

# MGMTMSA 408 – Operations Analytics

## Homework 3 – Inventory Optimization and Traveling Salesman Problem (Question Sheet)

Due May 24, 2024 at 1:00pm PST

### 1 Hospital Staffing

A large hospital faces uncertainty in the number of daily emergency department (ED) cases. Each ED case that occurs requires a single nurse. Ideally, the hospital would be able to handle such an ED case with a “regular” nurse, who is compensated at \$2160 per day. However, if the number of ED cases exceeds the number of regular nurses scheduled, the hospital can call in agency nurses, who are employed outside of the hospital, who are each compensated at \$5400 per day.

The hospital needs to decide how many regular nurses to staff for each day, so as to minimize its daily expected cost. In order to do so, a data set (`nurse.csv`) is available spanning 300 days and with the following variables:

Variable	Description
Day	Number between 1 and 300 indicating the day
DailyED	Number of ED cases on the given day
IsWeekend	0/1 variable to indicate whether the day is a weekend
IsHoliday	0/1 variable to indicate whether the day is a public holiday
DailyEDLag1	Number of ED cases one day ago
DailyEDLag2	Number of ED cases two days ago
PriorSurgeries	Average number of surgeries per day over the preceding week

#### Part 1: Formulating a basic newsvendor model

Consider the problem of deciding a nurse staffing level without incorporating the contextual information.

- As a warmup, suppose that on a given day, there are 12 ED cases, and we have staffed 18 regular nurses. What would be the staffing cost incurred by the hospital?
- Now, suppose that there are 8 ED cases, and we have staffed 5 regular nurses. What would be the staffing cost incurred by the hospital in this case?
- Formulate the problem of deciding the daily regular nurse staffing level so as to minimize daily expected cost as a cost-based newsvendor problem. What does the “order quantity”  $Q$  correspond to? What does the “demand”  $D$  correspond to? What are the overage cost  $c_o$  and underage cost  $c_u$ ?

- d) In part (d), the cost-based newsvendor problem you have formulated is missing one more “unavoidable” cost component. What is it? Express this cost using the random variable  $D$ . (*Hint*: suppose that there are 8 ED cases, and we have staffed 8 regular nurses. What does the total staffing cost end up being? What if there are 10 ED cases and 10 regular nurses?)

## Part 2: Solving the basic newsvendor model

For this part of the problem, we will use the data to determine a context-free nurse staffing level, i.e., a staffing level that does not incorporate the contextual information. Split the data into a training set and a test set, so that the training set consists of the first 200 days of data, and the test set consists of the last 100 days of data.

- a) Based on the overage and underage costs from Part 1, what quantile (i.e., a probability between 0 and 1) of the empirical distribution of **DailyED** should the optimal staffing level correspond to?
- b) Based on the empirical distribution of **DailyED** in the training set, determine the optimal staffing level. You may round your answer to the nearest integer, if necessary.
- c) Based on the training set, what is the average cost, where the average is taken over the 200 days in the training set, that this staffing level would incur? (Make sure your calculation accounts for the unavoidable cost component from Part 1 (d).)
- d) Based on the test set, what is the average cost, where the average is taken over the 100 days in the test set, that this staffing level would incur? (Make sure your cost accounts for the unavoidable cost component from Part 1 (d).)

## Part 3: Solving the contextual newsvendor model

Using the same training and test set as Part 2, we will now develop a contextual newsvendor model. Using the training set, build a regression tree using the `sklearn.tree.DecisionTreeRegressor` function to predict **DailyED**. Be sure to omit the variable **Day** from your independent variables. Set the maximum depth parameter (`max_depth`) of your tree to 2.

- a) What variables does your tree split on?
- b) For each leaf of the tree, calculate the optimal staffing level (rounded to the nearest integer) for the corresponding conditional distribution of **DailyED** given the training set. What is the optimal staffing level for each leaf of your tree?
- c) Based on the training set, what is the average cost, where the average is taken over the 200 days in the training set, that this staffing *rule* would incur? (Make sure your cost accounts for the unavoidable cost component from Part 1 (d).)
- d) Based on the test set, what is the average cost, where the average is taken over the 100 days in the test set, that this staffing rule would incur? (Make sure your cost accounts for the unavoidable cost component from Part 1 (d).)

## 2 Cargo freight scheduling

A freight company operating out of Los Angeles, CA needs to make a number of deliveries by air to a set of cities in the continental United States. Each city corresponds to one delivery.

The company has a single DC-10-30 aircraft available to make these deliveries, and needs to decide in what order to make deliveries (i.e., in what order to visit these cities) so as to minimize the time traveled. The aircraft departs from Los Angeles, and must return to Los Angeles after visiting all of the remaining 67 cities. Each city must be visited exactly once.

You are provided a data set (`cargo-city-locations.csv`) consisting of the locations of the cities by their latitude and longitude coordinates. There are 68 cities, including Los Angeles.

### Part 1: Building our data

In order to solve the problem, we will need to calculate the flight time between each pair of cities in the data set. We will do this by applying a little bit of geometry.

For each pair of cities  $i$  and  $j$ , first convert the latitudes  $\text{LAT}_i$  and longitudes  $\text{LON}_i$ , which are given in degrees, to radians:

$$\text{LAT}_{r,i} = \text{LAT}_i / 360 \times 2\pi,$$

$$\text{LON}_{r,i} = \text{LON}_i / 360 \times 2\pi,$$

$$\text{LAT}_{r,j} = \text{LAT}_j / 360 \times 2\pi,$$

$$\text{LON}_{r,j} = \text{LON}_j / 360 \times 2\pi.$$

Then, we will use the *haversine formula* to calculate the angle corresponding to the great circle distance (see Figure 1 below) between cities  $i$  and  $j$ . The *haversine*  $H_{i,j}$  of cities  $i$  and  $j$  can be calculated as

$$H_{i,j} = \frac{1 - \cos(\text{LAT}_{r,j} - \text{LAT}_{r,i})}{2} + \cos(\text{LAT}_{r,i}) \times \cos(\text{LAT}_{r,j}) \times \frac{1 - \cos(\text{LON}_{r,j} - \text{LON}_{r,i})}{2} \quad (1)$$

We can now calculate the distance,  $d_{i,j}$  as

$$d_{i,j} = 2r \sin^{-1}(\sqrt{H_{i,j}}) \quad (2)$$

where  $r$  is the radius of the earth, which we can assume to be 6378.137 km.

Lastly, you can use the fact that the average cruise speed of a DC-10 aircraft is 908 km / hour to convert these distances into travel times. This will yield us an approximate travel time between each pair of cities.

To help you with these calculations you can use the `numpy` functions `cos`, `sin`, `arcsin` (the arcsine function, which is just the inverse sine function  $\sin^{-1}(\cdot)$ ) and `sqrt` (the square root).

To verify that you have implemented your distance calculations correctly, you should find that the travel time from Des Moines, IA to Baton Rouge, LA is 1.3857 hours, corresponding to a distance of 1258.226 kilometers.

- Which two cities have the highest travel travel time?
- Which two cities have the smallest travel time?
- Which city has the smallest average travel time to all of the other cities? (Here, the average is taken over the other 67 cities.)

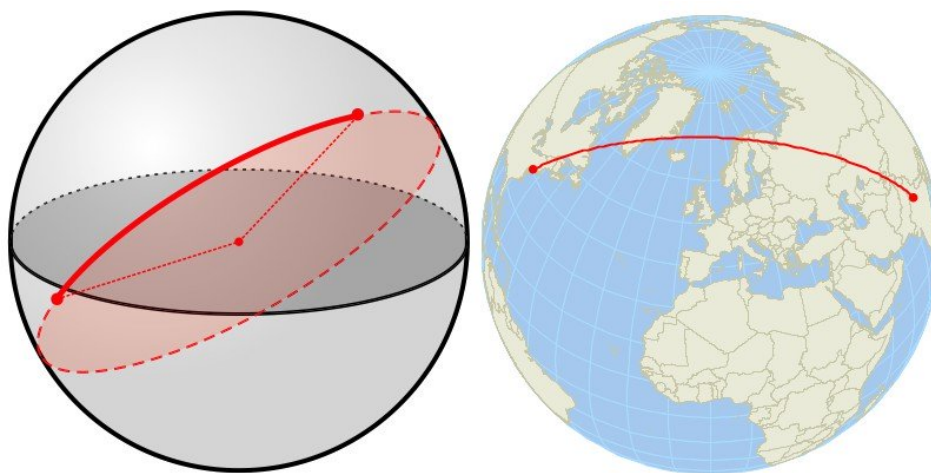


Figure 1: Visualization of great circles (grey and red circles on the left) and the great circle distance between New York City and New Delhi (right). (Source: <https://www.caliper.com/glossary/what-is-a-great-circle.htm>).

## Part 2: Finding a schedule

- a) Suppose that we randomly selected a sequence of cities. In `numpy`, you can construct a random sequence by using the commands

```
import numpy as np
nCities = 68
temp = np.random.permutation(nCities)
```

which will generate a list with the integers from 0 to 67 in random order. You can then calculate the travel time by iterating through the list and looking up the travel time of consecutive cities in the list, and adding them up. At the end, you would finally add the travel time corresponding to traveling from city `temp[67]` to city `temp[0]`.

Set your seed to 50. Randomly generate 100 sequences of the 68 cities, and calculate the total travel time required to visit the cities according to each sequence. What is the average of the total travel times of these 100 randomly generated sequences, in hours?

- b) Suppose that we design the sequence of cities using the following heuristic. Starting from Los Angeles, the next city in the schedule is the one that is closest to the current city in travel time and has not been visited yet. What is the total travel time of this sequence, in hours?
- c) Solve an optimization problem to find the order in which the cities should be visited, so as to minimize the total travel time. What is the total travel time of this sequence, in hours?