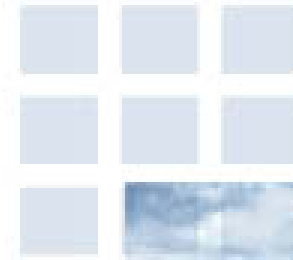




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Statistical Extreme Value Theory (EVT) Part II

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21 July 2014, Trieste, Italy

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Peaks Over Threshold (POT)



Poisson distribution applicable for modeling the *frequency* of exceeding a high threshold (i.e., low probability, rare, event).

What about the intensity of values that exceed the threshold?

Peaks Over Threshold (POT)



- X random variable
- Let $Y = X - u$, conditional on $X > u$, where u is a high threshold.
- Model the “excesses” over the threshold.
- Y has an approximate generalized Pareto (GP) distribution for high u with cdf:

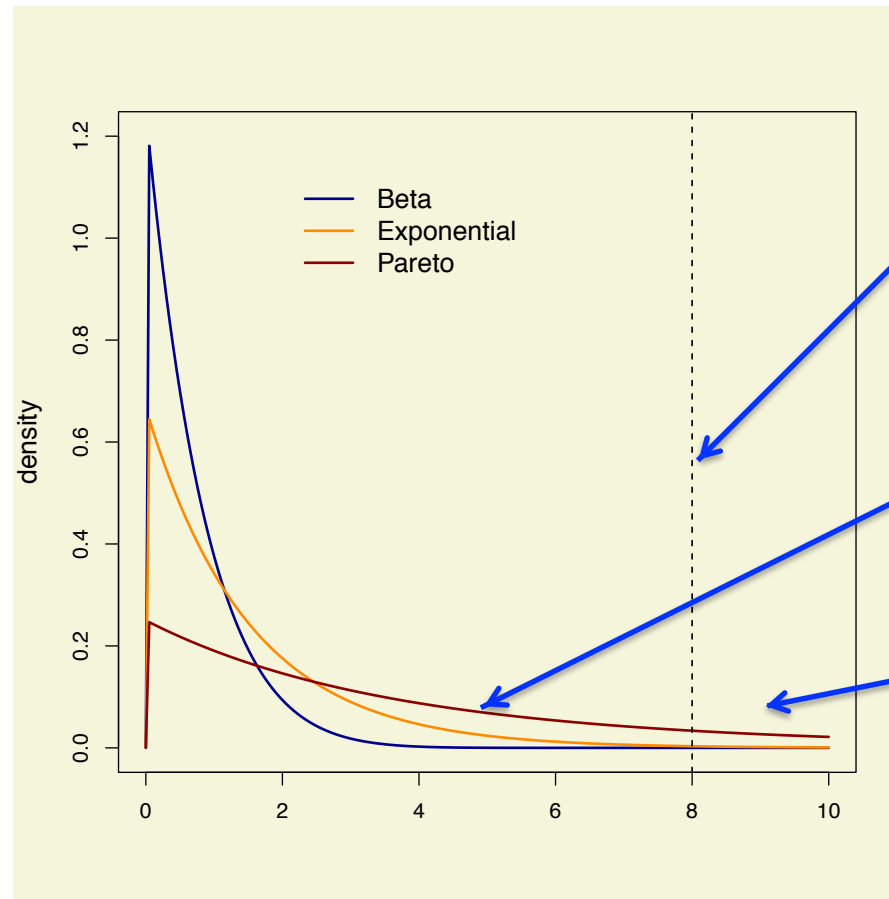
$$H(y; \sigma(u), \xi) = 1 - \left[1 + \xi \frac{y}{\sigma(u)} \right]^{-1/\xi}, \quad y > 0, \quad \xi \frac{y}{\sigma(u)} > 0$$

$$\sigma(u) > 0$$

Peaks Over Threshold (POT)



Three types
of Extreme
Value df's



Beta df;
bounded
upper tail

Exponential;
light tail

Pareto;
heavy tail

Peaks Over Threshold (POT)



- $\xi < 0$ yields the Beta cdf (bounded upper tail)
upper bound at: $u - \sigma(u) / \xi$
- $\xi = 0$ yields the exponential cdf (“light” upper tail)
- $\xi > 0$ yields the Pareto cdf (“heavy” upper tail)

Peaks Over Threshold (POT)

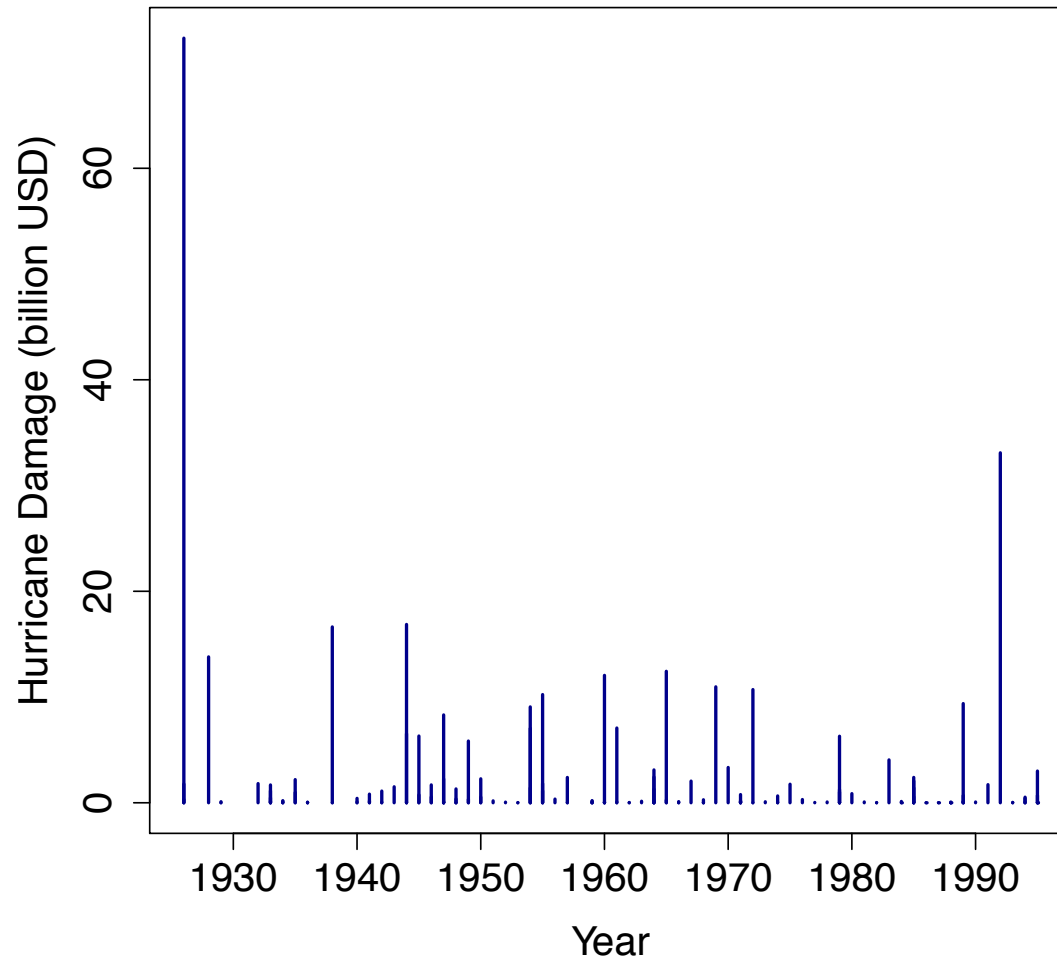


Connection between GEV and GP families

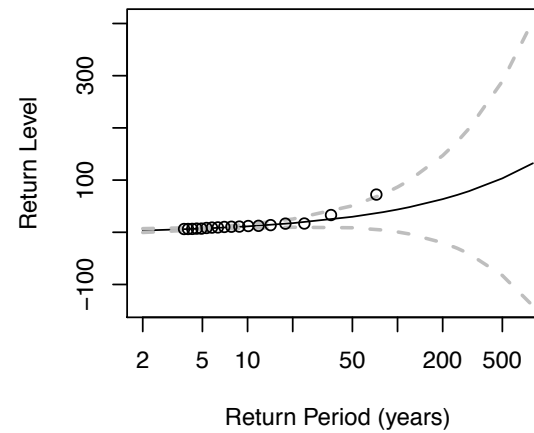
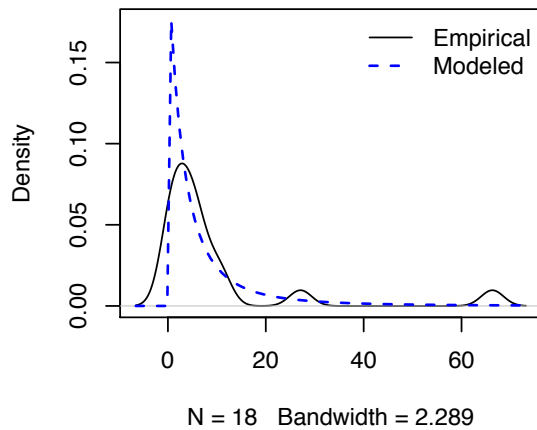
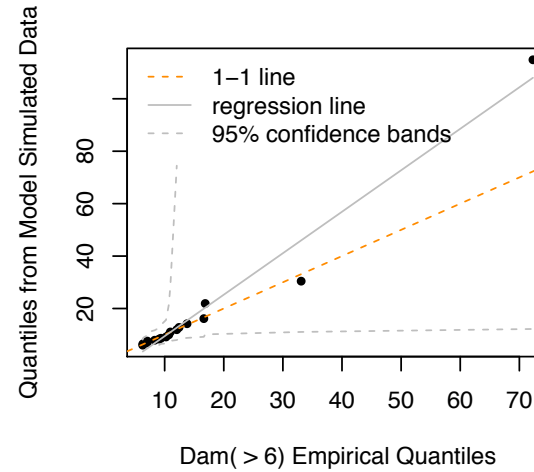
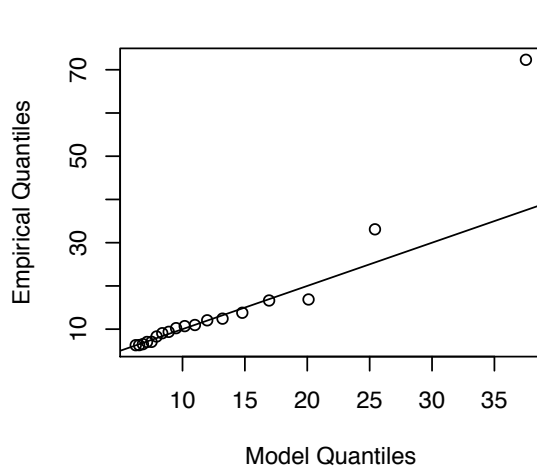
- Maximum $M_n \leq u$ if no $X_i > u$, $i = 1, 2, \dots, n$
- “Memoryless” property of exponential distribution
 $\Pr\{ Y > y + y' \mid Y > y' \} = \Pr\{ Y > y \}$
- Stability of GP distribution
 - Lose memoryless property (need to rescale)
 - If $Y = X - u$ ($X > u$) has exact GP distribution with parameters $\sigma(u) > 0$ and ξ , then excess over a higher threshold $u' > u$ follows the GP distribution with parameters $\sigma(u') > 0$ and ξ , where

$$\sigma(u') = \sigma(u) + \xi(u' - u), \quad u' > u$$

Peaks Over Threshold (POT)



Peaks Over Threshold (POT)



Peaks Over Threshold (POT)



	95% lower CI	Estimate	95% upper CI
$\sigma(u = 6 \text{ billion USD})$	1.03 billion USD	4.59 billion USD	8.15 billion USD
ξ	-0.15	0.51	1.18
100-year return level (billion USD)	0.65 billion USD	43.64 billion USD	86.64 billion USD

Peaks Over Threshold (POT): GP return levels



- First need quantile of GP cdf
 - $x_p = H^{-1}(1 - p; \sigma(u), \xi)$
 - $= (\sigma(u) / \xi) \times (p^{-\xi} - 1), 0 < p < 1$
- Complication: must account for the rate, ζ , of exceeding the threshold for interpretability, as well as the number of events per year, n_y .
 - replace p^{-1} with
 $m = \text{return period of interest} \times n_y \times \zeta$

Peaks Over Threshold (POT): GP return levels



Hurricane example

Lack of structure in data: some years have no hurricanes, some one, some two, etc.

Reasonable to use an average number per year in place of n_y .

Peaks Over Threshold (POT): Threshold Selection



- The Bias-Variance Trade-Off
- Want a high threshold to obtain better GP approximation
- Want a lower threshold for more reliable estimation (more data!)
- Difficult to automate selection

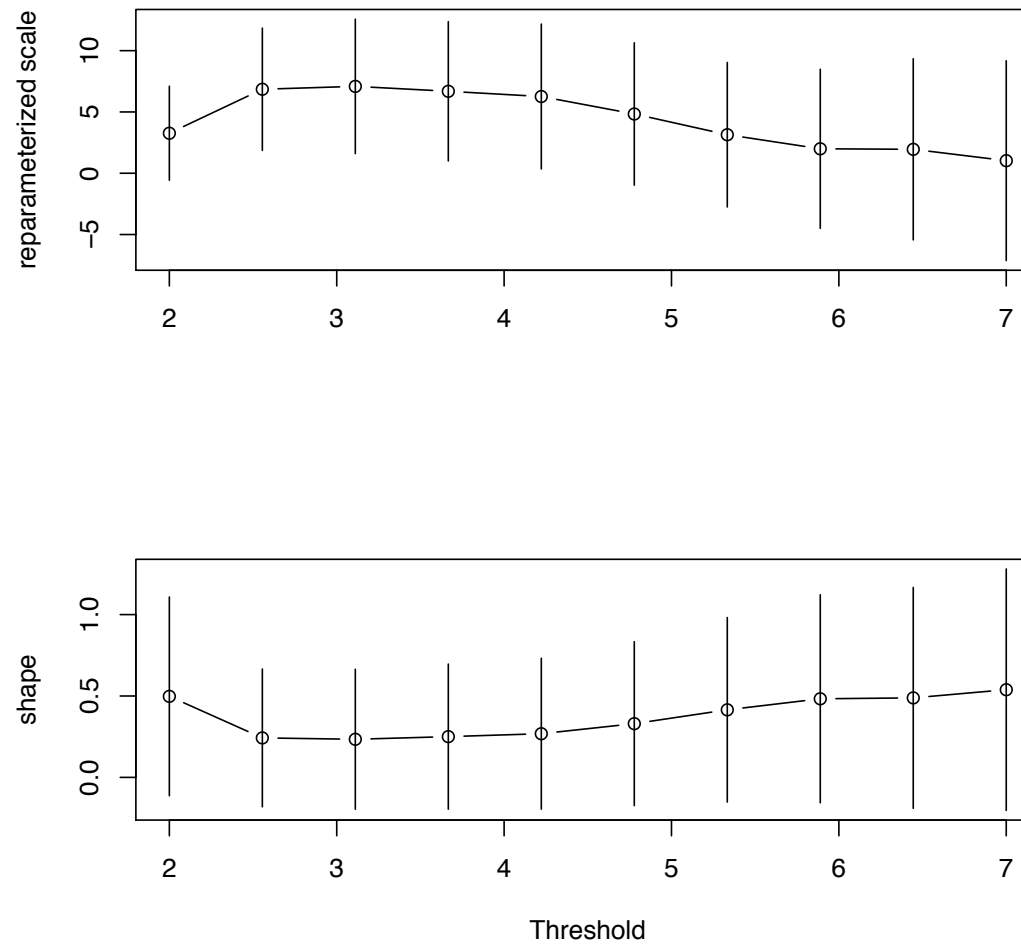
Peaks Over Threshold (POT): Threshold Selection



Invariance of GP above threshold

- ξ does not change
- $\sigma(u)$ is a function of the threshold
- The modification, $\sigma^* = \sigma(u) - \xi u$, is no longer a function of the threshold, and does not change
- Check for stability in parameter estimates as the threshold varies.

Peaks Over Threshold (POT): Threshold Selection



Peaks Over Threshold (POT): Dependence in Threshold Excess Data



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- Remove dependence (e.g., decluster)
 - Runs declustering perhaps the simplest
- Model the dependence (e.g., through bivariate extreme value models)
- Concept of “extremal index”

Peaks Over Threshold (POT): Dependence in Threshold Excess Data



Extremal Index, θ , $0 < \theta \leq 1$

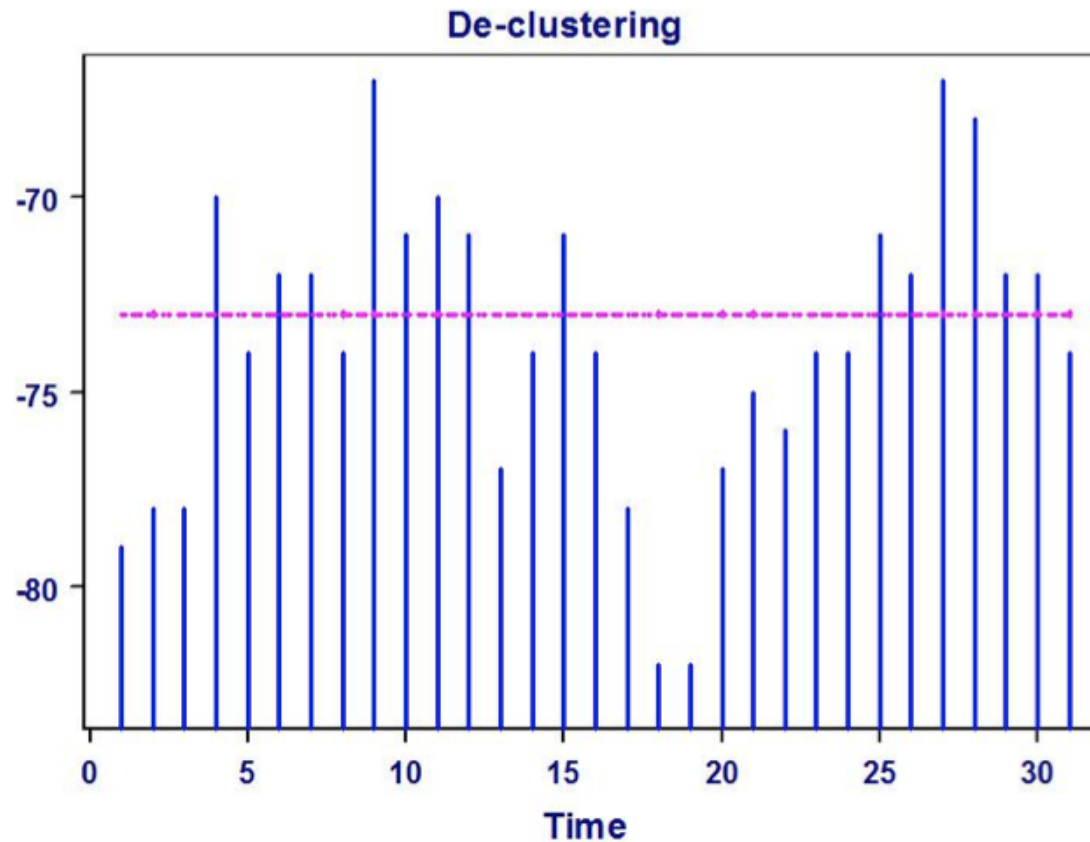
Mean cluster size $\approx 1 / \theta$

$\theta = 1$ implies a lack of clustering at high levels,
and degree of clustering at high levels increases
as θ decreases

Peaks Over Threshold (POT): Dependence in Threshold Excess Data



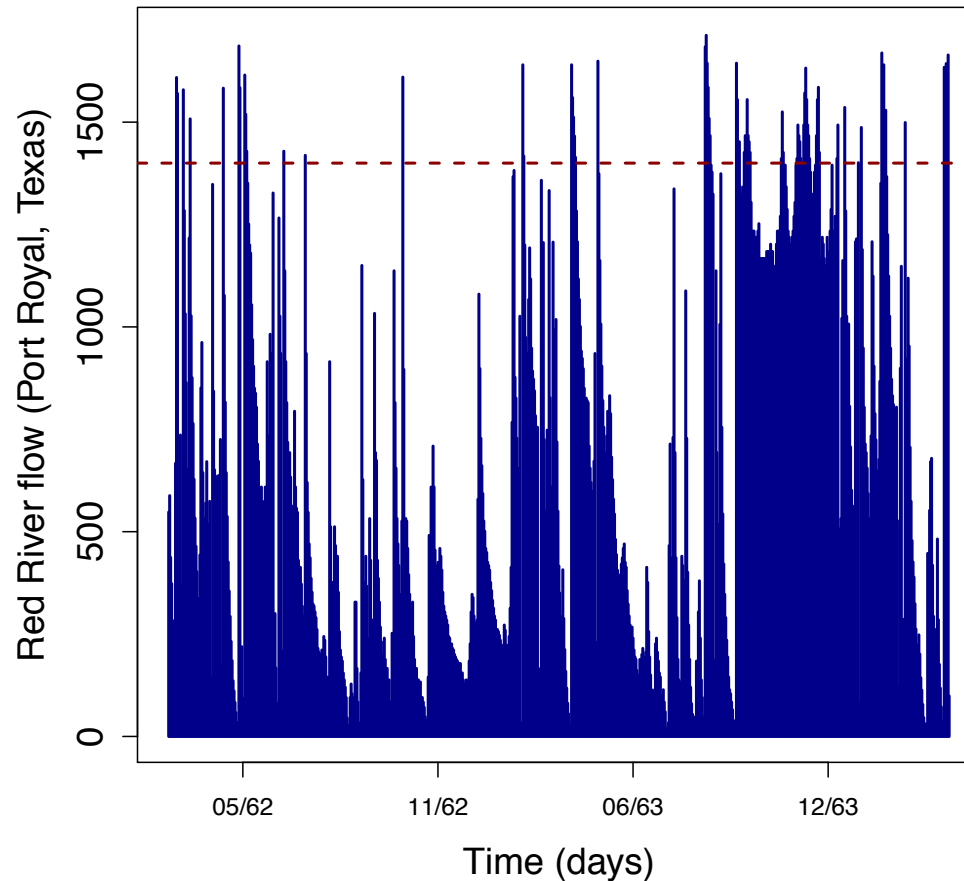
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Peaks Over Threshold (POT): Dependence in Threshold Excess Data



Full time
range is
1 August
1961 to 28
September
2010



$$\theta \approx 0.08$$

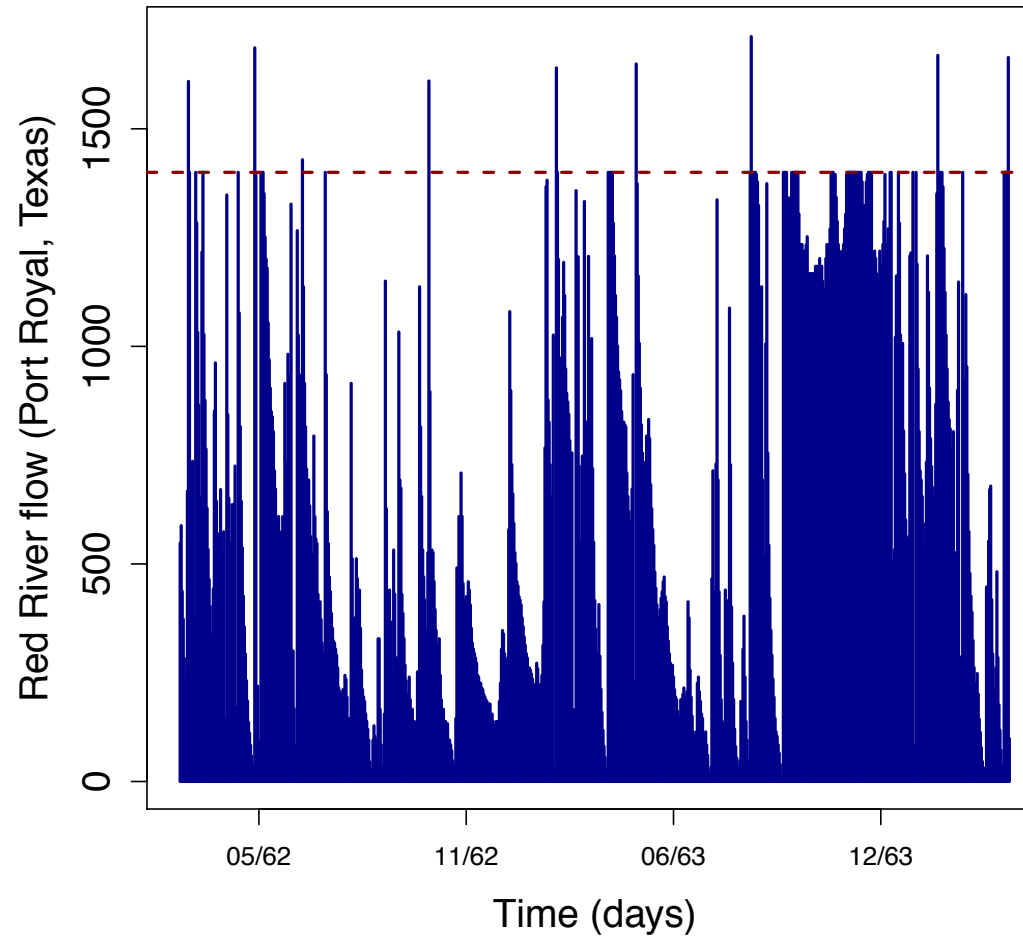
$$r = 29$$

164 clusters

Peaks Over Threshold (POT): Dependence in Threshold Excess Data



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$\theta \approx 0.85$

Peaks Over Threshold (POT): Modeling Frequency and Intensity



Poisson-GP Model

- Poisson process for exceeding a high threshold
 - Event: $X_t > u$
 - Rate parameter: λ
 - Number of events in $[0, T]$ has Poisson distribution with parameter λT
- GP distribution for excess over threshold
 - Excess $Y_t = X_t - u$ given $X_t > u$
 - Scale and Shape parameters

Peaks Over Threshold (POT): Modeling Frequency and Intensity



Point Process (PP) representation

- Subsumes Poisson-GP model
- GEV parameterization (connection to GEV)
- Can relate parameters of $GEV(\mu, \sigma, \xi)$ to those of the $PP(\lambda, \sigma(u), \xi)$
 - Shape parameter, ξ , is identical
 - $\ln \lambda = -(1/\xi) \ln(1 + \xi(u - \mu) / \sigma)$
 - $\sigma(u) = \sigma + \xi(u - \mu)$
- Need time scale, h , to take account of the block size for GEV (e.g., $h \approx 1/365.25$ for daily data and annual blocks)

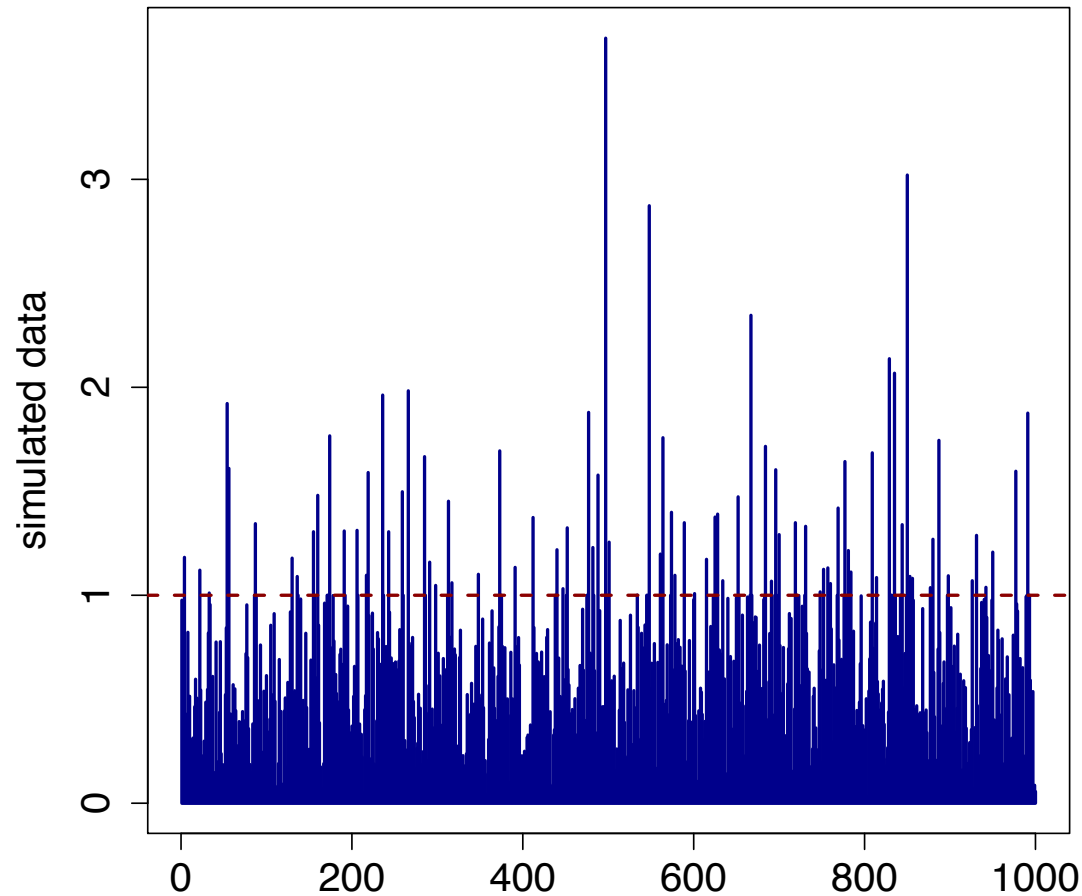
Peaks Over Threshold (POT): Modeling Frequency and Intensity



Point Process (PP) vs Poisson-GP

- Approaches are equivalent
- Poisson-GP model
 - Can obtain the same parameter estimates indirectly through the relationships between the two parameterizations
- Point Process
 - More convenient to quantify total uncertainty
 - Easier to interpret (eliminates dependence of parameters on the threshold)

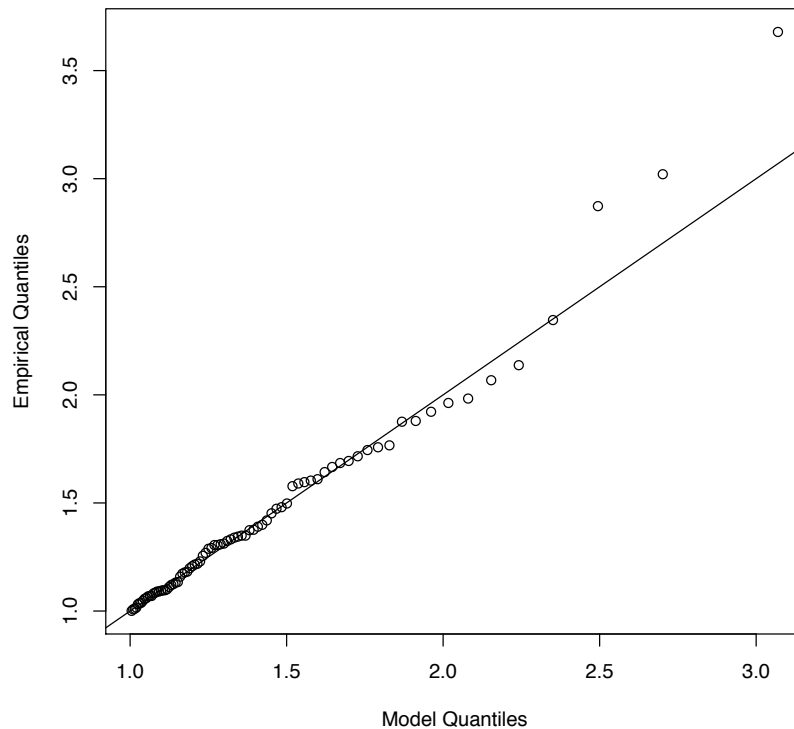
Peaks Over Threshold (POT): Modeling Frequency and Intensity



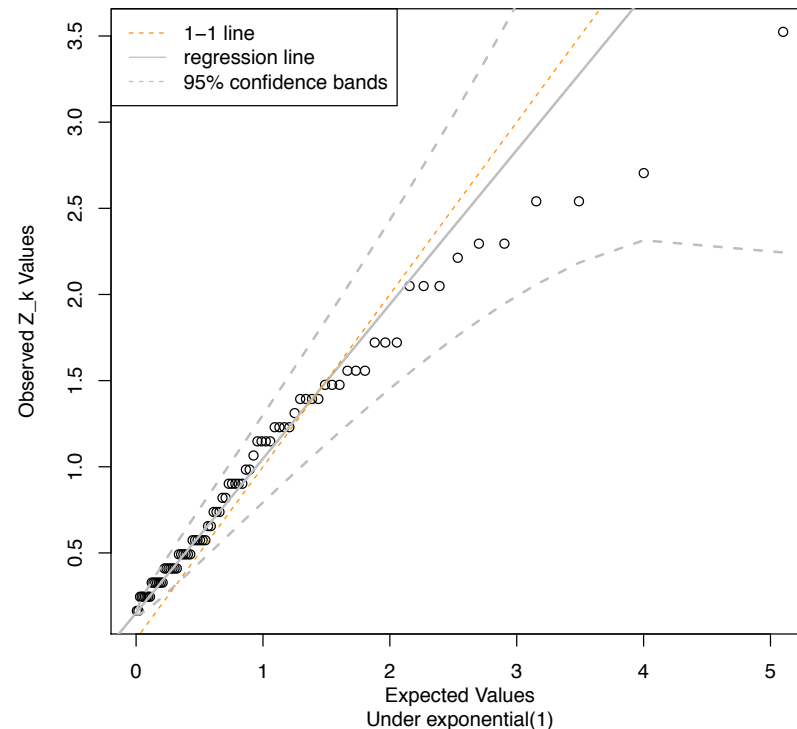
Peaks Over Threshold (POT): Modeling Frequency and Intensity



fevd(x = y, threshold = 1, type = "PP")



Intensity



Frequency

Peaks Over Threshold (POT): Modeling Frequency and Intensity



Poisson-GP estimation method

	95% lower CI	Estimate	95% upper CI
λ	0.07	0.08	0.10
$\sigma(u)$	0.28	0.40	0.53
ξ	-0.16	0.07	0.29

PP estimation method

	95% lower CI	Estimate	95% upper CI
μ	2.06	2.53	3.01
σ	0.20	0.51	0.82
ξ	-0.16	0.07	0.30

Peaks Over Threshold (POT): Modeling Frequency and Intensity



Verify that the two sets of parameter estimates are consistent

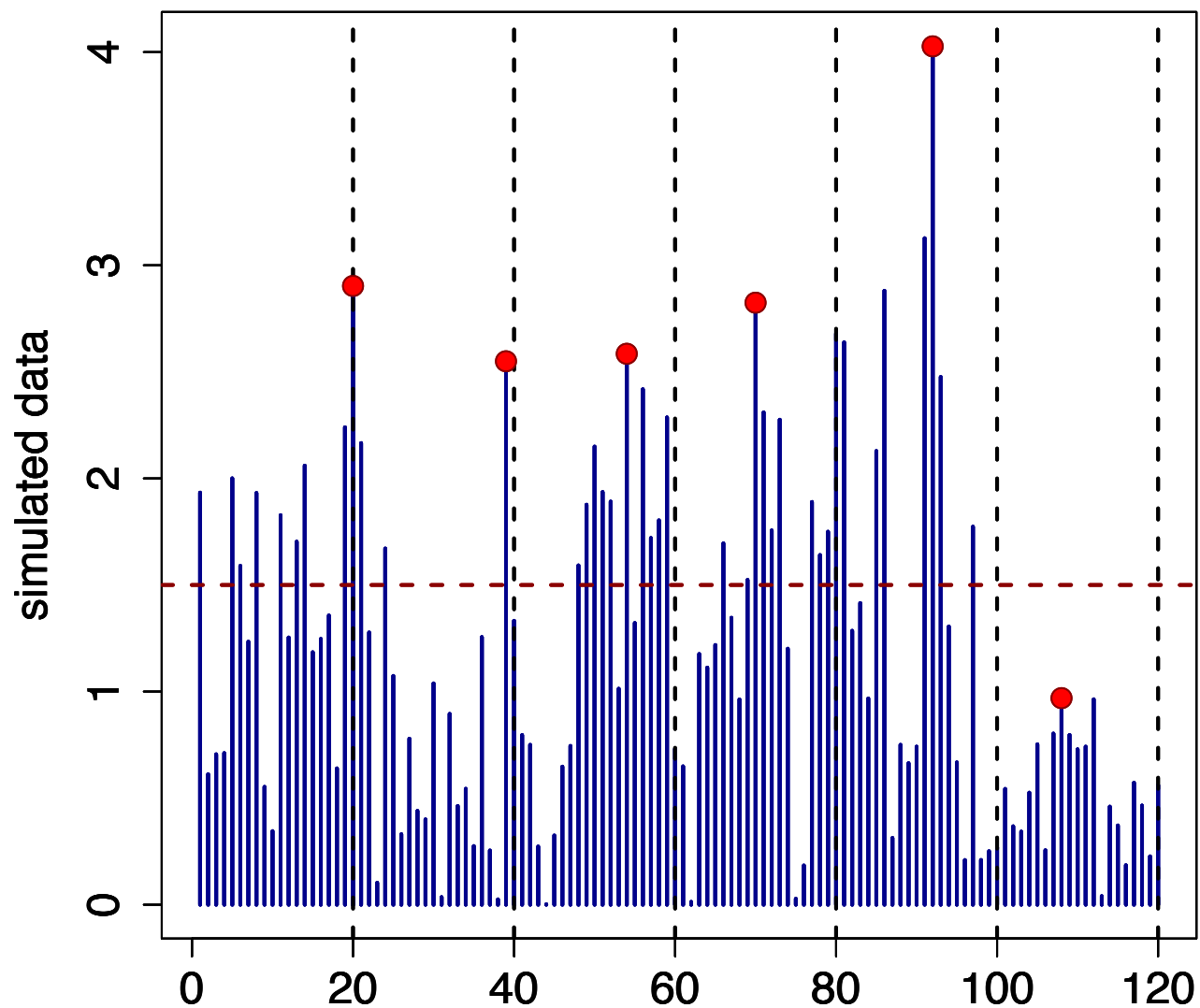
$$\ln \lambda = -(1 / \xi) \ln(1 + \xi(u - \mu)) / \sigma \approx 0.009$$

$$\lambda \approx 29.93 \text{ (estimated on an annual maximum scale)}$$

$$0.08 * 365.25 \approx 29.22$$

$$\sigma(u) = \sigma + \xi(u - \mu) \approx 0.4$$

POT vs Block Maxima





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Conclusion of Part II: Questions?