \end{cases}$$

where $C_{\bar{n}}$ is a constant. An immediate consequence of Theorem 4.1 is

Corollary 4.3. *Suppose all the assumptions in Theorem 4.1 hold, and let $M = 1$ (so $z \in \mathbb{R}$), $\bar{n} \leq 8$, and $Q_{NC,\bar{n}}$ be the quadrature rule in (4.5). Then*

$$|u - u_h|_0 \leq C(h_1^{1/2} + h_2).$$

Remark 4.4. In higher dimensions ($M > 1$) we can apply one-dimensional Newton-Cotes rules dimension-by-dimension. If the grid is a subset of $h_2 \mathbb{Z}^M$, then the corresponding approximation error for these product rules is of the same order in h_2 as in the one-dimensional case. Moreover, Corollary 4.3 holds.

4.3. Proof of Theorem 4.1. Theorem 4.1 will be a consequence of Theorem 3.4 once we have verified conditions (C.1) - (C.5) and (D). To this end, we will rewrite the scheme (4.5) as a discrete dynamic programming principle.

For $x \in \mathbb{R}^N$ and $\theta \in \Theta$, define the following ‘‘transition probabilities’’:

$$\begin{aligned} p^\theta(x, x) &= 1 - \sum_{i=1}^N \left[a_{ii}^\theta - \sum_{\substack{j=1 \\ j \neq i}}^N |a_{ij}^\theta| - h_1 |\bar{b}_i^{\theta, h_2}(x)| \right] - h_1^2 \sum_{\substack{\alpha \in \mathcal{P} \\ \alpha \neq 0}} \omega_\alpha(x), \\ p^\theta(x, x \pm e_i h_1) &= \frac{a_{ii}^\theta}{2} - \sum_{\substack{j=1 \\ j \neq i}}^N \frac{|a_{ij}^\theta|}{2} + h_1 (\bar{b}_i^{\theta, h_2})^\pm(x), \quad i = 1, \dots, N, \\ p^\theta(x, x + e_i h_1 \pm e_j h_1) &= \frac{(a_{ij}^\theta)^\pm}{2}, \quad i, j = 1, \dots, N, \quad i \neq j, \\ p^\theta(x, x - e_i h_1 \pm e_j h_1) &= \frac{(a_{ij}^\theta)^\mp}{2}, \quad i, j = 1, \dots, N, \quad i \neq j, \\ p^\theta(x, x + \eta^\theta(x, \alpha h_2)) &= h_1^2 \omega_\alpha, \quad \alpha \in \mathcal{P}, \quad \alpha \neq 0, \end{aligned}$$

and $p^\theta(x, y) = 0$ for every other y .

If $0 < h_1 < 1$ then (B.1) - (B.3) implies for all x, y , and θ that

$$0 \leq p^\theta(x, y) \leq 1 \quad \text{and} \quad \sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} p^\theta(x, x+z) = 1.$$

Tedious but straightforward computations will reveal that we can rewrite the scheme (4.5) in the form

$$(4.8) \quad \begin{aligned} &u_h(x) \\ &= \sup_{\theta \in \Theta} \left\{ \frac{1}{1 + c^\theta(x) h_1^2} \left[\sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} p^\theta(x, x+z) u_h(x+z) + h_1^2 f^\theta(x) \right] \right\}. \end{aligned}$$

We use this expression to define the functional S in (1.4). For each triplet $(x, r, \phi) \in (\mathbb{R}^N, \mathbb{R}, C_b(\mathbb{R}^N))$, we define S by

$$(4.9) \quad \begin{aligned} &S(h, x, r, [\phi]_x) \\ &:= \sup_{\theta \in \Theta} \left\{ -\frac{1}{h_1^2} \left[\sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} p^\theta(x, x+z) [\phi]_x(z) - r \right] + c^\theta(x) r - f^\theta(x) \right\}, \end{aligned}$$

where we have set $[\phi]_x(z) := \phi(x+z)$. It is easy to see that (1.4), with S as defined in (4.9), is equivalent to (4.8).

By our assumptions and definitions of transition probabilities $p^\theta(x, y)$, this scheme is obviously monotone. It is convex since it is defined by taking the supremum of a family of linear expressions. Moreover, if ϕ is a smooth function, then an argument based on Taylor expansions yields

$$(4.10) \quad \begin{aligned} &|H(x, v, Dv, D^2v, v(\cdot)) - S(h, x, v(x), [v]_x)| \\ &\leq C \sup_{\theta \in \Theta} \left(|D^2v|_0 h_1 + |D^4v|_0 h_1^2 + |E_{h_2}[v(\cdot + \eta^\theta) - v]|_0 + [v]_1 |E_{h_2}[\eta^\theta]|_0 \right) \\ &\leq C \sup_{\theta \in \Theta} \left(|D^2v|_0 h_1 + |D^4v|_0 h_1^2 \right. \\ &\quad \left. + (|D_z^{\bar{n}}v(\cdot + \eta^\theta) \mathbf{1}_{B(0, R)}|_0 + [v]_1 |D_z^{\bar{n}}\eta^\theta \mathbf{1}_{B(0, R)}|_0) h^{\bar{n}} \right). \end{aligned}$$

Summarizing, we have proved

Lemma 4.5. *Suppose the hypotheses of Theorem 4.1 hold. Then the scheme (4.5) satisfies conditions (C.1) - (C.5), where (C.3) takes the form (4.10).*

It remains to prove that condition (D) holds. From now on we make the assumption that $c(x) = \lambda$ for all x (the general case is similar but algebraically more involved). Let T_h be the operator defined by

$$T_h v(x) := \frac{1}{1 + \lambda h_1^2} \sup_{\theta \in \Theta} \left\{ \sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} p^\theta(x, x+z) v(x+z) + h_1^2 f^\theta(x) \right\}.$$

This operator is a contraction on $C_b(\mathbb{R}^N)$, since

$$\begin{aligned} & |T_h u(x) - T_h v(x)| \\ & \leq \frac{1}{1 + \lambda h_1^2} \sup_{\theta \in \Theta} \sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} p^\theta(x, x+z) |u(x+z) - v(x+z)| \\ & \leq \frac{1}{1 + \lambda h_1^2} |u - v|_0. \end{aligned}$$

Since (4.8) reads $u_h = T_h u_h$, Banach's fixed point theorem yields existence and uniqueness of a solution $u_h \in C_b(\mathbb{R}^N)$ to (4.8).

Now we proceed to show that this solution is Lipschitz continuous. Assume that $\phi \in C^{0,1}(\mathbb{R}^N)$. For any $x, y \in \mathbb{R}^N$,

$$\begin{aligned} & T_h \phi(x) - T_h \phi(y) \\ & = \frac{1}{1 + \lambda h_1^2} \sup_{\theta \in \Theta} \left\{ \sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} \left[p^\theta(x, x+z) (\phi(x+z) - \phi(y+z)) \right. \right. \\ & \quad \left. \left. + (p^\theta(x, x+z) - p^\theta(y, y+z)) \phi(y+z) \right] + h_1^2 [f^\theta(x) - f^\theta(y)] \right. \\ & \quad \left. + \left[\sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} - \sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(y, h_2 \mathcal{P})} \right] p^\theta(y, y+z) \phi(y+z) \right\}. \end{aligned}$$

Clearly, we have

$$\sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} p^\theta(x, x+z) (\phi(x+z) - \phi(y+z)) \leq [\phi]_1 |x - y|.$$

Using (A.1'), (A.2'), (4.3), assuming h_2 to be sufficiently small, and taking into account the definitions of $p^\theta(x, x+z)$, \bar{b}^{θ, h_2} , we find

$$\begin{aligned} & \sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} (p^\theta(x, x+z) - p^\theta(y, y+z)) \phi(y+z) \\ & = h_1^2 \sum_{i=1}^N \left[(\bar{b}_i^{\theta, h_2+}(x) - \bar{b}_i^{\theta, h_2+}(y)) \Delta_{x_i}^+ \phi(y) - (\bar{b}_i^{\theta, h_2-}(x) - \bar{b}_i^{\theta, h_2-}(y)) \Delta_{x_i}^- \phi(y) \right] \\ & \leq h_1^2 [\phi]_1 2N ([b^\theta]_1 + [Q_{h_2}[\eta^\theta]]_1) |x - y| \\ & \leq h_1^2 [\phi]_1 2NM \left(1 + 2 \int_E e^{\ell|z|} \nu(dz) \right) |x - y|. \end{aligned}$$

Due to (A.1'), (A.2'), and (4.3), we also have

$$\begin{aligned} & \left[\sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x, h_2 \mathcal{P})} - \sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(y, h_2 \mathcal{P})} \right] p^\theta(y, y+z) \phi(y+z) \\ &= h_1^2 \sum_{\alpha \in \mathcal{P}} \omega_\alpha \left(\phi(y + \eta^\theta(x, \alpha h_2)) - \phi(y + \eta^\theta(y, \alpha h_2)) \right) \\ &\leq h_1^2 [\phi]_1 M 2 \int_E e^{\ell|z|} \nu(dz) |x - y|. \end{aligned}$$

Hence we conclude that

$$T_h \phi(x) - T_h \phi(y) \leq \frac{1}{1 + \lambda h_1^2} \left[(1 + \bar{\lambda}_0 h_1^2) [\phi]_1 + h_1^2 \sup_{\theta \in \Theta} [f^\theta]_1 \right] |x - y|,$$

where $\bar{\lambda}_0 := M(2N + 1) (1 + 2 \int_E e^{\ell|z|} \nu(dz))$. By interchanging x and y we have now proved that

$$[T_h \phi]_1 \leq \frac{1 + \bar{\lambda}_0 h_1^2}{1 + \lambda h_1^2} [\phi]_1 + \frac{h_1^2}{1 + \lambda h_1^2} \sup_{\theta \in \Theta} [f^\theta]_1 =: A[\phi]_1 + B.$$

The constant $\bar{\lambda}_0$ coincides with the one mentioned in Remark 3.5 for this case. By assumption $\lambda > \bar{\lambda}_0$ and hence $A < 1$. By the fixpoint theorem mentioned above, for any $\phi \in C^{0,1}(\mathbb{R}^N) \subset C_b(\mathbb{R}^N)$, $|T_h^n \phi - u_h|_0 \rightarrow 0$ as $n \rightarrow \infty$, where u_h is the unique in $C_b(\mathbb{R}^N)$ solution of (4.8). Furthermore

$$[u_h]_1 = \lim_{n \rightarrow \infty} [T_h^n \phi]_1 \leq \lim_{n \rightarrow \infty} \left\{ A^n [\phi]_1 + \sum_{i=0}^{n-1} A^i B \right\} = \frac{B}{1 - A} = \frac{1}{\lambda - \bar{\lambda}_0} \sup_{\theta \in \Theta} [f^\theta]_1.$$

We have proved:

Lemma 4.6. *Suppose the hypotheses of Theorem 4.1 hold. Then there exists a unique solution $u_h \in C^{0,1}(\mathbb{R}^N)$ to the scheme (4.5).*

Next we consider the perturbed scheme (1.6), with S as defined in (4.9). Similarly to what we did above, the perturbed scheme can be written as

$$(4.11) \quad \begin{aligned} & u_h^\varepsilon(x) \\ &= \frac{1}{1 + \lambda h_1^2} \sup_{\substack{\theta \in \Theta \\ |e| \leq \varepsilon}} \sum_{z \in h_1 \mathbb{Z}^N \cup \eta^\theta(x+e, h_2 \mathcal{P})} \left\{ p_e^\theta(x, x+z) u_h^\varepsilon(x+z) + h_1^2 f^\theta(x+e) \right\}, \end{aligned}$$

where the coefficients $p_e^\theta(x, x+z)$ are obtained from $p^\theta(x, x+z)$ by replacing $(\bar{b})^\pm(x)$ with $(\bar{b})^\pm(x+e)$. Existence and uniqueness of a $C^{0,1}(\mathbb{R}^N)$ solution to the perturbed scheme follows from Lemma 4.6 once we redefine θ and Θ to (θ, e) and $\Theta \times \{|e| \leq \varepsilon\}$, respectively, and rewrite (4.11) in the form (4.8) (or (4.5)). Note that the constant $\bar{\lambda}_0$ remains the same.

It remains to prove that $|u_h - u_h^\varepsilon|_0 \leq C\varepsilon$. It is easy to see that u_h^ε , the solution of equation (4.11), is a subsolution of equation (4.8). By the comparison principle (cf. Lemma 3.1), $u_h^\varepsilon \leq u_h$. To get the other bound, let $T_h^\varepsilon u_h^\varepsilon$ denote the right-hand side of (4.11). A computation similar to the one used above to prove the Lipschitz continuity of u_h then leads to

$$\begin{aligned} & T_h u_h(x) - T_h^\varepsilon u_h^\varepsilon(x) \\ &\leq \frac{1}{1 + \lambda h_1^2} \left\{ |u_h - u_h^\varepsilon|_0 + C h_1^2 \sup_{\substack{\theta \in \Theta \\ |e| \leq \varepsilon}} \left\{ [u_h^\varepsilon]_1 |\bar{b}^{\theta, h_2} - \bar{b}^{\theta, h_2}(\cdot + e)|_0 \right. \right. \\ &\quad \left. \left. + [u_h^\varepsilon]_1 |Q_{h_2}[\eta^\theta(\cdot, z) - \eta^\theta(\cdot + e, z)]|_0 + |f^\theta - f^\theta(\cdot + e)|_0 \right\} \right\}. \end{aligned}$$

By Lemma 4.6, $|u_h^\varepsilon|_1$ is bounded independently of ε and h , so by (A.1') and (A.2') we have

$$u_h(x) - u_h^\varepsilon(x) = T_h u_h(x) - T_h^\varepsilon u_h^\varepsilon(x) \leq \frac{1}{1 + \lambda h_1^2} \left[|u_h - u_h^\varepsilon|_0 + C\varepsilon h_1^2 \right],$$

which immediately implies $u_h(x) - u_h^\varepsilon(x) \leq C\varepsilon$. Summarizing our findings, we have just proved

Lemma 4.7. *Suppose the hypotheses of Theorem 4.1 hold. Then the scheme (4.5) satisfies condition (D).*

This completes the proof of Theorem 4.1.

5. GENERAL LÉVY MEASURES

The finite difference schemes for (1.1) in Section 4 were constructed under the assumption that the Lévy measure was bounded and also compactly supported. In this section we show how one can reduce problems with general unbounded and non-compactly supported Lévy measures to this case. Once such a reduction process has been carried out, we can use for example the finite difference schemes from Section 4. The reduction process is based on appropriate truncations (through two scales) of the Lévy measure, and we provide precise estimates for the error induced by the truncations. Hence, the desired “level of accuracy” related to the truncations can be determined a priori before any numerical discretization is applied. We should emphasize that in this section σ is not assumed to be independent of x !

To be more precise, let us introduce the “two-scales” truncated Lévy measure

$$\nu_{r,R}(dz) := \mathbf{1}_{r < |z| < R} \nu(dz),$$

for some (small) $r \in (0, 1)$ and for some (large) $R \in (1, \infty)$. Clearly, $\nu_{r,R}(dz)$ is a bounded and compactly supported measure. For $\phi \in C^\infty(\mathbb{R}^N)$, let us express the integral operator \mathcal{J}^θ in (1.1) as follows:

$$(5.1) \quad \mathcal{J}^\theta \phi(x) = \mathcal{J}_r^\theta \phi(x) + \mathcal{J}_{r,R}^\theta \phi(x) + \mathcal{J}^{\theta,R} \phi(x),$$

where

$$\begin{aligned} \mathcal{J}_r^\theta \phi(x) &:= \int_{0 < |z| \leq r} \left[\phi(x + \eta^\theta(x, z)) - \phi(x) - \eta^\theta(x, z) D\phi(x) \right] \nu(dz), \\ \mathcal{J}_{r,R}^\theta \phi(x) &:= \int_E \left[u(x + \eta^\theta(x, z)) - u(x) - \mathbf{1}_{|z| < 1} \eta^\theta(x, z) Du(x) \right] \nu_{r,R}(dz), \\ \mathcal{J}^{\theta,R} \phi(x) &:= \int_{|z| \geq R} \left[\phi(x + \eta^\theta(x, z)) - \phi(x) \right] \nu(dz). \end{aligned}$$

We want to take a closer look at the decomposition (5.1). To this end, we divide the remaining part of this section into two parts.

5.1. Treatment of the operators \mathcal{J}_r^θ and $\mathcal{J}^{\theta,R}$. To reduce $\nu(dz)$ to a compactly supported measure, we simply throw away the term $\mathcal{J}^{\theta,R} \phi(x)$ in (5.1), and observe that by (A.1) and (A.2)

$$|\mathcal{J}^{\theta,R} \phi(x)| \leq 2|\phi|_0 \int_{|z| \geq R} \nu(dz) \leq C|\phi|_0 e^{-\ell R}.$$

Next we discuss how to reduce $\nu(dz)$ to a bounded measure. Roughly speaking, the idea is to get rid of the singularity of the Lévy measure $\nu(dz)$ by suppressing the “small jumps”, i.e., by throwing away the operator \mathcal{J}_r^θ in (5.1). It does not, however, result in a good approximation if we completely suppress the small jumps. Indeed, the small jumps are important in most of the Lévy models found in the literature. Therefore, to account for the small jumps (and thus the infinite activity

of the Lévy process), we follow [6] (see also [21, 26, 27]) and replace $\mathcal{J}_r^\theta \phi$ in (5.1) by a diffusion term:

$$\mathcal{J}_r^\theta \phi \approx \text{tr}[a_r^\theta D^2 \phi],$$

where the diffusion matrix a_r^θ needs to be specified.

There are (infinitely) many choices for the diffusion matrix a_r^θ , some yielding more accurate results than others. We quantify the accuracy of some choices of a_r^θ below. Define

$$\omega^\theta(x, r) := \frac{1}{2} \int_{0 < |z| \leq r} \eta^\theta(x, z) \eta^\theta(x, z)^\top \nu(dz),$$

and consider the three choices

$$\begin{aligned} a_{1,r}^\theta(x) &:= \omega^\theta(x, r), \\ a_{2,r}^\theta &:= \lim_{\rho \rightarrow \infty} \frac{1}{|B(0, \rho)|} \int_{B(0, \rho)} \omega^\theta(x, r) dx, \\ a_{3,r}^\theta &:= 0. \end{aligned}$$

Notice that a_2^θ and a_3^θ are independent of x . Also, $a_{2,r}^\theta$ is meaningful since η^θ is bounded in x , cf. (A.2).

Lemma 5.1. *Suppose (A.1) and (A.2) hold, and let $\phi \in C^\infty(\mathbb{R}^N)$. Then the following error estimates hold:*

$$\begin{aligned} |\mathcal{J}_r^\theta \phi - \text{tr}[a_{1,r}^\theta D^2 \phi]|_0 &\leq |D^3 \phi|_0 r \sup_{\theta \in \Theta} |\omega^\theta(\cdot, r)|_0, \\ |\mathcal{J}_r^\theta \phi - \text{tr}[a_{2,r}^\theta D^2 \phi]|_0 &\leq |D^2 \phi|_0 \sup_{\theta \in \Theta} |\omega^\theta(\cdot, r) - a_{2,r}^\theta|_0 + |D^3 \phi|_0 r \sup_{\theta \in \Theta} |\omega^\theta(\cdot, r)|_0, \\ |\mathcal{J}_r^\theta \phi - \text{tr}[a_{3,r}^\theta D^2 \phi]|_0 &\leq |D^2 \phi|_0 \sup_{\theta \in \Theta} |\omega^\theta(\cdot, r)|_0. \end{aligned}$$

Proof. By Taylor expanding $\phi(x + \eta^\theta(x, z))$ we find

$$\begin{aligned} \mathcal{J}_r^\theta \phi(x) &= \frac{1}{2} \text{tr} \left[D^2 \phi(x) \int_{0 < |z| \leq r} \eta^\theta(x, z) \eta^\theta(x, z)^\top \nu(dz) \right] \\ &\quad + \frac{1}{2} \text{tr} \left[\int_{0 < |z| \leq r} \left(D^2 \phi(\zeta_{x,z}) - D^2 \phi(x) \right) \eta^\theta(x, z) \eta^\theta(x, z)^\top \nu(dz) \right], \end{aligned}$$

where $\zeta_{x,z}$ belongs to the straight line segment between x and $x + \eta^\theta(x, z)$. Using this, and conditions (A.1) and (A.2), one can verify the assertions of the lemma. \square

We have here three “diffusion approximations” $\mathcal{J}_r^\theta \phi \approx \text{tr}[a_{l,r}^\theta D^2 \phi]$, $l = 1, 2, 3$. According to Lemma 5.1, the first choice has the highest order of convergence as $r \rightarrow 0$. The second and third choices have the same order of convergence, but the error is smaller for the second alternative when r is small.

5.2. Error estimates. In view of what we have said up to now, it seems that the following problems may serve as “good” approximations to (1.1), at least when r is small and R is large:

$$(5.2) \quad H_{i,r,R}(x, u(x), Du(x), D^2 u(x), u(\cdot)) = 0 \quad \text{in } \mathbb{R}^N, \quad i = 1, 2, 3,$$

where, for any $(x, r, p, X) \in \mathbb{R}^N \times \mathbb{R} \times \mathbb{R}^N \times \mathbb{S}^N$ and any locally bounded function u , the Hamiltonian $H_{i,r,R} = H_{i,r,R}(x, r, p, X, u(\cdot))$ is defined by

$$\begin{aligned} (5.3) \quad &H_{i,r,R}(x, r, p, X, u(\cdot)) \\ &= \sup_{\theta \in \Theta} \left\{ -\frac{1}{2} \text{tr} \left[\left(a^\theta(x) + a_{i,r}^\theta(x) \right) X \right] \right. \\ &\quad \left. - b^\theta(x) \cdot p - \mathcal{J}_{r,R}^\theta u(x) + c^\theta(x) r - f^\theta(x) \right\}. \end{aligned}$$

We reiterate here that the measure $\nu_{r,R}(dz)$ is bounded and has compact support.

To get an explicit estimate of the truncation error, that is, the error committed when replacing (1.1) by (5.2), we need stronger assumptions on the Lévy measure. In particular, we need to be more precise about the behavior of the Lévy measure near the origin:

(A.1'') Assumption (A.1) holds and in addition there is a density $m : E \rightarrow [0, \infty)$, such that $\nu(dz) = m(z)dz$ and

$$m(z) \leq C \frac{1}{|z|^{N+\alpha}} \quad \text{for } z \in E_1.$$

We emphasize that the conditions in (A.1'') are satisfied by all Lévy processes used in the literature to model financial markets, see [20]. If (A.1'') holds, in addition to (A.2), then we can have explicit bounds on the modulus $\omega^\theta(x, r)$ introduced in the previous subsection. Indeed, turning to polar coordinates $\rho = |z|$, $dz = C\rho^{N-1}d\rho$, we obtain

$$|\omega^\theta(x, r)| \leq C \int_{0 < |z| < r} |z|^2 \frac{1}{|z|^{N+\alpha}} dz = Cr^{2-\alpha}.$$

We are now in a position to derive an explicit estimate for the error committed by replacing (1.1) by (5.2).

Theorem 5.2. *Assume (A.1''), (A.2), (A.3) hold and let $u \in C^{0,1}(\mathbb{R}^N)$ be the solution of (1.1) and $u_{i,r,R} \in C^{0,1}(\mathbb{R}^N)$ be the viscosity solution of (5.2) for $i = 1, 2, 3$. Then for $r > 0$ small enough and R large enough we have*

$$\begin{aligned} |u - u_{1,r,R}|_0 &\leq C_1(r^{1-\alpha/3} + e^{-\ell R}), \\ |u - u_{2,r,R}|_0 &\leq C_2(r^{1-\alpha/2} + e^{-\ell R}), \\ |u - u_{3,r,R}|_0 &\leq C_3(r^{1-\alpha/2} + e^{-\ell R}), \end{aligned}$$

for some constants C_1, C_2, C_3 that are independent of r, R , and $C_2 \leq C_3$.

Remark 5.3. The approximate problem (5.2) with $i = 1$ gives the smallest error, at least asymptotically as $r \rightarrow 0$ and $R \rightarrow \infty$. Estimates in the same spirit have been obtained by Cont and Voltchkova [21] for linear parabolic equations with constant coefficients. The approach of [21] is probabilistic and based on results in [6]. They essentially get the rate r compared with our rate $r^{1-\alpha/3}$. We use a PDE approach yielding estimates that hold for Lipschitz continuous viscosity solutions of fully nonlinear degenerate integro-PDEs with variable coefficients.

Proof. We only prove the lower bound and only for the case $i = 1$. The other cases and the upper bounds follow along the same lines. Moreover, since the arguments resemble closely those used in the proof of Theorem 3.4, we are rather brief. To simplify the notation we replace $u_{i,r,R}$ by \bar{u}_i , $i = 1, 2, 3$, in the proof below.

The goal is to derive a lower bound on $u - \bar{u}_1$. As in Section 2, we can find smooth subsolutions $\bar{u}_{1,\varepsilon}$ of (5.2), where $\bar{u}_{1,\varepsilon} = \rho_\varepsilon * u_1^\varepsilon$ and u_1^ε is the $C^{0,1}(\mathbb{R}^N)$ viscosity solution of

$$\begin{aligned} \sup_{\substack{\theta \in \Theta \\ |e| \leq \varepsilon}} \left\{ -\frac{1}{2} \operatorname{tr} \left[\left(a^\theta(x+e) + a_{1,r}^\theta(x+e) \right) D^2 u \right] \right. \\ \left. - b^\theta(x+e) Du + c^\theta(x+e) u - f^\theta(x+e) \right. \\ \left. - \int_E [u(x + \eta^\theta(x+e, z)) - u - \mathbf{1}_{|z| < 1} \eta^\theta(x+e, z) Du] \nu_{r,R}(dz) \right\} = 0. \end{aligned}$$

Existence, uniqueness, and regularity properties of u_1^ε follow from Theorem 6.1, and the fact that $\bar{u}_{1,\varepsilon}$ is a subsolution of (5.2) is a consequence of Theorem 6.4 (cf. Section 6). By properties of mollifiers it then follows that

$$\bar{u}_{1,\varepsilon} \in C^\infty(\mathbb{R}^N), \quad |\bar{u}_{1,\varepsilon}|_{0,1} \leq C, \quad |D^i \bar{u}_{1,\varepsilon}|_0 \leq C\varepsilon^{1-i}.$$

According to the calculations we did at the beginning of this section, we have

$$\begin{aligned} & H(x, \bar{u}_{1,\varepsilon}, D\bar{u}_{1,\varepsilon}, D^2\bar{u}_{1,\varepsilon}, \bar{u}_{1,\varepsilon}(\cdot)) - H_{1,r,R}(x, \bar{u}_{1,\varepsilon}, D\bar{u}_{1,\varepsilon}, D^2\bar{u}_{1,\varepsilon}, \bar{u}_{1,\varepsilon}(\cdot)) \\ & \leq C(|\bar{u}_{1,\varepsilon}|_0 e^{-\ell R} + |D^3\bar{u}_{1,\varepsilon}|_0 r^{3-\alpha}) \\ & \leq C(e^{-\ell R} + \varepsilon^{-2} r^{3-\alpha}) =: C(r, R, \varepsilon), \end{aligned}$$

for all $x \in \mathbb{R}^N$. Since $\bar{u}_{1,\varepsilon}$ is a subsolution of (5.2), we get

$$H(x, \bar{u}_{1,\varepsilon}(y), D\bar{u}_{1,\varepsilon}, D^2\bar{u}_{1,\varepsilon}, \bar{u}_{1,\varepsilon}(\cdot)) \leq C(r, R, \varepsilon) \quad \text{in } \mathbb{R}^N.$$

From this inequality and (A.3) we see that $\bar{u}_{1,\varepsilon} - C(r, R, \varepsilon)/\lambda$ is a subsolution of (1.1), and by the comparison principle (Theorem 2.3) we have

$$\bar{u}_{1,\varepsilon} - u \leq C(r, R, \varepsilon)/\lambda \quad \text{in } \mathbb{R}^N.$$

In view of Theorem 6.2, (A.1), and (A.2), it is easy to see that $|\bar{u}_1^\varepsilon - \bar{u}_1|_0 \leq C\varepsilon$. So by properties of mollifiers we have

$$|\bar{u}_1 - \bar{u}_{1,\varepsilon}|_0 \leq C\varepsilon.$$

Thus we conclude that

$$u - \bar{u} = u - \bar{u}_{1,\varepsilon} + \bar{u}_{1,\varepsilon} - \bar{u} \geq -C(r, R, \varepsilon)/\lambda - C\varepsilon \quad \text{in } \mathbb{R}^N,$$

and the lower bound follows after a minimization over ε . \square

6. APPENDIX: SOME TECHNICAL RESULTS.

In this appendix we state and prove some technical results that were used in the proofs of Theorems 3.4 and 5.2. To obtain results that encompass both (1.1) and (5.2), we consider an equation of the form

$$(6.1) \quad \sup_{\theta \in \Theta} \left\{ -\operatorname{tr} \left[\left(a_1^\theta(x) + a_2(x) \right) D^2 u \right] - b^\theta(x) Du - \mathcal{J}_1^\theta u(x) + c^\theta(x) u - f^\theta(x) \right\} = 0,$$

where

$$(6.2) \quad \begin{aligned} \mathcal{J}_1^\theta u(x) &:= \int_E [u(x + \eta_1^\theta(x, z)) - u(x) - \mathbf{1}_{|z| < 1} \eta_1^\theta(x, z) Du(x)] \nu(dz), \\ a_1^\theta(x) &:= \frac{1}{2} \sigma^\theta(x) \sigma^\theta(x)^\top, \\ a_2(x) &:= \frac{1}{2} \int_{E_1} \eta_2^\theta(x, z) \eta_2^\theta(x, z)^\top \nu(dz). \end{aligned}$$

In this section we always assume that (A.1), (A.2), and (A.3') hold: we mean that the requirements on η in (A.2) are met by both η_1 and η_2 . We start by giving an existence, uniqueness and regularity result for this equation.

Theorem 6.1. *Assume (A.1), (A.2), and (A.3') hold.*

(i) *There exists a unique viscosity solution $u \in C_b(\mathbb{R}^N)$ of equation (6.2) which is Hölder continuous, i.e., there is a $\delta \in (0, 1]$ such that*

$$|u(x) - u(y)| \leq C|x - y|^\delta \quad \text{for all } x, y \in \mathbb{R}^N.$$

(ii) *There exists a constant λ_0 depending only on $N, \sup_\theta [\sigma^\theta]_1, \sup_\theta [b^\theta]_1, \sup_\theta \int_E [\eta_1^\theta(\cdot, z)]_1^2 \nu(dz)$, and $\sup_\theta \int_E [\eta_2^\theta(\cdot, z)]_1^2 \nu(dz)$ such that if $\lambda \geq \lambda_0$, then the viscosity solution u of (6.2) is Lipschitz continuous ($\delta = 1$ above).*

(iii) Let $u, -v \in USC_b(\mathbb{R}^N)$. If u and v are respectively viscosity sub- and supersolutions of (6.2), then $u \leq v$ in \mathbb{R}^N .

We will not prove this result. The proof is similar to the proof of Theorem 2.3, the only difference is the term a_2^θ which can be handled as shown in the proof of the next Theorem.

Theorem 6.2. *Let $u, v \in C^{0,1}(\mathbb{R}^N)$ be viscosity solutions of (6.1) corresponding to the set of coefficients $\{\sigma^\theta, c^\theta, b^\theta, f^\theta, \eta_1^\theta, \eta_2^\theta\}$ and $\{\bar{\sigma}^\theta, \bar{c}^\theta, \bar{b}^\theta, \bar{f}^\theta, \bar{\eta}_1^\theta, \bar{\eta}_2^\theta\}$, respectively. Suppose assumptions (A.1), (A.2), and (A.3') hold for both sets of coefficients with constants M and \bar{M} , respectively, and $\bar{\lambda} = \lambda$. Then there exists a constant $\tilde{C} = \tilde{C}(M, \bar{M})$ such that the following continuous dependence estimate holds:*

$$\begin{aligned} & \lambda |u - v|_0 \\ & \leq \tilde{C} \sup_{\theta \in \Theta} \left\{ |\bar{\sigma}^\theta - \sigma^\theta| + \left| \int_{E_1} (|\eta_1^\theta(\cdot, z) - \bar{\eta}_1^\theta(\cdot, z)|^2 + |\eta_2^\theta(\cdot, z) - \bar{\eta}_2^\theta(\cdot, z)|^2) \nu(dz) \Big|_0^{1/2} \right\} \\ & \quad + \sup_{\theta \in \Theta} \left\{ \left([u]_1 \wedge [v]_1 \right) \left[\left| \int_{E_1} |\eta_1^\theta(\cdot, z) - \bar{\eta}_1^\theta(\cdot, z)| \nu(dz) \Big|_0 + |\bar{b}^\theta - b^\theta|_0 \right] \right. \right. \\ & \quad \left. \left. + \left(|u|_0 \wedge |v|_0 \right) |\bar{c}^\theta - c^\theta|_0 + |\bar{f}^\theta - f^\theta|_0 \right\}. \end{aligned}$$

Proof. When $\eta_1, \eta_2 \equiv 0$ (the pure diffusion case) this result is proved in [32], see also [33]. Otherwise, the proof is similar to the one given in [34]. To avoid too much repetition of [32, 33, 34], we assume that $\sigma = \bar{\sigma}$ (and thus $a_1 = \bar{a}_1$), $b = \bar{b}$, $c = \bar{c}$, and $f = \bar{f}$, so that in the proof below we concentrate only on the integral part of the continuous dependence estimate.

We begin by introducing the functions

$$\phi(x, y) = \alpha |x - y|^2 + \varepsilon (|x|^2 + |y|^2), \quad \psi(x, y) = u(x) - v(y) - \phi(x, y).$$

Note that ψ is continuous and tends to $-\infty$ as $|x| + |y| \rightarrow \infty$, so its global maximum M is attained at some point $(\bar{x}, \bar{y}) \in \mathbb{R}^N \times \mathbb{R}^N$. We will derive a positive upper bound for M in the case that $M > 0$.

By the defining viscosity subsolution/supersolution inequalities for u, v and the maximum principle for semicontinuous functions [22], properly adapted to integro-partial differential equations in [35], we get for any $0 < \kappa < 1$ the inequality

$$\begin{aligned} & \lambda(u(\bar{x}) - v(\bar{y})) \\ & \leq \sup_{\theta \in \Theta} \left\{ \frac{1}{2} \operatorname{tr} [a_1^\theta(\bar{x})X] - \frac{1}{2} \operatorname{tr} [a_1^\theta(\bar{y})Y] \right. \\ & \quad + b^\theta(\bar{x})D_x \phi(\bar{x}, \bar{y}) - b^\theta(\bar{y})(-D_y \phi(\bar{x}, \bar{y})) \\ & \quad + (c^\theta(\bar{y}) - c^\theta(\bar{x}))v(\bar{y}) + f^\theta(\bar{y}) - f^\theta(\bar{x}) \\ & \quad + \frac{1}{2} \operatorname{tr} [a_2^\theta(\bar{x})X] - \frac{1}{2} \operatorname{tr} [\bar{a}_2^\theta(\bar{y})Y] \\ & \quad + \mathcal{J}_\kappa^\theta \phi(\bar{x}, \bar{y}) - \bar{\mathcal{J}}_\kappa^\theta(-\phi)(\bar{x}, \bar{y}) \\ & \quad \left. + \mathcal{J}^{\theta, \kappa}(u, \phi(\cdot, \bar{y}))(\bar{x}) - \bar{\mathcal{J}}^{\theta, \kappa}(v, -\phi(\bar{x}, \cdot))(\bar{y}) \right\}, \end{aligned} \tag{6.3}$$

where $\mathcal{J}_\kappa^\theta, \mathcal{J}^{\theta, \kappa}$ and $\bar{\mathcal{J}}_\kappa^\theta, \bar{\mathcal{J}}^{\theta, \kappa}$ are defined as in (2.3) with η^θ replaced by η_1^θ and $\bar{\eta}_1^\theta$ respectively, and X, Y are appropriate matrices given by the maximum principle for

semicontinuous functions (see [35] for details). Here we have also used the estimate

$$\begin{aligned} c^\theta(\bar{x})u(\bar{x}) - c^\theta(\bar{y})v(\bar{y}) &= c^\theta(\bar{x})(u(\bar{x}) - v(\bar{y})) + (c^\theta(\bar{x}) - c^\theta(\bar{y}))v(\bar{y}) \\ &\geq \lambda(u(\bar{x}) - v(\bar{y})) + (c^\theta(\bar{x}) - c^\theta(\bar{y}))v(\bar{y}), \end{aligned}$$

which follows from (A.3') and the fact that $u(\bar{x}) - v(\bar{y}) \geq 0$ (since otherwise $M \leq 0$).

A by now standard argument, see [32, 33, 34], using the Lipschitz regularity of u, v and the coefficients, yields that the first four differences on the right-hand side of (6.3) are bounded by $C\alpha^{-1} + \omega(\varepsilon)$, for some modulus ω . Similar arguments also lead to the estimate

$$\frac{1}{2} \operatorname{tr} [a_2^\theta(\bar{x})X] - \frac{1}{2} \operatorname{tr} [\bar{a}_2^\theta(\bar{y})Y] \leq \alpha \int_{E_1} |\eta_2(\bar{x}, z) - \bar{\eta}_2(\bar{y}, z)|^2 \nu(dz).$$

This follows from ‘‘Ishii’s trick’’, see [22, Example 3.6].

By Lemma 2.1 the $\mathcal{J}_\kappa^\theta - \bar{\mathcal{J}}_\kappa^\theta$ term is bounded by some modulus $\omega_{\alpha, \varepsilon}(\kappa)$. So we are only left with the $\mathcal{J}^{\theta, \kappa} - \bar{\mathcal{J}}^{\theta, \kappa}$ term. We have

$$\begin{aligned} &\mathcal{J}^{\theta, \kappa}(u, \phi(\cdot, \bar{y}))(\bar{x}) - \bar{\mathcal{J}}^{\theta, \kappa}(v, -\phi(\bar{x}, \cdot))(\bar{y}) \\ &= \int_{\kappa < |z| < 1} \left[u(\bar{x} + \eta_1^\theta(\bar{x}, z)) - u(\bar{x}) - (v(\bar{y} + \bar{\eta}_1^\theta(\bar{y}, z)) - v(\bar{y})) \right. \\ &\quad \left. - \eta_1^\theta(\bar{x}, z) D_x \phi(\bar{x}, \bar{y}) - \bar{\eta}_1^\theta(\bar{y}, z) D_y \phi(\bar{x}, \bar{y}) \right] \nu(dz) \\ &+ \int_{|z| \geq 1} \left[u(\bar{x} + \eta_1^\theta(\bar{x}, z)) - u(\bar{x}) - (v(\bar{y} + \bar{\eta}_1^\theta(\bar{y}, z)) - v(\bar{y})) \right] \nu(dz). \end{aligned} \tag{6.4}$$

Since

$$\psi(\bar{x}, \bar{y}) \geq \psi(\bar{x} + \eta_1^\theta(\bar{x}, z), \bar{y} + \bar{\eta}_1^\theta(\bar{y}, z)),$$

the first integral in (6.4) is bounded by

$$\int_{\kappa < |z| < 1} \left[\alpha |\eta_1^\theta(\bar{x}, z) - \bar{\eta}_1^\theta(\bar{y}, z)|^2 + C\varepsilon(|z|^2 \mathbf{1}_{E_1} + e^{\ell|z|} \mathbf{1}_{E^1}) \right] \nu(dz),$$

where the last term follows from (A.2) and a Taylor expansion in x and y of the ε -terms. By the Lipschitz regularity of u, v and η_1 , cfr. (A.2), and the integrability conditions satisfied by $\nu(dz)$, cfr. (A.1), we find that this term is bounded by

$$C\alpha \int_{E_1} |\eta_1^\theta(\bar{x}, z) - \bar{\eta}_1^\theta(\bar{x}, z)|^2 \nu(dz) + C\alpha^{-1} + C\varepsilon.$$

Consider now the integrand of the second term in (6.4). Assume that $[u]_1 \leq [v]_1$. By the Lipschitz regularity of u this integrand is bounded by

$$[u]_1 |\bar{x} + \eta_1^\theta(\bar{x}, z) - \bar{y} - \bar{\eta}_1^\theta(\bar{y}, z)| + (u(\bar{y} + \bar{\eta}_1^\theta(\bar{y}, z)) - v(\bar{y} + \bar{\eta}_1^\theta(\bar{y}, z))) - (u(\bar{x}) - v(\bar{y})).$$

Note that the second and third differences in this expression are upper bounded by

$$\sup_{\mathbb{R}^N} \{u - v\} - \sup_{\mathbb{R}^{2N}} \{u(x) - v(y) - \phi(x, y)\} - \phi(\bar{x}, \bar{y}),$$

By the Lipschitz regularity of u, v and the inequality $\sup\{\dots\} - \sup\{\dots\} \leq \sup\{\dots - \dots\}$, this in turn can be bounded by

$$\sup_{\mathbb{R}^{2N}} \{[u]_1 |x - y| - \alpha |x - y|^2\}.$$

We bound this expression by maximizing with respect to $r = |x - y|$ and get $C\alpha^{-1}$. We can now conclude that

$$\left([u]_1 \wedge [v]_1 \right) \int_{E^1} |\eta_1^\theta(\bar{x}, z) - \bar{\eta}_1^\theta(\bar{x}, z)| \nu(dz) + C\alpha^{-1}$$

constitutes an upper bound on the second integral in (6.4). Here we also used (A.1), (A.2), and the standard bound $|\bar{x} - \bar{y}| \leq C\alpha^{-1}$.

Combining all the previous estimates we have achieved

$$\begin{aligned} \lambda M &\leq \lambda(u(\bar{x}) - v(\bar{y})) \\ &\leq C\alpha \sup_{\theta \in \Theta} \left| \int_{E_1} (|\eta_1^\theta(\cdot, z) - \bar{\eta}_1^\theta(\cdot, z)|^2 + |\eta_2^\theta(\cdot, z) - \bar{\eta}_2^\theta(\cdot, z)|^2) \nu(dz) \right|_0 \\ &\quad + \left([u]_1 \wedge [v]_1 \right) \sup_{\theta \in \Theta} \left| \int_{E^1} |\eta_1^\theta(\cdot, z) - \bar{\eta}_1^\theta(\cdot, z)| \nu(dz) \right|_0 + C\alpha^{-1} + \omega(\varepsilon) + \omega_{\alpha, \varepsilon}(\kappa). \end{aligned}$$

This last estimate holds trivially when $M \leq 0$. Since $\lambda|(u - v)^+|_0 \leq \lambda M$, the result of the theorem now follows by first sending $\kappa \rightarrow 0$, then sending $\varepsilon \rightarrow 0$, then minimizing the resulting expression with respect to α , and finally interchanging the roles of u and v . \square

To prove the next theorem, we need the following auxiliary lemma:

Lemma 6.3. *Suppose (A.1), (A.2) hold and $\lambda_1, \dots, \lambda_n \geq 0$ satisfy $\sum_{i=1}^n \lambda_i = 1$. If $u^1, \dots, u^n \in C_b(\mathbb{R}^N)$ are viscosity subsolutions of (6.1), then $\sum_{i=1}^n \lambda_i u^i$ is also a viscosity subsolution of (6.1).*

Proof. In this proof we set $a := a_1 + a_2$. We prove the result for $n = 2$. The general case follows by induction. We will show that $\lambda_1 u^1 + \lambda_2 u^2$ is a subsolution of (6.1). Let $\chi \in C^2(\mathbb{R}^N)$ and assume that $\lambda_1 u^1 + \lambda_2 u^2 - \chi$ has a global maximum at $\bar{x} \in \mathbb{R}^N$. We may assume without loss of generality that this maximum is strict. Now introduce the functions

$$\begin{aligned} \phi(x, y) &= \frac{1}{\alpha} |x - y|^2, \\ \psi(x, y) &= \lambda_1 u^1(x) + \lambda_2 u^2(y) - \lambda_1 \chi(x) - \lambda_2 \chi(y) - \phi(x, y). \end{aligned}$$

Let $m_\alpha = \sup_{\mathbb{R}^{2N}} \psi(x, y)$ and note that this supremum is attained at some point (x_α, y_α) when α is small. Moreover, it is possible to show that $x_\alpha, y_\alpha \rightarrow \bar{x}$ and $\frac{1}{\alpha} |x_\alpha - y_\alpha|^2 \rightarrow 0$ as $\alpha \rightarrow 0$.

Now by the maximum principle for semicontinuous functions [22], properly adapted to integro-partial differential equations in [35],

$$(6.5) \quad \sup_{\theta \in \Theta} \left\{ \begin{aligned} &-\frac{1}{2} \operatorname{tr} \left[a^\theta(x_\alpha) X + a^\theta(y_\alpha) Y \right] \\ &- b^\theta(x_\alpha) (\lambda_1 D\chi(x_\alpha) + D_x \phi(x_\alpha, y_\alpha)) \\ &- b^\theta(y_\alpha) (\lambda_2 D\chi(y_\alpha) + D_y \phi(x_\alpha, y_\alpha)) \\ &+ c^\theta(x_\alpha) \lambda_1 u^1(x_\alpha) + c^\theta(y_\alpha) \lambda_2 u^2(y_\alpha) \\ &- \mathcal{J}_\kappa^\theta(\lambda_1 \chi + \phi(\cdot, y_\alpha))(x_\alpha) - \mathcal{J}_\kappa^\theta(\lambda_2 \chi + \phi(x_\alpha, \cdot))(y_\alpha) \\ &- \mathcal{J}^{\theta, \kappa}(\lambda_1 u^1, \lambda_1 D\chi(x_\alpha) + D_x \phi(\cdot, y_\alpha))(x_\alpha) \\ &- \mathcal{J}^{\theta, \kappa}(\lambda_2 u^2, \lambda_2 D\chi(y_\alpha) + D_y \phi(x_\alpha, \cdot))(y_\alpha) \\ &- \lambda_1 f^\theta(x_\alpha) - \lambda_2 f^\theta(y_\alpha) \end{aligned} \right\} \leq 0,$$

for some matrices X, Y satisfying

$$\begin{pmatrix} X & 0 \\ 0 & Y \end{pmatrix} \leq \frac{C}{\alpha} \begin{pmatrix} I & -I \\ -I & I \end{pmatrix} + \begin{pmatrix} \lambda_1 D^2 \chi(x_\alpha) & 0 \\ 0 & \lambda_2 D^2 \chi(y_\alpha) \end{pmatrix}.$$

We immediately see that

$$\operatorname{tr} \left[a^\theta(x_\alpha)X + a^\theta(y_\alpha)Y \right] \leq \operatorname{tr} \left[a^\theta(x_\alpha)\lambda_1 D^2\chi(x_\alpha) + a^\theta(y_\alpha)\lambda_2 D^2\chi(y_\alpha) \right].$$

Next observe that $\psi(\bar{x}, \bar{y}) \geq \psi(\bar{x} + \eta^\theta(\bar{x}, z), \bar{y} + \eta^\theta(\bar{y}, z))$ which is equivalent to

$$\begin{aligned} & \lambda_1 u^1(\bar{x} + \eta^\theta(\bar{x}, z)) - \lambda_1 u^1(\bar{x}) + \lambda_2 u^2(\bar{y} + \eta^\theta(\bar{y}, z)) - \lambda_2 u^2(\bar{y}) \\ & \leq \lambda_1 \chi(\bar{x} + \eta^\theta(\bar{x}, z)) - \lambda_1 \chi(\bar{x}) + \lambda_2 \chi(\bar{y} + \eta^\theta(\bar{y}, z)) - \lambda_2 \chi(\bar{y}) \\ & \quad + \text{terms involving } \phi, \end{aligned}$$

and hence

$$\begin{aligned} (6.6) \quad & \mathcal{J}^{\theta, \kappa}(\lambda_1 u^1, \lambda_1 D\chi(x_\alpha))(x_\alpha) + \mathcal{J}^{\theta, \kappa}(\lambda_2 u^2, \lambda_2 D\chi(y_\alpha))(y_\alpha) \\ & \leq \mathcal{J}^{\theta, \kappa}(\lambda_1 \chi, \lambda_1 D\chi(x_\alpha))(x_\alpha) + \mathcal{J}^{\theta, \kappa}(\lambda_2 \chi, \lambda_2 D\chi(y_\alpha))(y_\alpha) \\ & \quad + \text{terms involving } \phi. \end{aligned}$$

Now computations similar to those in the proof of Theorem 6.2 show that the sum of all terms containing ϕ in (6.5) and (6.6) can be bounded by $\frac{C}{\alpha}|x_\alpha - y_\alpha|^2 + \omega_\alpha(\kappa)$.

Hence we are left with the following inequality:

$$\begin{aligned} & \sup_{\theta \in \Theta} \left\{ \operatorname{tr} \left[a^\theta(x_\alpha)\lambda_1 D^2\chi(x_\alpha) + a^\theta(y_\alpha)\lambda_2 D^2\chi(y_\alpha) \right] \right. \\ & \quad - b^\theta(x_\alpha)\lambda_1 D\chi(x_\alpha) - b^\theta(y_\alpha)\lambda_2 D\chi(y_\alpha) \\ & \quad + c^\theta(x_\alpha)\lambda_1 u^1(x_\alpha) + c^\theta(y_\alpha)\lambda_2 u^2(y_\alpha) \\ & \quad - \lambda_1 \mathcal{J}^{\theta, \kappa}(\chi, D\chi(x_\alpha))(x_\alpha) - \lambda_2 \mathcal{J}^{\theta, \kappa}(\chi, D\chi(y_\alpha))(y_\alpha) \\ & \quad \left. - \lambda_1 f^\theta(x_\alpha) - \lambda_2 f^\theta(y_\alpha) \right\} \leq \frac{C}{\alpha}|x_\alpha - y_\alpha|^2 + \omega_\alpha(\kappa). \end{aligned}$$

Sending first $\kappa \rightarrow 0$ and then $\alpha \rightarrow 0$ we get

$$\begin{aligned} & \sup_{\theta \in \Theta} \left\{ -\frac{1}{2} \operatorname{tr} \left[a^\theta(\bar{x})D^2\chi(\bar{x}) \right] - b^\theta(\bar{x})D\chi(\bar{x}) \right. \\ & \quad \left. + c^\theta(\bar{x}) \left(\lambda_1 u^1(\bar{x}) + \lambda_2 u^2(\bar{x}) \right) - \mathcal{J}^{\theta, 0}(\chi, D\chi(\bar{x}))(\bar{x}) \right\} \leq 0. \end{aligned}$$

Since $\mathcal{J}^{\theta, 0}(\chi, D\chi(\bar{x}))(\bar{x}) = \mathcal{J}^\theta \chi(\bar{x})$ (see (1.3)), according to Definition 2.1, $\lambda_1 u^1 + \lambda_2 u^2$ is a viscosity subsolution of (6.1). \square

Before we can state the final result of this section, we need to introduce an equation which has both (1.5) and the equation appearing in the proof of Theorem 5.2 as special cases. To this end, we introduce the equation

$$\begin{aligned} (6.7) \quad & \sup_{\substack{\theta \in \Theta \\ |e| \leq \varepsilon}} \left\{ -\operatorname{tr} \left[\left(a_1^\theta(x+e) + a_2(x+e) \right) D^2 u \right] - b^\theta(x+e)Du - \mathcal{J}_1^{\theta, \varepsilon} u(x) \right. \\ & \quad \left. + c^\theta(x+e)u - f^\theta(x+e) \right\} = 0 \quad \text{in } \mathbb{R}^N, \end{aligned}$$

where a_1, a_2 are defined in (6.2) and

$$\mathcal{J}_1^{\theta, \varepsilon} u(x) := \int_E \left[u(x + \eta_1^\theta(x+e, z)) - u(x) - \mathbf{1}_{\{|z| < 1\}} \eta_1^\theta(x+e, z) Du(x) \right] \nu(dz).$$

The final result of this section is

Theorem 6.4. *Suppose (A.1) - (A.3) hold and let u^ε be a $C^{0,1}(\mathbb{R}^N)$ viscosity subsolution of (6.7). Then $u_\varepsilon := \rho_\varepsilon * u^\varepsilon$ is a viscosity subsolution of (6.1).*

Proof. We start by observing that from equation (6.7) we have

$$\sup_{\theta \in \Theta} \left\{ -\operatorname{tr} \left[\left(a_1^\theta(x+e) + a_2(x+e) \right) D^2 u^\varepsilon \right] - b^\theta(x+e) Du^\varepsilon - \mathcal{J}_1^{\theta, e} u^\varepsilon(x) \right. \\ \left. + c^\theta(x+e) u^\varepsilon - f^\theta(x+e) \right\} = 0 \quad \text{in } \mathbb{R}^N \quad \text{for every } |e| \leq \varepsilon.$$

By a change of variables $x \rightarrow x - e$ we see that $u^\varepsilon(\cdot - e)$ is a viscosity subsolution of (6.1) for every $|e| \leq \varepsilon$. Now we define the following quantities:

$$Q_\alpha(h) := \alpha + \left[-\frac{h}{2}, \frac{h}{2} \right]^N, \quad \rho_{\varepsilon, h}(\alpha) := \int_{Q_\alpha(h)} \rho_\varepsilon(y) dy, \\ u_{\varepsilon, h}(x) := \sum_{\alpha \in h\mathbb{Z}^N} u^\varepsilon(x - \alpha) \rho_{\varepsilon, h}(\alpha).$$

The function $u_{\varepsilon, h}$ is an approximation of u_ε and by properties of mollifiers we see that $u_{\varepsilon, h} \rightarrow u_\varepsilon$ uniformly as $h \rightarrow 0$. Note that $\rho_{\varepsilon, h}(\alpha) \geq 0$ and that $\rho_{\varepsilon, h}(\alpha) > 0$ only for finitely many α since ρ_ε has compact support. Furthermore

$$\sum_{\alpha \in h\mathbb{Z}^N} \rho_{\varepsilon, h}(\alpha) = \int_{\mathbb{R}^N} \rho_\varepsilon(y) dy = 1,$$

and therefore when $h < \varepsilon$, $u_{\varepsilon, h}(x)$ is a convex combination of viscosity subsolutions $u^\varepsilon(\cdot - \alpha)$ of (6.1). Thanks to Lemma 6.3, we conclude that $u_{\varepsilon, h}$ itself is a viscosity subsolution of (6.1). Hence, by the stability result for viscosity subsolutions, cf. [22, Lemma 6.1], $u_\varepsilon = \lim_{h \rightarrow 0} u_{\varepsilon, h}$ is also a viscosity subsolution of (6.1). \square

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