

Bernstein approximation of chance constrained problems: an example

Gao Yuan

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Abstract

We study the example in [2] in more detail and repeat the computation using the new conic program solver.

The model

We describe the chance constrained problem in detail. As in [2], consider the following chance constrained program

$$\max_{x_0, x_1, \dots, x_n, \tau} (\tau - 1) \quad \text{s.t.} \quad \mathbb{P} \left(\tau > \sum_{j=0}^n r_j x_j \right) \leq \alpha, \quad \sum_{j=0}^n x_j \leq 1, \quad x_j \geq 0, \forall j \quad (1)$$

where $\alpha \in [0, 1]$ is a given constant. The assumptions are

1. The returns r_0, r_1, \dots, r_n satisfy $r_0 = 1$ and $\mathbb{E}(r_i) = 1 + \rho_i$ with $0 \leq \rho_1 \leq \dots \leq \rho_n$.
2. For $1 \leq j \leq n$ and $1 \leq l \leq q$, one has $r_j = \eta_j + \sum_{l=1}^q \gamma_{jl} \zeta_l$ where $\eta_j \sim \mathcal{LN}(\mu_j, \sigma_j^2)$ (the individual noises) and $\zeta_l \sim \mathcal{LN}(\nu_l, \theta_l^2)$. All η_j and ζ_l are independent of each other.
3. One has $\nu_l = 0$, $\theta_l = 0.1$ for all l , $\mu_j = \sigma_j$ for all j , $\sum_{l=1}^q \gamma_{jl} \exp \left(\nu_l + \frac{\theta_l^2}{2} \right) = \frac{\rho_j}{2}$ for all j and $\sum_{j=1}^n \exp \left(\mu_j + \frac{\sigma_j^2}{2} \right) = 1 + \frac{\rho_j}{2}$.

We see that the problem can be rewritten into (1.1) in [2] with $m = 1$. Denote

$$\tilde{x} = (\tau, x_0, x_1, \dots, x_n)^T.$$

The objective function is simply $f(\tilde{x}) = -\tau$, and the chance constraint is

$$\mathbb{P}(F(\tilde{x}, \xi) \leq 0) \geq 1 - \alpha$$

where

$$F(\tilde{x}, \xi) = g_0(\tilde{x}) + \sum_{j=1}^d \xi_j g_j(\tilde{x}), \quad d = n + q, \quad g_0(\tilde{x}) = \tau - x_0,$$

$$\begin{aligned}\xi_j &= \eta_j, \quad g_j(\tilde{x}) = -x_j, \quad 1 \leq j \leq n, \\ \xi_{n+l} &= \zeta_l, \quad g_{n+l}(\tilde{x}) = -\sum_{j=1}^n \gamma_{jl} x_j, \quad 1 \leq l \leq q.\end{aligned}$$

Convex approximation and standard form formulation

Here we construct the Bernstein approximation to (1) and reformulate it into a standard form involving exponential cone constraints.

Note that the discretization scheme described in [2] has been adopted and all random variables ξ_j , $1 \leq j \leq d$ are now discrete with finite support. For each j , denote the support and the associated probability masses as $\{(v_k^j, p_k^j)\}_{1 \leq k \leq N_j}$. In other words, for each j , $\mathbb{P}(\xi_j = v_k^j), \forall k$ and the moment generating function of ξ_j is $M_j : z \rightarrow \sum_{k=1}^{N_j} p_k^j \exp(v_k^j z)$.

The Bernstein approximation to (1) is therefore the following convex maximization problem

$$\max_{x_0, x_1, \dots, x_n, \tau} (\tau - 1) \quad \text{s.t.} \quad \inf_{t > 0} \left(g_0(\tilde{x}) + \sum_{j=1}^d t \Lambda_j(t^{-1} g_j(\tilde{x})) - t \log \alpha \right) \leq 0. \quad (2)$$

In fact, problem (2) can be reformulated into the standard form (PD') in [1], namely (note that $d = n + q$)

$$\begin{aligned} \min \quad & -\tau \\ \text{s.t.} \quad & x_0 + x_1 + \dots + x_n + s_x = 1 \\ & g_0 + \left(\sum_{j=1}^d s_j \right) - (\log \alpha) t_0 = 0 \\ & g_0 - \tau + x_0 = 0 \\ & g_j + x_j = 0, \quad j = 1, \dots, n \\ & g_{n+l} + \sum_{j=1}^n \gamma_{jl} x_j = 0, \quad l = 1, \dots, q \\ & w_k^j - v_k^j g_j + s_j = 0, \quad j = 1, \dots, d, \quad k = 1, \dots, N_j \\ & \sum_{k=1}^{N_j} p_k^j w_k^j - t_0 = 0, \quad j = 1, \dots, d \\ & t_0 - t_k^j = 0, \quad j = 1, \dots, d, \quad k = 1, \dots, N_j \end{aligned} \quad (3)$$

where the decision variables are

$$\begin{aligned}
&\tau \in \mathbb{R} \\
&x_0, x_1, \dots, x_n, s_x \geq 0 \\
&g_0, g_1, \dots, g_d \in \mathbb{R} \\
&t_0 \geq 0 \\
&s_1, \dots, s_d \in \mathbb{R} \\
&[w_k^j; u_k^j; t_k^j] \in \mathcal{K}_{\text{exp}}, \quad j = 1, \dots, d, \quad k = 1, \dots, N_j.
\end{aligned}$$

Note that we keep the slack variable $s_x \geq 0$ in the first constraint, although it can be shown that there is always an optimal solution $(x_0^*, x_1^*, \dots, x_n^*)$ with $\sum_{j=0}^n x_j^* = 1$.

References

- [1] Y. Gao. Design and implementation of homogeneous interior-point methods for conic programming involving exponential cone constraints, 2006.
- [2] A. Nemirovsky and A. Shapiro. Convex approximation of chance constrained programs. *SIAM Journal on Optimization*, 17(4):969–996, 2006.