Contents

Preface xvii

About the Author xix

Trademarks xx

Chapter 1 What is Operations Research? 1

1.1 Operations Research Models 1
1.2 Solving the OR Model 4
1.3 Queuing and Simulation Models 5
1.4 Art of Modeling 5
1.5 More Than Just Mathematics 6
1.6 Phases of an OR Study 8
1.7 About This Book 9
References 9

Chapter 2 Modeling with Linear Programming 10

2.1 Two-Variable LP Model 11
2.2 Graphical LP Solution 16
2.2.1 Solution of a Maximization Model 16
2.2.2 Solution of a Minimization Model 22
2.3 Selected LP Applications 27
2.3.1 Urban Planning 28
2.3.2 Currency Arbitrage 31
2.3.3 Investment 36
2.3.4 Production Planning and Inventory Control 40
2.3.5 Blending and Refining 48
2.3.6 Manpower Planning 52
2.3.7 Additional Applications 55
2.4 Computer Solution with Solver and AMPL 63
2.4.1 LP Solution with Excel Solver 63
2.4.2 LP Solution with AMPL 67
References 74

Chapter 3 The Simplex Method and Sensitivity Analysis 75

3.1 LP Model in Equation Form 76
3.1.1 Converting Inequalities into Equations with Nonnegative Right-Hand Side 76
3.1.2 Dealing with Unrestricted Variables 78
3.2 Transition from Graphical to Algebraic Solution 79

3.3 The Simplex Method *85*
3.3.1 Iterative Nature of the Simplex Method *85*
3.3.2 Computational Details of the Simplex Algorithm *87*
3.3.3 Summary of the Simplex Method *95*
3.4 Artificial Starting Solution *99*
3.4.1 *M*-Method *99*
3.4.2 Two-Phase Method *104*
3.5 Special Cases in the Simplex Method *109*
3.5.1 Degeneracy *109*
3.5.2 Alternative Optima *112*
3.5.3 Unbounded Solution *115*
3.5.4 Infeasible Solution *117*
3.6 Sensitivity Analysis *119*
3.6.1 Graphical Sensitivity Analysis *119*
3.6.2 Algebraic Sensitivity Analysis—Changes in the Right-Hand Side *125*
3.6.3 Algebraic Sensitivity Analysis—Objective Function *133*
3.6.4 Sensitivity Analysis with TORA, Solver, and AMPL *139*
References *142*

Chapter 4 Duality and Post-Optimal Analysis 143

4.1 Definition of the Dual Problem *143*
4.2 Primal-Dual Relationships *148*
4.2.1 Review of Simple Matrix Operations *148*
4.2.2 Simplex Tableau Layout *150*
4.2.3 Optimal Dual Solution *151*
4.2.4 Simplex Tableau Computations *157*
4.3 Economic Interpretation of Duality *160*
4.3.1 Economic Interpretation of Dual Variables *160*
4.3.2 Economic Interpretation of Dual Constraints *162*
4.4 Additional Simplex Algorithms *164*
4.4.1 Dual Simplex Algorithm *164*
4.4.2 Generalized Simplex Algorithm *171*
4.5 Post-Optimal Analysis *172*
4.5.1 Changes Affecting Feasibility *173*
4.5.2 Changes Affecting Optimality *178*
References *182*

Chapter 5 Transportation Model and Its Variants 183

5.1 Definition of the Transportation Model *184*
5.2 Nontraditional Transportation Models *188*
5.3 The Transportation Algorithm *193*
5.3.1 Determination of the Starting Solution *194*
5.3.2 Iterative Computations of the Transportation Algorithm *198*

5.3.3 Simplex Method Explanation of the Method of Multipliers *210*
5.4 The Assignment Model *211*
5.4.1 The Hungarian Method *212*
5.4.2 Simplex Explanation of the Hungarian Method *219*
5.5 The Transshipment Model *220*
References *224*

Chapter 6 Network Models 225

6.1 Scope and Definition of Network Models *226*
6.2 Minimal Spanning Tree Algorithm *229*
6.3 Shortest-Route Problem *233*
6.3.1 Examples of the Shortest-Route Applications *233*
6.3.2 Shortest-Route Algorithms *236*
6.3.3 Linear Programming Formulation of the Shortest-Route Problem *246*
6.4 Maximal flow model *251*
6.4.1 Enumeration of Cuts *252*
6.4.2 Maximal-Flow Algorithm *253*
6.4.3 Linear Programming Formulation of Maximal Flow Mode *260*
6.5 CPM and PERT *262*
6.5.1 Network Representation *264*
6.5.2 Critical Path (CPM) Computations *269*
6.5.3 Construction of the Time Schedule *272*
6.5.4 Linear Programming Formulation of CPM *278*
6.5.5 PERT Calculations *279*
References *285*

Chapter 7 Advanced Linear Programming 287

7.1 Simplex Method Fundamentals *288*
7.1.1 From Extreme Points to Basic Solutions *289*
7.1.2 Generalized Simplex Tableau in Matrix Form *293*
7.2 Revised Simplex Method *296*
7.2.1 Development of the Optimality and Feasibility Conditions *296*
7.2.2 Revised Simplex Algorithm *299*
7.3 Bounded-Variables Algorithm *306*
7.4 Duality *311*
7.4.1 Matrix Definition of the Dual Problem *311*
7.4.2 Optimal Dual Solution *312*
7.5 Parametric Linear Programming *316*
7.5.1 Parametric Changes in C *316*
7.5.2 Parametric Changes in b *319*
References *322*

Chapter 8 Goal Programming 323

8.1 A Goal Programming Formulation *324*
8.2 Goal Programming Algorithms *327*
8.2.1 The Weights Method *328*
8.2.2 The Preemptive Method *330*
References *337*

Chapter 9 Integer Linear Programming 338

9.1 Illustrative Applications *339*
9.1.1 Capital Budgeting *339*
9.1.2 Set-Covering Problem *343*
9.1.3 Fixed-Charge Problem *347*
9.1.4 Either-Or and If-Then Constraints *351*
9.2 Integer Programming Algorithms *354*
9.2.1 Branch-and-Bound (B&B) Algorithm *355*
9.2.2 Cutting-Plane Algorithm *362*
9.2.3 Computational Considerations in ILP *367*
9.3 Traveling Salesperson Problem (TSP) *368*
9.3.1 Heuristic Algorithms *371*
9.3.2 B&B Solution Algorithm *374*
9.3.3 Cutting-Plane Algorithm *377*
References *379*

Chapter 10 Deterministic Dynamic Programming 380

10.1 Recursive Nature of Computations in DP *381*
10.2 Forward and Backward Recursion *384*
10.3 Selected DP Applications *386*
10.3.1 Knapsack/Fly-Away/Cargo-Loading Model *386*
10.3.2 Work-Force Size Model *399*
10.3.3 Equipment Replacement Model *401*
10.3.4 Investment Model *405*
10.3.5 Inventory Models *408*
10.4 Problem of Dimensionality *408*
References *411*

Chapter 11 Deterministic Inventory Models 412

11.1 General Inventory Model *412*
11.2 Role of Demand in the Development of Inventory Models *413*
11.3 Static Economic-Order-Quantity (EOQ) Models *415*
11.3.1 Classic EOQ model *415*
11.3.2 EOQ Problems with Price Breaks *421*
11.3.3 Multi-Item EOQ with Storage Limitation *428*
11.4 Dynamic EOQ Models *432*
11.4.1 No-Setup Model *433*
11.4.2 Setup Model *437*
References *448*

Chapter 12 Review of Basic Probability 449

12.1 Laws of Probability *449*
12.1.1 Addition Law of Probability *450*
12.1.2 Conditional Law of Probability *452*
12.2 Random Variables and Probability Distributions *453*
12.3 Expectation of a Random Variable *455*
12.3.1 Mean and Variance (Standard Deviation) of a Random Variable *456*
12.3.2 Mean and Variance of Joint Random Variable *458*
12.4 Four Common Probability Distributions *461*
12.4.1 Binomial Distribution *461*
12.4.2 Poisson Distribution *462*
12.4.3 Negative Exponential Distribution *463*
12.4.4 Normal Distribution *464*
12.5 Empirical Distributions *467*
References *475*

Chapter 13 Decision Analysis and Games 476

13.1 Decision Making under Certainty—Analytic Hierarchy Process (AHP) *477*
13.2 Decision Making under Risk *486*
13.2.1 Decision Tree-Based Expected Value Criterion *486*
13.2.2 Variations of the Expected Value Criterion *492*
13.3 Decision under Uncertainty *500*
13.4 Game Theory *505*
13.4.1 Some Basic Terminologies *506*
13.4.2 Optimal Solution of Two-Person Zero-Sum Games *507*
13.4.3 Solution of Mixed Strategy Games *510*
References *521*

Chapter 14 Probabilistic Inventory Models 522

14.1 Continuous Review Models *523*
14.1.1 "Probabilitized" EOQ Model *523*
14.1.2 Probabilistic EOQ Model *525*
14.2 Single-Period Models *529*
14.2.1 No-Setup Model (Newsvendor Model) *530*
14.2.2 Setup Model (*s*-*S* Policy) *533*
14.3 Multiperiod Model *536*
References *538*

Chapter 15 Queuing Systems 539

15.1 Why Study Queues? *540*
15.2 Elements of a Queuing Model *541*
15.3 Role of Exponential Distribution *543*
15.4 Pure Birth and Death Models (Relationship Between the Exponential and Poisson Distributions) *546*
15.4.1 Pure Birth Model *546*
15.4.2 Pure Death Model *550*

15.5 Generalized Poisson Queuing Model 552
15.6 Specialized Poisson Queues 557
15.6.1 Steady-State Measures of Performance 558
15.6.2 Single-Server Models 561
15.6.3 Multiple-Server Models 572
15.6.4 Machine Servicing Model—*(M/M/R): (GD/K/K), $R < K$* 581
15.7 (M/G/1):(GD/∞/∞)—Pollaczek-Khintchine (P-K) Formula 584
15.8 Other Queuing Models 587
15.9 Queuing Decision Models 587
15.9.1 Cost Models 587
15.9.2 Aspiration Level Model 592
References 593

Chapter 16 Simulation Modeling 594

16.1 Monte Carlo Simulation 594
16.2 Types of Simulation 599
16.3 Elements of Discrete-Event Simulation 599
16.3.1 Generic Definition of Events 599
16.3.2 Sampling from Probability Distributions 601
16.4 Generation of Random Numbers 609
16.5 Mechanics of Discrete Simulation 611
16.5.1 Manual Simulation of a Single-Server Model 611
16.5.2 Spreadsheet-Based Simulation of the Single-Server Model 616
16.6 Methods for Gathering Statistical Observations 619
16.6.1 Subinterval Method 620
16.6.2 Replication Method 621
16.6.3 Regenerative (Cycle) Method 622
16.7 Simulation Languages 624
References 626

Chapter 17 Markov Chains 627

17.1 Definition of a Markov Chain 627
17.2 Absolute and *n*-Step Transition Probabilities 629
17.3 Classification of the States in a Markov Chain 631
17.4 Steady-State Probabilities and Mean Return Times of Ergodic Chains 633
17.5 First Passage Time 639
17.6 Analysis of Absorbing States 642
References 647

Chapter 18 Classical Optimization Theory 648

18.1 Unconstrained Problems 648
18.1.1 Necessary and Sufficient Conditions 649
18.1.2 The Newton-Raphson Method 653

18.2 Constrained Problems 655
18.2.1 Equality Constraints 656
18.2.2 Inequality Constraints—Karush-Kuhn-Tucker (KKT) Conditions 668
References 672

Chapter 19 Nonlinear Programming Algorithms 673

19.1 Unconstrained Algorithms 673
19.1.1 Direct Search Method 673
19.1.2 Gradient Method 677
19.2 Constrained Algorithms 680
19.2.1 Separable Programming 681
19.2.2 Quadratic Programming 690
19.2.3 Chance-Constrained Programming 694
19.2.4 Linear Combinations Method 699
19.2.5 SUMT Algorithm 701
References 702

Appendix A AMPL Modeling Language 703

A.1 Rudimentary AMPL Model 703
A.2 Components of AMPL Model 704
A.3 Mathematical Expressions and Computed Parameters 712
A.4 Subsets and Indexed Sets 715
A.5 Accessing External Files 717
A.5.1 Simple Read Files 717
A.5.2 Using Print or Printf to Retrieve Output 718
A.5.3 Input Table Files 719
A.5.4 Output Table Files 721
A.5.5 Spreadsheet Input/Output Tables 723
A.6 Interactive Commands 724
A.7 Iterative and Conditional Execution of AMPL Commands 725
A.8 Sensitivity Analysis Using AMPL 727
Reference 727

Appendix B Statistical Tables 728

Appendix C Partial Answers to Selected Problems 733

Index 765