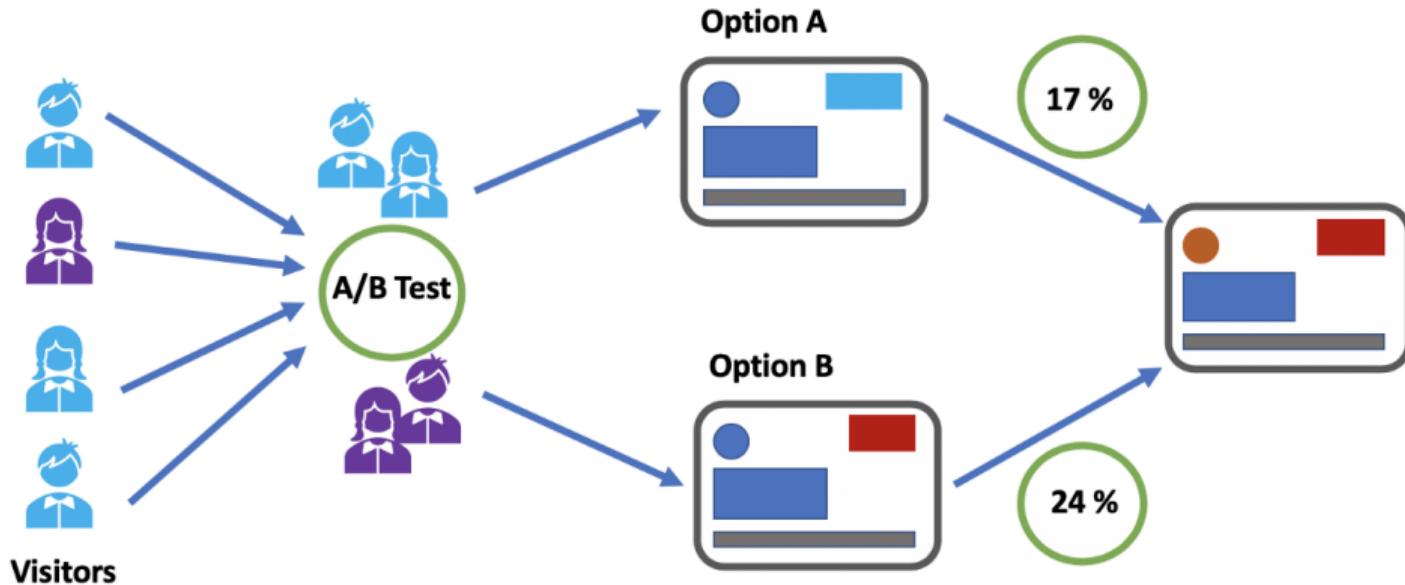


A/B Testing in Two-Sided Marketplaces: Data Integration, Designs and Reinforcement Learning

Chengchun Shi

Associate Professor of Data Science
London School of Economics and Political Science

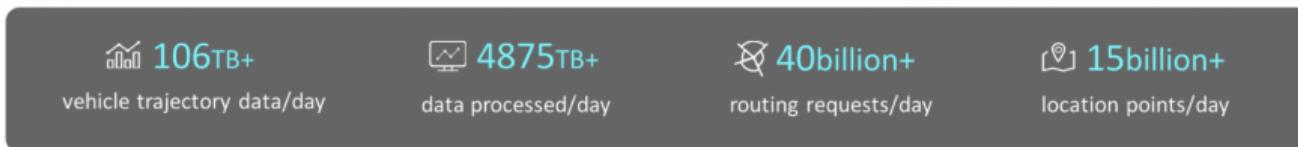
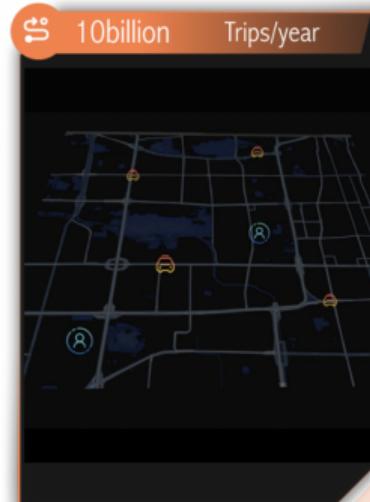
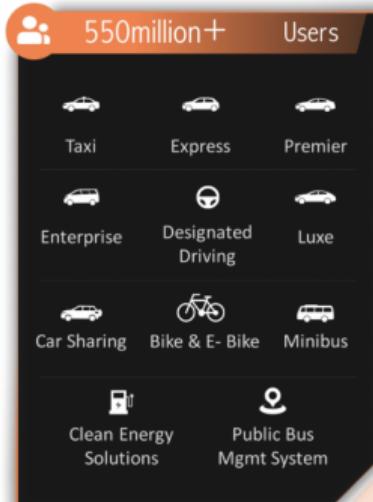
A/B Testing



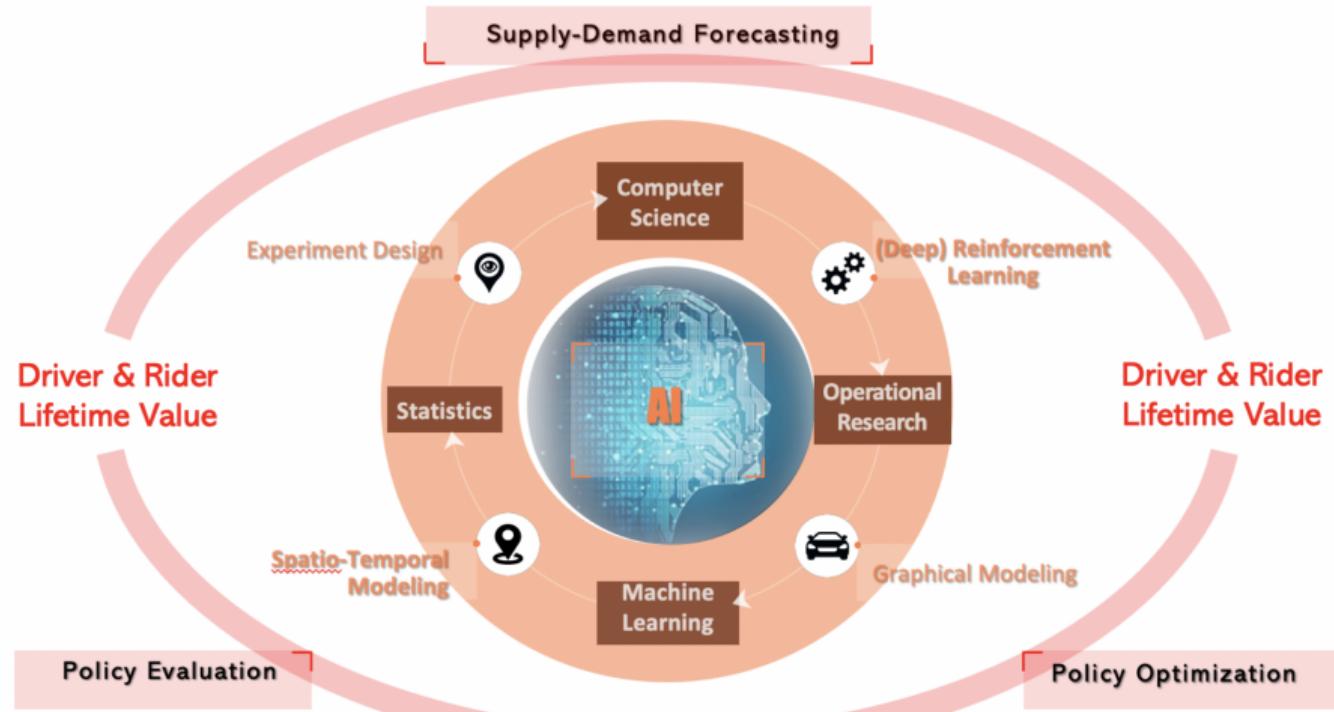
Taken from

<https://towardsdatascience.com/how-to-conduct-a-b-testing-3076074a8458>

Ridesharing

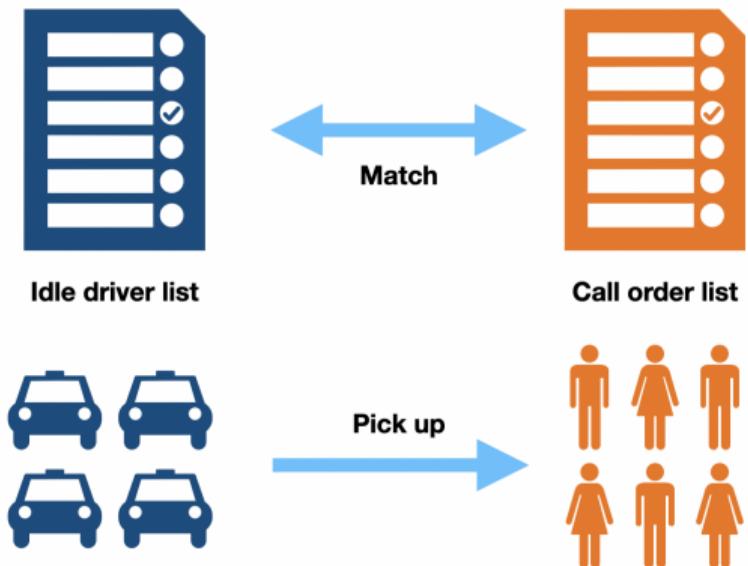


Ridesharing (Cont'd)



Policies of Interest

- Order dispatching

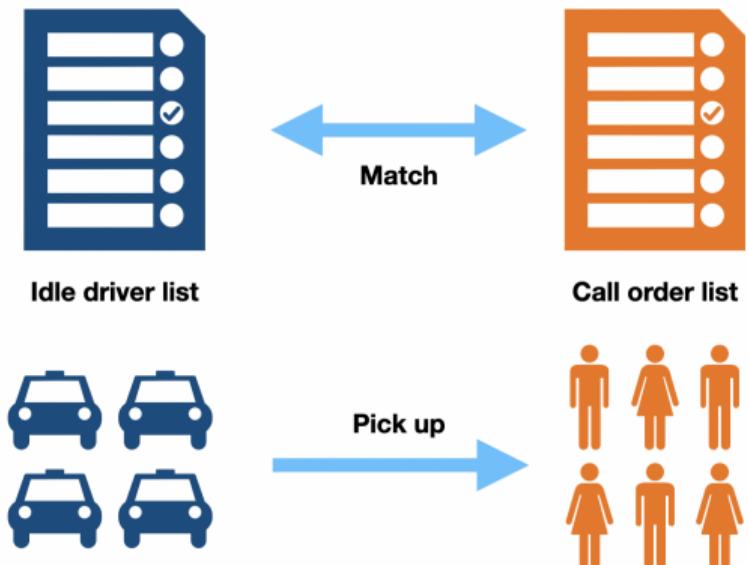


- Subsidizing



Policies of Interest

- Order dispatching



- Subsidizing



Time Series Data

- Online experiment typically lasts for **two weeks**
- **30 minutes/1 hour** as one time unit
- Data forms a **time series** $\{(Y_t, U_t) : 1 \leq t \leq T\}$
- **Observations** $Y_t \in \mathbb{R}^3$:
 1. **Outcome**: drivers' income or no. of completed orders
 2. **Supply**: no. of idle drivers
 3. **Demand**: no. of call orders
- **Treatment** $U_t \in \{1, -1\}$:
 - **New** order dispatching policy B
 - **Old** order dispatching policy A

Challenges

1. Carryover Effects:

- Past treatments influence future observations [Li et al., 2024a, Figure 2] →
- Invalidating many conventional A/B testing/causal inference methods [Shi et al., 2023].

2. Partial Observability:

- The environmental state is not fully observable →
- Leading to the violation of the Markov assumption.

3. Small Sample Size:

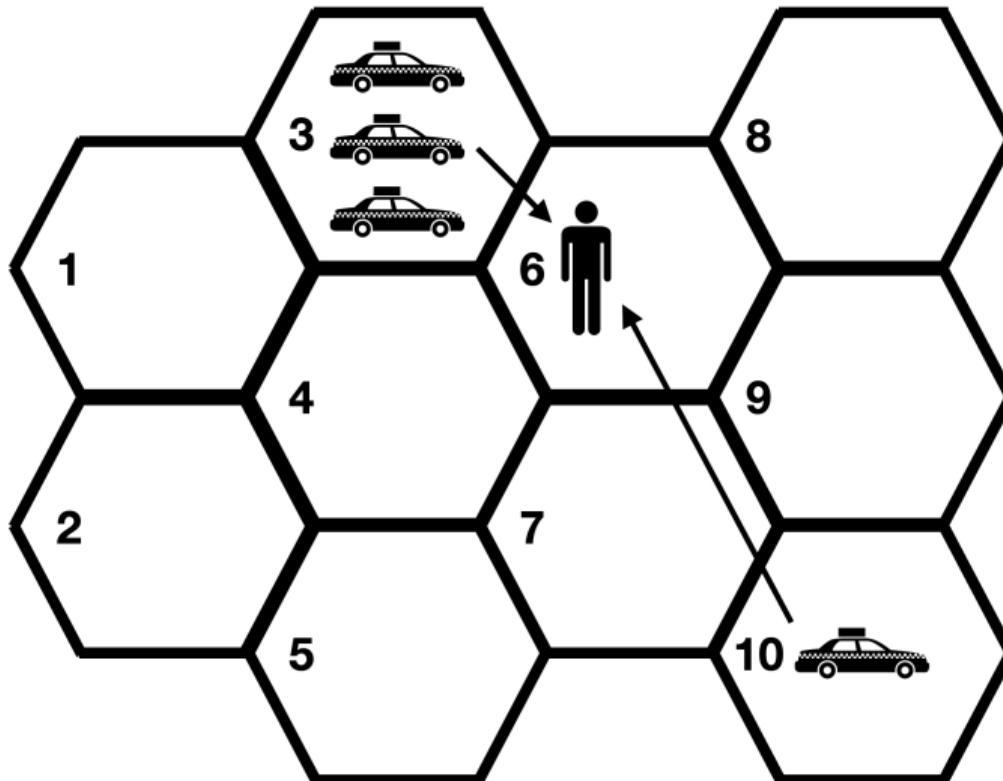
- Online experiments typically last only two weeks [Xu et al., 2018] →
- Increasing the variability of the average treatment effect (ATE) estimator.

4. Small Signal:

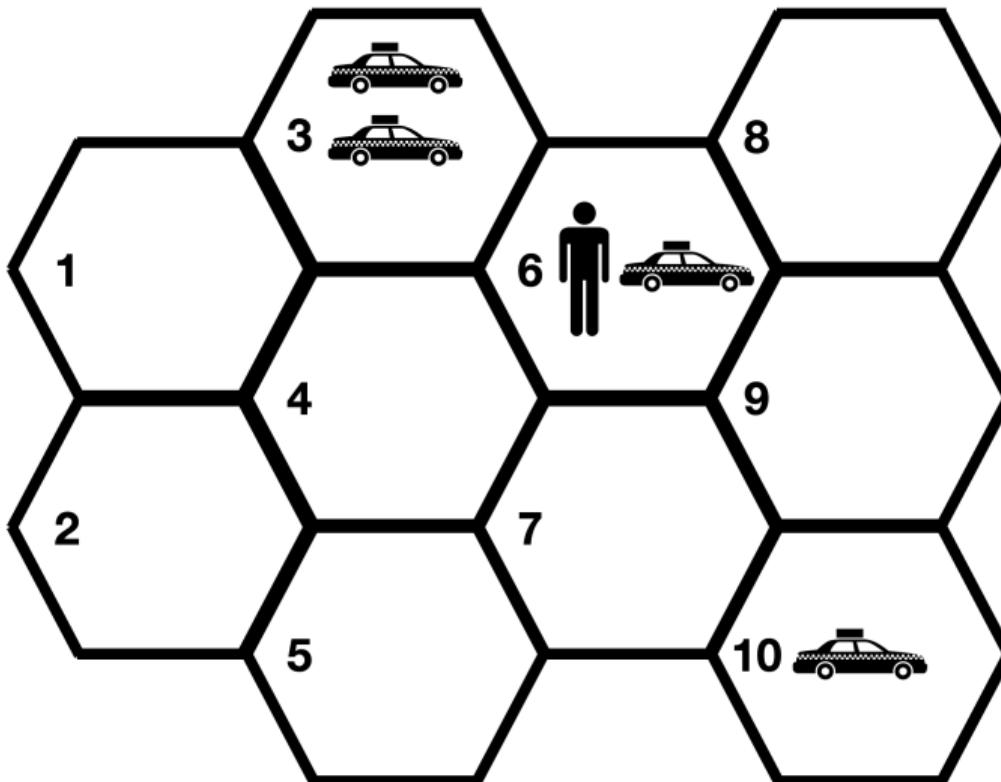
- Size of treatment effects ranges from 0.5% to 2% [Tang et al., 2019] →
- Making it challenging to distinguish between new and old policies.

To our knowledge, **no** existing method has simultaneously addressed all four challenges.

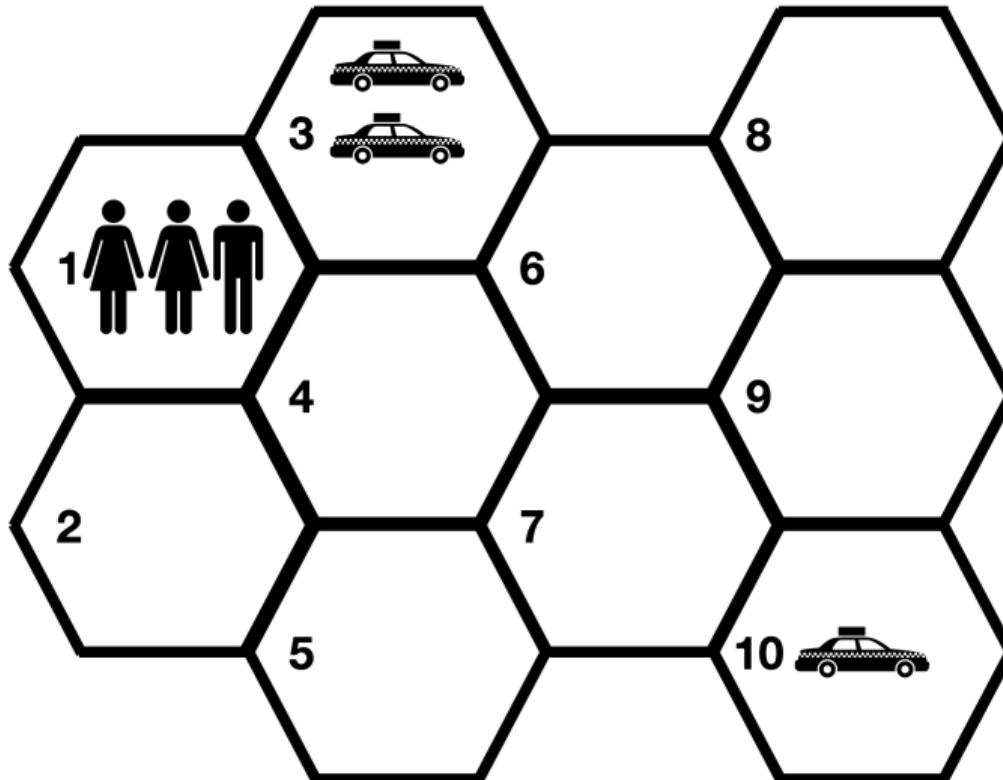
Challenge I: Carryover Effects



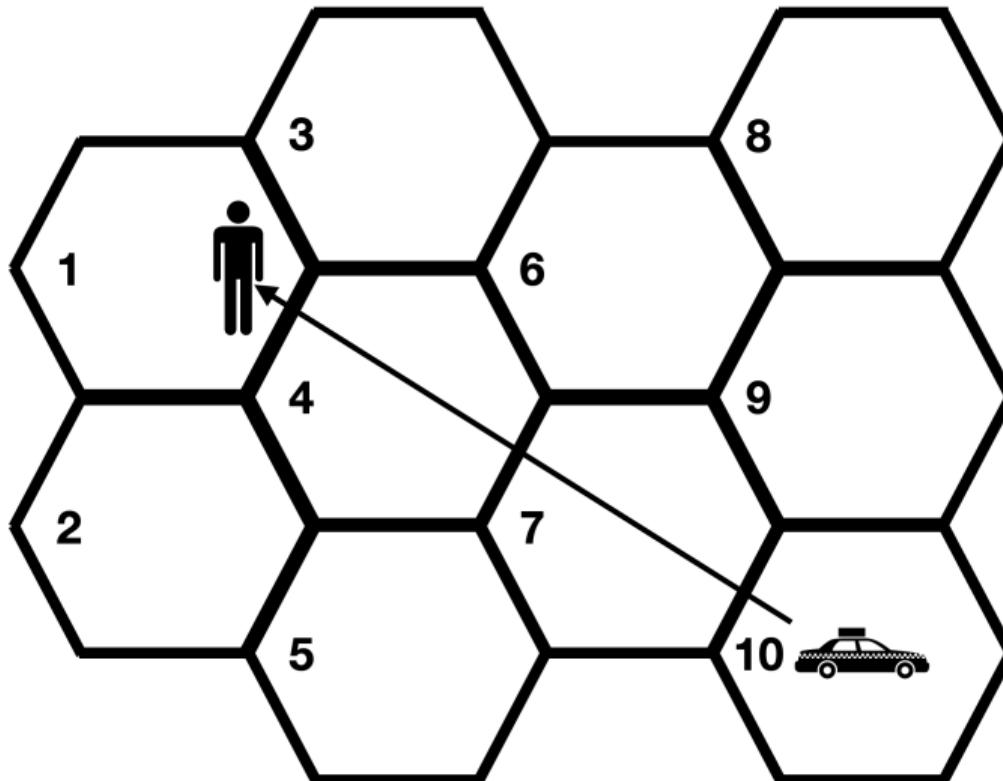
Adopting the Closest Driver Policy



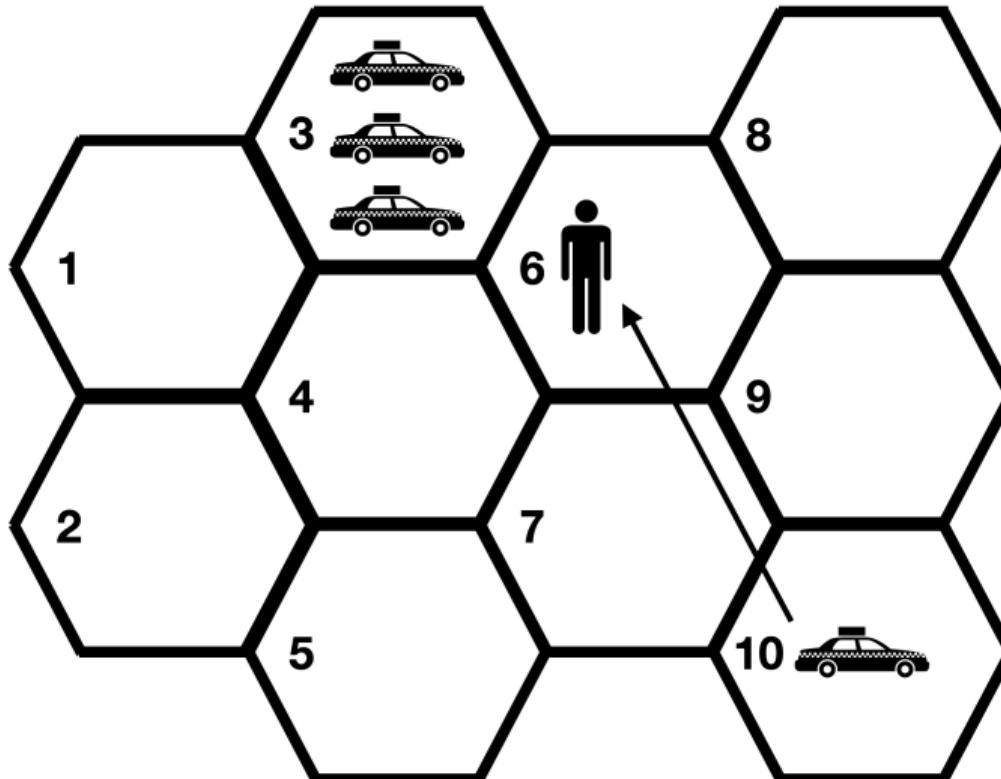
Some Time Later . . .



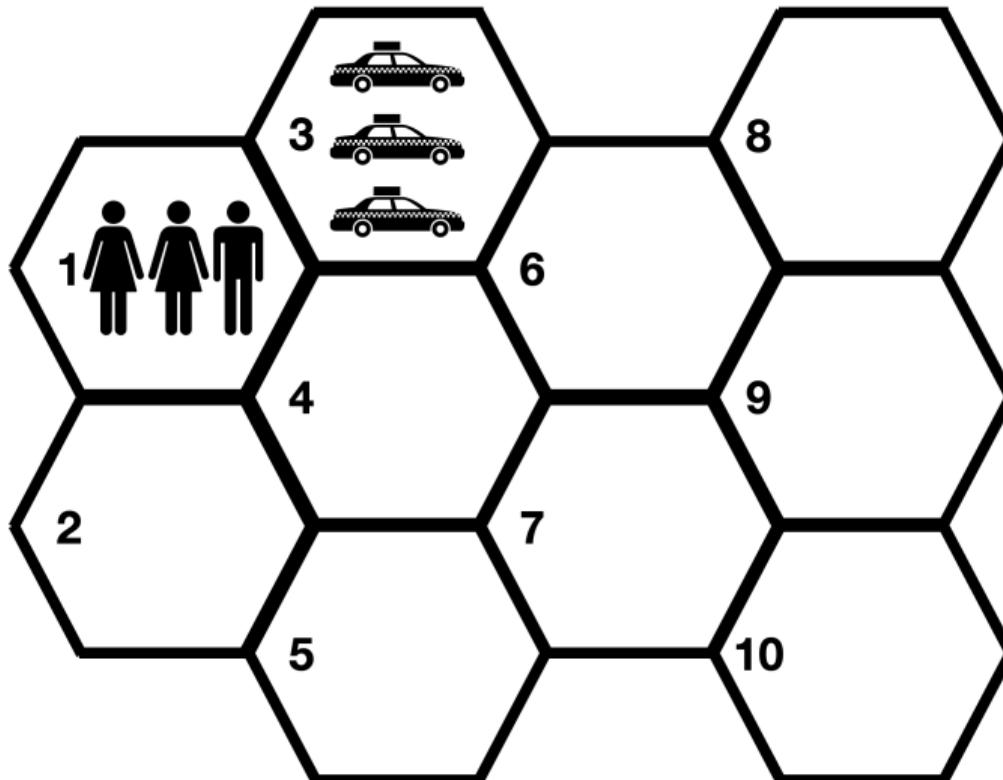
Miss One Order



Consider a Different Action



Able to Match All Orders

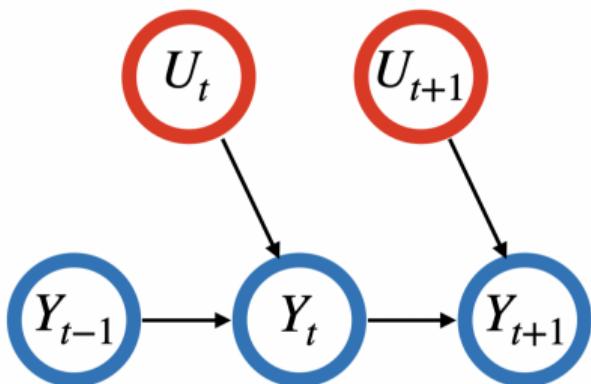


Challenge I: Carryover Effects (Cont'd)

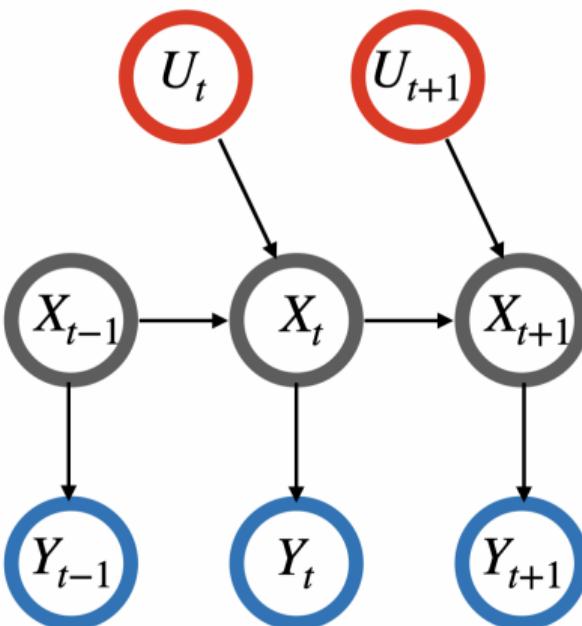
past treatments → distribution of drivers → future outcomes

Challenge II: Partial Observability

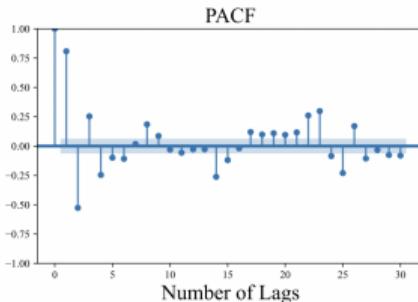
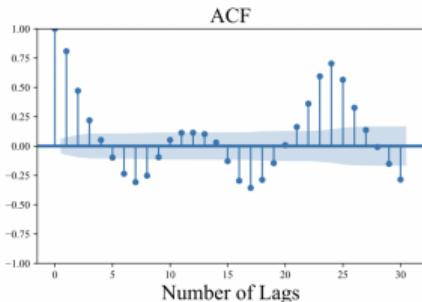
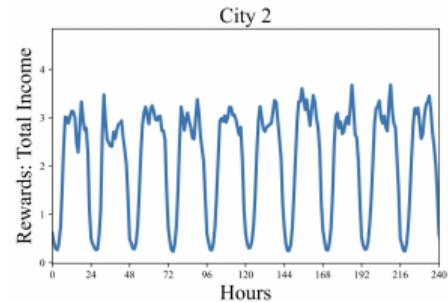
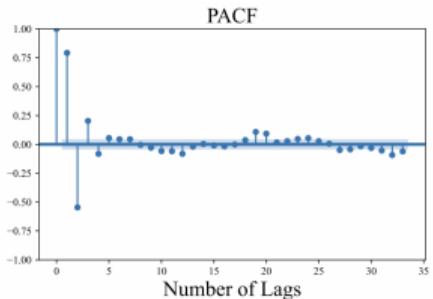
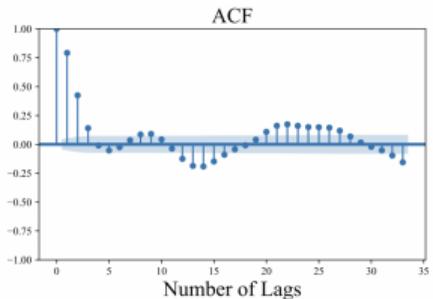
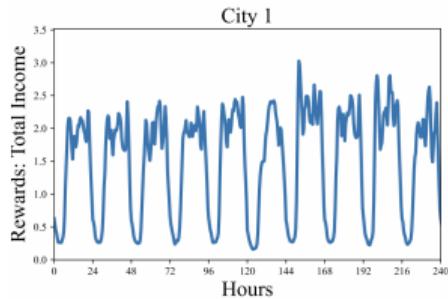
- Fully Observable
Markovian Environments



- Partially Observable
non-Markovian Environments

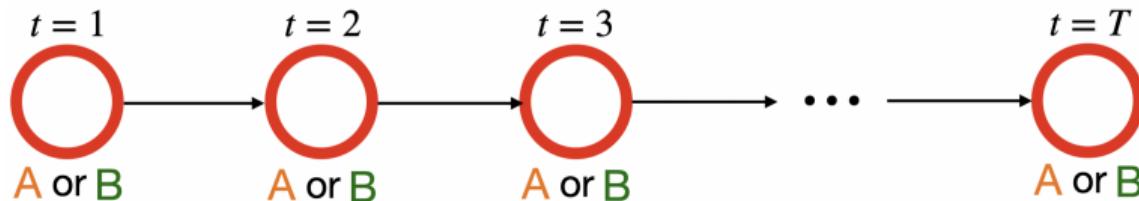


Challenge II: Partial Observability (Cont'd)

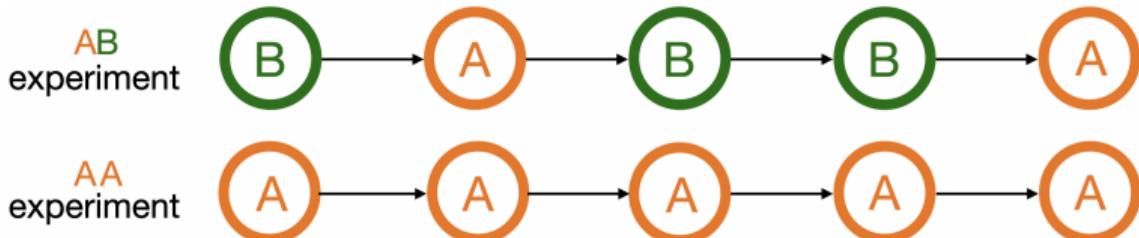


Challenge III & IV: Small Sample & Signal

- **Aim 1: Design.** Identify **optimal treatment allocation strategy** in online experiment that **minimizes MSE of ATE estimator**



- **Aim 2: Data Integration.** Combine **experimental data (A/B)** with **historical data (A/A)** to improve ATE estimation [Li et al., 2024b]



Project I

Optimal Treatment Allocation Strategies for A/B Testing in Partially Observable Time Series Environments

Joint work with Ke Sun, Linglong Kong & Hongtu Zhu

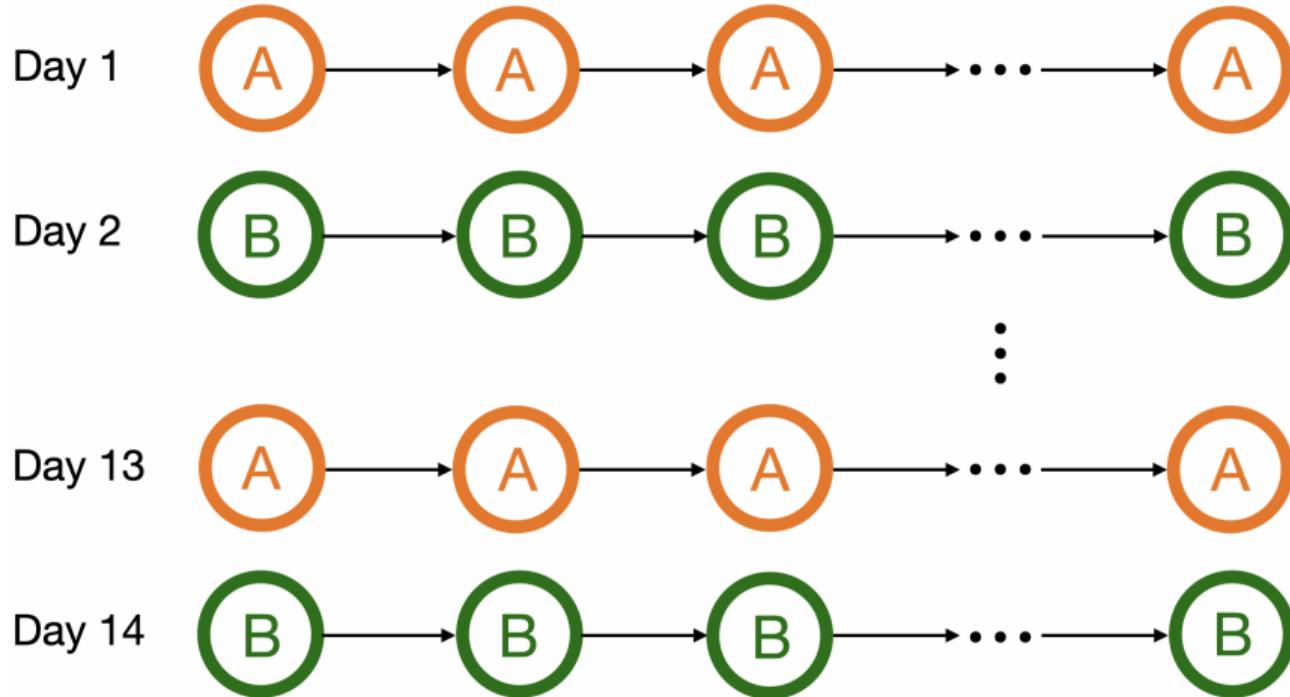
Average Treatment Effect

- Data summarized into a **time series** $\{(Y_t, U_t) : 1 \leq t \leq T\}$
- The first element of Y_t – denoted by R_t – represents the **outcome**
- **ATE = difference in average outcome** between the **new** and **old** policy

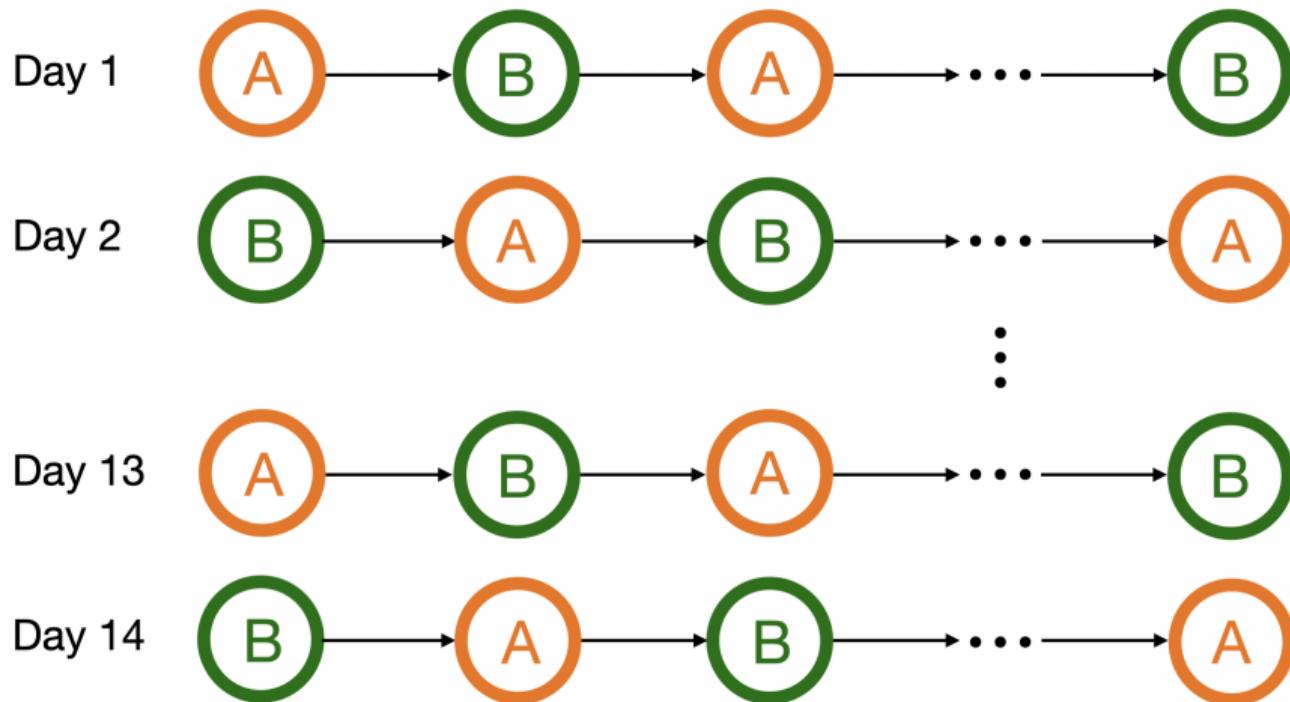
$$\lim_{T \rightarrow \infty} \left[\frac{1}{T} \sum_{t=1}^T \mathbb{E}R_t \right] - \lim_{T \rightarrow \infty} \left[\frac{1}{T} \sum_{t=1}^T \mathbb{E}R_t \right].$$

Letting $T \rightarrow \infty$ simplifies the analysis.

Alternating-day (AD) Design



Alternating-time (AT) Design



AD v.s. AT

Pros of AD design:

- Within each day, it is **on-policy** and avoids **distributional shift**, as opposed to **off-policy** designs (e.g., AT)
- On-policy designs are proven **optimal** in **fully observable Markovian** environments [Li et al., 2023a].

Pros of AT design:

- Widely employed in ridesharing companies like Lyft and Didi [Chamandy, 2016, Luo et al., 2024]
- According to my industrial collaborator, AT yields **less variable ATE estimators** than AD

AD v.s. AT (Cont'd)

- Q: Why can off-policy designs, such as AT, be more efficient than AD?
- A: Due to partial observability...

A Thought Experiment [From ?]

- A simple setting **without carryover effects**:

$$R_t = \beta_{-1}\mathbb{I}(U_t = -1) + \beta_1\mathbb{I}(U_t = 1) + e_t$$

- ATE equals $\beta_1 - \beta_{-1}$ and can be estimated by

$$\widehat{\text{ATE}} = \frac{\sum_{t=1}^T R_t \mathbb{I}(U_t = 1)}{\sum_{t=1}^T \mathbb{I}(U_t = 1)} - \frac{\sum_{t=1}^T R_t \mathbb{I}(U_t = -1)}{\sum_{t=1}^T \mathbb{I}(U_t = -1)}$$

A Thought Experiment (Cont'd)

The ATE estimator's asymptotic MSE under AD and AT is proportional to

$$\lim_{t \rightarrow \infty} \frac{1}{t} \text{Var}(e_1 + e_2 + e_3 + e_4 + \cdots + e_t) \quad \text{and} \quad \lim_{t \rightarrow \infty} \frac{1}{t} \text{Var}(e_1 - e_2 + e_3 - e_4 + \cdots - e_t)$$

which depends on the residual correlation:

- With **uncorrelated residuals**, both designs yield **same** MSEs
- With **positively correlated residuals**:
 - **AD assigns the same treatment** within each day, under which ATE estimator's variance inflates due to **accumulation** of these residuals
 - **AT alternates treatments** for adjacent observations, effectively **negating** these residuals, leading to more efficient ATE estimation
- With **negatively correlated residuals**, AD generally outperforms AT

When Can AT Be More Efficient than AD

Key Condition: Residuals are positively correlated

- **Rule out full observability** (Markovianity) where residuals are uncorrelated.
- Can only be met under **partial observability**.
- Suggest partial observability is more realistic, aligning with my collaborator's finding.
- **Often satisfied** in practice:

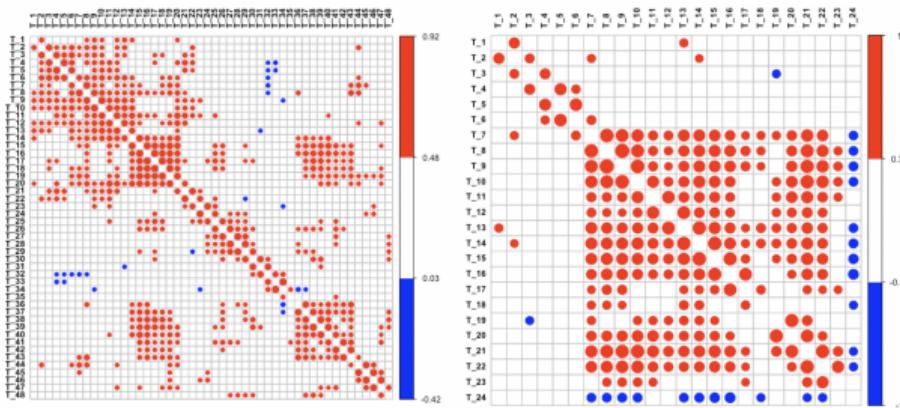


Figure: Estimated correlation coefficients between pairs of fitted outcome residuals from the two cities

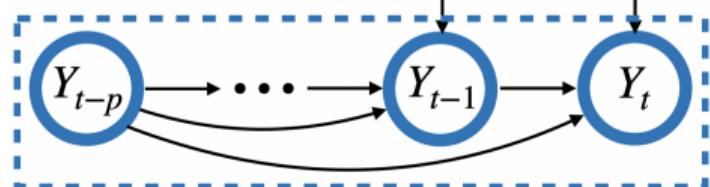
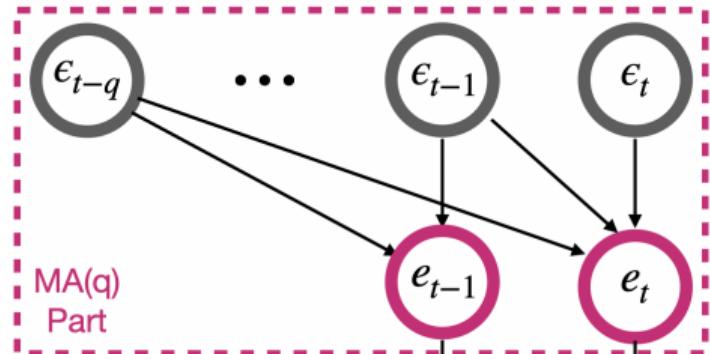
Some Motivating Questions

- Q1: Previous analysis excludes carryover effects. Can we extend the results to accommodate carryover effects?
- Q2: Previous analysis focuses on AD and AT. Can we consider more general designs?

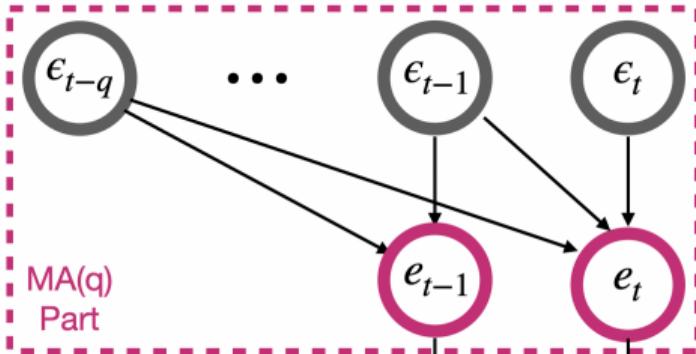
Our Contributions

- **Methodologically**, we propose:
 1. A **controlled (V)ARMA** model → allow **carryover effects & partial observability**
 2. Two **efficiency indicators** → compare commonly used designs (AD, AT)
 3. A **reinforcement learning** (RL) algorithm → compute the **optimal design**
- **Theoretically**, we:
 1. Establish **asymptotic MSEs** of ATE estimators → compare different designs
 2. Introduce **small signal condition** → simplify asymptotic analysis in sequential settings
 3. Prove the **optimal treatment allocation strategy** is q -dependent → form the basis of our proposed RL algorithm
- **Empirically**, we demonstrate the advantages of our proposal using:
 1. A dispatch simulator (<https://github.com/callmespring/MDPOD>)
 2. Two real datasets from ridesharing companies.

Controlled VARMA Model: Introduction

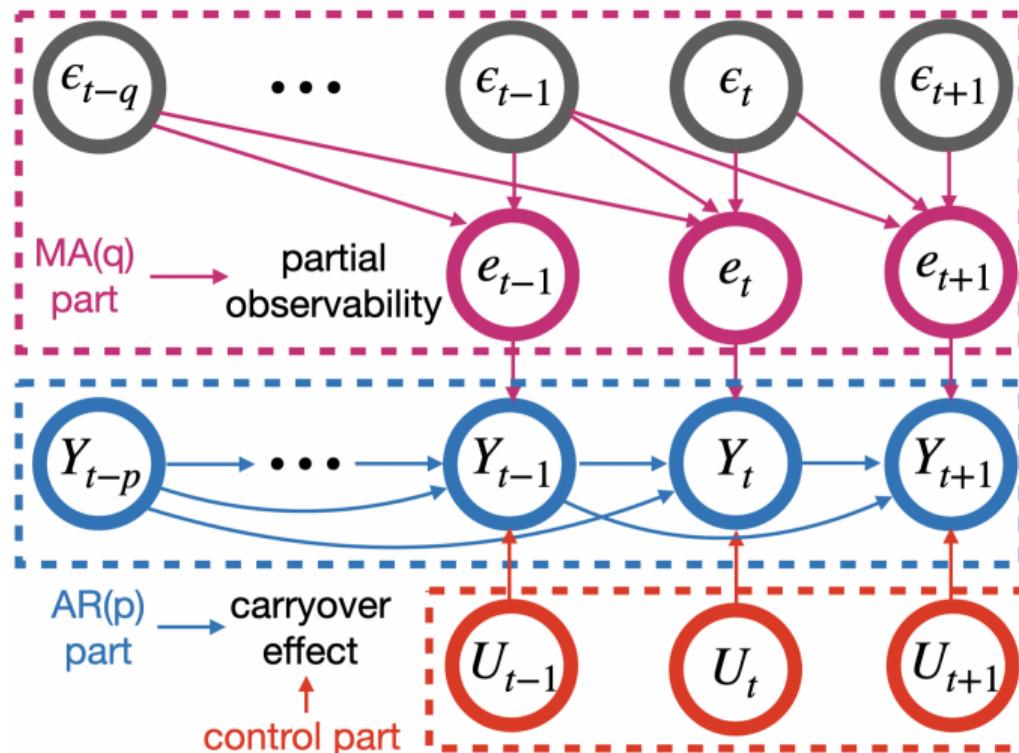


(V)ARMA Model



Controlled (V)ARMA Model

Controlled VARMA Model: Introduction



Controlled VARMA Model: Connections

- Closely related to **state space models** or **linear quadratic regulator** (LQR)
 - The latter being a rich sub-class of **partially observable MDPs**
 - Using VARMA as opposed to LQR allows to leverage asymptotic theories developed in time series to derive optimal designs
- Compared to **MDPs**
 - Both controlled VARMA and MDP accommodate **carryover effects**
 - See Shi et al. [2023] for how MDPs handle these effects
 - MDPs require full observability whereas controlled VARMA allows **partial observability**

Controlled VARMA Model: Estimation

Consider a univariate controlled ARMA

$$Y_t = \mu + \underbrace{\sum_{j=1}^p a_j Y_{t-j}}_{\text{AR Part}} + \underbrace{b U_t}_{\text{Control}} + \varepsilon_t + \underbrace{\sum_{j=1}^q \theta_j \varepsilon_{t-j}}_{\text{MA Part}}$$

- **AR parameters** $\{a_j\}_j$ & **control parameter** b → **ATE**, equal to $2b / \sum_j (1 - a_j)$
 - Partial observability → standard OLS **fails** to consistently estimate b & $\{a_j\}_j$
 - Employ **Yule-Walker estimation** (method of moments) instead
 - Similar to **IV** estimation, utilize past observations as IVs
- **MA parameters** $\{\theta_j\}_j$ → **residual correlation** → **optimal design**

Theory: Small Signal Condition

- **Asymptotic framework:** large sample $T \rightarrow \infty$ & small signal $\text{ATE} \rightarrow 0$
- **Empirical alignment:** size of ATE ranges from 0.5% to 2%
- **Theoretical simplification:** considerably simplifies the computation of ATE estimator's MSE in sequential settings. According to Taylor's expansion:

$$\widehat{\text{ATE}} - \text{ATE} = \frac{2\widehat{b}}{1 - \sum_j \widehat{a}_j} - \frac{2b}{1 - \sum_j a_j}$$
$$= \frac{2(\widehat{b} - b)}{1 - \sum_j a_j} + \frac{2b}{(1 - \sum_j a_j)^2} \sum_j (\widehat{a}_j - a_j) + o_p\left(\frac{1}{\sqrt{T}}\right)$$

Leading term. Easy to calculate its asymptotic variance under weak signal

Challenging to obtain the closed form of its asymptotic variance, but negligible under weak signal condition

High-order reminder

Theory: Asymptotic MSE

We focus on the class of **observation-agnostic** designs:

- \mathbf{U}_1 is randomly assigned
- The distribution of \mathbf{U}_t depends on $(\mathbf{U}_1, \dots, \mathbf{U}_{t-1})$, independent of $(\mathbf{Y}_1, \dots, \mathbf{Y}_{t-1})$

It covers three commonly used designs:

1. Uniform random (UR) design: $\{\mathbf{U}_t\}_t$ are uniformly independently generated
2. AD: $\mathbf{U}_1 = \mathbf{U}_2 = \dots = \mathbf{U}_D = -\mathbf{U}_{D+1} = \dots = -\mathbf{U}_{2D} = \mathbf{U}_{2D+1} = \dots$
3. AT: $\mathbf{U}_1 = -\mathbf{U}_2 = \mathbf{U}_3 = -\mathbf{U}_4 = \dots = (-1)^{T-1} \mathbf{U}_T$

Theorem (Asymptotic MSE)

Given an **observation-agnostic** design, let $\xi = \lim_T \sum_{t=1}^T (\mathbb{E} \mathbf{U}_t / T)$. Under the **small signal** condition, its ATE estimator's asymptotic MSE (after normalization) equals

$$\lim_T \frac{4}{(1 - \sum_j \mathbf{a}_j)^2 (1 - \xi)^2 T} \text{Var} \left[\sum_{t=1}^T (\mathbf{U}_t - \xi) \mathbf{e}_t \right].$$

Theory: Asymptotic MSE (Cont'd)

Corollary (Asymptotic MSE)

Under the **small signal** condition, the ATE estimator's asymptotic MSE (after normalization) under **AD**, **UR** and **AT** equals

$$\text{MSE(AD)} = \frac{4\sigma^2}{(1 - \sum_j \mathbf{a}_j)^2} \left[\sum_{j=0}^q \theta_j^2 + \sum_{j_1 \neq j_2} \theta_{j_1} \theta_{j_2} \right]$$

$$\text{MSE(UR)} = \frac{4\sigma^2}{(1 - \sum_j \mathbf{a}_j)^2} \sum_{j=0}^q \theta_j^2$$

$$\text{MSE(AT)} = \frac{4\sigma^2}{(1 - \sum_j \mathbf{a}_j)^2} \left[\sum_{j=0}^q \theta_j^2 + 2 \sum_{j_1 \neq j_2} (-1)^{|j_2 - j_1|} \theta_{j_1} \theta_{j_2} \right],$$

where σ^2 denotes the variance of the white noise process.

Design: Efficiency Indicator

Define two efficiency indicators

$$\mathbf{EI}_1 = \sum_{j_1 \neq j_2} \theta_{j_1} \theta_{j_2} \quad \text{and} \quad \mathbf{EI}_2 = \sum_{j_1 \neq j_2} (-1)^{|j_2 - j_1|} \theta_{j_1} \theta_{j_2}.$$

They measure **residual correlations** and can be used to compare the three designs:

- If both \mathbf{EI}_1 and $\mathbf{EI}_2 > 0$, **UR** outperforms **AD** & **AT**
- If $\mathbf{EI}_2 < 0$ and $\mathbf{EI}_1 > \mathbf{EI}_2$, **AT** outperforms the rest
- If $\mathbf{EI}_1 < 0$ and $\mathbf{EI}_2 > \mathbf{EI}_1$, **AD** outperforms the rest

MA parameters can be estimated using historical data (even without treatment data).

Design: Optimality

Theorem (Optimal Design)

The optimal design must satisfy $\lim_T \sum_{t=1}^T (\mathbb{E} \mathbf{U}_t / T) = \mathbf{0}$. Additionally, it must minimize

$$\sum_{k=1}^q \left[\lim_T \left(\frac{1}{T} \sum_{t=1}^T \mathbb{E} \mathbf{U}_t \mathbf{U}_{t+k} \right) \underbrace{\sum_{j=k}^q \theta_j \theta_{j-k}}_{c_k} \right]$$

Objective: learn the optimal observation-agnostic design that:

- (i) **Minimizes** the above criterion
- (ii) **Maintains** a zero mean asymptotically, i.e., $\lim_T \sum_{t=1}^T (\mathbb{E} \mathbf{U}_t / T) = \mathbf{0}$

Design: An RL Approach

Solution: reformulate the minimization as an infinite-horizon average-reward RL problem

- **State S_t :** the collection of past q treatments ($\mathbf{U}_{t-q}, \mathbf{U}_{t-q+1}, \dots, \mathbf{U}_{t-1}$)
- **Action A_t :** the current treatment $\mathbf{U}_t \in \{-1, 1\}$
- **Reward R_t :** a deterministic function of state-action pair, $-\sum_{k=1}^q c_k(\mathbf{U}_t \mathbf{U}_{t-k})$

Easy to verify:

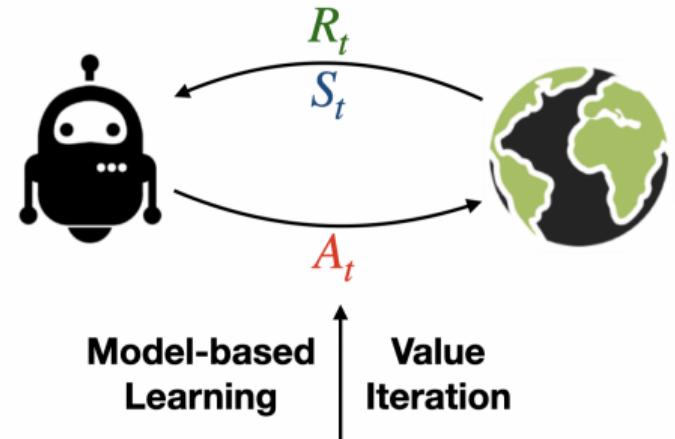
1. The minimization objective equals the negative average reward \rightarrow equivalent to **maximizing the average reward**
2. The process is an **MDP** \rightarrow there exists an optimal stationary policy maximizes the average reward \rightarrow optimal design is **q -dependent**, i.e., \mathbf{U}_t is a deterministic function of ($\mathbf{U}_{t-q}, \mathbf{U}_{t-q+1}, \dots, \mathbf{U}_{t-1}$) & this function is stationary in t
3. **Uniformly randomly** assign the first q treatments \rightarrow the resulting design maintains a zero mean and is indeed optimal

Design: An RL Approach (Cont'd)

Step 1: Retrieve Historical Data



Step 4: Online Learning of Optimal Design



Step 5: Implement the Design
Collect Additional Data

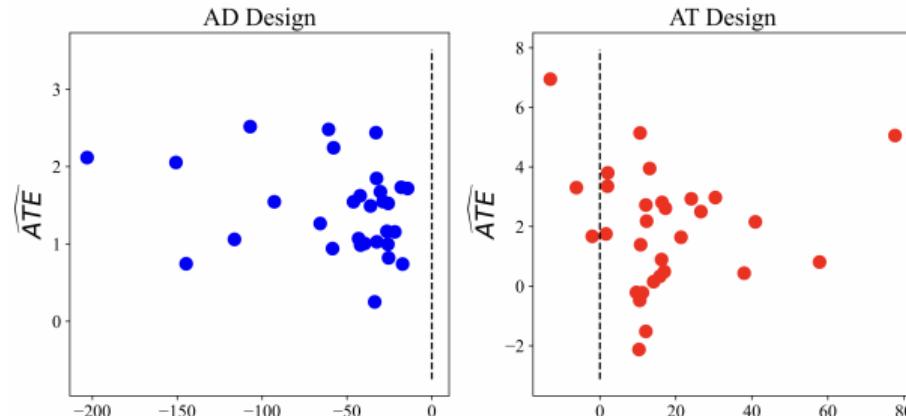
Step 2: Estimate Model Parameters

MLE

Step 3: Construct the MDP using estimated $\{C_k\}_k$

Empirical Study: Synthetic Environments

- A 9×9 dispatch simulator
- Available at <https://github.com/callmespring/MDPOD>
- Two efficiency indicators

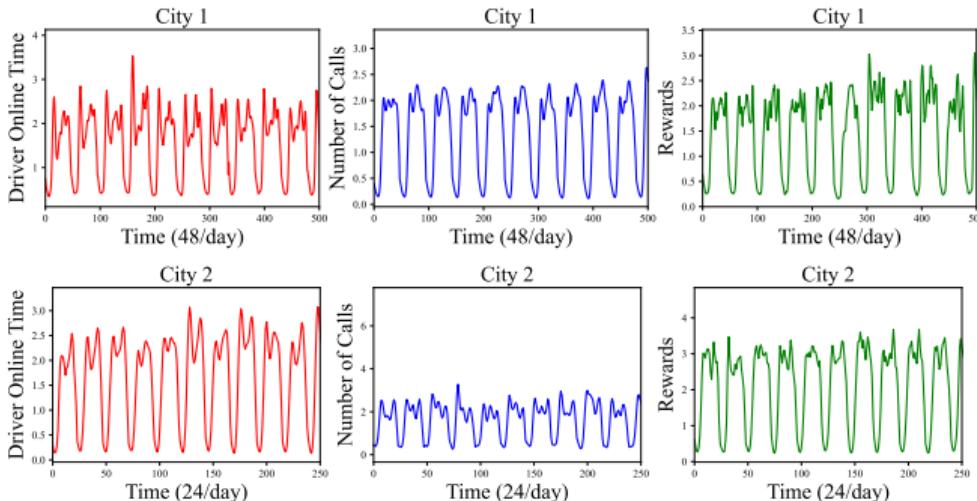


- ATE estimator's MSE under various designs

Design	AT	UR	Greedy	TMDP	NMDP	AD	Ours
MSE	8.33	2.23	1.10	0.56	0.42	0.28	0.28

Empirical Study: Real Datasets

- Data:



- We incorporate a **seasonal** term in our controlled VARMA model to account for seasonality. Below are MSEs of ATE estimators under different designs

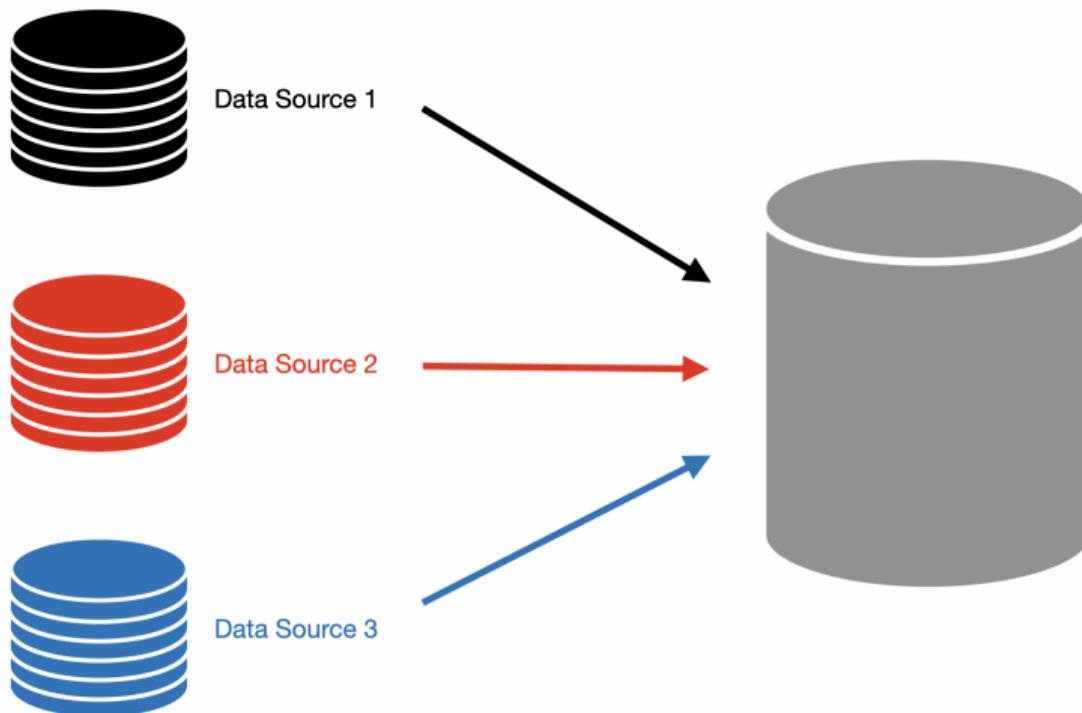
City	El ₁	El ₂	AD	UR	AT	Ours
City 1	20.98	-21.11	11.98	11.63	9.72	8.24
City 2	-4.89	0.22	9.64	30.04	546.79	8.38

Project II

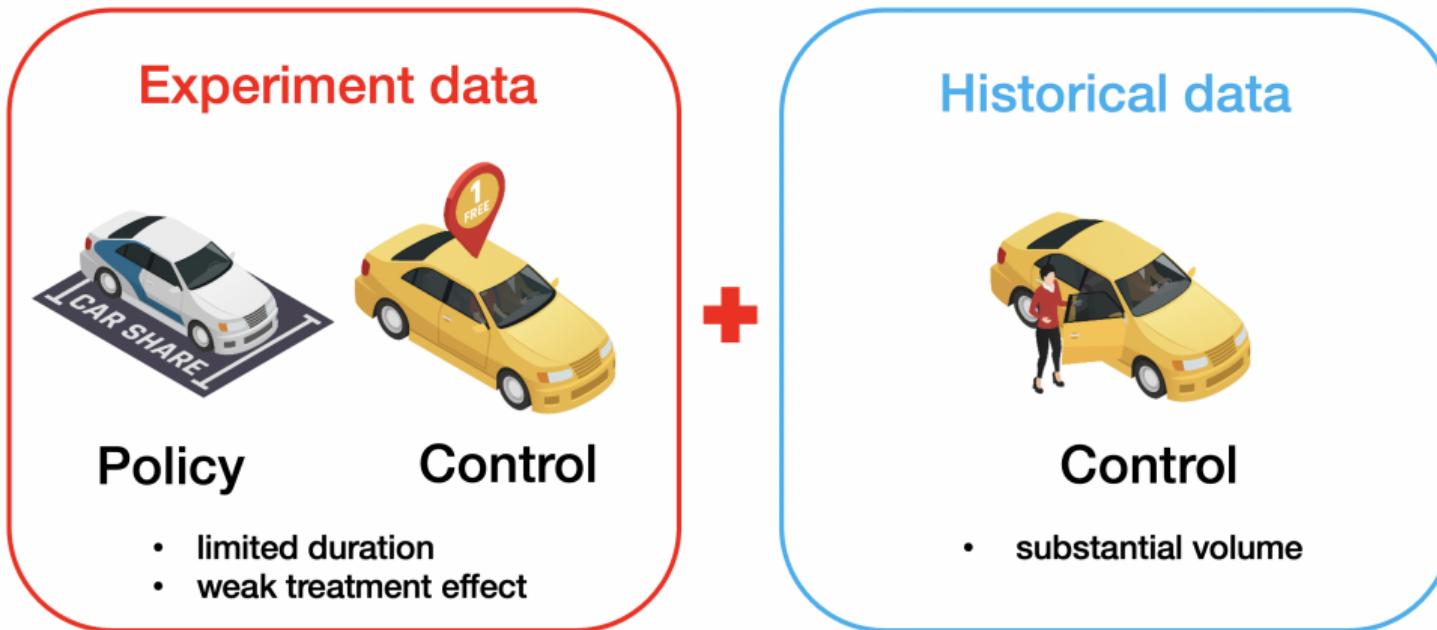
Combining Experimental and Historical Data for Policy Evaluation — ICML (2024)

Joint work with Ting Li, Qianglin Wen, Yang Sui, Yongli Qin, Chunbo Lai & Hongtu Zhu

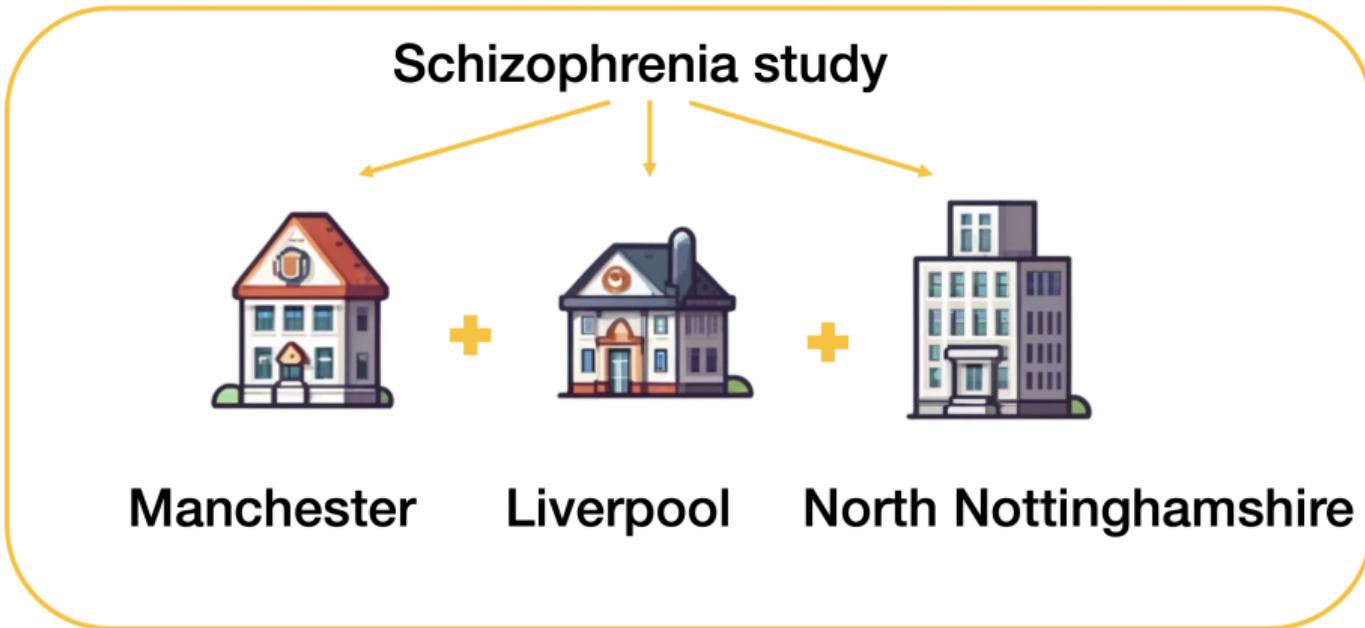
Data Integration



Example I: A/B Testing with Historical Data



Example II: Meta Analysis [Shi et al., 2018]



Example III: Combining Observational Data

RCT

- high cost
- time constraint

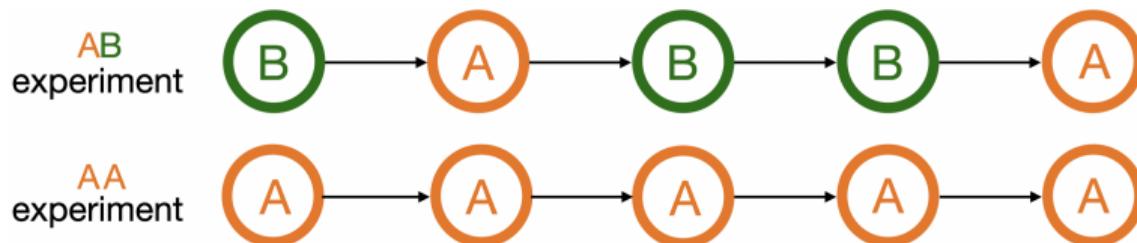
Observational data

- large sample size



A/B Testing with Historical Data

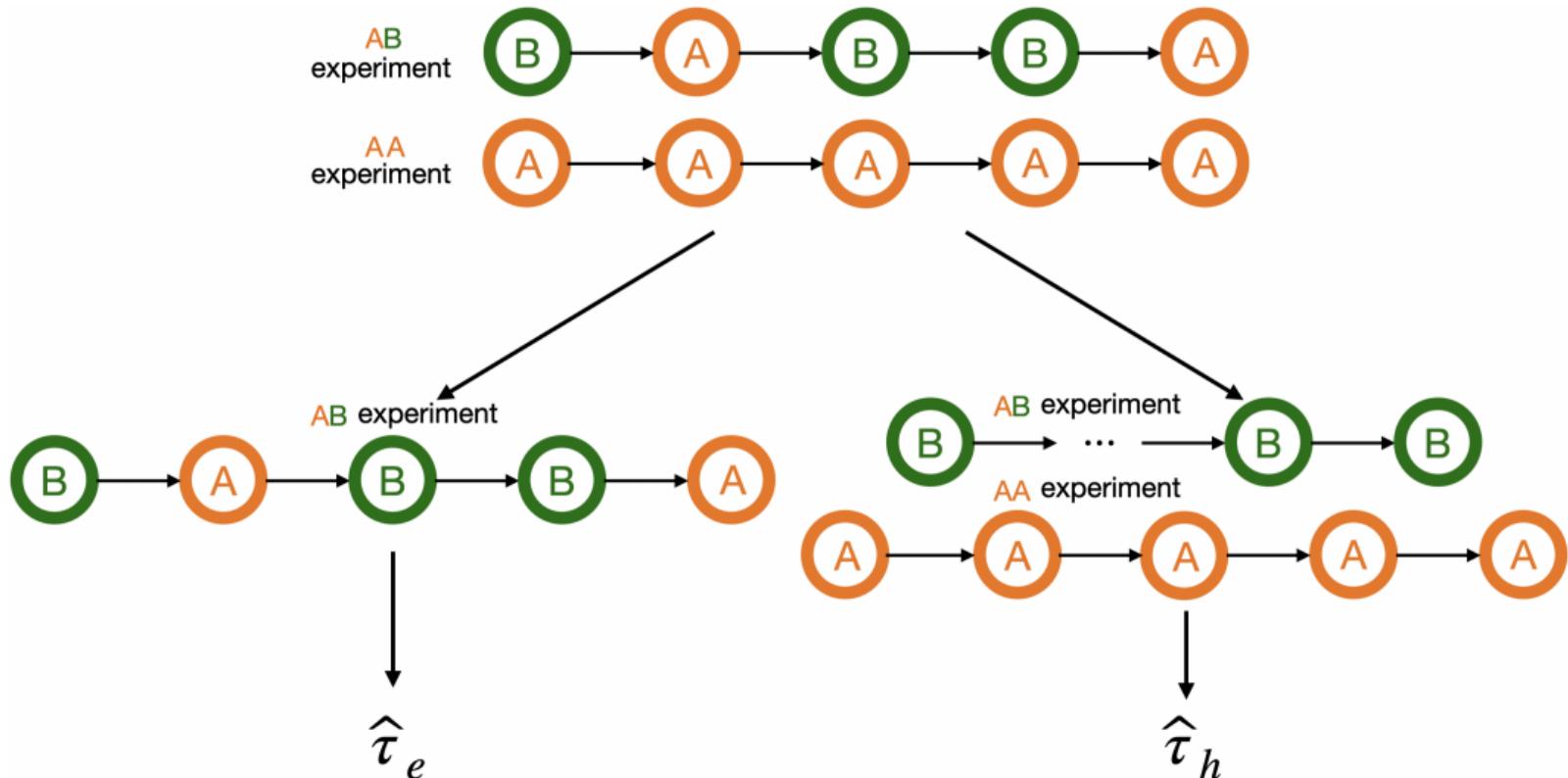
Objective: combine **experimental data** (A/B) with **historical data** (A/A) to improve ATE estimation



Challenge: **distributional shift** between experimental and historical data

- In **ridesharing**, the **nonstationary** of the environment → distributional shift [Wan et al., 2021]
- In **medicine**: the **heterogeneity** in characteristics of treatment setting → distributional shift [Shi et al., 2018]

Two Base Estimators



A Naive Weighted Estimator

- Consider the weighted estimator

$$\hat{\tau}_w = w\hat{\tau}_e + (1 - w)\hat{\tau}_h,$$

for some properly chosen weight $w \in [0, 1]$ to minimize its $\text{MSE}(\hat{\tau}_w)$.

- The weight w reflects a bias-variance tradeoff. A large w can:
 - Reduce **bias** of $\hat{\tau}_w$ caused by the distributional shift between the datasets
 - Increase **variance** of $\hat{\tau}_w$ as a result of not fully leveraging the historical data
- Natural to consider the following naive estimator that minimizes an estimated MSE:

$$\widehat{\text{MSE}}(\hat{\tau}_w) = \widehat{\text{Bias}}^2(\hat{\tau}_w) + \widehat{\text{Var}}(\hat{\tau}_w).$$

We refer to this estimator as the **non-pessimistic** estimator.

Theoretical Analysis

Three scenarios, depending on the bias

$$\mathbf{b} = \mathbb{E}(\hat{\mathbf{b}}) = \mathbb{E}(\hat{\tau}_h - \hat{\tau}_e)$$

1. **Small bias:** \mathbf{b} is much smaller than the standard deviation of its estimator;
2. **Moderate bias:** \mathbf{b} is comparable to or larger than the standard deviation, yet falls within the high confidence bounds of $\hat{\mathbf{b}}$;
3. **Large bias:** \mathbf{b} is much larger than the estimation error.

Three competing estimators:

1. **EDO** (experimental-data-only) estimator which sets $\mathbf{w} = \mathbf{1}$;
2. **SPE** (semi-parametrically efficient) estimator [Li et al., 2023b] developed under the assumption of no bias;
3. **Oracle** estimator which optimizes \mathbf{w} to minimize $\text{MSE}(\hat{\tau}_{\mathbf{w}})$;

Theoretical Analysis (Cont'd)

Bias	Non-pessimistic estimator	Optimal estimator
Zero	Close to efficiency bound	SPE/Oracle
Small	Close to oracle MSE	SPE/Oracle
Moderate	May suffer a large MSE	Oracle
Large	Oracle property	EDO/Oracle

The **oracle** MSE denotes MSE of the oracle estimator and the **efficiency bound** is the smallest achievable MSE among a broad class of regular estimators [Tsiatis, 2006].

Our Motivating Question

Can we develop an estimator that works well with moderate bias?

Our Proposal

Main idea: reformulate the weight selection as an **offline bandit** problem

- Each weight $w \in [0, 1]$ → an **arm** in bandit
- Negative MSE of $\hat{\tau}_w$ → **reward** of selecting an arm

Objective in bandit: choose the **optimal** arm that maximizes its reward.

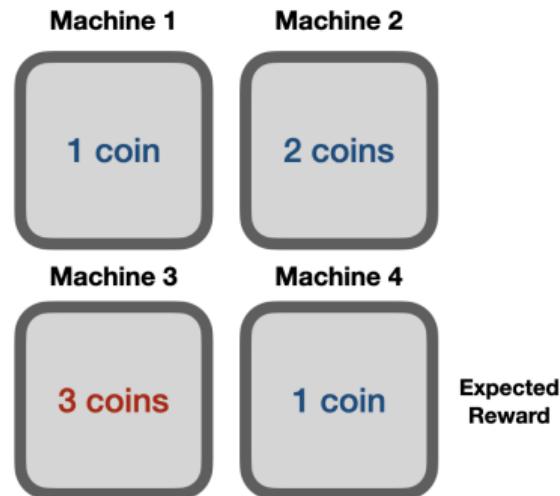
Multi-Armed Bandit Problem



- The **simplest** RL problem
- A casino with **multiple** slot machines
- Playing each machine yields an independent **reward**.
- Limited knowledge (unknown reward distribution for each machine) and resources (**time**)
- **Objective:** determine which machine to pick at each time to maximize the expected **cumulative rewards**

Offline Multi-Armed Bandit Problem

- k -armed bandit problem (k machines)
- $A_t \in \{1, \dots, k\}$: arm (machine) pulled (experimented) at time t
- $R_t \in \mathbb{R}$: reward at time t
- $Q(a) = \mathbb{E}(R_t | A_t = a)$ expected reward for each arm a (**unknown**)
- **Objective**: Given $\{A_t, R_t\}_{0 \leq t < T}$, identify the best arm



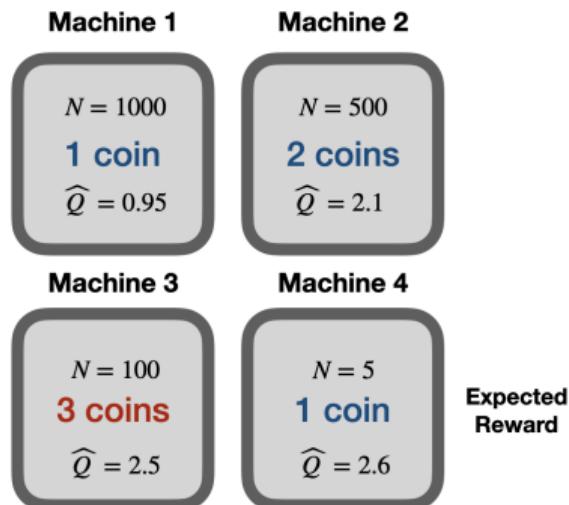
Greedy Action Selection (Non-pessimistic Estimator)

- Action-value methods:

$$\hat{Q}(a) = N^{-1}(a) \sum_{t=0}^{T-1} R_t \mathbb{I}(A_t = a)$$

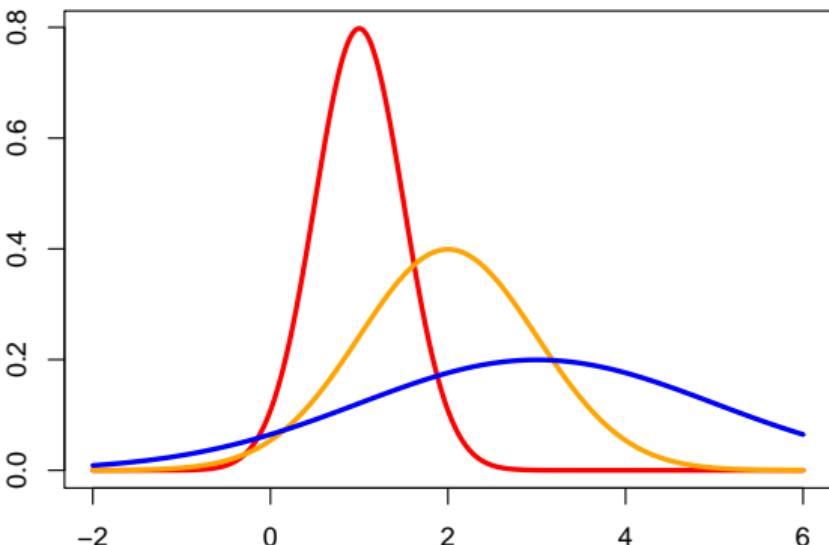
where $N(a) = \sum_{t=0}^{T-1} \mathbb{I}(A_t = a)$
denotes the action counter

- Greedy policy: $\arg \max_a \hat{Q}(a)$
- Less-explored action $\rightarrow N(a)$ is small
 \rightarrow inaccurate $\hat{Q}(a)$ \rightarrow suboptimal policy (see the plot on the right)



The Pessimistic Principle

- In **offline** settings
- The less **uncertain** we are about an action-value
- The more **important** it is to use that action
- It could be the **best** action
- Likely to pick red action
- Yields the **lower confidence bound** (LCB) algorithm



Lower Confidence Bound

- Estimate an **lower confidence** $L(\mathbf{a})$ for each action value such that

$$Q(\mathbf{a}) \geq \hat{Q}(\mathbf{a}) - L(\mathbf{a}),$$

with high probability.

- $L(\mathbf{a})$ quantifies the **uncertainty** and depends on $N(\mathbf{a})$ (number of times arm \mathbf{a} has been selected in the historical data)
 - Large $N(\mathbf{a}) \rightarrow$ small $L(\mathbf{a})$;
 - Small $N(\mathbf{a}) \rightarrow$ large $L(\mathbf{a})$.
- Select actions maximizing lower confidence bound

$$\mathbf{a}^* = \arg \max_{\mathbf{a}} [\hat{Q}(\mathbf{a}) - L(\mathbf{a})].$$

Lower Confidence Bound (Cont'd)

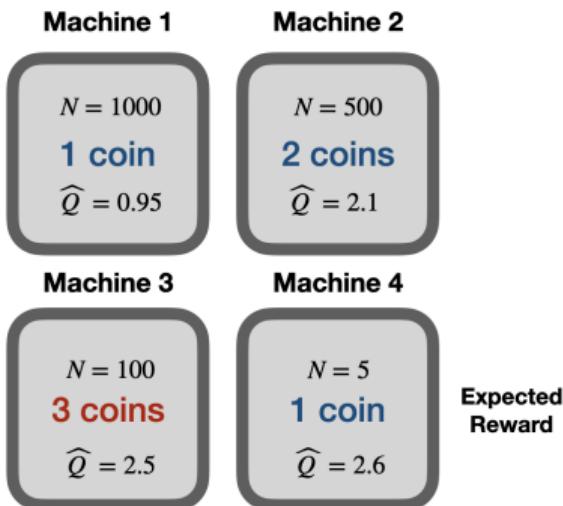
- Set $L(a) = \sqrt{c \log(T)/N(a)}$ for some positive constant c where T is the sample size of historical data
- According to **Hoeffding's inequality** ([link](#)), when rewards are bounded between 0 and 1 , the event

$$|Q(a) - \hat{Q}(a)| \leq L(a),$$

holds with probability at least $1 - 2T^{-2c}$ (converges to 1 as $T \rightarrow \infty$).

Lower Confidence Bound (Cont'd)

- $\hat{Q}(4) > \hat{Q}(3)$
- $T = 1605$. Set $c = 1$.
- $L(3) = \sqrt{\log(T)/N(3)} = 0.272$
- $L(4) = \sqrt{\log(T)/N(4)} = 1.215$
- $\hat{Q}(3) - L(3) > \hat{Q}(4) - L(4)$
- $\hat{Q}(3) - L(3) > \max(\hat{Q}(1), \hat{Q}(2))$
- Correctly identify optimal action



Theory

Define the regret, as the difference between the expected reward under the **best arm** and that under the **selected arm**.

Theorem (Greedy Action Selection)

Regret of greedy action selection is upper bounded by $2 \max_a |\hat{Q}(a) - Q(a)|$, whose value is bounded by $2\sqrt{c \log(T) / \min_a N(a)}$ (according to Hoeffding's inequality) with probability approaching 1

- The upper bound depends on the estimation error of **each** Q-estimator
- The regret is small when **each** arm has sufficiently many observations
- However, it would yield a large regret when one arm is **less-explored**
- This reveals the **limitation** of greedy action selection

Theory (Cont'd)

Theorem (LCB; see also Jin et al. [2021])

Regret of the LCB algorithm is upper bounded by $2\sqrt{c \log(T)/N(a^{opt})}$ where a^{opt} denotes the best arm with probability approaching 1

- The upper bound depends on the estimation error of best arm's Q-estimator **only**
- The regret is small when the **best** arm has sufficiently many observations
- This is much weaker than requiring **each** arm to have sufficiently many observations
- This reveals the **advantage** of LCB algorithm

Back to Our Problem

Main idea: reformulate the weight selection as an **offline bandit** problem

- Each weight $w \in [0, 1]$ → an **arm** in bandit
- Negative MSE of $\hat{\tau}_w$ → **reward** of selecting an arm

Nonpessimistic estimator chooses the arm that maximizes an estimated negative MSE

- It requires a **uniform consistency** condition: the estimated MSE converges to its oracle value uniformly across all weights
- Underestimate the bias b → low estimated MSE for small weights → estimated weight tends to be smaller than the ideal value → a significant bias in $\hat{\tau}_w$
- This reveals the limitation of the nonpessimistic estimator when b is moderate or large.

Pessimistic Estimator

Main idea: select the arm that maximizes a lower bound of the negative MSE, or equivalently, an upper bound of the MSE

- **Uncertainty quantification:** compute an uncertainty quantifier \mathbf{U} for the estimated error such that $|\hat{\mathbf{b}} - \mathbf{b}| \leq \mathbf{U}$ with large probability.
- **MSE estimation:** use $|\hat{\mathbf{b}}| + \mathbf{U}$ as a pessimistic estimator for the bias \mathbf{b} and plug this estimator into the MSE formula to construct an upper bound of the MSE $\widehat{\text{MSE}}_{\mathbf{U}}(\hat{\tau}_{\mathbf{w}})$.
- **Weight selection:** select \mathbf{w} that minimizes the upper bound $\widehat{\text{MSE}}_{\mathbf{U}}(\hat{\tau}_{\mathbf{w}})$.

Theoretical Analysis

Bias	Non-pessimistic estimator	Pessimistic estimator	Optimal estimator
Zero	Close to efficiency bound	Same order to oracle MSE	SPE/Oracle
Small	Close to oracle MSE	Same order to oracle MSE	SPE/Oracle
Moderate	May suffer a large MSE	Oracle property	Oracle
Large	Oracle property	Oracle property	EDO/Oracle

The **oracle** MSE denotes MSE of the oracle estimator and the **efficiency bound** is the smallest achievable MSE among a broad class of regular estimators [Tsiatis, 2006].

Simulation Study

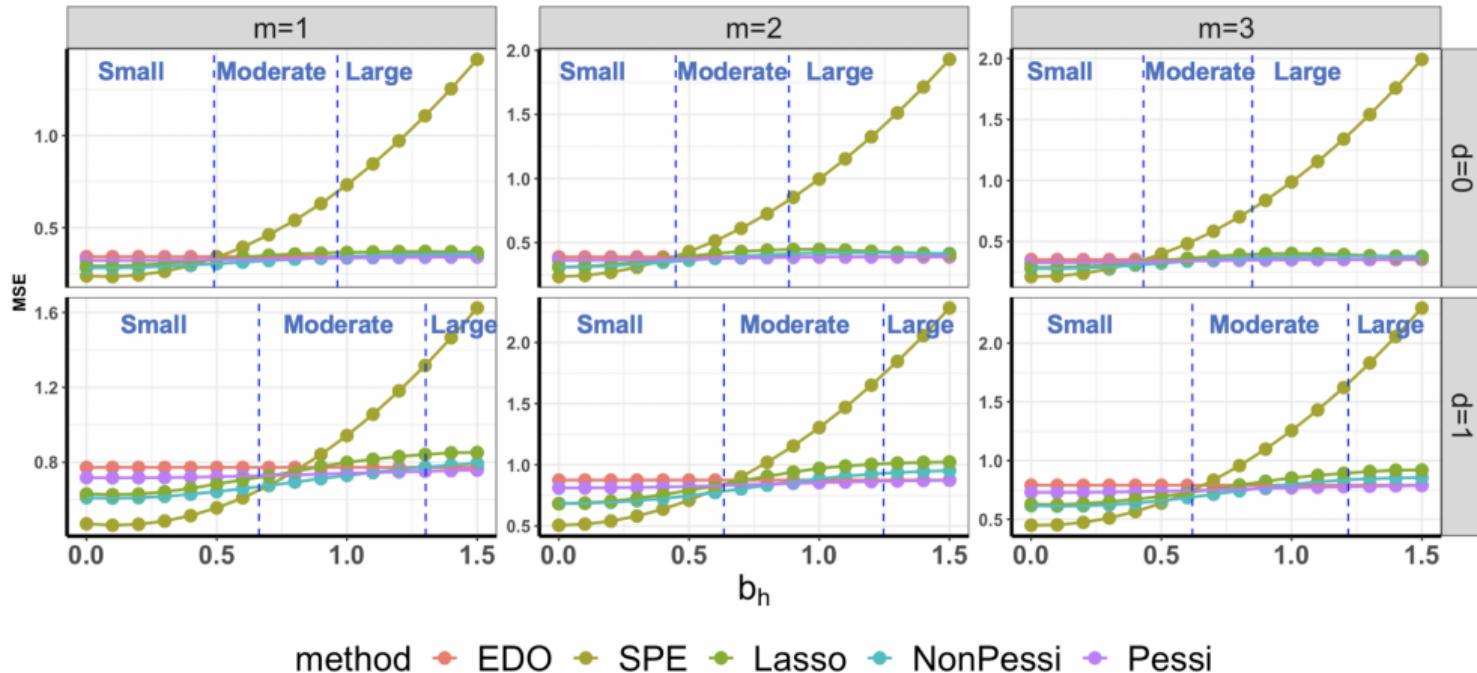
The effectiveness of different estimators is determined by the magnitude of the bias. To validate our theory, we further classify \mathbf{b} into different regimes as follows

- **Small bias** regime (SPE estimator is expected to be optimal): $|\mathbf{b}| \leq c_1 \sqrt{\text{Var}(\hat{\mathbf{b}})}$;
- **Moderate bias** regime (the proposed pessimistic estimator is expected to be optimal): $c_1 < \frac{|\mathbf{b}|}{\sqrt{\text{Var}(\hat{\mathbf{b}})}} \leq c_2$;
- **Large bias** regime (EDO estimator is expected to be optimal): $|\mathbf{b}| > c_2 \sqrt{\text{Var}(\hat{\mathbf{b}})}$.

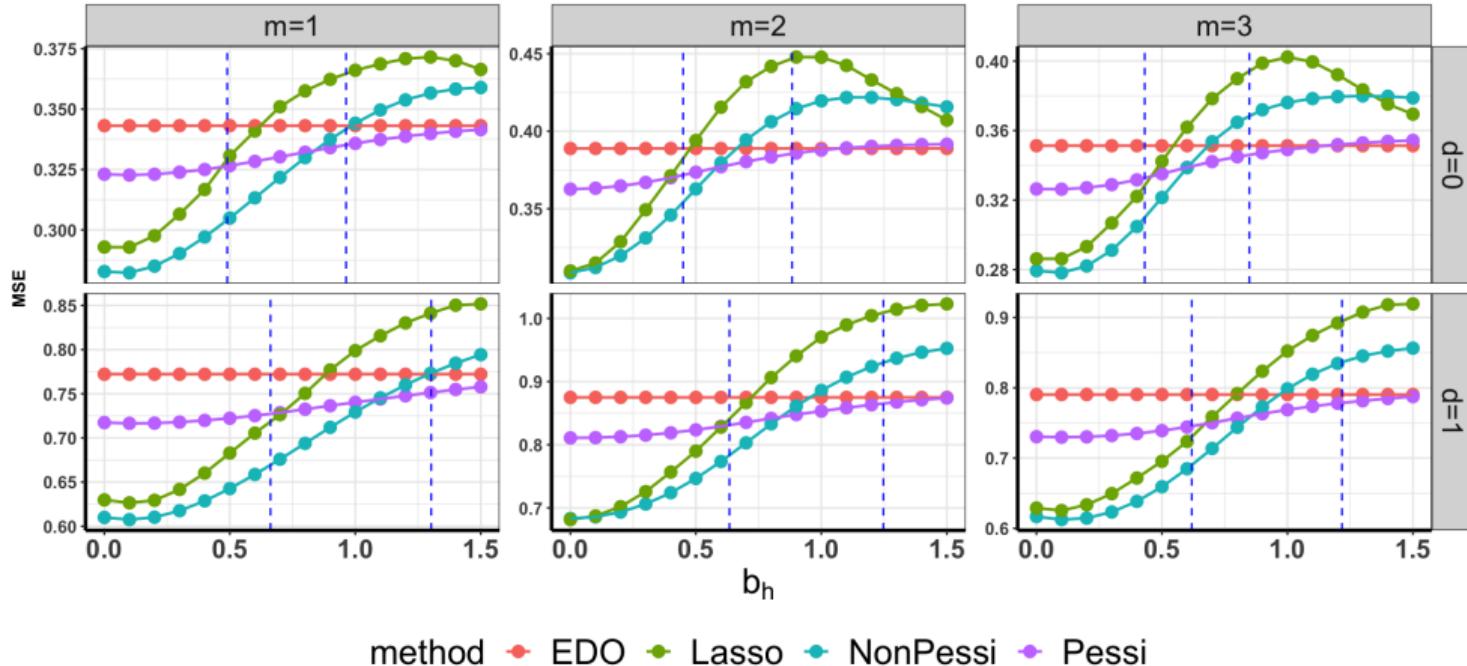
According to our theory, we set $c_1 = 1$ and $c_2 = \sqrt{\log(n)}$. This ensures:

- Scenarios where variance dominates the bias are categorized within the small bias region.
- When the bias exceeds the established high confidence bound, it is classified under the large bias regime.

Simulation Study (Cont'd)



Simulation Study (Cont'd)



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