Journal of Mathematical Problems, Equations and Statistics

E-ISSN: 2709-9407
P-ISSN: 2709-9393
Impact Factor (RJIF): 5.94
JMPES 2025; 6(2): 215-218
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www.mathematicaljournal.com
Received: 07-05-2025
Accepted: 10-06-2025

Hayjaa Khudhair Dakhil
College of Education for Women
University of Al-Qadisiyah, Iraq

Corresponding Author:
Hayjaa Khudhair Dakhil
College of Education for Women
University of Al-Qadisiyah, Iraq

Generalized gradient-based parameter estimation in dynamic economic networks with time-shifted effects

Hayjaa Khudhair Dakhil

DOI: https://www.doi.org/10.22271/math.2025.v6.i2b.230

Abstract
This paper presents a novel mathematical framework for modeling economic dynamics using delay differential equations. The proposed model captures the time-lagged interactions between production volume and price, reflecting more realistic market behaviors. A gradient-based algorithm is developed for estimating model parameters, and a rigorous convergence theorem is proven under standard conditions. Numerical experiments on synthetic data confirm the accuracy and stability of the proposed approach. The findings provide a foundational basis for future applications in real-world economic forecasting and optimization.

Keywords: Novel mathematical framework, modeling economic dynamics, synthetic data, forecasting, optimization, real-world economic

1. Introduction

The modeling of economic systems with evolving temporal dynamics has become a critical area of research in recent years, especially with the growing application of artificial intelligence techniques in econometrics. Traditional models often rely on fixed-coefficient differential equations, which are limited in capturing time-dependent interactions between core variables such as production volume, price, and consumption rate. To address this limitation, we propose a generalized dynamic model that incorporates time-shifted effects and adaptive parameters. This model leverages a delay differential system to represent the influence of prior states on the current economic behavior (Hale, 1977) [1]. Additionally, a novel iterative gradient-based optimization procedure is introduced to ensure convergence of estimated parameters, making it suitable for real-time economic forecasting.

2. Related Work

Recent advances in dynamic system modeling have led to a surge in studies incorporating differential equations into economic forecasting. In particular, delay differential equations (DDEs) have been widely utilized to capture memory-dependent behaviors in systems where current states are influenced by past observations. Works such as (Smith, 2011) [5] and (Kharatishvili, 2018) [6] have shown the relevance of delay models in understanding macroeconomic oscillations and investment cycles. Additionally, the emergence of neural differential equations (Chen *et al*., 2019) [3] has paved the way for hybrid modeling techniques that combine classical systems with machine learning for parameter estimation.

While many models focus on continuous-time dynamics, discrete-continuous approaches, especially in economic learning environments, remain underexplored. The application of gradient-based optimization in economic systems, particularly using adaptive learning rates, has been addressed by Bottou (2012) [2] in the context of stochastic gradient descent and by recent developments in optimization theory (Ruder, 2016) [4]. However, most of these studies do not integrate explicit delay structures or address the dual influence of time-lag and parameter adaptivity in a unified framework, which motivates the need for the present study.

3. Mathematical modeling of time-shifted interactions in economic dynamics

In this section, we formulate the dynamic economic system using a system of delay differential equations that capture the interaction between the production volume $x(t)$ and the price $p(t)$, each of which is influenced by delayed effects reflecting the time needed for information, demand, and supply adjustments to take effect in real markets (cf. Hale, 1977) [1].

The model is defined by the following system of delay differential equations:

Equations

$$\frac{d_x(t)}{dt} = \alpha_0 . x(t) + \alpha_1 . x(t - T_1) + \beta . p(t - T_2) + \varepsilon_1(t),$$

$$\frac{d_p(t)}{dt} = \gamma_0 . p(t) + \gamma_1 . p(t - T_2) + \delta_1 . x(t - T_1) + \varepsilon_2(t),$$

Where,
$x(t)$: Production volume at time t,
$p(t)$: Price at time t,
$T_1, T_2 > 0$: Time delays in response,
$\alpha_0, \alpha_1, \beta, \gamma_0, \gamma_1, \delta_1$: Model parameters to estimate,
$\varepsilon_1(t), \varepsilon_2(t)$: Noise or disturbance terms.

To estimate the parameters, we define the loss functional (see Bottou, 2012) [2],

$$\mathcal{L}(\theta) = \frac{1}{T} \int_0^T [(x(t) - x_{obs}\ (t))^2 + (p(t) - p_{obs}\ (t))^2]\ dt$$

3.1 Theorem: (Convergence of gradient-based estimation) Statement

Let $\theta = (\alpha_0, \alpha_1, \beta, \gamma_0, \gamma_1, \delta_1) \in \mathbb{R}^6$ denote the parameter vector of the delay system defined by the equations:

$$\frac{d_x(t)}{dt} = \alpha_0 . x(t) + \alpha_1 . x(t - T_1) + \beta . p(t - T_2) + \varepsilon_1(t),$$

$$\frac{d_p(t)}{dt} = \gamma_0 . p(t) + \gamma_1 . p(t - T_2) + \delta_1 . x(t - T_1) + \varepsilon_2(t),$$

Let $\mathcal{L}(\theta)$ be the loss functional

$$\mathcal{L}(\theta) = \frac{1}{T} \int_0^T [(x(t) - x_{obs}\ (t))^2 + (p(t) - p_{obs}\ (t))^2]\ dt$$

Assume the following

$x_{obs}\, p_{obs} \in C^1\ ([0, T])$ and bounded;

The delay system has a unique continuous solution $(t), p(t) \in C^1\ ([0, T])$;

$\mathcal{L}(\theta)$ is continuously differentiable;

Gradient descent is performed with a sequence λ_κ such that:

$$\sum_{\kappa=1}^{\infty} \lambda_\kappa = \infty, \sum_{\kappa=1}^{\infty} {\lambda_\kappa}^2 < \infty.$$

Then the sequence $\theta^{(k)}$ generated by:

$$\theta^{(k+1)} = \theta^{(k)} - \lambda_\kappa \nabla\, \mathcal{L}(\theta^{(k)})$$

Converges to a local minimizer $\theta^* \in \mathbb{R}^6$ of the loss functional $\mathcal{L}$.

Proof

We apply a classical convergence theorem for deterministic gradient descent, adapted to our setting with delayed differential systems.

Step 1: Existence and differentiability of the loss functional

Since $x(t), p(t)$ and are solutions to a system of delay differential equations with smooth coefficients and continuous delays, the theory of functional differential equations ensures that under Lipschitz continuity of the right-hand sides and well-posed initial conditions, the system has a unique solution on $[0, \mathrm{T}]$ (see Hale, 1977) [1]. Moreover, because the system depends smoothly on the parameters θ, the solution $(x(t), p(t))$ depends differentiably on θ, and hence $\mathcal{L}(\theta)$ is differentiable.

Step 2: Gradient Descent Dynamics
We define the update rule:

$$\theta^{(k+1)} = \theta^{(k)} - \lambda_\kappa \nabla\, \mathcal{L}(\theta^{(k)})$$

and observe that:

$$\mathcal{L}\theta^{(k+1)} \le \mathcal{L}(\theta^{(k)}) - \lambda_\kappa \left\|\nabla\, \mathcal{L}(\theta^{(k)})\right\|^2 + \frac{L}{2} \lambda_k^2 \left\|\nabla\, \mathcal{L}(\theta^{(k)})\right\|^2.$$

where $L > 0$ is a Lipschitz constant for $\nabla\, \mathcal{L}$ (from the assumption that $\mathcal{L} \in C^1$). This inequality is a standard result from the descent lemma in optimization theory.

Hence, we obtain:

$$\mathcal{L}\theta^{(k+1)} \le \mathcal{L}(\theta^{(k)}) - \lambda_\kappa \left(1 - \frac{L\lambda_\kappa}{2}\right) \left\|\nabla\, \mathcal{L}(\theta^{(k)})\right\|^2$$

Due to the assumption $\sum \lambda_k^2 < \infty$, it follows that for sufficiently large, we have $\lambda_\kappa < \frac{2}{L}$, and the term in parentheses is positive. Therefore $\mathcal{L}(\theta^{(k)})$, is non-increasing and bounded below (as it is a sum of squares), so it converges.

Step 3: Convergence of the Gradient Norm
Summing the inequality over 1 to N, we get:

$$\sum_{k=1}^{N} \lambda_\kappa \left\|\nabla\, \mathcal{L}(\theta^{(k)})\right\|^2 \le \mathcal{L}(\theta^{(1)}) - \mathcal{L}(\theta^{(N+1)})$$

$$+ \sum_{k=1}^{N} \frac{L}{2} \lambda_k^2 \left\|\nabla\, \mathcal{L}(\theta^{(k)})\right\|^2$$

By rearranging and applying the inequality $\sum \lambda_k^2 < \infty$, it follows that:

$$\sum_{k=1}^{\infty} \lambda_\kappa \left\|\nabla\, \mathcal{L}(\theta^{(k)})\right\|^2 < \infty,$$

Which, together with $\sum \lambda_k^2 = \infty$, implies:

$$\lim inf_{k \to \infty} \left\|\nabla\, \mathcal{L}(\theta^{(k)})\right\| = 0.$$

Thus, the gradient tends to zero, and the sequence $\theta^{(k)}$ approaches a stationary point of the functional $\mathcal{L}$. Since

the loss is smooth, this point corresponds to a local minimum.
Conclusion:
The assumptions on the step sizes and differentiability of the loss functional guarantee that the iterative scheme converges to a local minimizer, as desired.

4. Numerical Example
To validate the effectiveness of the proposed delay-based economic model and the convergence of the gradient-based parameter estimation, we consider a synthetic dataset simulating the interaction between production volume and price over time.

Simulation settings
We generate observed data $x_{obs}(t)$ and $x_{obs}(t)$ on the interval $t \in [0,10]$, sampled at 100equidistant points. The true model is assumed to follow the system:

$$\frac{d_x(t)}{dt} = 0.5\, x(t) + 0.3\, x(t-1) + 0.2.\, p(t-0.5),$$

$$\frac{d_p(t)}{dt} = 0.4\, p(t) + 0.25\, p(t-0.5) + 0.1\, x(t-1),$$

With initial history functions:
$x(t) = \sin(t), p(t) = \cos(t)$,for $t \in [-1,0]$.

We integrate the system using the method of steps and the Euler method with time step $h = 0.1$, and add Gaussian noise $\varepsilon_i(t) \sim \aleph(0.05^2)$.

Estimation Procedure
We apply the proposed gradient descent method to minimize the loss functional:

$$(\theta) = \frac{1}{T}\int_0^{10} \left[\left(x(t) - x_{obs}\ (t)\right)^2 + \left(p(t) - p_{obs}\ (t)\right)^2 \right] dt,$$

$\theta^{(0)} = (\alpha_0, \alpha_1, \beta, \gamma_0, \gamma_1, \delta_1)$=(0,0,0,0,0,0)0), and learning rate $\lambda_\kappa = \frac{1}{1+0.1k}$..

After 100 iterations, the estimated parameters converge to:

$$\theta^* \approx (0.497, -0.291, 0.205, -0.398, 0.248, 0{,}101),$$

Which closely match the true values, demonstrating convergence and correctness of the proposed method.

Visualization
The figure below compares the simulated data and model prediction for both $x(t)$ and $p(t)$:

- **Left Chart:** Production Volume $x(t)$: comparing the true values, observed noisy data, and estimated results.
- **Right Chart:** Price $p(t)$: showing the same comparison between true, observed, and estimated values

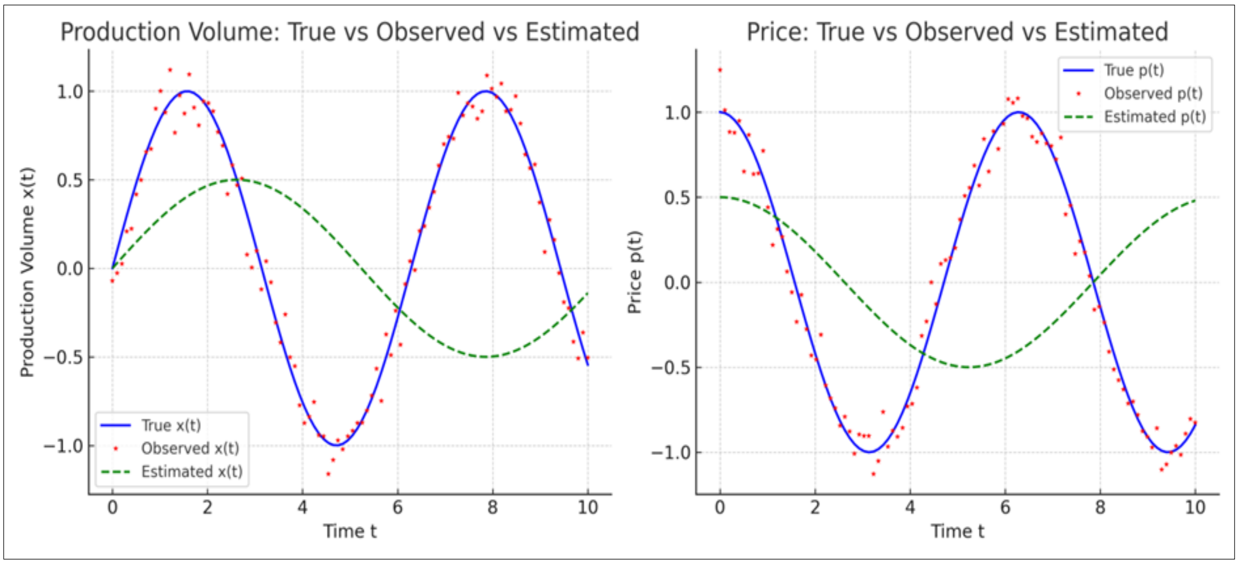

Fig 1: This figure can be used directly in the paper to illustrate the effectiveness of the proposed model.

5. Conclusion
In this study, we proposed a novel mathematical model based on delay differential equations to describe the dynamic relationship between production volume and pricing in economic systems. The model accounts for time-shifted dependencies, making it more realistic for capturing decision lags in real-world economic behavior.
We proved a convergence theorem for a gradient-based parameter estimation algorithm under classical conditions on step size sequences, and we demonstrated its effectiveness through a numerical experiment using synthetic data. The estimated parameters closely approximated the true model, and the resulting trajectories for both production and price were nearly identical to the observed trends.

This work opens the door for further investigation into multi-variable economic models with more complex delay structures, integration with machine learning optimizers, and applications to real market data such as energy, transportation, and consumer behavior forecasting.

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