

# Decision Methods and Models

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# Contents

<b>I</b>	<b>Decision Problems</b>	<b>3</b>
<b>1</b>	<b>Introduction</b>	<b>4</b>
1.1	Terminology . . . . .	4
1.2	Modeling approach to decision . . . . .	5
1.3	Why a formal approach? . . . . .	6
1.4	Prescriptive and descriptive models . . . . .	7
1.5	What makes a decision problem complicated? . . . . .	8
1.5.1	Examples of complicated decision problems . . . . .	9
<b>2</b>	<b>Case studies</b>	<b>11</b>
2.1	The tramway of Como . . . . .	11
2.1.1	Context . . . . .	11
2.1.2	The generation of the alternatives . . . . .	13
2.1.3	The generation of scenarios . . . . .	15
2.1.4	The definition and computation of the indicators . . . . .	17
2.1.5	The definition of the stakeholders . . . . .	19
2.1.6	The decision process . . . . .	21
2.2	Reopening of the Navigli in Milan . . . . .	22
2.2.1	The context . . . . .	22
2.2.2	The definition of the alternatives . . . . .	23
2.2.3	The definition of the scenarios . . . . .	24
2.2.4	The definition and computation of the indicators . . . . .	24
2.2.5	The time and space organization . . . . .	25
2.2.6	The definition of the stakeholders . . . . .	25
2.2.7	The decision process . . . . .	25
<b>3</b>	<b>Fundamental definitions and conceptual problems</b>	<b>27</b>
3.1	Decision problem . . . . .	27

3.1.1	Alternatives . . . . .	28
3.1.2	Scenarios . . . . .	29
3.1.3	Impacts . . . . .	29
3.1.4	Impact function . . . . .	30
3.1.5	Decision-makers or stakeholders . . . . .	31
3.1.6	Preference relation . . . . .	31
3.1.7	Property of binary relations . . . . .	33

## II Basic Decision Models 35

### 4 Structured preferences 36

4.1	Dominance relation . . . . .	36
4.1.1	Decision-making on preorders . . . . .	37
4.1.2	Decision-making on weak orders . . . . .	38

## Part I

# Decision Problems

# Chapter 1

## Introduction

### 1.1 Terminology

A **system** is the portion of the world affected by the decision, it should allow different configurations, it should not be given once and for all, otherwise no decision would be possible.

A **solution** or **alternative** is the combination of all controllable aspects of the system, and **outcome** or **scenario** the combination of all its uncontrollable aspects.

A system combines controllable and uncontrollable aspects into a **configuration**. Each configuration is associated to an **impact**, that describes all aspects relevant for the decision.

**Decision-maker** or **stakeholder** refers to everybody who contributes to the choice of the alternative. The former indicates who takes part to the choice, while the latter also includes who does not participate but has interests at stake and could react to a disagreeable choice, exerting an indirect influence on the choice.

With **preference**, we denote the relative satisfaction between impacts.

A decision problem requires to *choose an alternative*:

- so as to *move the system into a configuration*
- such that *the decision-makers prefers its associated impact* to those of other configurations

- keeping into account that *the actual configuration depends on the alternative, but also on the scenario*

A **decision problem** implies two fundamental conditions:

- **Freedom**, i.e., availability of different choices (otherwise there is no decision)
- **Rationality**, i.e., the existence of preference criteria (otherwise the choice cannot be motivated)

This is a concept different from the definition of “decision problem” typically given in computer science (problem which admits only two possible solutions, *yes* or *no*). The decision problems considered here can be considered special cases of optimization/search problems, whose solution is an object with the maximum value (or minimum cost).

The focus is on practical decisions where a large amount of data must be taken into account, many choices are possible and the cost of a wrong choice is high.

We want to discuss *what make a decision complicated*, present the mathematical models to describe complicated situations and present the methods to deal with such situations, while recognizing limits and errors of this approach.

## 1.2 Modeling approach to decision

The modeling approach to decision requires a series of intermediate passages:

- Building a model of the problem
- Solving the model with algorithms, i.e., formal methods
- Interpreting the solution, with suitable methods

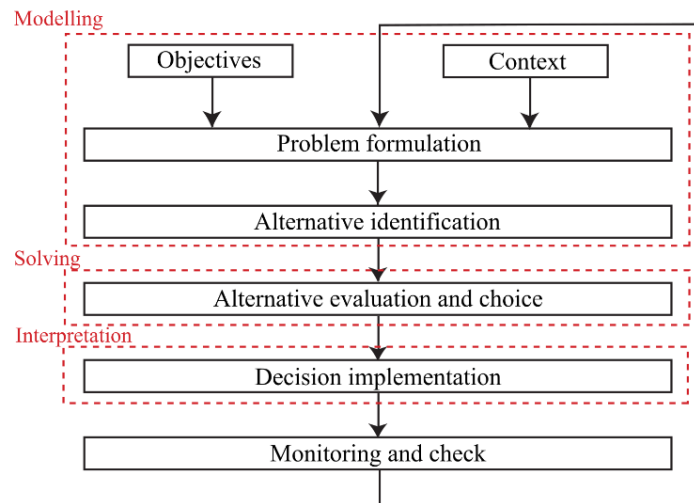
The strategy is to first **make a model**, then **compute**, and **finally decide**. From a problem to a model, solved by an algorithm, then actions are taken based on the solution.

The **decision process** occurs in an **iterative correction approach**:

1. *Problem formulation*: delineate the system, identifying impacts and preferences (Objectives) on one hand, decision-makers and scenarios

(Context) on the other

2. *Alternative identification*: define the set of feasible alternatives
3. *Alternative evaluation and choice*: evaluate the impact associated to each configuration (alternative and scenario) and choose an alternative based on the preferences of the decision-makers
4. *Decision implementation*: apply or simulate the alternative selected
5. *Monitoring and check*: observe the consequences of the decision; if unsatisfactory, make correction and repeat the process, introducing new scenarios, objectives, alternatives and evaluation methods



### 1.3 Why a formal approach?

A formal approach allows to:

- Predict in a more certain and precise way the impact of a decision, using descriptive models instead of intuition and experience
- Accelerate the decision process, using algorithms and information technology
- Consider a much larger number of possible alternatives
- Clarifying and certifying the decision process

- making explicit the assumptions made on alternatives, scenarios, preferences and decision-makers
- guaranteeing repeatability of the process
- allowing specific changes to the process, without starting from scratch

The formal approach is based on

- **Models**, to take decisions and predict their outcomes
- **Methods**, to build models, solve them, and interpret their results

## 1.4 Prescriptive and descriptive models

A decision model includes a number of sub-models, which can be classified based on the data they require and the result they produce. Decision models usually combine:

### 1. **Prescriptive models** that

- receive impacts and preferences in input
- return a suggested alternative in output

*if this is the case, you should do that*

### 2. **Descriptive/predictive** models

- receive the system, an alternative and a scenario in input
- return an impact in output

*If you do this and if this happens, you will obtain that*

The two families of models can have subtle and complex interactions. For example, any prescriptive model uses a set of descriptive models to obtain the impacts of possible alternatives and scenarios; on the other hand, some descriptive models can include prescriptive ones.

Example: a model prescribes a decision (*close or open streets*) based on models that describe a system (*amount of traffic*), including decisions prescribed by models (*satellite navigators*)



## 1.5 What makes a decision problem complicated?

A decision problem can be *complicated* due to:

- An **insufficient model** of the system
- **Complicating features** of the model, such as
  - complex preference structure, insufficient to define an optimum
  - uncertain environment, impact depends also on unknown scenario
  - multiple decision-makers, with potentially conflicting preferences
- A **computationally complex model**, everything is clearly defined, but no efficient algorithm is known to solve the problem

The three main complexity sources for decision problems are:

1. **Preference structure**: simple or complex
2. **Uncertainty**: a single scenario or many
3. **Decision-makers**: single or many

giving rise to  $2^3 = 8$  families of decision problems.

We'll consider four basic families of prescriptive models:

1. Simple preference, a single scenario and a single decision maker:
  - mathematical programming
  - multi-attribute utility theory
2. Complex preference, a single scenario and a single decision maker:
  - paretian preferences
  - weak rationality models (*AHP* and *ELECTRE* methods)
3. Simple preference, multiple scenarios and a single decision-maker:
  - decisions in condition of ignorance (robust programming)
  - decisions in conditions of risk (stochastic programming)
4. Simple preference, a single scenario and multiple decision-makers:
  - independent decision-makers (game theory)
  - cooperating decision-makers (group decisions)

### 1.5.1 Examples of complicated decision problems

Before some large-size examples (Chapter 2), we present some realistic situations that might suggest what elements make a decision complicated in practice.

***The search for parking:*** In a rather congested town, we are looking for a parking to leave out car and reach the place of an important meeting; we would prefer to park quickly and not walk for long to reach the destination.

- *System* is the local street network, with the set of all potential parking places
- *Alternative* is every possible trajectory of the car (path and time)
- *Scenario* is every possible distribution of the free parking spaces over space and time
- *Impact* are the driving time and walking time after parking
- *Decision-maker* is the driver

The impact reduces to the aspects which actually matter for the decision, but it depends on a complex combination (configuration) of every possible trajectory of the car and distribution of parking spaces (alternative and scenario).

***Thermostat regulation:*** We want to tune the classroom's thermostat so that the temperature is pleasant for the teacher and students.

- *System* is the classroom
- *Alternative* is the position of the thermostat
- *Scenario* is the external temperature and the exposition of the classroom to the sun
- *Impact* is the internal temperature of the classroom (but probably, also the humidity)
- *Decision-makers* are all the people in the classroom (or just the teacher?)

This problem is easier than the others, but the definition of impact and decision-makers is not trivial.

***Buying a car:*** We want to buy a car with good performance, comfort, design and low cost throughout its life cycle.

- *System* is the local market of cars, petrol, repairs, etc.
- *Alternative* is the car bought
- *Scenario* are the stock and prices of the car dealers, the occurrence of accidents, prices of petrol and repairs, etc.
- *Impact* are the characteristics of the car throughout its life cycle
- *Decision-maker* is the buyer (possibly some other family members/friends?)

A possible alternative, easy to forget, is to not buy a car, with an impact very bad for some aspects, but very good for others.

***Risiko round:*** We want to play a round of Risiko, considering in turn all of the players.

- *System* is the map, with the distribution of territories, armies, cards
- *Alternative* are the territories from which and to which each attack is launched and the corresponding number of attacking and defending armies
- *Scenario* is the dices' outcome at each attack
- *Impact* is the number of armies destroyed for each player
- *Decision-makers* are the players

Here the presence of multiple decision-makers is intrinsic and unavoidable, moreover they all make their own choices autonomously.

## Chapter 2

# Case studies

We want to present two case studies with the aim of clarifying the concept of complicated decision problems and to understand the practical meaning of the terminology presented earlier.

Both case studies concern large public works and could undergo several variations and corrections, as they are not yet implemented.

### 2.1 The tramway of Como

#### 2.1.1 Context

Como has been for centuries at the center of exchanges, connecting Italy to Switzerland and Germany, while being a connection to cities at the end of the alpine valleys (Varese, Lecco, Bergamo, etc.).

This favorable position has led to problems, mainly related to saturation of the access ways, with congestion, economic losses due to slow transfers, pollution and accidents as a result.

Private cars are the main responsible for these problems, they concentrate on a few relatively small streets, which can't be enlarged easily due to the orography of the site.

A possible improvement could be to use public transport, more efficient from a transportation capacity point of view. However, the fraction of transfers serviced by public transport is small, and very uneven. Buses service a minority of users and are subject to the same limitations as private cars.

As for train services, the state railway is rather unloaded (FS line), while the regional railway is nearly saturated (FNM line). How can the capacity of the FNM line be increased? Maybe while moving some of its passenger on the FS line.

Some critical points to consider while discussing interactions among the lines:

1. The crossing between the lines occurs with an acrobatic system of bridge: the Napoleona street overcomes the FNM line, which overcomes the FS line, which overcomes a small local street (Via dei Mulini)
2. Between the stations of Camerlata and Borghi, the FNM line has a single track, with steep slopes on both sides
3. Between the stations of Borghi and Lago, the FNM line has a single track, running along a narrow alley between houses
4. Joining the FS and FNM lines through the town plain would require first to cross either the walls (in a historical area) or along the lakefront (touristy, occupied by a main street and flooded from time to time), and then climb the steep slope on top of which lies the FS station of Como S. Giovanni

All these factors make a solution based on railways impossible to adopt, unless limited to the use of existing tracks. Increasing the frequency of the trains on the FNM line, however, has two problems:

- The single-track line forbids two trains to run along the Camerlata-Borghi-Lago track (unless perfect synchronization, difficult and prone to big problems)
- The levels crossing cut the town in two for several minutes every time a train passes along them, which could lead to significant traffic congestion

Hence the idea of a tramway line, which could:

- Have a double track, thanks to the shorter gauge
- Have fast crossing with traffic lights, instead of slow level crossings
- Be prolonged to the inside of town

But a classical tramway involves a big problem, as it requires to replace the whole track, therefore

- forcing train passengers from outside Como to change at an external station
- completely blocking traffic during the works

### 2.1.2 The generation of the alternatives

In this case, the set of alternatives is far from being clear. More correctly, it is *indefinite*, and must be built step by step by investigating the whole context.

We need to follow the iterative approach defined in Section 1.2. For instance, if one realizes that modifying the gauge of the tracks is too expensive, one can wonder if there exists tramways able to use standard train tracks. **They exist.**

The process of generating alternatives becomes easier if one decomposes the problem, identifying the basic *alternative elements*, which can be (at least partly) independent.

In this study, three fundamental elements have been identified, in order to base on them the generation of alternatives:

1. The technology used to implement the new line
2. The route of the new line
3. The management of the FNM trains with respect to the new line

**Technology** Previous studies on similar cases suggest three possible technologies:

1. Standard railway service: add a shuttle-train between Grandate e Como Lago, so as to increase the frequency of the current railway service
2. Tramway: replace the railway with a classic tramway
3. Interoperable: add to the current railway service a special tramway which is able to work with both systems (facing all the resulting problems)

**Route** The number of possible routes is huge and not well-defined *a priori*. To start, four possible routes have been identified:

1. Keeping the current FNM route, ending at the station of Como Lago
2. Linking the station of Como Lago (FNM) to Como S. Giovanni (FS) through new tracks crossing the town center
3. Linking the station of Como Lago (FNM) to Como S. Giovanni (FS) through new tracks passing along the lakeside
4. Building a ring around the town center through a new track from Como Lago (FNM) to Como S. Giovanni, plus a track from Como S. Giovanni (FS) to Como Borghi (FNM)

**Management of the FNM trains** This element of the alternatives describes the relation between the two rail transportation systems:

1. Keep the FNM service on its current route
2. Move the FNM service to the FS station of Como S. Giovanni, through the construction of an interchange between the FNM and FS lines (probably in the station of Camerlata)

These are extreme possibilities, with a range of intermediate solutions, either during the works or permanently.

Each of these aspects provides an *alternative element*. The single possible choices for an element can be associated to numerical values: sometimes a proper quantitative measure, other times simple arbitrary indices (e.g., 0 for the railway, 1 for the tramway and 2 for the interoperable). The purpose of this association, in general, is to describe effectively the set of alternatives, not to make computations.

Once the elements of the alternatives and the possible values for each element have been identified, one can proceed to enumerate their combinations, which in general are not all feasible. In the present case there are  $3 \cdot 4 \cdot 2 = 24$  combinations, only 7 of which are feasible. The other ones can be excluded due to obvious contradictions, technical impossibility or common sense.

For example, the railway technology is incompatible with any route different from the present one (trains cannot go through towns).

A fundamental remark on the generation of alternatives is that **there always exists an alternative that consists in doing nothing** and keeping the current situation, this is conventionally denoted as **alternative zero**.

New alternatives should, at least, not worsen the current situation. This is far from trivial since “*worsen*” is a complicated concept.

In this discussion, we have neglected several other potential elements of alternative, such as

- The location of interchange parking (in various sites)
- The implementation of double-tracks rails along parts of the current single-track rail
- The construction of new stations along the current route and possible new routes
- Possible transfers of the current route
- The extension of the service out of Como, beyond the station of Granda
- The frequency of the new service
- The tariffs of the new service
- ...

In particular, some mobility studies suggest that there could be a strong request for a railway servicing parts of the province currently badly connected to Como, both eastward and westward. Other subsequent feasibility studies have focused on these aspects, rejecting the most extreme solutions (current route and town ring), merging the intermediate ones (center crossing and lakeside route) in a mixed variant.

We also neglected the possible *mitigation measures*, all those interventions that must be added to the alternatives in order to correct the negative impacts they produce, or to convince stakeholders strongly opposing the project to accept it (or at least not fight it too much), or to modify the impact of the work (e.g. limited access zones to discourage private cars).

All this confirms that even listing the possible solutions of a decision problem can be a preliminary problem in itself, that is not to be solved in a single phase, and actually is never ultimately solved.

### **2.1.3 The generation of scenarios**

The generation of scenarios follows the same rationale as the generation of the alternatives, also requiring to predict events uncontrollable by the



decision-makers. First, one identifies the *scenario elements* and their possible values, then we consider only the feasible combinations. If new scenarios emerge, or old ones disappear, the study should be updated and corrected.

The scenario elements considered are the following ones:

1. Closure of the lakeside to private traffic: forbidding the access of vehicles to the street that runs between the city center and the lake, this interacts with the project as it frees up the space used by cars, making it easier to build a tramway along the lakeside
2. International Como-Chiasso station: it consists of merging the international railway stations of Como (Italy) and Chiasso (Switzerland) in a single stop, half-way, accelerating the trips between Italy and central Europe, this interacts with the project because the station of Como S. Giovanni would be reduced to the level of local station, introducing the need for a service taking travelers to Como S. Giovanni and possibly onward to the new international station
3. Anti-flood barriers: it consists of building barriers that protect the center of Como from lake floodings, this interacts because a tramway service passing along the lakeside would be blocked by floods
4. Borgovico tunnel: a toll tunnel that should run from the north-west to the south-west of Como, allowing to cross the town without congesting the western side
5. Underlake tunnel: a tunnel which should run under the lake to replace the street that currently connects the north-west and north-east of Como

In theory, each combination of these elements is possible, excluding combining the underlake tunnel with keeping the lakeside open (meaningless) and building both tunnels (too expensive).

This discussion neglects important aspects such as:

- The anticipated variations in the residential and economic structure of the area under study
- The variations in the *origin-destination matrix* (*O/D matrix*) of the potential transportation demand (i.e., the number of trips from place to place that will take place in the town and could be captured by the new service)

- The amount of European, state and region financing

Some of these scenario correspond to predictable numerical values, while others correspond to event which can either occur or not, or could occur in different ways.

For each numerical value, for each event or for each way in which an event can occur, it could be possible to estimate a probability, or at least provide a qualitative estimation of its likelihood. All this information concurs to describe the set of possible scenarios and its auxiliary information.

#### 2.1.4 The definition and computation of the indicators

As the alternatives and the scenarios, also the impacts are combinations of different elementary quantities, which are usually named *indicators*. They characterize the satisfaction of the decision-makers for a configuration of the system, and determine their preferences. Indicators are typically much more numerous and diversified than the elements of the alternatives and the scenarios, so numerous that their generation adopts a hierarchical process that progressively details the sectors of the impact:

- Identify general macrosectors
- Each macrosector is decomposed into sectors, and possibly into sub-sectors, progressively more specific
- The elementary indicators are identified

This mechanism produces an *indicator tree*.

In this case, the three standard macrosectors used in Environmental Impact Assessment (EIA) have been adopted:

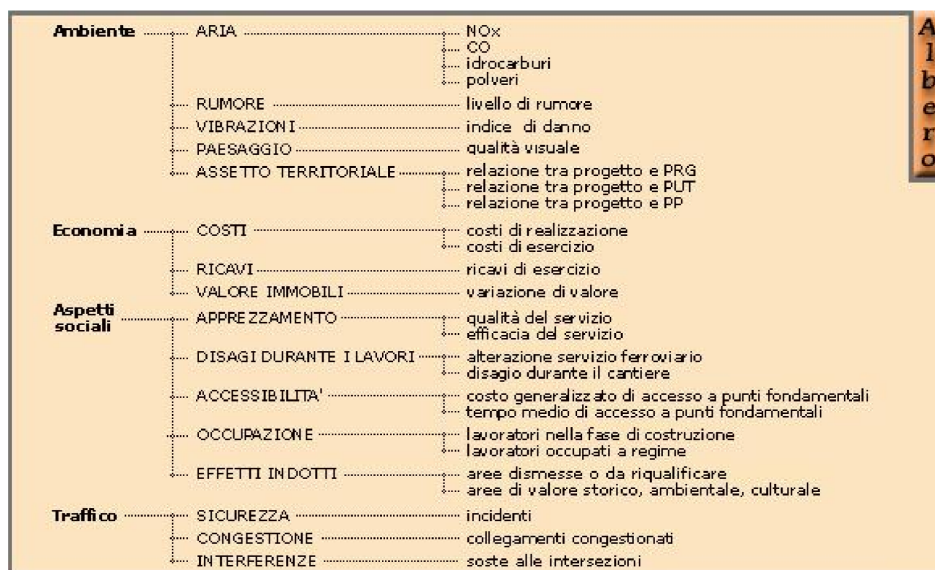
1. *Environment*, subdivided into Air pollution, Noise, Vibrations, Landscape and Territorial structure (that is, the compatibility with the current management plans of the area)
2. *Economy*, subdivided into Costs, Revenues and House values
3. *Society*, subdivided into Appreciation, Discomfort, Accessibility, Employment, Induced effects

but a fourth macrosector has been added

4. *Transportation*, subdivided into Security, Congestion and Interferences

This last one is usually included in the Society macrosector, but it has been attributed an autonomous role as the study evaluates a large transportation service.

This yields the indicator tree:



The hierarchical structure aims to organize the evaluation of the single indicators during the phase of data collection; experts in each sector will be assigned to lead the estimation, prediction and measurement of the values of each indicator.

Similarly, the construction of preferences in the decision phase will be organized based on the specific skills of experts of the various sectors; the “importance” of each indicator has to be determined.

Each indicator must be associated with a tool which will provide its values for each possible configuration. In most cases, these values will not be directly measurable, but are the result of estimates, given by a predictive model (e.g.  $CO_2$  pollution can be measured now, but obviously not in all the hypothetical configurations).

The indicators can be numerical values that express physical measures, but also qualitative values on an ordinal scale. The purpose is not to make computations, just to describe the situation. In practice, some evaluation methods use such numerical values to make computations.

### **Time decomposition (phases) and space decomposition (zones)**

Some indicators have an intrinsic *space* or *time* feature, which must be taken into account; in other words, the values of an indicator might be meaningless if referred to the whole territory or whole time horizon of the project.

To correctly describe the situation, the system has to be divided into distinct geographical zones, on which is meaningful to define a value of the considered indicator.

This increases the amount of information to manage and requires to evaluate the relative importance of the different zones on the decision, as if they were values of different indicators.

In this study, Como has been subdivided into 5 zones:

- Como centro
- Borghi
- Camerlata
- Lora
- Tavernola

Only the first three zones are directly affected by the project, whereas Lora and Tavernola have been maintained to check indirect effects on the whole town.

#### **2.1.5 The definition of the stakeholders**

We denote as *stakeholders* every person, organization, category or institution that is involved, directly or indirectly, in the project, even if it plays no role in the decision, since its interests are affected by the project.

The fundamental aspect in the description of stakeholders is to characterize their *preferential structure*. However, the stakeholders could also point out neglected alternatives, scenario elements and indicators.

For this case, four classes of stakeholders have been identified:

1. Institutional stakeholders (Municipality, Province, Region)
2. Society
  - Citizens

- Environmentalists associations
  - Category associations
3. Users
    - Regular (commuters, students, etc.)
    - Irregular
  4. Transportation companies
    - FNM, whose track between Grandate and Como Lago should be used by the new service
    - SPT, the local public transport company managing the bus lines, whose demand would be disrupted by the new service, requiring revision of routes and schedules
    - FS, whose station of Como S. Giovanni could host part or all the trains currently servicing the FNM line

Each stakeholder has limited interests and skills, often related to one or few subtrees of the indicator tree, hence it will usually be involved mainly in the phases of the decision process which concerns those specific indicators.

For this case, the relation between stakeholders and subsectors:

1. The local government stakeholders will be interested in the whole system of indicators
2. Concerning society stakeholders:
  - The citizen will probably focus their interest on the Environment, Society and transportation macrosectors
  - The environmental associations will focus on the environmental macrosector
  - The category associations (Camera di Commercio, Industria, Artigianato e Agricoltura, Confesercenti, ...), who support the economic interests of the traders and entrepreneurs, will focus on the Economy macrosector and on the discomfort introduced by the works
3. The users will focus on the society macrosector, in particular on quality and accessibility of the service

#### 4. Concerning the transport companies

- FNM will focus on the Society (Employment and Discomfort) and Economy (Costs and Revenues) macrosectors
- SPT will focus on Society, Economy and Transportation macrosectors (Employment, Discomfort, Traffic congestion and its own Costs and Revenues)
- FS is interested in the management of the train service potentially moved to the station of Como S. Giovanni

Once stakeholders have been identified, a reference person (or group) should be defined for each stakeholder, and involved in all phases of the decision process and subsequent iterations.

The tools to interact with the person depend on the specific group of stakeholders considered; such tools could be talking with representatives of the group or polls, forms and interviews to the relevant subjects.

Some group of stakeholders can partly overlap (e.g. environmentalists and shopkeepers are also citizens), but the preference of common citizens will be different from those of a specific group, making it correct to represent them as different stakeholders.

#### 2.1.6 The decision process

For each possible configuration of the system it's necessary to evaluate each indicator, sometimes requiring physical measurements, but most of the time a suitable descriptive model can be applied to compute the expected value. Speaking in qualitative terms:

- The alternatives exploiting the railway technology will have
  - low implementation costs and low discomfort
  - limited effect on the accessibility of sites not currently serviced
  - limited environmental improvements
  - nearly no impact on the employment
  - ...
- The alternatives exploiting the “interoperable” technology will have
  - higher economic costs

- stronger penetration of the service in the urban fabric, dependent on the chosen route
- intermediate discomfort
- ...
- The alternatives exploiting the classical tramway technology will have
  - much higher implementation costs and times
  - very detailed service
  - ...

The resulting numerical and qualitative values will have to be aggregated depending on the preferences of the various stakeholders. It's necessary to model the preferential structure of each stakeholder, to determine preference among different impacts.

It is also necessary to aggregate the preferences of different stakeholders in a final ordering of the alternatives, or at least in the selection of one alternative. The *sensitivity* of the final ordering should also be taken into account, that is the boundaries within which it remains valid when the data changes.

## 2.2 Reopening of the Navigli in Milan

### 2.2.1 The context

Milan was born as a river town, rich in natural rivers, later further enriched by a network of canals. Modernity led to covering the whole network in favor of traffic and, more recently, to a periodic proposal and discussion of project to reopen part of it.

The main motivations for the project are:

- The *hydraulic continuity*, that is the possibility to better control and limit the flooding of water streams in the northern part of Milan, currently flowing through pipes, limiting the capacity and making cleansing more difficult
- The *touristic and commercial navigability*, with their social, cultural and economic outcomes

- The *production of electricity*, not by directly installing turbines in the Navigli, but with the increase of water flow in the Naviglio Pavese, which has several small hydroelectric plants south of Milan
- The *feeding of heat-pump plants* in the area of Darsena using nappe (underground) water
- The *decrease in the nappe level*, thanks to the extraction of water from wells which are currently closed, reducing the use of pumps in several underground stations that defend the tunnels from flooding

### 2.2.2 The definition of the alternatives

The definition of alternatives seems easier in this case, given the Navigli's well defined historical route. In practice, things are not easy.

Starting from a basic dichotomy, one can distinguish:

- “Virtual” alternatives, in which the Navigli are not actually reopened, but made enjoyable with public visual aids (sings, pavings, ...)
- “Physical” alternatives, in which the Navigli are actually reopened

All physical alternatives do not share the same route, there are many alternatives:

- A partial reopening, keeping some covered stretches
- A complete reopening of the classic circle north-east-south, which includes a number of minor variations concerning
  - Porta Nuova park
  - Cavour Square
  - the Vallone Naviglio
  - the Viarenna basin
- The reopening of the whole inner circle, also on the western side: some technical reasons make this alternative quite impractical (mainly, it interferes with underground line 2)
- Additional works with respect to the historical route:
  - the Vettabbia canal



- the “Darsena 2” project, a brand new basin near the railway station Porta Genova

Another fundamental element of the alternatives is navigability: the new canal could be open or closed to boat trips. The elements of alternative (route, navigability and other possible ones) must then be combined to build the alternatives, removing impossible combinations (virtual alternatives obviously forbid navigability).

### **2.2.3 The definition of the scenarios**

This point is not developed in the project described, we therefore make a superficial analysis. The fundamental aspects of the scenario are:

- Availability of public funding to build and manage the canal
- The (more or less) strict closure of the city center to private cars
- The construction of underground line 4 (completed as of writing) which would provide easy access on foot to most of the city center, even if private cars and some bus lines could not access it

### **2.2.4 The definition and computation of the indicators**

We, once again, proceed in a hierarchical way, to identify large sectors and then dividing them. To give a non-exhaustive list:

- Impact on pollution
- Variation of travel times to various parts of town
- Impact on traffic congestion
- Impact on public transport
- Construction costs
- The hedonic impact on the real estate prices
- Impact on commercial activities

Some of these impacts could be so negative as to introduce a feedback loop on the definition of the alternatives, a correction and update of the alternatives through the introduction of devices to reduce those impacts. E.g. bridges used by tramway can't have slopes, which implies a water level low enough and boat suitably designed in order to allow navigability.

### **2.2.5 The time and space organization**

Several indicators are naturally related to geographical positions. Some indicators refer to zones, whereas others to linear stretches of the Naviglio. The detailed project divides the route of the canal into 16 stretches.

Concerning the time phases, some of them correspond, somehow, to alternatives, meaning it's possible to implement a specific phase then leave the following "frozen" for a long time, waiting for favorable conditions to complete them. For example, virtual alternatives can be seen as a preliminary phase to a global reopening. They could achieve a partial result at low cost, however they could increase the overall cost.

The construction of a double Naviglio, with an underground pipe running under the canal is an additional cost, but it also allows to reach in short time the result of hydraulic continuity and to spread over time the following phases, dividing the expense.

### **2.2.6 The definition of the stakeholders**

The definition of the stakeholders is similar to what described in for the tramway of Como (2.1.5). The mayor of Milan can be considered as the decision-maker, but other subjects must be taken into account, such as transportation companies (mainly ATM, railway lines are not affected), the environmental and category associations, citizens. Among the citizens, the owners of real estate along the route of the canal could be considered specifically.

### **2.2.7 The decision process**

Once again, it's necessary to evaluate each indicator in each possible configuration. This implies the application of suitable descriptive models. One could expect that

- The "virtual" alternatives will be particularly cheap and have negligible impact on traffic and pollution, but will not offer any advantage with respect to hydraulic continuity (unless combined with the construction of an underground pipe), to the production of electricity and to the management of water nappe, and they have limited impact on tourism and commerce; the aesthetic impact is harder to evaluate
- The "physical" alternatives will be much more expensive, reaching the objective of hydraulic continuity, electricity production, management

of water nappe, while favoring tourism, commerce, real estate prices and aesthetic impact

Moreover

- The alternatives involving a navigable canal will have touristic, commercial and accessibility advantages, but at a higher cost, requiring to manage a system of gatehouses to get over the height difference between subsequent stretches of the canal
- The alternatives involving a non-navigable canal will be cheaper, but less advantageous for accessibility, commerce and tourism, even if they could have a better aesthetic impact, since a navigable canal requires a relatively low water level to let boats pass under bridges

After all indicators have been evaluated, the aggregation phase can start, taking into account the preferential structure of all the stakeholders. This can be done in several ways and should conclude with an ordering of the alternatives, or at least the choice of one, also with the information on the sensitivity on such an ordering or choice.

## Chapter 3

# Fundamental definitions and conceptual problems

While analyzing the two case studies, we remarked that

- The *alternatives* are generated combining elements of alternative and there is always an alternative zero (leaving the system as is)
- The *scenarios* are generated combining elements of scenario
- The *impacts* are generated combining indicators and indicators are organized into a hierarchy
- Each configuration generates an impact through descriptive models
- Decision-makers should never ignore stakeholders (people affected by the decision and can react to it)
- Preferences are expressed on impacts (not on configurations)

### 3.1 Decision problem

**Definition 1.** A **decision problem** is defined by a 6-uple

$$P = (X, \Omega, F, f, D, \Pi)$$

where:

- $X$  is the **feasible region**, the set of all alternatives;

- $\Omega$  is the **sample space**, the set of all possible scenarios, or outcomes
- $F$  is the **indicator space**, the set of all possible impacts
- $f : X \times \Omega \rightarrow F$  is the **impact function**
  - every pair  $(x, \omega) \in X \times \Omega$  describes a configuration of the system on which a decision should be taken
  - $f$  associates to each configuration  $(x, \omega)$  of the system an impact  $f(x, \omega) \in F$
  - impact  $f(x, \omega)$  describes all the features of the configuration  $(x, \omega)$  that are relevant for the decision (costs, profit, quality levels, ...)
- $D$  is the **set of all decision-makers**, or stakeholders
- $\Pi : D \rightarrow 2^{F \times F}$  is the **preference function**, a function that associates to each decision maker  $d \in D$  a subset of impact pairs  $\Pi(d) \subseteq F \times F$ ; this is interpreted as a binary relation representing the preference of decision maker  $d$

The aim of the problem is to identify a solution  $x^* \in X$  ir a subset of solutions  $X^* \subseteq X$  that the decision-makers consider satisfactory based on their preferences between the impacts  $f(x^*, \omega)$  with  $\omega \in \Omega$  and the other impacts  $f \in F$

### 3.1.1 Alternatives

The alternatives formally describe the events under the control of the decision-makers. The set  $X$  includes al the possible choices.

We'll assume that

$$X \subseteq \mathbb{R}^n \Leftrightarrow x = [x_1 \dots x_n]^T \text{ with } x_i \in \mathbb{R} \quad \forall i \in \{1, \dots, n\}$$

with a finite number  $n$  of elements of alternative or decision variables. Real number can model several different situations (e.g. binary, enumerative, qualitative, quantitative, functions within families).

Several **kinds of feasible regions**  $X$  exist

- Continuous
- Discrete
  - Infinite

– Finite

- \* Combinatorial (typically  $|X| \in \Omega(d^n)$  for some  $d > 1$ )
- \* “Finite” (typically  $|X| \in O(1)$ )

Focusing on a specific kind allows algorithms which are more effective and less general.

The notation is, so far, purely descriptive and not used to make computations.

### 3.1.2 Scenarios

The scenarios formally describe the events out of the control of the decision-makers that have non-indifferent effect on the system. The set  $\Omega$  defines all such events during the time horizon relevant to the decision. Scenarios also describe modeling errors (disturbances).

We’ll assume

$$\Omega \subseteq \mathbb{R}^r \Leftrightarrow \omega = [\omega_1 \dots \omega_r]^T \text{ with } \omega_k \in \mathbb{R} \quad \forall k \in \{1, \dots, r\}$$

with a finite number  $r$  of elements of scenario or exogenous variables.

### 3.1.3 Impacts

The impacts formally describe all aspects that are relevant for the decision, i.e., decisions are taken based on the impact.

The impacts are described quantitatively as vectors of real numbers. We’ll assume

$$F \subseteq \mathbb{R}^p \Leftrightarrow f = [f_1 \dots f_p] \text{ with } f_I \in \mathbb{R}$$

with a finite number  $p$  of

- indicators
- criteria
- attributes
- objectives

### 3.1.4 Impact function

The impact function  $f : X \times \Omega \rightarrow F$  is a vectorial function that associates each configuration  $(x, \omega)$  to an impact  $f(x, \omega)$ .

Trivial example

- buy quantities  $x_i$  of products ( $n$  decision variables)
- Pay costs  $\omega_i$  ( $r = n$  exogenous variables)
- The total (mono-dimensional  $p = 1$ ) cost is  $f(x, \omega) = \sum_{i=1}^n \omega_i x_i$

The impact function can be

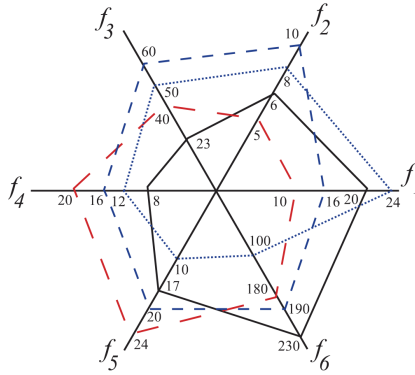
- a mathematical expression that describes a computation
- a simulation or integration software
- an empirically generated graph or table

Two classical representations for finite problems are

#### 1. The **evaluation matrix**

$f(x, \omega)$	$f_1$	$f_2$	$f_3$	$f_4$	$f_5$	$f_6$
$(x', \omega')$	10	5	40	20	24	180
$(x', \omega'')$	16	10	60	16	20	190
$(x'', \omega')$	20	6	23	8	17	230
$(x'', \omega'')$	24	8	50	12	10	100

#### 2. The **radar chart**



### 3.1.5 Decision-makers or stakeholders

A decision-maker is whoever takes part in a decision. The subjects who do not directly contribute to a decision, but play a role in it with their preferences are often denoted as stakeholders.

$D$  is a finite set which includes all stakeholders. They (directly or indirectly) set the value of the decision variables  $x$

- independently

$$X = X^{(1)} \times \dots \times X^{(d)}$$

- cooperatively

$$X = X^{(1)} \cap \dots \cap X^{(d)}$$

### 3.1.6 Preference relation

For each decision-maker, there is the need to distinguish *which impact is preferred*, i.e., preferring  $f \in F$  to  $f' \in F$  means *considering acceptable the replacement of  $f'$  with  $f$* . This corresponds to establishing a relation between pairs of impacts.

$\Pi : D \rightarrow 2^{F \times F}$  associates each decision-maker  $d \in D$  to a subset of impact pairs that represents a binary relation  $\Pi(d)$  on  $F$ .

Subset  $\Pi(d) \in 2^{F \times F} \Leftrightarrow \Pi(d) \subseteq F \times F$  collects the specific pairs of impacts between which  $d$  has a weak preference

$$\Pi_d = \{(f, f') \in F \times F \mid d \text{ weakly prefers } f \text{ to } f'\}$$

**Definition 2.** A **weak preference** is when  $d$  accepts to cede  $f'$  for  $f$  (not strict)

$$f \preceq_d f' \Leftrightarrow (f, f') \in \Pi_d$$

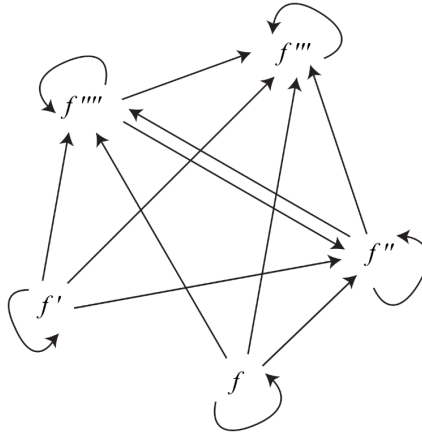
In the finite case, a preference relation can be represented by

1. an **incidence matrix** (rows and columns are impacts, the ones are preferences)



	$f$	$f'$	$f''$	$f'''$	$f''''$
$f$	1	0	1	1	1
$f'$	0	1	1	1	1
$f''$	0	0	1	1	1
$f'''$	0	0	0	1	0
$f''''$	0	0	1	1	1

## 2. a preference graph



### Derived relations

From the weak preference relation, one can derive

- **Indifference** relation ( $\text{Ind}_\Pi = \Pi \cap \Pi^{-1}$ ), definition:

$$f \sim f' \Leftrightarrow f \preceq f' \text{ and } f' \preceq f$$

*The decision-maker accepts the exchange in both directions*

- **Strict preference** relation ( $\text{Str}_\Pi = \Pi \setminus \Pi^{-1}$ ), definition

$$f \prec f' \Leftrightarrow f \preceq f' \text{ and } f' \not\preceq f$$

*The decision-maker accepts the exchange only in the given direction*

- **Incomparability** relation ( $\text{Inc}_\Pi = \bar{\Pi} \cap \bar{\Pi}^{-1}$ ), definition

$$f \bowtie f' \Leftrightarrow f \not\preceq f' \text{ and } f' \not\preceq f$$

*The decision-maker rejects the exchange in both directions (the decision-maker is not indifferent between the impacts, but is unable or unwilling to chose between them, refusing both exchanges)*

### 3.1.7 Property of binary relations

Not all binary relations express reasonable preference relations for a decision-maker. In principle, the preference relation should be

- *Realistic*, it models correctly the aims of the decision-maker
- *Effective*, it allows algorithms that yield a satisfactory choice

The two are, surprisingly, often conflicting.

Some preference relations enjoy some other special properties

- **Reflexivity:**  $f \preceq f$ ,  $\forall f \in F$ ; it would be meaningless to consider a decision-maker unable to compare an impact to itself
- **Antisymmetry:** if  $f \preceq f'$  and  $f' \preceq f$ , then  $f = f'$  for all  $f, f' \in F$ ; two impacts are indifferent only if they are identical
- **Completeness:** if  $f \not\preceq f'$ , then  $f' \preceq f$  for all  $f, f' \in F$ ; it requires the decision-maker to be able to always sort the impacts, though allowing ties; this excludes incomparability
- **Transitivity:** if  $f \preceq f'$  and  $f' \preceq f''$ , then  $f \preceq f''$ , for all  $f, f', f'' \in F$ ; discussed later

While building the model, we must investigate whether they hold or not, because they could be

- useful to simplify the computation
- but unrealistic for the given problem

**Main kinds of preference relation** Combining these properties, we can identify different kinds of preferences:

- A **preorder** enjoys reflexivity and transitivity
- a **partial order** enjoys reflexivity, transitivity and antisymmetry; example: subset inclusion
- a **weak order** enjoys reflexivity, transitivity and completeness; example: rankings in sport
- a **total order** enjoys reflexivity, transitivity, antisymmetry and completeness; example: number sizes

**Conceptual problems on transitivity** Transitivity is the most common assumption for a preference relation, and is often interpreted as an equivalent for rationality.

Rational decision-makers are transitive, humans are not. There are two main approaches to deal with this point:

1. *humans should be transitive*, i.e., use thought experiments to show the evil consequences of giving up transitivity
2. *let humans be non-transitive*, i.e., appeal to practical and thought experiments and adopt weaker models of rationality

## Part II

# Basic Decision Models

## Chapter 4

# Structured preferences

How can we use the concept introduced to choose a solution for a decision problem?

We'll assume:

- A simple preference relation  $\Pi$
- A certain environment  $|\Omega| = 1 \implies f(x, \bar{\omega})$  reduces to  $f(x)$
- A single decision-maker  $|D| = 1 \implies \Pi_d$  reduces to  $\Pi$

Single scenario and single decision-maker. Also, the preference relation of the decision-maker will be a weak order (reflexive, transitive and complete).

The first two conditions allow a well-posed definition of solutions that can be justifiably selected and the third allows the choice of a single solution.

### 4.1 Dominance relation

The preference relation between impacts ( $\Pi \subseteq F \times F$ ) projects onto an **induced relation between solutions**. A solution *dominates* another when the impact of the former is preferable to the impact of the latter.

$$x \preceq x' \Leftrightarrow f(x) \preceq f(x') \quad \forall x, x' \in X$$

**Definition 3.** We denote as **dominated solution** a solution  $x \in X$  such that  $\exists x' \in X : f(x') \prec f(x)$ , **nondominated solution**. We denote as  $X^* \subseteq X$  the set of **all nondominated solutions**.

This implies a partition of the feasible region into

- dominated solutions:  $x \in X$  such that  $\exists x' \in X : x' \prec x$
- nondominated solutions: the other ones

**Reflexivity** looks natural in a preference relation. When solving a decision problem, it is also rather natural to

- **exclude dominated solutions**, that is choose  $x^* \in X^*$
- Choose an **arbitrary solution from a set of mutually indifferent ones**

But this conflicts with some possible situations:

- All solutions in a strict dominance circuit would be removed
- Two solutions might be indifferent with respect to a third one, but incomparable with each other

Transitivity solves both problems. **Preorders** are strong candidates to be **preference relations**.

#### 4.1.1 Decision-making on preorders

**Theorem 1.** *If the preference relation  $\Pi$  is a preorder, the induced dominance is a preorder.*

**Theorem 2.** *If the preference relation  $\Pi$  is a preorder (reflexive and transitive) and the solution set is finite and nonempty ( $X \neq \emptyset$ ), the nondominated solution set  $X^*$  is nonempty.*

This guarantees that decision problems admit reasonable solutions. In some cases,  $X^*$  will contain a single solution, or several mutually indifferent, in other cases it will include incomparable solutions. Therefore, determining  $X^*$  simplifies the problem, but doesn't solve it completely.

**Theorem 3.** *If preference  $\Pi$  is a preorder and  $X^*$  is nonempty, the nondominated solutions partition into disjoint components*

- *they are mutually indifferent within each component*
- *they are mutually incomparable between different components*

$\implies$  *if there is only one component, the problem is solved (requires completeness).*

### Identification of the nondominated solutions

If  $X$  is a finite set, it's possible to build the **strict preference graph**, whose nodes correspond to solutions, while the arcs correspond to solution pairs whose impacts are related by a strict preference. In this graph there are no indifferent pairs.

The nondominated solutions correspond to *nodes with no ingoing arc* (from each node there's an arrow towards dominated solutions), to identify them it's sufficient to scan each node of the graph and search for nodes with zero indegree.

Let  $O(\gamma)$  be the complexity of computing the preference between two given impacts (non necessarily constant, they must be computed and compared), then the overall complexity for the search is  $O(\gamma|X|^2)$  (for each node, compare its impact to the one of every other in time  $\gamma$ ).

This obviously can't be applied to infinite sets and could be impractical even in the case of combinatorial sets.

#### 4.1.2 Decision-making on weak orders

**Theorem 4.** *If preference  $\Pi$  is a weak order (reflexive, transitive and complete), the induced dominance is a weak order.*

**Theorem 5.** *If preference  $\Pi$  is a weak order (reflexive, transitive and complete) and  $X$  is finite and nonempty, nondominated solutions exist and are all mutually indifferent.*

This allows to choose any of such solutions as the overall solution of the problem. This is good, the aim is to “make the right choice”. Weak orders allow to sort impact on a line, with possible ties, as if associating a degree to each impact.

**Definition 4.** A **value function** is a function  $v : F \rightarrow \mathbb{R}$  that associates a real value to each impact (also called *utility functions in economics*). Function  $v$  is **consistent** with preference relation  $\Pi$  when

$$f \preceq f' \Leftrightarrow v(f) \geq v(f'), \quad \forall f, f' \in F$$

or, equivalently

$$\Pi = \{(f, f') \in F \times F \mid v(f) \geq v(f')\}$$

This offers a compact way to represent preference relations, that is also good for computation

$$\max_{x \in X} \{v(f(x))\}$$

if we have analytic expressions for  $X$  and  $v(f(\cdot))$  and a solving algorithm.

Value functions are **not univocal** (infinite equivalent ones always exist).

If a preference relation admits a consistent value function, the derived relations of indifference and strict preference correspond to identity and strict inequality between the values of the value function.

**Theorem 6.** *If a preference relation  $\Pi$  admits a consistent value function  $v(f)$ , then  $\Pi$  is a weak order (reflexive, transitive and complete).*

The proof is simple, the point is to show that the preference enjoys reflexivity (because  $\Pi$  includes pair  $(f, f)$  for all  $f \in F$ ), transitivity (because for all triplets  $f, f', f'' \in F$  such that relation  $\Pi$  includes pairs  $(f, f')$  and  $(f', f'')$ , it also includes pair  $(f, f'')$ ), and completeness (because for each pair  $(f, f')$  not included in  $\Pi$ , pair  $(f', f)$  belongs to it).

In practice, we start from a preference relation, not from a value function, the inverse would be more useful (the decision problem could be reduced to a maximization of the value function), but it's not always true.

### Weak orders not reducible to a consistent value function

**Lexicographic order** The main example of weak order relation (actually, strong order relation), which doesn't admit a consistent value function.

Considering the simplest two-dimensional case, with real components ( $F = \mathbb{R}^2$ ), the preference relation is defined as

$$\begin{bmatrix} f_1 \\ f_2 \end{bmatrix} \preceq \begin{bmatrix} f'_1 \\ f'_2 \end{bmatrix} \Leftrightarrow f_1 < f'_1 \text{ or } f_1 = f'_1 \wedge f_2 \leq f'_2$$

The decision-maker prefers the smaller impact of the first one, for any value of the second, preferring the smaller value of the second only in the case of a tie for the first.

It can be proven that this relation doesn't admit any consistent value function  $v(f)$ , that is assigning to each impact in  $F$  a real value such that the



preference between two impacts correspond to an inequality between the function values.

The intuitive reason is that no improvement of the second can compensate for a worsening, even very small, of the first.

### Weak order preference models

**Scalar impact** When the impact is one-dimensional, it's often easy (though not always) to turn it into a value function. E.g., if the impact

- is a benefit, set  $v(f) = f$
- is a cost, set  $v(f) = -f$
- has a target value  $\bar{f}$ , set  $v(f) = -\text{dist}(f, \bar{f})$

**Borda count** In the finite case, every weak order admits a value function (Borda count)

$$B(f) = |\{f' \in F \mid f \preceq f'\}|$$

Basically, the Borda count  $B(f)$  is the number of solutions dominated by  $f$ .

**Lexicographic order** If the indicators are all costs (or benefits) and are sorted by importance ( $P = (\pi_1, \dots, \pi_p)$ ), the preference relation  $\Pi$  is a total order

$$f \preceq f' \Leftrightarrow f_{\pi_1} < f'_{\pi_1} \text{ or } \left\{ \begin{array}{l} f_{\pi_1} = f'_{\pi_1} \\ f_{\pi_2} < f'_{\pi_2} \end{array} \right\} \text{ or } \dots \text{ or } \left\{ \begin{array}{l} f_{\pi_1} = f'_{\pi_1} \\ f_{\pi_2} = f'_{\pi_2} \\ \dots \\ f_{\pi_p} \leq f'_{\pi_p} \end{array} \right\}$$

It does not admit value functions, but can be solved as follows

- find the whole set  $X_{\pi_1}^*$  of optimal solutions for  $\min_{x \in X} f_{\pi_1}(x)$
- find the whole set  $X_{\pi_2}^*$  of optimal solutions for  $\min_{x \in X_{\pi_1}^*} f_{\pi_2}(x)$
- ...
- find a single optimal solution  $x_{\pi_p}^*$  for  $\min_{x \in X_{\pi_{p-1}}^*} f_{\pi_p}(x)$

**Utopia point** This model of preference:

1. Identifies an ideal impact  $f^*$  independently optimizing each indicator

$$f_I^* = \min_{x \in X} f_I(x)$$

and combining the optimal values in a vector  $f^* = [f_1^* \dots f_p^*]^T$ . Determining such value is a classical optimization problem, sometimes hard, but generally possible

2. Finds a solution with impact having minimum “distance” from  $f^*$

$$\min_{x \in X} \text{dist}(f(x), f^*)$$

Different definitions of distance imply different results (Manhattan distance, Euclidean distance, ...; infinite different distances can be defined), and the choice is arbitrary.

If the indicators are heterogeneous, the units of measure have an influence and conversion coefficients are required to standardize them. The choice of coefficient is complex and, at least partly, arbitrary.