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VARIANCE REDUCTION TECHNIQUES FOR SIMULATING MARKOV CHAINS.(U)  
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N00014-76-C-0578

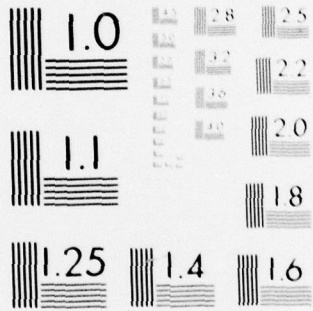
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(6) VARIANCE REDUCTION TECHNIQUES FOR  
SIMULATING MARKOV CHAINS.

by

(19) Philip Heidelberg

(9) TECHNICAL REPORT NO. 41

(11) Sep [unclear] 77

(12) 7p.

(15) Prepared under Contract ~~NO 0014-76-C-0578~~ (NR 042-343)

NSF-MCS 75-23607

for the

(14) TR-41

Office of Naval Research

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\*The research of this author was also partially supported  
under National Science Foundation Grant MCS75-23607.

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ABSTRACT

Simulators frequently wish to estimate parameters of the limiting distribution of stable stochastic processes. Several new methods for reducing the variance of such estimates will be proposed and discussed. The methods are applicable to regenerative Markov processes in both discrete and continuous time as well as to semi-Markov processes. The methods are similar to the technique of multiple control variables yet differ in the important respect that it is not necessary to calculate the means of the controls. This is because the controls are chosen in such a way that their means actually equal the parameter of interest. The methods do require a certain amount of computation to be done before the simulation begins, although their cost should be relatively minor compared with that of the simulation. Numerical results demonstrating the effectiveness of the techniques for a simple queueing model are presented.

I.

INTRODUCTION

In recent years computer simulation has become a very important tool for analyzing the behavior of stochastic processes. As the structures of widely used processes become increasingly complex analytic results become more difficult to obtain so that frequently simulation is the only computationally feasible method to study a process. Unfortunately simulation can be a very expensive tool to use. It is therefore desirable to develop methods that can reduce the run lengths (and hence cost) of a simulation yet still give accurate estimates. Such methods are called variance reduction techniques. This paper will propose several new variance reduc-

tion techniques in the special case when the stochastic process being simulated is a Markov process.

The methods are all control variable techniques (see [5]), yet they differ from most other control methods in the important respect that the means of the controls need not be explicitly known. This is because the controls are chosen in such a way that their means actually equal the parameter of interest. The methods require a certain amount of computation to be done both before and during the simulation but hopefully their cost will not be so great as to prohibit the use of the methods.

II.

MARKOV CHAINS

We begin by introducing notation and stating some preliminary results for Markov chains. The reader should consult [1], [2], or [3] for a more detailed analysis of these stochastic processes.

Let  $\{X_n, n \geq 0\}$  be a Markov chain with countable state space  $E = \{0, 1, 2, \dots\}$  and  $n$ -step transition matrix  $P^n$ . We assume the chain is irreducible, aperiodic and positive recurrent. Under these conditions the following Proposition is true.

(1) PROPOSITION. There exists a probability distribution  $\pi$  on  $E$  and a random variable  $X$  with distribution  $\pi$  such that

$$P_{ij}^n \rightarrow \pi_j > 0 \quad \text{for all } j \in E \quad (2)$$

$$X_n \xrightarrow{d} X \quad (3)$$

$$\pi = \pi P, \quad \text{i.e.} \quad \pi_j = \sum_{i=0}^{\infty} \pi_i P_{ij} \quad (4)$$

The " $\xrightarrow{d}$ " in (3) denotes convergence in distribution. Now let  $f_j$  be a real valued function on

E and define

$$r_j = \pi f_j = \sum_{i=0}^{\infty} \pi_i f_j(i) = E[f_j(X)] \quad (5)$$

It is frequently of interest to know  $r_j$  for a variety of functions  $f_j$ . If the state space is very large (perhaps infinite) the set of stationary equations (4) may be very difficult to solve so that  $r_j$  must be estimated via simulation. It is the efficient estimation of such quantities that we will concern ourselves with. We now develop an alternate expression for  $r_j$  which will be useful in simulation.

Pick some state in E (called the return state) which will be designated by 0. Let  $X_0 = 0$  and let  $T_m$  be the mth time the process enters state 0 ( $T_0 = 0$ ). Let  $\tau_m = T_m - T_{m-1}$ . For  $j = 0, 1, \dots, k$  define

$$Y_m(j) = \sum_{n=T_{m-1}}^{T_m-1} f_j(X_n) \quad (6)$$

We say that the process is in the mth cycle between times  $T_{m-1}$  and  $T_m$  and that  $\tau_m$  is the length of the mth cycle. Because the process regenerates itself at the times  $T_m$  (see [2]) we can conclude that  $\{Y_m(0), \dots, Y_m(k), \tau_m, m \geq 1\}$  are i.i.d. (independent and identically distributed) random vectors. The importance of this in a simulation context is that the simulation run can then be broken up into randomly spaced i.i.d. blocks so that the techniques of classical statistics can be used to analyze the output (see [4]).

Suppose now that we simulate the process for M cycles. For each j define  $\hat{r}_j(M)$  by

$$\hat{r}_j(M) = \sum_{m=1}^M Y_m(j) / \sum_{m=1}^M \tau_m \quad (7)$$

Define  $\underline{r}$  and  $\hat{\underline{r}}(M)$  to be the (k+1) dimensional column vectors with jth entries  $r_j$  and  $\hat{r}_j(M)$  respectively. Let  $\underline{\Sigma}$  be the symmetric matrix whose (i,j)th entry is

$$\sigma_{ij} = E[(Y_m(i) - r_i \tau_m)(Y_m(j) - r_j \tau_m)]. \quad (8)$$

We assume that each element of  $\underline{\Sigma}$  is finite and that  $\underline{\Sigma}$  is positive definite. Let  $N(0, \underline{\Sigma}/E^2(\tau_1))$  denote a (k+1) dimensional random vector having

the multivariate normal distribution with means 0 and a covariance matrix with elements  $\sigma_{ij}/E^2(\tau_1)$ . The following proposition is the key result for obtaining point estimates and confidence intervals for the  $r_j$ 's.

(9) PROPOSITION. If  $\pi[f_j] < \infty$  for all  $j = 0, 1, \dots, k$  and if  $|\sigma_{ij}| < \infty$  for all i and  $j = 0, 1, \dots, k$  then

$$r_j = E\{Y_m(j)\}/E\{\tau_m\} \quad (10)$$

$$\hat{r}_j(M) \rightarrow r_j \quad \text{a.s. (almost surely)} \quad (11)$$

$$\sqrt{M}(\hat{\underline{r}}(M) - \underline{r}) \rightarrow N(0, \underline{\Sigma}/E^2(\tau_1)). \quad (12)$$

As a corollary to (12) if we let

$\underline{\beta} = (\beta(0), \dots, \beta(k))$  and let

$$\sigma_k^2(\underline{\beta}) = \underline{\beta} \underline{\Sigma} \underline{\beta}' \quad (13)$$

then the following central limit theorem is true;

$$\frac{\sqrt{M}(\underline{\beta} \hat{\underline{r}}(M) - \underline{\beta} \underline{r})}{\sigma_k(\underline{\beta})/E(\tau_1)} \rightarrow N(0, 1) \quad (14)$$

where  $N(0, 1)$  denotes a normally distributed random variable with mean 0 and variance 1.

### III. MULTIPLE ESTIMATES

We now turn to the first of the variance reduction techniques for Markov chains. Let us fix a function  $f$  and let  $r = \pi f$ . We are interested in obtaining short confidence intervals for  $r$ . To do this we form new functions  $f_j$  so that  $r_j = \pi f_j = r$  for each j. As our first candidate for  $f_j$  let

$$f_j = P^j f \quad \text{for } j = 0, 1, \dots, k. \quad (15)$$

We then have

$$\begin{aligned} r_j &= \pi f_j = \pi(P^j f) = \pi P^{j-1} f \\ &= \pi(P^{j-1} f) \quad (\text{since } \pi = \pi P) \\ &= \pi f_{j-1} = r_{j-1} \end{aligned}$$

so that  $r_j = r$  for all j. Define  $\hat{r}_j(M)$  as in (7). By (11)  $\hat{r}_j(M) \rightarrow r$  for each j. Now let  $\underline{\beta}$  be some vector so that

$$\sum_{j=0}^k \beta(j) = 1 \quad (16)$$

and let  $\hat{r}_\beta(M)$  be defined by

$$\hat{r}_\beta(M) = \sum_{j=0}^k \beta(j) \hat{r}_j(M). \quad (17)$$

Then  $\hat{r}_\beta(M) \rightarrow r$  a.s. as  $M \rightarrow \infty$ . Now using the central limit theorem in (14) and equation (16) we have

$$\frac{\sqrt{M}(\hat{r}_\beta(M) - r)}{\sigma_k(\underline{\beta})/E(\tau_1)} \rightarrow N(0,1). \quad (18)$$

We pick  $\underline{\beta} = \underline{\beta}^*$  to minimize the variance term in (18) (this gives us the shortest confidence interval possible). If we let  $\underline{e}$  be a  $(k+1)$  dimensional row vector with each entry equal to 1 we then have;

$$\underline{\beta}^* = \underline{e} \sum^{-1} / \underline{e} \sum^{-1} \underline{e}. \quad (19)$$

$$\sigma_k^2(\underline{\beta}^*) = 1/\underline{e} \sum^{-1} \underline{e}. \quad (20)$$

Let  $R_k^2 = \sigma_k^2(\underline{\beta}^*)/\sigma_{00}^2$ . Combining  $\hat{r}_0(M), \dots, \hat{r}_k(M)$  in the above manner means that to obtain confidence intervals of equal length we need simulate only  $R_k^2$  as many cycles than we would need if we used no variance reduction technique.

This method can be extended to continuous time Markov chains and semi-Markov processes by transforming them into discrete time Markov chains using the techniques of [7]. Table 1 lists the variance reductions for estimating the expected queue length,  $E(X)$ , in a finite capacity M/M/1 queue. We let  $\rho = \lambda/\mu$  where  $\lambda$  is the arrival rate and  $\mu$  is the service rate. For ease of computation the capacity was chosen to be 14. It should be emphasized that these figures are actual calculations of variance reductions (based on the methods of [7]) and not simulation results.

$\rho$	$R_1^2$	$R_2^2$	$R_3^2$
.25	.1168	.0292	.0073
.50	.2341	.1121	.0524
.90	.6050	.2659	.1148
.95	.6880	.3425	.1607
.99	.7404	.4056	.2047

#### IV. MATRIX ITERATIVE TECHNIQUES

We now examine several other methods in an attempt to obtain greater variance reductions for a fixed amount of computation done before the simulation. The basic idea here is to partially solve a system of linear equations (with some matrix iterative technique) and then estimate the difference between the partial and true solutions via simulation.

We now assume that  $E$  is finite. Let  $\underline{y}$  be a vector with components  $y(i)$  defined by

$$y(i) = E_i \left[ \sum_{n=0}^{T_1-1} f(X_n) \right] \quad (21)$$

where  $E_i[\ ]$  denotes the expectation when  $X_0 = i$ . Let  $0^P$  be a matrix defined by

$$0^P_{ij} = \begin{cases} P_{ij} & \text{if } j \neq 0 \\ 0 & \text{if } j = 0 \end{cases} \quad (22)$$

It can then be shown (see [7]) that

$$\underline{y} = \sum_{n=0}^{\infty} 0^{Pn} \underline{f} \quad (23)$$

and that  $\underline{y}$  satisfies

$$\underline{y} = \underline{f} + 0^P \underline{y}. \quad (24)$$

Recall that  $r = y(0)/E(\tau_1)$ . Let  $\underline{y}^j$  be our approximation to  $\underline{y}$  after  $j$  iterations of the Matrix iterative method. We then seek to find a function  $f_j$  such that

$$y(0) = y^j(0) + E_0 \left[ \sum_{n=T_m-1}^{T_m-1} f_j(X_n) \right] \quad (25)$$

We can then set

$$Y_m(j) = y^j(0) + \sum_{n=T_m-1}^{T_m-1} f_j(X_n) \quad (26)$$

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and defining  $\hat{f}_j(M)$  as in (7) we have  $\hat{f}_j(M) \rightarrow r$  a.s. We can then proceed exactly as before to obtain variance reductions. Due to space limitations the derivations of  $y^j$  and  $f_j$  for specific matrix iterative techniques are omitted here but may be found in [6]. Table 2 lists the calculated variance reductions for the finite capacity M/M/1 using the Gauss-Seidel iterative technique.

$\rho$	$R_1^2$	$R_2^2$	$R_3^2$
.25	.0099	.0015	.0002
.50	.0720	.0408	.0207
.90	.5939	.3881	.1834
.95	.6789	.4794	.2414
.99	.7321	.5446	.2963

V.

CONCLUSIONS

By viewing Tables 1 and 2 it can be seen that neither method dominates the other. The variance reductions will, in general, depend on the transition matrix P and the function f. The first method has the advantage that the variance reductions are independent of the return state whereas with the other methods care must be taken to pick a return state that yields good variance reductions. It is anticipated that frequently occurring states will produce the best variance reductions. Gauss-Seidel has the advantage that any  $y^0$  may be used to initiate the iterative procedure. Generally speaking the closer  $y^0$  is to  $y$  the better the variance reduction will be. This suggests that one could simulate a small number of cycles to obtain an initial  $y^0$  and then commence the Gauss-Seidel iterations.

In order for any of these methods to be computationally efficient the simulator must be able to compute (and store) the functions  $f_j$ . The amount of work involved in this could be considerable unless the transition matrix is sparse. It is for these types of processes that the methods are recommended. Further details on the methods, including more extensive numerical testing, may be found in [6].

ACKNOWLEDGEMENT.

The author wishes to thank Professors Donald L. Iglehart and Arie Hordijk for their valuable suggestions during this research. The author would also like to thank Pat Rospendowski for her expert typing of the manuscript. This research was supported by NSF grant number MCS75-23607 and ONR contract number N00014-76-C-0578.

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REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER 41 <sup>✓</sup>	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) Variance Reduction Techniques for Simulating Markov Chains		5. TYPE OF REPORT & PERIOD COVERED Technical Report
		6. PERFORMING ORG. REPORT NUMBER
7. AUTHOR(s) Philip Heidelberger		8. CONTRACT OR GRANT NUMBER(s) N00014-76-C-0578 ✓
9. PERFORMING ORGANIZATION NAME AND ADDRESS Department of Operations Research ✓ Stanford University Stanford, CA 94305		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS  (NR 042-343)
11. CONTROLLING OFFICE NAME AND ADDRESS Statistics and Probability Program Office of Naval Research (Code 436) Arlington, Virginia 20360		12. REPORT DATE September 1977
		13. NUMBER OF PAGES 4
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)		15. SECURITY CLASS. (of this report)  UNCLASSIFIED
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report)  Approved for public release: distribution unlimited.		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES ( This paper will be presented at the 1977 Winter Simulation Conference, December 5-7, 1977, National Bureau of Standards, Gaithersburg, Maryland. )		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number)  SIMULATION,          VARIANCE REDUCTION,          MARKOV PROCESS		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number)  see attached		

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by Philip Heidelberger

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