SOCSol4L: An improved MATLAB package for approximating the solution to a continuous-time stochastic optimal control problem

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December 2006

Online at http://mpra.ub.uni-muenchen.de/8946/
MPRA Paper No. 8946, posted 4. June 2008 14:07 UTC
AN IMPROVED MATLAB® PACKAGE FOR APPROXIMATING THE SOLUTION TO A CONTINUOUS-TIME STOCHASTIC OPTIMAL CONTROL PROBLEM

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ABSTRACT. Computing the solution to a stochastic optimal control problem is difficult. A method of approximating a solution to a given stochastic optimal control problem using Markov chains was developed in [1]. This paper describes a suite of MATLAB® functions implementing this method of approximating a solution to a given continuous stochastic optimal control problem.

2006 Working Paper
School of Economics and Finance

JEL Classification: C63 (Computational Techniques), C87 (Economic Software).
AMS Categories: 93E25 (Computational methods in stochastic optimal control).
Authors’ Keywords: Computational economics, Approximating Markov decision chains.

This report documents 2005 - 2006 research into Computational Economics Methods directed by Jacek B. Krawczyk supported by VUW FCA FRG-05 (24644).

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This should be read and used in conjunction with [1].

Computing the solution to a stochastic optimal control problem is difficult. A method of approximating a solution to a given stochastic optimal control (SOC) problem using Markov chains was initially developed in [2], and later modified and improved in [1] (see also [3]). This paper describes a suite of MATLAB\textsuperscript{\textregistered} functions implementing this method of approximating a solution to a continuous SOC problem. We provide an example showing how to generate a test result from [2] in appendix A.

The method deals with finite horizon, free terminal state SOC problems having the form:

\[
\min f(u, x_0) = \mathbb{E}\left[ \int_0^T f(x(t), u(t), t) \, dt + h(x(T)) \bigg| x(0) = x_0 \right]
\]

subject to:

\[
dx = g(x(t), u(t), t) \, dt + b(x(t), u(t), t) \, dW
\]

where \(W\) is a standard Wiener process. In the optimization method, we also allow for constraints on the control and state variables (local and mixed).

Note: Throughout this paper, the dimension of the state space shall be denoted by \(d\), the dimension of the control by \(c\), the length of the horizon by \(T\), and the number of variables which are affected by noise by \(N\) (\(N \leq d\)).

To solve (1) subject to (2) and local constraints, we developed a package of MATLAB\textsuperscript{\textregistered} programmes under the name SOCSol4L. The package is composed of five main modules:

1. SOCSol
2. ContRule
3. GenSim
4. ValGraph
5. LagranMap

SOCSol discretises the SOC problem and then solves this ‘discretisation’. For constrained problems, it can also produce maps from states and times to Lagrange multipliers’ values. ContRule derives graphs of continuous-time, continuous-state control rules from the SOCSol solution. GenSim simulates the continuous system using such a control rule (also derived from the SOCSol solution). ValGraph provides an automated means of computing expected values for the continuous system as initial conditions change. LagranMap produces graphs of Lagrange multipliers’ values from Lagrange maps generated by SOCSol.

\footnote{See [4] for the introduction to MATLAB\textsuperscript{\textregistered}.}
1. SOCSol

1.1. **Purpose.** SOCSol takes the given SOC problem and approximates it with a Markov decision chain, which it then solves. This results in a discrete-time, discrete-space control rule. SOCSol does not perform the interpolation to convert this discrete-time, discrete-space control rule into a continuous-time, continuous-state control rule (this is done by GenSim).

1.2. **Syntax.**

```matlab
SOCSol('DeltaFunctionFile', 'InstantaneousCostFunctionFile',
       'TerminalStateFunctionFile', StateLB, StateUB, StateStep,
       TimeStep, 'ProblemFile', Options, InitialControlValue, A,
       b, Aeq, beq, ControlLB, ControlUB,
       'UserConstraintFunctionFile')
```

**Note:** It is easiest to define these arguments in a script, and then call that script in MATLAB®. See appendix A for an example of this.

**DeltaFunctionFile:**

A string containing the name (no .m extension) of a file containing a MATLAB® function representing the equations of motion.

If the problem is deterministic, the function returns a vector of length $d$ corresponding to the value of $g(x(t), u(t), t)$.

If the problem is stochastic, the function returns a vector of length $2d$, the first $d$ elements of which are $g(x(t), u(t), t)$ and the second $d$ elements of which are $b(x(t), u(t), t)$. If some of the variables are undisturbed by noise (i.e. $N < d$), then the variables for which the diffusion term is constantly 0 must follow the variables that are disturbed by noise.

In either case the function should have a header of the form:

```matlab
function Value = Delta(Control, StateVariables, Time)
```

where `Control` is a vector of length $c$, `StateVariables` is a vector of length $d$, and `Time` is a scalar.
**InstantaneousCostFunctionFile:**

A string containing the name (no .m extension) of a file containing a MATLAB® function representing the instantaneous cost function \( f(x(t), u(t), t) \)^1. The function should have a header of the form:

\[
\text{function Value = Cost(Control, StateVariables, Time)}
\]

where Control is a vector of length \( c \), StateVariables is a vector of length \( d \), and Time is a scalar.

**TerminalStateFunctionFile:**

A string containing the name (no .m extension) of a file containing a MATLAB® function representing the terminal state function \( h(x(T)) \)^1.

This function should return only the single real value given by \( h(x(T)) \) (even if the function is identically zero). The function should have a header of the form:

\[
\text{function Value = Term(StateVariables)}
\]

where StateVariables is a vector of length \( d \).

As for InstantaneousCostFunctionFile above, if the SOC problem to be solved involves maximisation, the negative of its terminal state bonus should be specified here.

**StateLB, StateUB, and StateStep:**

These determine the finite state grid for the Markov chain that we hope will approximate the SOC problem. Each may be given as a vector or as an array, independent of the type of the other two.

The value of StateLB is the least possible state\(^2\).

The value of StateUB is the maximum possible state\(^2\).

---

1. A maximisation problem can be converted into a minimisation problem by multiplying the performance criterion by \(-1\). Consequently, if the SOC problem to be solved involves maximisation, the negative of its instantaneous cost should be specified in InstantaneousCostFunctionFile and the negative of its terminal state should be specified in TerminalStateFunctionFile.

2. The solution is routinely disturbed close to the state boundaries StateLB and StateUB. Consequently, these should be chosen `generously`. Of course, larger state grids require greater computation times - see section 7.1 for advice.
The value of StateStep determines the distances between points of the state grid. It has to be chosen so that its entry/entries corresponding to the \(i^{th}\) state variable exactly divides/divide the difference/differences between the corresponding entries of StateLB and StateUB. Of course, step size need not be the same for all state variables.

Each of these values can be given in two different ways:

1. As a vector of length \(d\) (the dimension of the state space, where each value in the vector corresponds to one dimension) In this case, the same set of numbers will apply to every decision stage of the Markov chain.
2. As a matrix with \(S + 1\) rows and \(d\) columns, where \(S\) is the number of decision stages in the Markov Chain as determined by TimeStep below. The \(i^{th}\) row is then used to determine the state grid in the \(i^{th}\) stage.

TimeStep:

This determines the number of decision stages and their associated times.

TimeStep is a vector of step lengths that partition the interval \([0, T]\); i.e., their sum should be \(T\). The number of elements of TimeStep is the number of decision stages in the Markov decision chain, which we denote \(S\).

ProblemFile:

A string containing the name (with no extension) of the problem. This name is used to store the solution on disk. SOCSol produces two files with this name: one with the extension .DPP, which contains the parameters used to compute the Markov decision chain, and one with the extension .DPS, which contains the solution itself.

These files are used by GenSim to produce the continuous-time, continuous-state control rule. Note that the routines GenSim, ContRule and ValGraph (all explained below) require that these .DPP and .DPS files still exist and remain unchanged.

Options:

This vector (in fact, a cell array) of strings controls various internal settings that need only be adjusted infrequently. Two types of options can be set using the Options vector: options directly related to SOCSol4L, and options used by fmincon, a MATLAB\textsuperscript{®} routine employed by SOCSol4L.
The user need only specify those options that are to be changed from their default values. If all options are to remain at their default values, then `Options` should be passed as empty, *i.e.* as `{}`.

In order to alter an option from its default value, the option should be named (in a string) followed directly by the value to which it is to be set (in another string). For example, if it was desired to set the `ControlDimension` option to 2 and turn on the `Display`, then `Options` could be set as:

```plaintext
Options = {'ControlDimension' '2' 'Display' 'on'};
```

Note that the number 2 is entered as the string `'2'`. While it is important that an option be followed directly by the value to which it is to be set, option-value pairs can be given in any order. So it would be equally valid to set the above as:

```plaintext
Options = {'Display' 'on' 'ControlDimension' '2'};
```

The options related directly to SOCSol4L are:

1. **ControlDimension**. This contains the value `c` for your problem. It must be given as a natural number (in a string). The default value is 1.
2. **StochasticProblem**. This should be set to `yes` if your problem is stochastic. The default value is `no`, *i.e.* the problem is assumed to be deterministic.
3. **NoisyVars**. This should be set to the number `N` (in a string) if `N < d`. The default value is `d`, *i.e.* all variables are assumed to be noisy. If the problem is deterministic, SOCSol ignores the value of NoisyVars.
4. **LagrangeMaps**. This specifies whether SOCSol should produce an output file containing the Lagrange multipliers associated with the problem’s constraints. If so, LagrangeMaps should be set to `yes`. The default value is `no`. This option must be enabled if the user later wishes to utilise the LagranMap routine.

In general, `fmincon` can use either large-scale or medium-scale algorithms. While large-scale algorithms are more efficient for some problems, the use of such an algorithm requires differentiability of the function to be minimised. This is not generally true of the cost-to-go functions that SOCSol4L passes to `fmincon`. Consequently, SOCSol4L employs only `fmincon`’s medium-scale algorithms.

As a result of this, those `fmincon` options specific to large-scale algorithms are not set through the `Options` vector, but instead passed their default values by SOCSol4L. However, the `fmincon` options specific to medium-scale algorithms may be set through the `Options` vector. These include:
1. **Diagnostics.** This controls whether \texttt{fmincon} prints diagnostic information about the cost-to-go functions that it minimises. The default value is ‘off’, but Diagnostics may also be set to ‘on’.

2. **Display.** This controls \texttt{fmincon}'s display level. The default value is ‘off’ (no display), but Display may also be set to ‘iter’ (display output for each of \texttt{fmincon}'s iterations), ‘final’ (display final output for each call to \texttt{fmincon}) and ‘notify’ (display output only if non-convergence is encountered).

3. **MaxFunEvals.** This sets \texttt{fmincon}'s maximum allowable number of function evaluations. The default value is 100, but MaxFunEvals may be set to any natural number (in a string).

4. **MaxIter.** This sets \texttt{fmincon}'s maximum allowable number of iterations. The default value is 400, but MaxIter may be set to any natural number (in a string).

5. **MaxSQPIter.** This sets \texttt{fmincon}'s maximum allowable number of sequential quadratic programming steps. The default value is $\infty$, but MaxSQPIter may be set to any natural number (in a string).

6. **TolCon.** This sets \texttt{fmincon}'s termination tolerance on constraint violation. The default value is $10^{-6}$, but TolCon may be set to any positive real number (in a string).

7. **TolFun.** This sets \texttt{fmincon}'s termination tolerance on function evaluation. The default value is $10^{-6}$, but TolFun may be set to any positive real number (in a string).

8. **TolX.** This sets \texttt{fmincon}'s termination tolerance on optimal control evaluation. The default value is $10^{-6}$, but TolX may be set to any positive real number (in a string).

If necessary, it is also possible to set:

11. **DerivativeCheck.** This controls whether \texttt{fmincon} compares user-supplied analytic derivatives (e.g. gradients or Jacobians) to finite differencing derivatives. The default value is ‘off’, but DerivativeCheck may also be set to ‘on’.

12. **DiffMaxChange.** This sets \texttt{fmincon}'s maximum allowable change in variables for finite differencing derivatives. The default value is 0.1, but DiffMaxChange may be set to any positive real number (in a string).

13. **DiffMinChange.** This sets \texttt{fmincon}'s minimum allowable change in variables for finite differencing derivatives. The default value is $10^{-8}$, but DiffMinChange may be set to any positive real number (in a string).

14. **OutputFcn.** A string containing the name (no .m extension) of a file containing a MATLAB\textsuperscript{®} function that is to be called by \texttt{fmincon} at each of its iterations. Such a function is typically used to retrieve/display additional data from \texttt{fmincon}.

See *Optimization Toolbox: Function Reference: Output Function* in MATLAB\textsuperscript{®} help for more information on output functions.

For more information on \texttt{fmincon}, and \texttt{fmincon} options in particular, see *Optimization Toolbox: \texttt{fmincon} and Optimization Toolbox: Function Reference: Optimization Parameters* in MATLAB\textsuperscript{®} help.
**InitialControlValue:**

In general, a vector of initial values for the control variables. This is used by SOCSol4L as an approximate starting point in its search for an optimal discrete-state, discrete-time decision rule. Consequently, it may be chosen with some inaccuracy.

**A and b:**

These allow for the imposition of the linear inequality constraint(s) \( Au \leq b \) on the control variable(s). In general, \( A \) is a matrix and \( b \) is a vector. If there are no linear inequality constraints on the control variable(s), both \( A \) and \( b \) should be set to \([\ ]\).

**Aeq and beq:**

These allow for the imposition of the linear equality constraint(s) \( Aeq \cdot u = beq \) on the control variable(s). In general, \( Aeq \) is a matrix and \( beq \) is a vector. If there are no linear equality constraints on the control variable(s), both \( Aeq \) and \( beq \) should be set to \([\ ]\).

**ControlLB and ControlUB:**

In general, vectors of lower and upper bounds (respectively) on the control variables. If a control variable has no lower bound, the corresponding entry of ControlLB should be set to \(-\infty\). Similarly, if a control variable has no upper bound, the corresponding entry of ControlUB should be set to \(\infty\).

**UserConstraintFunctionFile:**

A string containing the name (no .m extension) of a file containing a MATLAB® function representing problem constraints (in particular, non-linear problem constraints).

This function should return the value of inequality constraints as a vector \( \text{Value1} \) and the value of equality constraints as a vector \( \text{Value2} \), where inequality constraints are written in the form \( k(u, x, t) \leq 0 \) and equality constraints are written in the form \( keq(u, x, t) = 0 \).

The function should have a header of the form:

```matlab
function [Value1, Value2] = Constraint(Control, StateVariables, TimeStep)
```

where \( \text{Control} \) is a vector of length \( c \), \( \text{StateVariables} \) is a vector of length \( d \), and \( \text{TimeStep} \) is a scalar.
Note that the TimeStep argument makes the time step for the relevant Markov chain time readily available for incorporation in constraints. It should not be confused with the Time arguments of the other user-specified functions, which correspond to the Markov chain times themselves.

In the absence of constraints requiring the use of UserConstraintFunctionFile, UserConstraintFunctionFile should be passed as empty: [].

See Optimization Toolbox: fmincon in MATLAB® help for further information about solution starting points, A, b, Aeq, beq, bounds and the specification of non-linear problem constraints.

2. ContRule

2.1. Purpose. ContRule produces graphs of the continuous-time, continuous-state control rule derived from the solution computed by SOCSol\(^2\). Each control rule graph is produced for a given time and holds all but one state variable constant.

2.2. Syntax.

\[
\text{ContRule('ProblemFile', Time, InitialCondition, VariableOfInterest, LineSpec);}
\]

\[
\text{ControlValues = ContRule(...) ;}
\]

Calling ContRule without any output arguments produces control rule profiles for the given time and displays some technical information in the MATLAB® command window. However, ContRule may also be called with a single output argument. In this instance, ContRule also assigns the output argument the values of the control rules in the form of an \(M \times c\) array, where:

\[
M = \frac{\text{StateUB}_{\text{VariableOfInterest}} - \text{StateLB}_{\text{VariableOfInterest}}}{\text{StateStep}_{\text{VariableOfInterest}}} + 1
\]

So rows of this array correspond to points of the VariableOfInterest\(^{th}\) dimension of the state grid, while its columns correspond to control dimensions.

**ProblemFile:**

A string containing the name (with no extension) of the problem. This name is used to retrieve the solution produced by SOCSol from the disk. ContRule requires that the files produced by SOCSol still exist and remain unchanged.

\(^2\)Analogous graphs of the Lagrange multipliers associated with problem constraints can be obtained via LagranMap - see section 5.
Time:
A scalar in the interval $[0, T]$ telling ContRule the time for which a control profile is to be computed. If Time is not a Markov chain time, ContRule computes a control profile for the last Markov chain time before Time.

InitialCondition:
A vector determining the values of the fixed state variables. A value must be given for the VariableOfInterest as a placeholder, although this value is not used.

VariableOfInterest:
A scalar telling the routine which of the state variables to vary, i.e., numbers like “1” or “2” etc. have to be entered in accordance with the state variables’ ordering in the function DeltaFunctionFile. The control rule profile appears with the nominated state variable along the horizontal axis.

LineSpec:
This specifies the line style, marker symbol and colour of timepaths. It is a string of the format discussed in the MATLAB® Functions: LineSpec section of MATLAB® help.

If LineSpec is not specified, it defaults to ‘r-’ (a solid red line without markers).

3. GenSim

3.1. Purpose. GenSim takes the solution computed by S0CSol, derives a continuous-time, continuous-state control rule and simulates the continuous system using this rule. It returns graphs of the timepaths of the state and control variables and the associated performance criterion values for one or more simulations.

3.2. Implementation. The derivation of the continuous-time, continuous-state control rule from the solution computed by S0CSol requires some form of interpolation in both state and time. In an effort to keep the script simple the interpolation in state is linear. States that are outside the state grid simply move to the nearest state grid point. For times between Markov chain times, the control profile for the most recent Markov chain time is used.

The differential equation that governs the evolution of the system is simulated by interpolation of its Euler-Maruyama approximation. The performance criterion integral is approximated using the left-hand endpoint rectangle rule.
3.3 Syntax.

\[
\text{SimulatedValue} = \text{GenSim('ProblemFile', InitialCondition,}
\text{SimulationTimeStep, NumberOfSimulations,}
\text{LineSpec, TimepathOfInterest, UserSuppliedNoise)}
\]

**ProblemFile:**

A string containing the name (with no extension) of the problem. This name is used to retrieve the solution produced by SOCSol from the disk. GenSim requires that the files produced by SOCSol still exist and remain unchanged.

**InitialCondition:**

This is a vector of length \(d\) that contains the initial condition: the point from which the simulation starts.

**SimulationTimeStep:**

This is a vector of step lengths that partition interval \([0, T]\); \(i.e.,\) their sum should be \(T\).

With more simulation steps there is less error from approximating the equations of motion using the Euler-Maruyama scheme and from approximating the performance criterion using the left-hand endpoint rectangle method. In general, the simulation step is much smaller than the time step used to compute the solution (\(i.e.,\) smaller than the TimeStep argument given to SOCSol).

If no SimulationTimeStep vector is given, the SimulationTimeStep vector defaults to the TimeStep vector used for computing the ProblemFile.

**NumberOfSimulations:**

This is the number of simulations that should be performed. If NumberOfSimulations is passed as negative, GenSim performs \(|\text{NumberOfSimulations}|\) simulations, but does not plot any timepaths.

Multiple simulations are normally performed when dealing with a stochastic system. Each simulation uses a randomly determined noise realisation (unless this is suppressed by the UserSuppliedNoise argument).

If NumberOfSimulations is not specified, it defaults to 1.
**LineSpec:**

This specifies the line style, marker symbol and colour of timepaths. It is a string of the format discussed in the *MATLAB® Functions: LineSpec* section of MATLAB® help.

If LineSpec is not specified, it defaults to ‘r-’ (a solid red line without markers).

**TimepathOfInterest:**

This is an integer between 0 and $d + c$ (inclusive) that specifies which timepath(s) GenSim is to plot. If TimepathOfInterest is passed the value 0, GenSim plots timepaths for all state and control variables. Otherwise, if TimepathOfInterest is passed the value $i > 0$, GenSim plots the timepath of the $i^{th}$ variable, where state variables precede control variables.

If TimepathOfInterest is not specified, it defaults to 0.

**UserSuppliedNoise:**

This entirely optional argument enables the user to override the random generation of noise realisations. If UserSuppliedNoise is passed the value 0, a constantly 0 noise realisation is used. Otherwise, UserSuppliedNoise should be passed a matrix with $N$ columns and a row for each entry of SimulationTimeStep.

Note that NumberOfSimulations should be 1 if UserSuppliedNoise is specified. If UserSuppliedNoise is left unspecified, GenSim randomly selects a standard Gaussian noise realisation for each simulation. Naturally, UserSuppliedNoise has no effect on deterministic problems.

**SimulatedValue:**

The MATLAB® output consists of a vector of the values of the performance criterion for each of the simulations performed.

If the problem is stochastic and noise realisations are random, then the average of the values from a large number of simulations can be used as an approximation to the expected value of the continuous stochastic system (under the continuous-time, continuous-state control rule derived from the solution computed by SOCSol). This average is left for the user to compute.
4. ValGraph

4.1. Purpose. ValGraph automates the process of computing expected values for the continuous system (under the continuous-time, continuous-state control rule derived from the solution computed by SOCSol) as the initial conditions change. In a similar spirit to ContRule above, it deals with one state variable at a time (identified by VariableOfInterest), while the other state variables remain fixed.

4.2. Syntax.

ValGraph('ProblemFile', InitialCondition, VariableOfInterest, VariableOfInterestValues, SimulationTimeStep, NumberOfSimulations, ScaleFactor, LineSpec)

**ProblemFile:**

A string containing the name (with no extension) of the problem. This name is used to retrieve the solution produced by SOCSol from the disk. ValGraph requires that the files produced by SOCSol still exist and remain unchanged.

**InitialCondition:**

A vector determining the values of the fixed state variables. A value must be given for the VariableOfInterest as a placeholder, although this value is not used.

**VariableOfInterest:**

A scalar telling the routine which of the state variables to vary. The value graphs appear with this state variable along the horizontal axis.

**VariableOfInterestValues:**

A vector containing the values of the VariableOfInterest at which the system’s performance is to be evaluated.

**SimulationTimeStep:**

This is as for GenSim above.
**NumberOfSimulations:**

This is the number of simulations that should be performed. `NumberOfSimulations` behaves like the similarly-named argument in `GenSim` above, except if passed the value 1 for a stochastic problem, it yields a constantly zero noise realisation.

If `NumberOfSimulations` is not specified, it defaults to 1.

**ScaleFactor:**

This simply scales all the resulting values by the given factor.

Maximisation problems must have all payoffs replaced by their negatives before entry into `SOCSoI`, as it assumes that problems require minimisation. Setting the `ScaleFactor` to -1 ‘corrects’ the sign on payoffs for maximisation problems.

Naturally, if `ScaleFactor` is not specified, it defaults to 1.

**LineSpec:**

This specifies the line style, marker symbol and colour of timepaths. It is a string of the format discussed in the `MATLAB® Functions: LineSpec` section of MATLAB® help.

If `LineSpec` is not specified, it defaults to ‘r-’ (a solid red line without markers).

### 5. LagranMap

5.1. **Purpose.** `LagranMap` utilises `SOCSoI`’s output to produce graphs of the Lagrange multipliers associated with problem constraints\(^3\). Each Lagrange map graph is produced for a given time and holds all but one state variable constant.

5.2. **Syntax.**

```matlab
LagranMap('ProblemFile', Time, InitialCondition, VariableOfInterest, LineSpec, MultiplierOfInterest);
```

```matlab
LagrangeValues = LagranMap(...);
```

Calling `LagranMap` without any output arguments produces Lagrange multiplier profiles for the given time and displays some technical information in the MATLAB® command window.

---

\(^3\)Analogous graphs of the problem’s controls can be obtained via `ContRule` - see section 2.
However, LagranMap may also be called with a single output argument. In this instance, LagranMap also assigns the output argument the values of the Lagrange multipliers in the form of an $M \times c$ array, where:

$$M = \frac{\text{StateUB}_{\text{VariableOfInterest}} - \text{StateLB}_{\text{VariableOfInterest}}}{\text{StateStep}_{\text{VariableOfInterest}}} + 1$$

So rows of this array correspond to points of the $\text{VariableOfInterest}^{th}$ dimension of the state grid, while its columns correspond to control dimensions.

**ProblemFile:**

A string containing the name (with no extension) of the problem. This name is used to retrieve the solution produced by SOCSol from the disk. LagranMap requires that this solution include a .DPL file$^4$, and that the files produced by SOCSol still exist and remain unchanged.

**Time:**

A scalar in the interval $[0, T]$ telling LagranMap the time for which Lagrange map profile is to be computed. If Time is not a Markov chain time, LagranMap computes a Lagrange map profile for the last Markov chain time before Time.

**InitialCondition:**

A vector determining the values of the fixed state variables. A value must be given for the $\text{VariableOfInterest}$ as a placeholder, although this value is not used.

**VariableOfInterest:**

A scalar telling the routine which of the state variables to vary, i.e., numbers like “1” or “2” etc. have to be entered in accordance with the state variables’ ordering in the function DeltaFunctionFile. The Lagrange map profile appears with the nominated state variable along the horizontal axis.

**LineSpec:**

This specifies the line style, marker symbol and colour of timepaths. It is a string of the format discussed in the *MATLAB® Functions: LineSpec* section of MATLAB® help.

If LineSpec is not specified, it defaults to ’r’ (a solid red line without markers).

---

$^4$See Options in section 1.2.
**MultiplierOfInterest:**

This is an integer between 0 and the number of bounds & constraints (inclusive) that specifies which Lagrange map(s) LagranMap is to plot. If MultiplierOfInterest is passed the value 0, LagranMap plots Lagrange maps for all bounds and constraints. Otherwise, if MultiplierOfInterest is passed the value \( i > 0 \), LagranMap plots the Lagrange map of the \( i^{th} \) bound/constraint.

If MultiplierOfInterest is not specified, it defaults to 0.

### 6. Technical Information

6.1. **Encoding the State Space.** Within the SOCSol routine each point of the state grid is assigned a unique number. This state number is then used as an index in all the resultant matrices.

For each stage a CodingVector is computed. As a precursor to this, the number of states along each of the \( d \) state variable axes is first computed:

\[
\text{States} = \text{round}((\text{Maximum} - \text{Minimum}) ./ \text{StateStep} + 1);
\]

where Maximum, Minimum, and StateStep are vectors appropriate for the current stage. Taking the product of the entries of States gives TotalStates for the current stage. The CodingVector is then defined as follows:

\[
c = \text{cumprod}(\text{States});
\]

\[
\text{CodingVector} = [1, c(1:Dimension - 1)];
\]

where Dimension is the internal name for \( d \), the number of state variables. The CodingVector is used to compute the state number for each point of the state grid for the current stage.

Suppose that \( x \) is a point of the state grid. Then \( x \) is converted into a vector of numbers, StateVector, with \( 1 \leq \text{StateVector}(i) \leq \text{States}(i) \):

\[
\text{StateVector} = \text{round}((x - \text{Min}) ./ \text{StateStep} + 1);
\]

Finally, the state number State, for \( x \) is computed by taking the dot product of \( \text{StateVector} - 1 \) with the CodingVector and then adding 1:

\[
\text{State} = (\text{StateVector} - 1) * \text{CodingVector} + 1;
\]

This process assigns a unique State to each point of the state grid. Every number between 1 and TotalStates (inclusive) corresponds to a point of the state grid. By construction, 1 corresponds to Min and TotalStates to Max.
Converting a state number back into a point of the state grid is equally simple. The first step is to convert the State into a StateVector. This is carried out by a function SnToSVec:

```matlab
function StateVector = SnToSVec(StateNumber, CodingVector, Dimension)

StateNumber = StateNumber - 1;
StateVector = zeros(1, Dimension);
for i = Dimension:-1:1
    StateVector(i) = floor(StateNumber/CodingVector(i));
    StateNumber = StateNumber - StateVector(i)*CodingVector(i);
end;
StateVector = StateVector + 1;
```

Converting a StateVector to its associated x is as simple as:

```
x = (StateVector - 1).*StateStep + Min;
```

6.2. **The Solution Files.** SOCSol writes at least two files to disk. The file with the .DPP extension contains the parameters used to compute the approximating Markov chain. The file with the .DPS extension contains the solution matrices. These are indexed using the state number encoding of the state space (see section 6.1). Additionally, if SOCSol is called with the LagrangeMaps option set to ‘yes’, a file with the extension .DPL is produced. This contains the Lagrange multiplier matrices.

**The .DPP File:**

The first three lines of this file hold (as strings) the variables DeltaFunctionFile, InstantaneousCostFunctionFile, and TerminalStateFunctionFile. These variables are retrieved using fscanf with a call to fgets after the third fscanf to remove the remaining newline.

The remaining portion of the file holds the matrices Minimum, Maximum, StateStep, and TimeStep, with space at the end for any additional information (currently SOCSol appends Options as specified by the user, the computation time taken to compute the solution (in seconds) and the number of times that fmincon was called). All these variables (with the exception of the additional information) are stored and retrieved using the MatWrite and MatRead functions. These simple functions store the matrices in a binary form that is more time and space efficient than a text representation.
The .DPS File:

This file only contains matrices, written and retrieved by the `MatWrite` and `MatRead` functions. The file begins with the matrices representing the optimal control. There is one such matrix for each dimension of the control space. These can be retrieved using a call of the form:

```matlab
for i = 1:ControlDimension
    eval(['ODM', int2str(i), '=MatRead(fid);'])
fclose(fid);
```

These matrices are followed by a single matrix holding the cost-to-go for each state of each stage of the Markov chain.

The .DPL File:

This file also contains only matrices, written and retrieved by the `MatWrite` and `MatRead` functions. The file begins with six matrices (in fact, scalars) that respectively give the numbers of lower bounds, upper bounds, linear inequalities, linear equalities, non-linear inequalities and non-linear equalities that constrain the controls. These are then followed by matrices representing each of these constraints, grouped in the order above. The matrices can be retrieved using a call of the form:

```matlab
NumLower = MatRead(fid);
NumUpper = MatRead(fid);
NumIneqLin = MatRead(fid);
NumEqLin = MatRead(fid);
NumIneqNonlin = MatRead(fid);
NumEqNonlin = MatRead(fid);
for i = 1:NumLower
    eval(['LagrangeLower', int2str(i), '=MatRead(fid);'])
end;
for i = 1:NumUpper
    eval(['LagrangeUpper', int2str(i), '=MatRead(fid);'])
end;
```

7. Hints

7.1. Choosing State Variable Bounds. The formulation of a SOC problem may give rise to a ‘natural’ choice of bounds on its state variable(s), e.g. \( x_1 \in [0,0.5] \). However, SOCSol4L’s solutions are routinely disturbed close to the bounds specified. Consequently, it may be sensible
to specify a larger state grid than might initially appear necessary (e.g. $x_1 \in [-0.2, 0.7]$). The following graph (Figure 1) demonstrates how this can move distortion outside the area of interest:

![Graph showing control rules with distortion at the right.](image)

**Figure 1.** Control rules with distortion at the right.

Of course, *ceteris paribus*, specifying a larger state grid increases computation time. If the SOC problem has many dimensions, this increase may be considerable.

7.2. **Choosing Discretisation Step Sizes.** The choice of state step(s) and the choice of time step are not entirely independent. In particular, the time step should not be ‘too small’ in comparison to the state step(s). This is because some control $\hat{u}$ is optimal for the Markov chain at a given grid point. However, the control chosen at this point is a multiple of the time step. So if the time step is ‘too small’, $\hat{u}$ cannot be realised, making the optimal solution unobtainable.\(^5\)

Empirical evidence suggests that the time step can also be ‘too large’ in comparison to the state step(s). It is thus desirable to try a variety of discretisations, which may then indicate some choices of step sizes that are effective for a particular problem. This is easily done by extending the script suggested in section 1.2 to call SOCSol several times, specifying ProblemFile differently each time.

7.3. **Use of TolFun.** If fine discretisation is used (in particular, a small time step), the cost-to-go functions that fmincon must minimise are relatively flat. Consequently, fmincon may make significant errors when computing controls if TolFun is left at its default level. These errors often manifest as large ‘steps’ in control rules and/or timepaths.

As a result of this, TolFun should be set to an especially small value (e.g. $10^{-12}$) when fine discretisation is used.\(^6\)

\(^5\)See p. 16 of [1] for further discussion.

\(^6\)See p. 15 of [1] for further discussion.
7.4. **Relative Magnitudes of Controls.** Most numerical optimization methods work most effectively when the solution components (here, the entries of \(u\)) are of comparable size. However, not all problems naturally accommodate this. For example, it may be that \(u_1 \in [0, 1]\) while \(u_2 \geq 0\) realises large values (e.g. \(10^4\)). In certain cases, it is possible to remove such non-comparability by rescaling one or more controls. For example, if \(u_2 \propto x\) and \(x\) realises values comparable to \(u_2\), then replacement of \(u_2\) by \(u'_2\) results in both \(u_1\) and \(u'_2\) realising comparable values\(^7\).

7.5. **Enforcing Bounds on Directly Controlled State Variables.** Call a state variable whose derivative explicitly depends on at least one control variable *directly controlled*. A method of enforcing bounds on directly controlled variables is sketched below.

Suppose that a state variable \(x_i\) has:

\[
\frac{dx_i}{dt} = g_i(x, u) dt
\]

where at least one entry of \(u\) appears in \(g_i\) (i.e., \(x_i\) is directly controlled). If the TimeStep is constant and denoted by \(\delta\) and \(t\) is a Markov chain time, then:

\[
x_i(t + \delta) = x_i(t) + \delta g_i(x, u)
\]

So the lower bound \(a - x_i \leq 0\) can be enforced by specifying the UserConstraintFunctionFile as:

```matlab
function [v1 v2] = ConFun(u, x, ts)
    v1 = [a-x(i)-ts*g_i(x,u)];
    v2 = [];
```

7.6. **Enforcing Bounds on Monotonic State Variables.** Suppose that a SOC problem is formulated in such a way that it can be analytically shown that in its optimal solution, some state variable \(x_i\) must be monotonic with respect to time. Then if \(x_i\) is decreasing, enforcing the upper bound \(x_i \leq a\) amounts to changing GenSim’s initial condition to \(x_i(0) = a\) if it was previously \(x_i(0) = a + p\) for some positive \(p\).

Naturally, an analogous method applies if \(x_i\) is increasing. See section 7.7 below for another way of enforcing bounds on monotonic state variables.

7.7. **Enforcing Terminal State Constraints.** Suppose that a state variable \(x_i\) is subject to the terminal constraint \(x_i(T) \leq a(x^i(T), u(T))\), where:

\[
x^i = (x_1, \ldots, x_{i-1}, x_{i+1}, \ldots, x_d)
\]

Such a terminal constraint can be enforced by adding a summand of the form:

\[
k \max(0, x_i - a(x^i, u))^2
\]

\(^7\)See p. 13, 14 of [1] for further discussion.
to TerminalStateFunction, where \( k > 0 \) is a constant. It may be necessary to run SOCSol several times to find a value of \( k \) sufficiently large to enforce the constraint.

This method can be used to enforce lower bounds on decreasing state variables and upper bounds on increasing state variables.

7.8. Retrieving Additional Information. If additional information is required from one of the SOCSol4L routines, it is often possible to retrieve this by declaring a global variable. For example, suppose that it were necessary to obtain the state values used by GenSim in plotting a particular state timepath. Identifying the appropriate internal variable as GenSim's StateEvolution, one could proceed as follows:

1. Execute the statement `global temp` in the MATLAB® command window.
2. Append GenSim with the lines:

   ```matlab
   global temp
   temp=StateEvolution;
   ```

   and save.
3. Call GenSim in the MATLAB® command window.

The desired state values would then be available in the variable `temp`. It is recommended that the name chosen for this variable (here, "temp") not coincide with the name of any SOCSol4L internal variable.
A.1. **Optimization Problem.** We will show how to obtain the results reported in Example 2.3.1 of [1].

The optimization problem is determined in $\mathbb{R}^1$ by:

\[
\min_{u(t)} J = \frac{1}{2} \int_0^1 \left( u(t)^2 + x(t)^2 \right) dt + \frac{1}{2} x^2(1)
\]

Subject to:

\[\dot{x} = u \quad (4)\]
\[x(0) = \frac{1}{2} \quad (5)\]

A Markovian approximation to this problem is to be formed and then solved. The optimization call for the routine that does this is `SOCSol(...)`, where the arguments inside the brackets are the same as those of Section 1.2. Details of the specification of these arguments for this example are given below.

The following functions are defined by the user and saved in MATLAB® as .m files in locations on the path. Each file has a name (for example `Delta.m`), and consists of a header, followed by one (or more) commands. For this example we have:

**DeltaFunctionFile:**

This is called, for example, `Delta.m` and is written as follows:

```matlab
function v = Delta(u, x, t)
v = u;
```

Similarly, for the other functions in this routine:

**InstantaneousCostFunctionFile**

This is called `Cost.m` and is written as follows:

```matlab
function v = Cost(u, x, t)
v = (u^2 + x^2)/2;
```

**TerminalStateFunctionFile:**

This is called `Term.m` and is written as follows:
function v = Term(x)
    v = x^2/2;

The parameters used in SOCSol are described in Section 1.2. In this example they are given the following values:

StateLB and StateUB: For this one-dimensional Linear-Quadratic problem we give 0 and 0.5 respectively. This is because it is anticipated that the state value will diminish monotonically from 0.5 to a small positive value. Consequently smaller or larger values than these are unnecessary.

StateStep: This is given a value of 0.05, making the discrete state space the set {0, 0.05, 0.1, ..., 0.45, 0.5}.

TimeStep: Given by the vector ones(1, 10)/10, this divides the interval [0, 1] into 10 equal subintervals.

ProblemFile: This is the name for the files that the results are to be stored in, say C:\results\Test1.

Options: In this example it is not necessary to include this vector: the default {} suffices.

InitialControlValue: This is given a value of 0.5. As this value is only an approximate starting point for the routine, it may be specified with some inaccuracy.

A, b, Aeq and beq: As there are no linear constraints, these are all passed as empty: [ ].

ControlLB and ControlUB: As the control variable is unbounded, there are passed as -Inf and Inf respectively.

UserConstraintFunctionFile: As there are no constraints requiring the use of this argument, it too is passed as empty: [ ].

A.2. Solution Syntax. Consequently SOCSol could be called in MATLAB® as follows:

SOCSol('Delta', 'Cost', 'Term', 0, 0.5, 0.05, ones(1, 10)/10,
       'C:\results\Test1', {}, 0.5, [], [], [], [], -Inf, Inf, []);

C:\results\Test1 is just the header part (without the .DPS and .DPP extensions) of the two results files saved from SOCSol and stored for later use (see details Section 6.2).

While the call above is clear for such a simple problem, it is preferable to write MATLAB® scripts for more involved problems. For this example, a script could be written as follows:
StateLB = 0;
StateUB = 0.5;
StateStep = 0.05;
TimeStep = ones(1, 10)/10;
Options = {};
InitialControlValue = 0.5;
A = [];
b = [];
Aeq = [];
beq = [];
ControlLB = -Inf;
ControlUB = Inf;
SOCSol('Delta', 'Cost', 'Term', StateLB, StateUB, StateStep, TimeStep,
    'C:\results\Test1', Options, InitialControlValue, A, b, Aeq, beq,
    ControlLB, ControlUB, [ ]); 

If this script were called work_space.m and placed in a directory visible to the MATLAB® path, it would then only be necessary to call work_space in MATLAB®.

In each case, the .m extensions are excluded from the filenames.

A.3. Retrieving Results Syntax. The results are communicated by means of three types of figures: control versus state policy rules, state and control timepaths, and value graphs.

A.3.1. Control vs. state. The MATLAB® routine ContRule is used to obtain a graph of the control rule at time 0 from SOCSol’s solution. The following values are specified for the parameters described in section 2.2:

ProblemFile: As above, this is: ‘C:\results\Test1’.

Time: This is given a value of 0, as this is the time for which a control rule is to be computed.

InitialCondition: As there is no need to hold a varying variable fixed, this condition does not matter in a one-dimensional example, where we only have one state variable (i.e. IndependentVariable) to vary. Consequently, this is set arbitrarily to 0.5.

IndependentVariable: This is set to 1, as there is only one state variable to vary. If this example had more than one state dimension, IndependentVariable could be any number between 1 and d (inclusive), depending on which dimension/variable was to be varied.

LineSpec: This is left unspecified, assuming its default of ‘r-’. 
Consequently ConRule is called as follows:

\[
\text{ConRule('C:\results\Test1', 0, 0.5, 1)}
\]

This produces the following graph (Figure 2):

![Graph](image)

**Figure 2.** Control rules at time \( t = 0 \).

Note that in this graph the optimal solution is presented as a dashed line, while our computed trajectories are presented as solid lines. This convention is followed for subsequent graphs.

A.3.2. State and control vs. time. The files Test1.DPP and Test1.DPS are used to derive a continuous-time, continuous-state control rule. The system is then simulated using this rule. We use the MATLAB\textsuperscript{®} routine GenSim with the following values for the parameters and functions described in section 3:

**ProblemFile:** This is 'C:\results\Test1' as before.

**InitialCondition:** As the simulation starts at \( x_0 = 0.5 \), this is specified as 0.5.

**SimulationTimeStep:** For 100 equidistant time steps this is given as \( \text{ones}(1, 100)/100 \).

**NumberOfSimulations**, **LineSpec** and **UserSuppliedNoise:** These are not passed, as the default values suffice.

Consequently GenSim is called as follows:

\[
\text{SimulatedValues=GenSim('C:\results\Test1', 0.5, \text{ones}(1, 100)/100)}
\]

SimulatedValue gives the simulated value of the performance criterion. This is 0.1252 with the choice of parameters given here.

GenSim also produces the following graph of timepaths (Figure 3):
A.3.3. *Value vs state.* Finally, the MATLAB® routine `ValGraph` computes the expected value of the performance criterion for the continuous system as the initial conditions vary. This routine has the following values for the parameters described in section 4.2:

- **ProblemFile, InitialCondition and VariableOfInterest:** These are given the same values as the corresponding arguments in subsection A.3.2 above.

- **VariableOfInterestValues:** This vector determines for what values of the variable of interest the performance criterion should be calculated. In this example, `[0:0.05:0.5]` is used.

- **SimulationTimeStep:** For 100 equidistant time steps this is given as `ones(1,100)/100`.

- **NumberOfSimulations and ScaleFactor:** These are not passed, as the default values suffice.

Hence `ValGraph` is called as follows:

```
ValGraph('C:\results\Test1', 0.5, 1, [0:0.05:0.5], ones(1, 100)/100)
```

This produces the following graph (Figure 4):
Figure 4. Optimal value function at time $t = 0$.

References


