

Stochastic Models and Optimization: Problem Set 1

Roger Garriga Calleja, José Fernando Moreno Gutiérrez, David Rosenfeld, Katrina Walker

March 3, 2017

Problem 1 (Machine Maintenance): Suppose that we have a machine that is either running or is broken down. If it runs throughout one week it makes a gross profit of \$100. If it fails during the week, the gross profit is zero. If it is running and at the start of the week and we perform preventive maintenance, the probability that it will fail during the week is 0.4. If we do not perform such maintenance, the probability of failure is 0.7. However, maintenance will cost \$20. When the machine is broken down at the start of the week, it may either be repaired at a cost of \$40, in which case it will fail during the week with probability 0.4, or it may be replaced at a cost of \$90 by a new machine that is guaranteed to work properly through its first week of operation. Reformulate the problem within the DP framework, and find the optimal repair-replacement-maintenance policy that maximizes the total expected profit over four weeks, assuming a new machine at the start of the first week.

Primitives:

State: x_k is the state of the machine at the beginning of the week k . x_k can be either 1 (running) or 0 (broken).

Control: $u_k \in U_k$. If $x_k = 1$ then $U_k = \{M, NM\}$ where M means maintenance and NM means not maintenance. If $x_k = 0$ then $U_k = \{F, R\}$ where F mean repair (Fix) and R means replace.

Uncertainty: w_k is the state at the end of the week, that is if it will be broken or not. w_k can be either 1 (running at the end of week k) or 0 (broken at the end of week k).

Dynamics: The state at the beginning of week $k + 1$ will be the state at the end of the week k , so $x_{k+1} = w_k$.

Profit: The profit of week k will be the 100 if it is running at the end minus the cost of the policy u_k . So,

$$g_k(x_k, u_k, w_k) = 100w_k - \begin{cases} 0 & \text{if } u_k = NM \\ 20 & \text{if } u_k = M \\ 40 & \text{if } u_k = F \\ 90 & \text{if } u_k = R \end{cases}.$$

The terminal cost will be 0, since when the 4 weeks have finished we will not need the machine, $g_N(x_N) = 0$.

DP algorithm: Since the terminal profit is 0, $J_N(x_N) = 0$. Then, the profit-to-go of the $N - k$ tail problem will be

$$J_k(x_k) = \max_{u_k \in U_k(x_k)} \mathbb{E}\{g_k(x_k, u_k, w_k) + J_{k+1}(x_{k+1})\}$$

$$j_k(x_k) = \begin{cases} \max_{u_k \in \{M, NM\}} \mathbb{E} \left[100w_k - \begin{cases} 0 & \text{if } u_k = NM \\ 20 & \text{if } u_k = M \end{cases} + J_{k+1}(w_k) \right] & \text{if } x_k = 1 \\ \max_{u_k \in \{M, NM\}} \mathbb{E} \left[100w_k - \begin{cases} 40 & \text{if } u_k = F \\ 90 & \text{if } u_k = R \end{cases} + J_{k+1}(w_k) \right] & \text{if } x_k = 0 \end{cases}$$

Solving by backward induction: $J_4(x_4) = 0$ independent of x_4 . Now, for the next profit-to-go we distinguish between the case $x_3 = 1$ and case $x_3 = 0$,

$$J_3(1) = \max_{u_3 \in \{M, NM\}} \{\mathbb{E}[100w_3|u_3 = NM], \mathbb{E}[100w_3 - 20|u_3 = M]\} = \quad (1)$$

$$= \max\{100\mathbb{P}(w_3 = 1|u_3 = NM), 100\mathbb{P}(w_3 = 1|u_3 = M) - 20\} = \quad (2)$$

$$= \max\{100 \cdot 0.3, 100 \cdot 0.6 - 20\} = \max\{30, 40\} = 40, \implies u_3 = M, \quad (3)$$

$$J_3(0) = \max_{u_3 \in \{F, R\}} \{\mathbb{E}[100w_3 - 40|u_3 = F], \mathbb{E}[100w_3 - 90|u_3 = R]\} = \quad (4)$$

$$= \max\{100\mathbb{P}(w_3 = 1|u_3 = F) - 40, 100\mathbb{P}(w_3 = 1|u_3 = R) - 90\} = \quad (5)$$

$$= \max\{100 \cdot 0.6 - 40, 100 - 90\} = \max\{20, 10\} = 20, \implies u_3 = F. \quad (6)$$

So, $u_3(x_3 = 1) = M$ and $u_3(x_3 = 0) = F$. Then,

$$J_2(1) = \max_{u_2 \in \{M, NM\}} \{\mathbb{E}[100w_2 + J_3(w_2)|u_2 = NM], \mathbb{E}[100w_2 - 20 + J_3(w_2)|u_2 = M]\} = \quad (7)$$

$$= \max\{(100 + 40)\mathbb{P}(w_2 = 1|u_2 = NM) + 20\mathbb{P}(w_2 = 0|u_2 = NM), \quad (8)$$

$$(100 + 40)\mathbb{P}(w_2 = 1|u_2 = M) + 20\mathbb{P}(w_2 = 0|u_2 = M) - 20\} = \quad (9)$$

$$= \max\{(100 + 40) \cdot 0.3 + 20 \cdot 0.7, (100 + 40) \cdot 0.6 + 20 \cdot 0.4 - 20\} = \quad (10)$$

$$= \max\{56, 72\} = 72, \implies u_2 = M, \quad (11)$$

$$J_2(0) = \max_{u_2 \in \{F, R\}} \{\mathbb{E}[100w_2 - 40 + J_3(w_2)|u_2 = F], \mathbb{E}[100w_2 - 90 + J_3(w_2)|u_2 = R]\} = \quad (12)$$

$$= \max\{(100 + 40)\mathbb{P}(w_2 = 1|u_2 = F) + 20\mathbb{P}(w_2 = 0|u_2 = F) - 40, \quad (13)$$

$$(100 + 40)\mathbb{P}(w_2 = 1|u_2 = R) + 20\mathbb{P}(w_2 = 0|u_2 = R) - 90\} = \quad (14)$$

$$= \max\{(100 + 40) \cdot 0.6 + 20 \cdot 0.4 - 40, (100 + 40) - 90\} = \quad (15)$$

$$= \max\{52, 50\} = 52, \implies u_2 = F, \quad (16)$$

So, $u_2(x_2 = 1) = M$ and $u_2(x_2 = 0) = F$. Then,

$$J_1(1) = \max_{u_1 \in \{M, NM\}} \{\mathbb{E}[100w_1 + J_2(w_1)|u_1 = NM], \mathbb{E}[100w_1 - 20 + J_2(w_1)|u_1 = M]\} = \quad (17)$$

$$= \max\{(100 + 72)\mathbb{P}(w_1 = 1|u_1 = NM) + 52\mathbb{P}(w_1 = 0|u_1 = NM), \quad (18)$$

$$(100 + 72)\mathbb{P}(w_1 = 1|u_1 = M) + 52\mathbb{P}(w_1 = 0|u_1 = M) - 20\} = \quad (19)$$

$$= \max\{(100 + 72) \cdot 0.3 + 52 \cdot 0.7, (100 + 72) \cdot 0.6 + 52 \cdot 0.4 - 20\} = \quad (20)$$

$$= \max\{88, 104\} = 104, \implies u_1 = M, \quad (21)$$

$$J_1(0) = \max_{u_1 \in \{F, R\}} \{\mathbb{E}[100w_1 - 40 + J_2(w_1)|u_1 = F], \mathbb{E}[100w_1 - 90 + J_2(w_1)|u_1 = R]\} = \quad (22)$$

$$= \max\{(100 + 72)\mathbb{P}(w_1 = 1|u_1 = F) + 52\mathbb{P}(w_1 = 0|u_1 = F) - 40, \quad (23)$$

$$(100 + 72)\mathbb{P}(w_1 = 1|u_1 = R) + 52\mathbb{P}(w_1 = 0|u_1 = R) - 90\} = \quad (24)$$

$$= \max\{(100 + 72) \cdot 0.6 + 52 \cdot 0.4 - 40, (100 + 72) - 90\} = \quad (25)$$

$$= \max\{84, 82\} = 84, \implies u_1 = F. \quad (26)$$

So, $u_1(x_1 = 1) = M$ and $u_1(x_1 = 0) = F$. Since the machine is new at the start, during the first week it is guaranteed to work, so $J_0(x_0) = \max \mathbb{E}[100w_0 + J_1(w_0)] = 100 + J_1(1) = 100 + 104 = 204$.

Problem 2 (Discounted cost): In the framework of the basic problem, consider the case where the cost is of the form

$$\mathbb{E}_{\{w_k\}} \left\{ \alpha^N g_N(x_N) + \sum_{k=0}^{N-1} \alpha^k g_k(x_k, u_k, w_k) \right\}$$

Where $\alpha \in (0, 1)$ is a discount factor. Develop a DP-like algorithm for this problem

Primitives:

State: The state of the system at the beginning of the period k is x_k .

Control: The control or decision at period k is u_k .

Uncertainty: The uncertainty at period k is w_k .

Dynamics: The dynamics of the problem at period k is $x_{k+1} = f_k(x_k, u_k, w_k)$, for a certain f_k .

Cost: The cost has the form

$$\mathbb{E}_{\{w_k\}} \left\{ \alpha^N g_N(x_N) + \sum_{k=0}^{N-1} \alpha^k g_k(x_k, u_k, w_k) \right\}$$

DP algorithm: To formulate the DP algorithm we can define

$$J_N(x_N) = \alpha g_N(x_N)$$

$$J_k(x_k) = \min_{u_k \in U_k(x_k)} \mathbb{E}_{\{w_k\}} \left\{ \alpha^k g_k(x_k, u_k, w_k) + J_{k+1}(f(x_k, u_k, w_k)) \right\}$$

We can divide both sides of the last equation by α^k . Then

$$\frac{J_k(x_k)}{\alpha^k} = \min_{u_k \in U_k(x_k)} \mathbb{E}_{\{w_k\}} \left\{ g_k(x_k, u_k, w_k) + \frac{J_{k+1}(f(x_k, u_k, w_k))}{\alpha^k} \right\}$$

Note that $\alpha^k = \alpha^{-1} \alpha^{k+1}$. Therefore

$$\frac{J_k(x_k)}{\alpha^k} = \min_{u_k \in U_k(x_k)} \mathbb{E}_{\{w_k\}} \left\{ g_k(x_k, u_k, w_k) + \alpha \frac{J_{k+1}(f(x_k, u_k, w_k))}{\alpha^{k+1}} \right\}$$

Now if we define $V_k = \frac{J_k(x_k)}{\alpha^k}$, which also applies for V_{k+1} and V_N . Thus, our DP algorithm is given by

$$V_N(x_N) = g_N(x_N)$$

$$V_k(x_k) = \min_{u_k \in U_k(x_k)} \mathbb{E}_{\{w_k\}} \{ g_k(x_k, u_k, w_k) + \alpha V_{k+1}(f(x_k, u_k, w_k)) \}$$

Problem 3 (Multiplicative cost): In the framework of the basic problem, consider the case where the cost has the multiplicative form

$$\mathbb{E}_{\{w_k\}} \{ g_N(x_N) \cdot g_{N-1}(x_{N-1}, u_{N-1}, w_{N-1}) \cdots g_0(x_0, u_0, w_0) \}$$

Develop a DP-like algorithm for this problem assuming that $g_k(x_k, u_k, w_k) > 0$, for all x_k, u_k, w_k and k .

Primitives:

State: The state of the system at the beginning of the period k is x_k .

Control: The control or decision at period k is u_k .

Uncertainty: The uncertainty at period k is w_k .

Dynamics: The dynamics of the problem at period k is $x_{k+1} = f_k(x_k, u_k, w_k)$, for a certain f_k .

Cost: The cost at period k is $f_k(x_k, u_k, w_k)$ and has a multiplicative form (so the cost from the period 0 to the period $k \neq N$ will be $\prod_{i=0}^k g_i(x_i, u_i, w_i)$ and $g_N(x_N) \prod_{i=0}^{k-1} g_i(x_i, u_i, w_i)$ if $k = N$).

As in the DP problem, we can take $J_k(x_k)$ as the cost-to-go of the $N - k$ element. Then,

$$J_N(x_N) = g(x_N).$$

And from there on considering U_k the set of the possible decisions,

$$J_k(x_k) = \min_{u_k \in U_k} \mathbb{E}_{w_k} \{g_k(x_k, u_k, w_k) J_{k+1}(f_k(x_k, u_k, w_k))\}.$$

Let's prove that this makes sense, meaning that if the minimum of the expected cost-to-go in the $(k + 1)$ th state is $J_{k+1}(x_{k+1})$ then the minimum of the expected cost-to-go in the k th state will be $J_k(x_k)$ as we have defined it. To do so, we will use induction.

Let us call $J^*(x_k)$ the real minimum of the expected cost-to-go in the k th state. It is clear that $J_N^*(x_N) = J_N(x_N) = g_N(x_N)$ (because it does not depend on any w). Now, assume that $J_{k+1}^*(x_{k+1}) = J_{k+1}(x_{k+1})$. Then, considering $J_k^*(x_k)$,

$$J_k^*(x_k) = \min_{u_k, \dots, u_{N-1}} \mathbb{E}_{w_k, \dots, w_{N-1}} \left\{ g_k(x_k, u_k, w_k) \prod_{i=k+1}^{N-1} (g_i(x_i, u_i, w_i)) g_N(x_N) \right\}.$$

Since $g_k(x_k, u_k, w_k)$ only depends on period k we can put it out of the expectation and the minimum over the subsequent variables $(u_{k+1}, \dots, u_{N-1}$ and $w_{k+1}, \dots, w_{N-1})$. So we get

$$\begin{aligned} J_k^*(x_k) &= \min_{u_k} \mathbb{E}_{w_k} \left\{ g_k(x_k, u_k, w_k) \min_{u_{k+1}, \dots, u_{N-1}} \mathbb{E}_{w_{k+1}, \dots, w_{N-1}} \left\{ \prod_{i=k+1}^{N-1} (g_i(x_i, u_i, w_i)) g_N(x_N) \right\} \right\} = \\ &= \min_{u_k} \mathbb{E}_{w_k} \{g_k(x_k, u_k, w_k) J_{k+1}^*(x_{k+1})\}, \end{aligned}$$

since $J_{k+1}(x_{k+1}) = J_{k+1}^*(x_{k+1}) = \min_{u_{k+1}, \dots, u_{N-1}} \mathbb{E}_{w_{k+1}, \dots, w_{N-1}} \left\{ \prod_{i=k+1}^{N-1} (g_i(x_i, u_i, w_i)) g_N(x_N) \right\}$ by hypothesis of induction,

$$J_k^*(x_k) = \min_{u_k} \mathbb{E}_{w_k} \{g_k(x_k, u_k, w_k) J_{k+1}(x_{k+1})\}.$$

Q.E.D.

Problem 5 (Traveling Repairman Problem): A repairman must service N sites, which are located along a line and are sequentially numbered $1, 2, \dots, N$. The repairman starts at a given site s with $1 < s < N$, and is constrained to service only sites that are adjacent to the ones serviced so far, i.e. if he has already serviced sites $i, i+1, \dots, j$, then he may service only site $i-1$ (assuming $1 < i$) or that site $j+1$ (assuming $j < N$). There is a waiting cost of c_i for each time period that site i has remained unserved and there is a travel cost t_{ij} for servicing site j right after site i . Reformulate the problem within the DP framework.

Primitives:

S: the origin at period k

T: the destination

α_{ij} : $t_{ij} + \sum_{j=k+1}^N c_j$

d_i : path of minimum total cost from s to i

P_i : parent of node

Open: set of nodes whose labels may need correction

Upper: lowest costs from s - t

Initialization:

$$d_S = \sum_{j=1}^N c_j$$

$$d_i = \inf$$

$$\forall j \neq S$$

$$\text{Open} = S$$

$$\text{Upper} = \infty$$

Algorithm:

1) Remove $i \in \text{Open}$

$\forall j$ child of i execute (2)

2) if $d_i + \alpha_{ij} < \min \{d_j, \text{Upper}\}$

then $d_j = d_i + \alpha_{ij}$

$$P_j = i$$

If $j \neq t$, put j in Open

If $j = t$, $\text{Upper} = d_i + \alpha_{ij}$

3) If $\text{Open} \neq \emptyset$ terminate, else to go to (1)