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Stochastic Control: from Gradient Methods and Dynamic Programming to Statistical Learning

Gilles Pagès¹, Olivier Pironneau²

Abstract

In this article the authors wish to contribute to the validation of supervised learning for stochastic control. We review the popular methods for stochastic control and compare their numerical performance to those of a neural network. This will be done on a simple but practical example: optimal fishing quotas to preserve the biomass of a fishing site.

Keywords: Stochastic control, Dynamic Programming, Partial Differential Equations, Statistical Learning.

1. Introduction

Stochastic control of differential systems with random data or modelling errors, is usually solved by Dynamic Programming, a technique introduced in the 1950 by Richard Bellman[1]. Numerically one has to solve a backward in time differential equation possibly coupled with the forward stochastic differential equation (SDE) of the problem. The method has various discrete implementations (see [3],[16], etc). Calculus of variations and optimal control is another approach, which, in principle is more expensive because the backward adjoint Partial Differential Equation (PDE) and the forward Kolmogorov PDE for the PDF of the process are coupled and must be solved iteratively by a gradient method.

A third method has been proposed several years ago (see [2], [7], [6], [8] and others) : Supervised Learning with Neural Networks: like off-line/on-line reduction methods, one is ready to pay a high CPU price in a "training" phase so as to solve quickly the problem with new data with the "trained network". The novelty is that a trained neural network can be ported on a small unit like a smart phone and yet be fast and accurate.

In this article the three classes of methods will be tested on an easy yet practical problem studied in [10]: the control of a fishing site in Senegal where the fish biomass is threatened by intensive fishing. In [8] it was shown that parameter identification from a few measurements near time zero could be obtained accurately and fast by supervised learning. Here the parameters are known but with some uncertainty and the objective is to apply optimal quotas to stabilize the fish biomass at a desired level in this stochastic setting. The model has two ordinary differential equations (ODE), one for the fish biomass X_t at time t , and one for the fishing effort which, for us, will be the number of boats at sea E_t .

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Quotas are meant to keep the biomass at a constant desired level X_d . Hence the total number of fish caught must be lower than the quota Q_t . By construction each boat can't catch more than qX_t , where q is a constant reflecting the "structural limit" of the fisherman's catch yet proportional to the biomass. Nevertheless each boat is told to keep their catch below Q_t/E_t .

The control problem is solved by minimizing a criteria, the integral over time of $\|X_t - X_d\|^2$. But quotas, imposed by the regulator, are unpopular. To avoid too strict quotas, we add to the criteria the integral over time of $-\alpha Q_t$ where α is constant and positive; consequently, a small quota will not be optimal because it gives a larger value to the criteria than a big quota.

Along the way we found that the solution of the problem is very often "bang-bang", i.e; switching from the structural limit to the quota often. For the regulator, rapidly changing quotas may be also dangerously unpopular; hence in an attempt to avoid such frequent drastic changes we add to the criteria the integral over time of $\beta \|\dot{Q}_t\|^2$ where β is a positive constant.

More details on the modelling of the problem can be found in Appendix A.

The plan of the paper is as follows:

In section 1, the control problem is stated. It is a stochastic control problem because the data are not known accurately. Existence of solutions and discretization methods are discussed. We identify 3 formulations:

1. Deterministic control where the state is the solution of an ODE.
2. Non-dynamic control, i.e. an SDE for the state equation but a deterministic control function of time only.
3. A fully stochastic state and control, usual to Dynamic Programming.

In section 2, a Monte-Carlo method is proposed for the non-dynamic case. It is a brute force Monte-Carlo approach, much more expensive than the Dynamic Programming approach of section 4, but it has an advantage: it can be ported to a Neural Network for training and testing. We have used the standard multilayered Recurrent Neural Networks of Keras [12] (RNN, see figure 3); LSTM is also available in Keras, but as there are no repeating patterns in the solution of a SDE with brownian noise, it is not clear that a Long-Short-Term-Memory feedback architecture would improve the (already good) performance of RNN.

Finally, in the last section PDE methods are investigated, based either on Ito Calculus or Kolmogorov equations for the probability density function (PDF) of the process.

2. A model problem

To study the evolution of the biomass of a fishing site we consider the following stochastic optimal control problem

$$\min_{u \in \mathcal{U}} J(u) := \int_0^T \mathbb{E} [(X_t - X_d)^2 - \alpha u(X_t, t) + \beta |\partial_t u(X_t, t)|^2] dt, \quad (1)$$

$$\text{with } dX_t = X_t(r - \kappa X_t - u_t)dt + X_t \sigma dW_t, \quad X_0 = X^0 \geq 0, \quad (2)$$

where W_t is a $\mathcal{N}_{0,1}$ Wiener process; $X_d, r, \kappa, \sigma, u_m, u_M$ are real constants which depend on the fishing site considered, and

$$\mathcal{U} = \{u \in H^1(]0, T[) : u_m \leq u(X_t, t) \leq u_M, a.e.\} \quad (3)$$

This problem arises for the determination of fishing quotas (see Appendix A for details): X_t is the fish biomass at time t and $u_t X_t$ is the fishing quota at time t . Occasionally we will also display a variable proportional to the number of boats at sea, the "fishing effort" $E(t)$, modelled by

$$dE_t = (a - u_t X_t - cE_t)dt, \quad E_0 = E^0 \text{ given.}$$

where a is related to the price of fish and c is the operating cost of the fisherman. As explained in Appendix A, $a - u_t X_t$ is the profit of the fisherman and it decreases when too many fish are caught because the price of fish collapse.

The control problem aims at keeping a biomass at a desired level X_d at all times, but at the same time, quotas being unpopular, there is a term to prevent small quotas, $-\alpha u_t$ and another to prevent quotas from changing too quickly: $\beta |\partial_t u|^2$. Note that $(X, t) \mapsto u(X, t)$ is a deterministic function and $\{u(X_t, t)\}_t$ is a Markov process. Finally, $\partial_t u(X_t, t)$ means $\partial_t u(X, t)|_{X=X_t}$.

It is important to notice that one may also consider the case where u is a deterministic function of t only:

$$\min_{u \in \mathcal{U}} J(u) := \int_0^T \mathbb{E} [(X_t - X_d)^2] - \alpha u(t) + \beta |\partial_t u(t)|^2 dt, \text{ with (2)}. \quad (4)$$

We shall refer to it as the non-dynamic problem by opposition to Dynamic Programming where $u(X_t, t)$ is stochastic because of X_t but Markovian. In the non-dynamic case, the optimal control is the same for all trajectories X_t and in the dynamic case u adapts to the trajectories. To our surprise the non-dynamic case turns out to be more precise and more suitable because the day-to-day noise may not be very meaningful.

Occasionally we shall also refer to the deterministic case, i.e. when $\sigma = 0$.

2.1. Existence of solution: the deterministic case

In the deterministic case the problem is

$$\min_{u \in \mathcal{U}} \{J(u) = \int_0^T |X - X_d|^2 - \alpha u + \beta |\dot{u}|^2 : \dot{X} = X[(r - \kappa X - u)], X(0) = X^0\} \quad (5)$$

As u is positive $0 \leq X(t) \leq X_M := X^0 e^{rT}$. Then obviously $F(X) := rX - \kappa X^2 - Xu$ is uniformly Lipschitz in X :

$$|F(X_1(t)) - F(X_2(t))| \leq |X_1(t) - X_2(t)|(r - u_m + 2\kappa X_M), \quad \forall t \in [0, T];$$

therefore the solution of the ODE exists and is unique. It is also uniformly Lipschitz continuous in u :

$$\begin{aligned} \dot{X}_i &= rX_i - \kappa X_i^2 - u_i X_i, \quad i = 1, 2, \quad \Rightarrow \\ \dot{X}_1 - \dot{X}_2 &= (X_1 - X_2)(r - \kappa(X_1 + X_2) - (u_1 + u_2)) - (u_1 - u_2)(X_1 + X_2), \quad \Rightarrow \\ |\dot{X}_1 - \dot{X}_2| &\leq |X_1 - X_2|(r + 2X_M + 2u_M) + 2X_M |u_1 - u_2|, \quad \Rightarrow \\ |X_1 - X_2| &\leq 2|u_1 - u_2| X_M (\exp((r + 2X_M + 2u_M)t) - 1) / (r + 2X_M + 2u_M) \quad (6) \end{aligned}$$

where the last line is due to the Grönwall lemma. This shows also that $u \mapsto \int_0^T |X(t) - X_d|^2 dt$ is continuous in $L^2([0, T])$.

Proposition 1. *Problem (5) has a solution.*

Proof: Consider a minimizing sequence: $u^n \in \mathcal{U}$, $J(u^n) \rightarrow \inf_{u \in \mathcal{U}} J(u)$. \mathcal{U} being non-empty, bounded and closed and $\|\dot{u}\|_0^2$ being part of the criteria, there is a subsequence with $u^n \rightarrow u^* \in \mathcal{U}$ weakly in $H^1(]0, T[)$ and strongly in $L^2(]0, T[)$. By the above established continuity, $X^n \rightarrow X^*$ in $L^2(]0, T[)$. Obviously $\int_0^T \alpha u^n \rightarrow \int_0^T \alpha u^*$ and by the lower semicontinuity of $u \rightarrow \|\dot{u}\|_0^2$,

$$J(u^*) \leq \liminf J(u^n) = \inf_{u \in \mathcal{U}} J(u).$$

Therefore u^* is a minimum and problem (5) has a solution.

2.2. Existence of solution: the stochastic non-dynamic case

Proposition 2. *The solution of of the SDE (2) exists and is positive.*

Proof: $X \rightarrow (r - \kappa X - u_t)X$ is locally Lipschitz, uniformly in t since $u_t \in [u_m, u_M]$; hence for every realization $W_t(\omega)$ there is a unique strong solution until a blow-up time τ which is a stopping time for the filtration $\mathcal{F}_t^w = \underline{\sigma}(W_s, s \geq t, \mathcal{N}_s)$. On $[0, \tau[$ we may work with $Y_t = \log X_t$, solution (by Itô calculus) of

$$\begin{aligned} dY_t &= (r - \frac{\sigma^2}{2} - \kappa X_t - u_t)dt + \sigma dW_t, \\ \Rightarrow X_t &= X^0 \exp \left((r - \frac{\sigma^2}{2})t - \int_0^t (\kappa X_s + u_s)ds + \sigma W_t \right). \\ \Rightarrow X_t &\leq X^0 e^{S_t(u_m)}, \forall t \in (0, \tau], \text{ where } S_t(v) := (r - \frac{\sigma^2}{2})t - vt + \sigma W_t. \end{aligned} \quad (7)$$

Hence $\int_0^\tau X_s ds = +\infty$ is impossible unless $\tau = +\infty$, \mathcal{P} a.s. Therefore $X_t \in \mathbb{R}^+, \forall t$ and

$$X^0 e^{S_t(u_M)} \exp \left(-\kappa \int_0^t e^{S_s(u_M)} ds \right) \leq X_t \leq X^0 e^{S_t(u_m)}. \quad (8)$$

Theorem 1. *Problem (1)(2) has a solution.*

Proof: Consider two trajectories corresponding to the same event but different u , denote δ the difference and $\bar{\cdot}$ the average; we have

$$d\delta X_t = [\delta X_t(r - 2\kappa \bar{X}_t - \bar{u}) - \bar{X}_t \delta u]dt + \sigma \delta X_t dW_t.$$

By Itô calculus:

$$(\delta X_t)^2 = 2 \int_0^t [\delta X_s]^2 (r + \frac{\sigma^2}{2} - 2\kappa \bar{X}_t - \bar{u}) - \bar{X}_s \delta u(s) \delta X_s] ds + 2 \int_0^t \sigma (\delta X_s)^2 dW_s.$$

Hence

$$\mathbb{E}[(\delta X_t)^2] \leq 2(r + \frac{\sigma^2}{2} - u_m) \int_0^t \mathbb{E}[(\delta X_s)^2] - \int_0^t \delta u(s) \mathbb{E}[\bar{X}_s \delta X_s] ds$$

$$\leq 2\left(r + \frac{\sigma^2}{2} - u_m\right) \int_0^t \mathbb{E}[(\delta X_s)^2] + \int_0^t \delta u(s) \mathbb{E}[(\bar{X}_s)^2] ds. \quad (9)$$

We have seen earlier that $0 \leq X_t \leq X_0 e^{(r - \frac{1}{2}\sigma^2)t + \sigma W_t}$, therefore $E[(\bar{X}_s)^2] \leq 4e^{(2r + \sigma^2)s} \mathbb{E}[X_0^2]$, so much so that by Grönwall's lemma,

$$\mathbb{E}[(\delta X_t)^2] \leq 2\left(r + \frac{\sigma^2}{2} - u_m\right) \int_0^t \mathbb{E}[(\delta X_s)^2] ds + 4e^{(2r + \sigma^2)t} \mathbb{E}[X_0^2] \int_0^t (\delta u(s))^2 ds;$$

and by Grönwall's lemma again,

$$\mathbb{E}[(\delta X_t)^2] \leq 4e^{2r + \sigma^2 - 2u_m)t} e^{(2r + \sigma^2)t} \mathbb{E}[X_0^2] \int_0^t |\delta u(s)| ds.$$

Consequently, for some $C \in \mathbb{R}^+$ function of r, σ, u_m, T only,

$$\sup_{t \in [0, t]} \mathbb{E}[(\delta X_t)^2] \leq C \mathbb{E}[X_0^2] \|\delta u\|_{L^1(]0, T])}$$

The continuity of $u \rightarrow \int_0^T \mathbb{E}[(X_t - X_d)^2] dt$ follows and existence is then shown as for the deterministic case.

2.3. Existence of solution: the dynamic case

To establish existence by probabilistic methods proved to be rather hard. On the other hand, the problem can be converted into an equivalent distributed control problem by using the Kolmogorov equation of the PDF of X_t .

We will show in section 7 that the problem has a solution when the expected value in the criteria and κ are multiplied by a cutoff function for large X and

$$\mathcal{U} = \{u \in L^2(W^{1,1}(\mathbb{R}^+)) : u_m \leq u \leq u_M, \partial_t u \in L^2(\mathcal{Q}^+), \lim_{Y \rightarrow \infty} |\log X| u(X, t) \leq \infty.\}$$

2.4. Discretization

Let $h = \frac{T}{M}$ and $t^m = mh$. For any f , f^m denotes an approximation of $f(mh)$.

Define (Euler scheme)

$$X^{m+1} = X^m (1 + h(r - \kappa X^m - u^m) + \sigma \delta W^m) \quad (10)$$

where $\delta W^m = W_{(m+1)h} - W_{mh}$. Note that positivity may not be preserved by this scheme, but we may use (7):

$$X^{m+1} = X^m \exp\left(\left(r - \frac{\sigma^2}{2}\right)h - (\kappa X^m + u^m)h + \sigma \delta W^m\right).$$

Alternatively, to avoid computing exponentials, we may consider the Milstein scheme:

$$X^{m+1} = X^m \left(1 + h\left(r - \kappa X^m - u^m - \frac{\sigma^2}{2}\right) + \sigma \delta W^m + \frac{\sigma^2}{2} (\delta W^m)^2\right). \quad (11)$$

Proposition 3. Let \bar{X} denote the solution of the continuous Milstein scheme given by

$$\bar{X}_t = X^m \left(1 + (t - mh) \left(r - \kappa X^m - u^m - \frac{\sigma^2}{2} \right) + \sigma(W_t - W^m) + \frac{\sigma^2}{2} (W_t - W^m)^2 \right).$$

Assume $\bar{X}_0 = X_0 > 0$. Then on the event $A_h = \{X^m < \frac{1}{2\kappa h} + \frac{r - \kappa X^m - u_M}{\kappa}, m = 0, \dots, M-1\}$ the $(\bar{X}_t)_{t \in [0, T]}$ almost surely has positive paths.

Proof. We proceed by induction. Starting from 11, we want the discriminant of the second degree polynomial equation in $W_t - W^m$ to be negative, namely after obvious simplifications (since $\sigma X^m \neq 0$)

$$1 - 2 \left(1 + \left(r - \kappa X^m - u^m - \frac{\sigma^2}{2} \right) \right) > 0$$

or, equivalently $X^m < \frac{1}{2\kappa h} + \frac{r - \kappa X^m - u_M}{\kappa}$. \square

It is also clear that $\mathbb{P}(A_h) \uparrow 1$ as $h \rightarrow 0$ (very fast indeed). For more details on the positivity preserving property of the Milstein scheme, see [4, Chapter 7.5].

3. Brute force solution of the non-dynamic control problem by Monte-Carlo

Recall that numerically $\delta W^m = \sqrt{h} \mathcal{N}_{0,1}^m$ where $\mathcal{N}_{0,1}^m$ denotes the numerical realization at time step m of a normal Gaussian random variable. For each of the 3 previous schemes there is an ζ_h such that

$$X^{m+1} = \zeta_h(X^m, u^m, \mathcal{N}_{0,1}^m), \quad X^0 \text{ given,} \quad (12)$$

Let $\{X_k^m\}_1^K$ be K realizations of (12); by the law of large numbers :

$$\mathbb{E}[(X_t - X_d)^2]_{|mh} \approx E_K[(X^m - X_d)^2] := \frac{1}{K} \sum_1^K (X_k^m - X_d)^2.$$

Problem (1) is approximated by

$$\min_{u_m \leq u^m \leq u_M} J_K := h \sum_0^{M-2} \left[E_K[(X^{m+1} - X_d)^2] - \alpha u^m + \frac{\beta}{h^2} |u^{m+1} - u^m|^2 \right], \text{ with (12).} \quad (13)$$

Note that $\{u^m\}$ need not be Markovian; it may depend also on X^p , $p > m$.

3.1. Solution with a gradient method

Gradient methods update $\{u^m\}_1^{M-1}$ by $u^m \leftarrow u^m - \mu G^m$, where μ , the step size, is an appropriate scalar and $G^m = \partial_{u^m} J_K$. Let X_k^m be computed by (10); let us differentiate this equation and multiply it by an adjoint variable P_k^m and sum:

$$\sum_{m=0}^{M-2} \left[-P_k^m \delta X_k^{m+1} + P_k^m (\delta X_k^m (1 + h(r - \kappa X_k^m - u^m) + \sigma \delta W_k^m) - X_k^m h (\kappa \delta X_k^m + \delta u^m)) \right] = 0.$$

As $\delta X^0 = 0$, if we let $P^{M-1} = P^{M-2} = 0$, and define

$$v_k^m = 1 + h(r - 2\kappa X_k^m - u^m) + \sigma \delta W_k^m, \text{ then}$$

$$-\sum_0^{M-2} h P_k^m X_k^m \delta u^m = \sum_1^{M-2} (P_k^{m-1} \delta X_k^m - P_k^m \delta X_k^m v_k^m) = \sum_1^{M-2} \delta X_k^m (P_k^{m-1} - P_k^m v_k^m). \quad (14)$$

Let us define P_k^m by

$$\begin{aligned} P_k^{m-1} &= P_k^m v_k^m - 2(X_k^m - X_d), \quad m = M-2, M-3, \dots, 1. \text{ Then} \\ \sum_{m=1}^{M-1} \delta E_K [(X^m - X_d)^2] &= \frac{2}{K} \sum_{k=1}^K \sum_{m=1}^{M-1} (X_k^m - X_d) \delta X_k^m \\ &= -\frac{1}{K} \sum_{k=1}^K \sum_{m=1}^{M-1} (P_k^{m-1} - P_k^m v_k^m) \delta X_k^m = \frac{1}{K} \sum_{k=1}^K \sum_{m=0}^{M-2} P_k^m X_k^m \delta u_k^m. \end{aligned} \quad (15)$$

So the discrete gradient is

$$G^m = \frac{1}{K} \sum_1^K P_k^m X_k^m - \alpha - 2 \frac{\beta}{h^2} (u^{m+1} - 2u^m + u^{m-1}).$$

3.2. Implementation and examples

We use the L-BFGS-B function of the Python library `minimize`. It is an accelerated projected gradient method for problems with box constraints. We took 50 time steps and chose to solve a deterministic case with

$$\sigma = 0, K = 1, X_d = 1, \kappa = 1.2, X_0 = 0.9, c = 1, a = 1, u_m = 0.5, u_M = 1. \quad (16)$$

The computer program is in file `fishingQuotaBruteforce.py`. The results with $\alpha = \beta = 0$ are shown on the left in figure 1 with a saturation of the constraints $u = u_m$ when $m < 7$; but the solution is not bang-bang everywhere and $u = 0.8$ gives $X^{m+1} = X^m = X_d$, $P^m = 0$. On the right in figure 1 the results are shown for $\alpha = 0.01, \beta = 0.001$. On figure

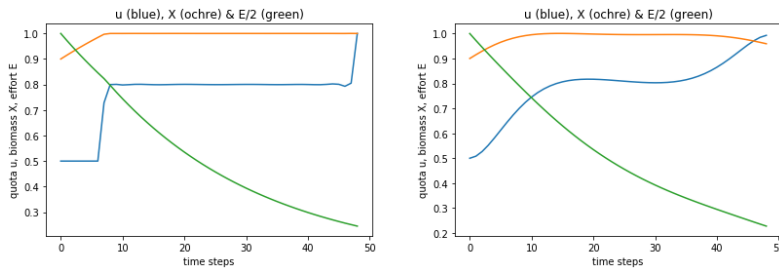


Figure 1: Solution of (1) discretized by (13), versus m , in the deterministic case ($\sigma = 0, K = 1$) with $\beta = 0$ (left), and $\beta = 0.001$ (right). The blue curve is the control u ; the biomass X_t is in ochre and the fishing effort in green.

2 a stochastic case of (13) is solved with the same parameters (16) except $\sigma = 0.3$. The results are shown for $K = 1, 10, 100, 10000$ Monte-Carlo samples.

Note that the brute force solution for $K \gg 1$ is quite close to the noiseless solution of figure 1-b.

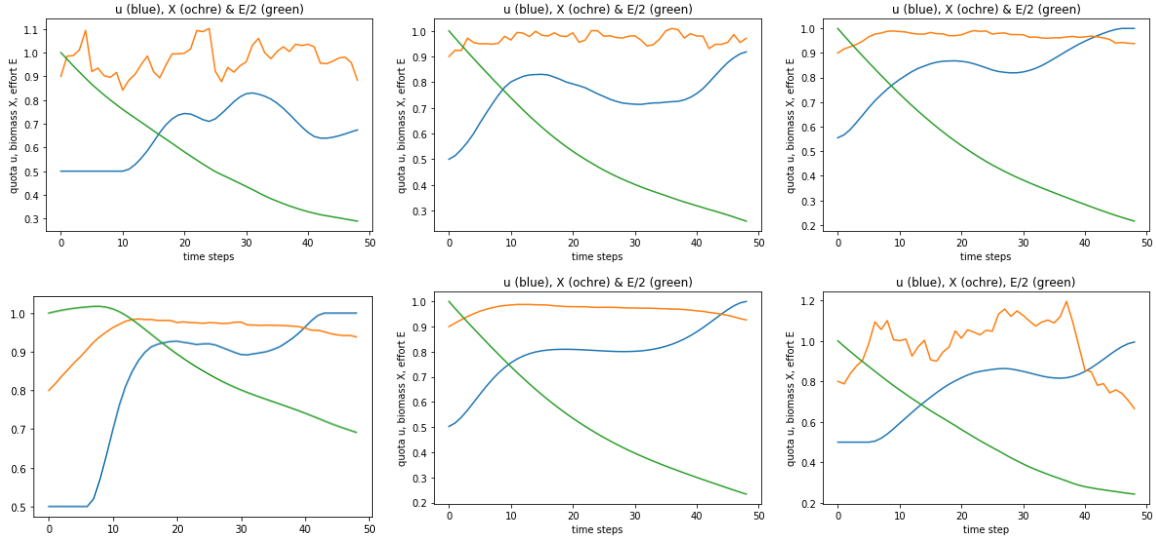


Figure 2: Solution of (13) in the stochastic case with $\sigma = 0.3$: convergence of the Monte-Carlo approximation. Left to right, up first: $K=1, K=10, K=100, K=1000, K=10000$. Already the results are fairly converged at $K=100$. In the last figure the optimal control is computed with $K=100$ and used to solve (2) with a new random noise, thereby showing that the solution is still acceptable.

4. Solution of the non-dynamic control problem by supervised learning

To reduce the CPU cost of solving

$$\min_{u \in \mathcal{U}} J(u) := \int_0^T \left[\frac{1}{K} \sum_0^K (X_k(t) - X_d)^2 - \alpha u(t) + \beta (\partial_t u(t))^2 \right] dt \quad (17)$$

$$\text{with } dX_k = X_k(t)((r - \kappa X_k(t) - u(t))dt + \sigma dW_k(t), \quad X(0) = X^0, \quad (18)$$

we shall train a neural network with input parameters $[X^0, r, \kappa]$ and output an optimal $\{u^m\}_1^{M-1}$ for these parameters, computed by the brute force method above. There is no need to vary the parameter X_d because we can always return to the case $X_d = 1$ by scaling.

To build a training set we use a large number of synthetic solutions obtained with the brute force method of the previous section. However as noise is known not to affect neural network we use a low value $K = 100$ to generate 10000 solutions (it takes about 90 minutes on an intel core i7 machine). It works as follows:

- Choose $[X^0, r, \kappa]$ uniformly random in $[X_m^0, X_M^0] \times [r_m, r_M] \times [\kappa_m, \kappa_M]$.
- Generate $K \cdot M$ normal gaussian random values for dW_t .
- Compute a discrete optimal solution $\{u^m\}_1^{M-1}$ of (17) with $K=100$ by the L-BFGS-B Python module.
- Then train a neural network $[X^0, r, \kappa] \rightarrow \{u^m\}_1^{M-1}$ with these 10000 synthetic solutions.

- Finally check the precision by using the network's answer $\{u^m\}_1^{M-1}$ to a new set of values for $[X^0, r, \kappa]$ and compare with the brute force solution corresponding to these parameters .

For an introduction to Statistical Learning with Neural Networks see [14]. We have used Keras (see [12]) to generate a 4-layer Neural Network (see figure 3). The input layer has 3 inputs; the two hidden layers have 50 neurons each and the output layer has M nodes. All layers use the ReLU activation. The two hidden layers are separated by a batch-normalisation.

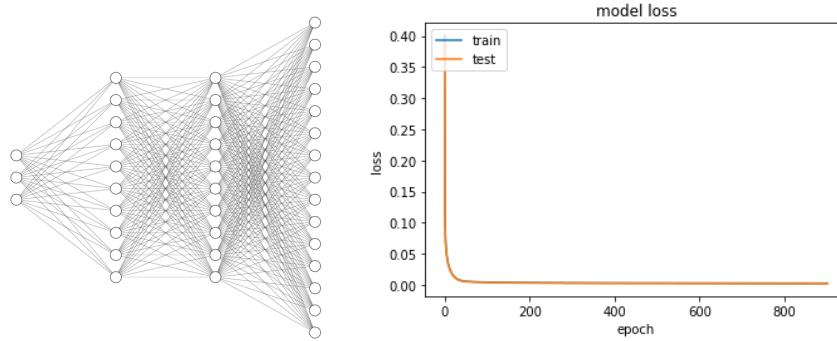


Figure 3: The Neural Network has 3 inputs, two hidden layers each with 50 neurons (10 shown here) and separated by batch-normalisation and an output layer with M output (M=15 shown here) . Right: typical convergence curve of the loss function during the training phase.

4.1. A numerical test

We have taken 50 time steps and K=100 for the brute force part. The following parameters are used:

$$T = 2, \alpha = 0.01, \beta = 0.001, \sigma = 0.3, X_d = 1, u_m = 0.5, u_M = 1$$

For the Neural Network training we have used 10000 samples in batches of 32 and a maximum of 2000 epochs. The input parameters are

```
r = np.random.uniform(1.9,2.2)
kappa = np.random.uniform(1,1.3)
X0=np.random.uniform(0.7,1.3)
```

Finally for the fishing effort equation, $a = c = 1$.

The computer program is written in Python and is in the file `fishingQuotaIA4.py`. The learning phase produced the following precision on each of the time steps :

```
Test loss: 0.03751661651
Average relative error |1-u_NN/u| for the 49 time steps =
[0.03185646 0.03954296 0.04612997 0.03440035 0.03665108 0.04323719 0.03549499 0.04364510
0.04247633 0.03737225 0.03448902 0.03950258 0.04441193 0.04149515 0.03366303 0.04054435
0.03978632 0.04160346 0.0404573 0.03319214 0.03800414 0.03229879 0.04076255 0.03475258
0.03333832 0.03761944 0.04427279 0.03837532 0.03909892 0.03384874 0.03707403 0.03838878
```

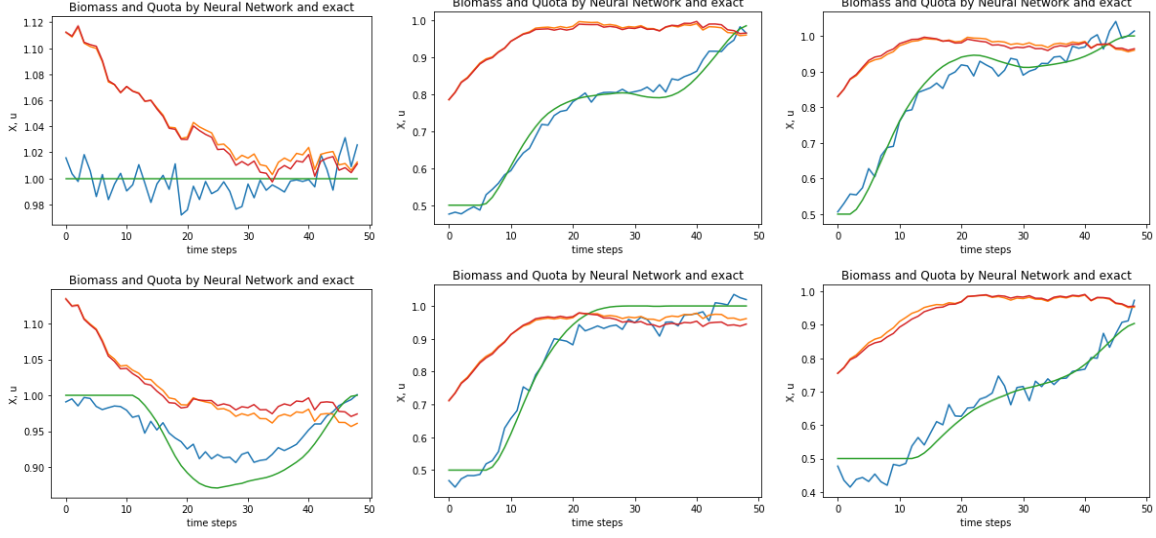


Figure 4: On each of the 6 plots X and u are shown: True discrete solution in green for X and red for u . NN solution in blue for X_{NN} and ochre for u_{NN} . The plots correspond to the following values of the parameters: $r = 2.0228569911704177, \kappa = 1.0203759108766386, X_0 = 1.1122268356898797, r = 2.0688190264082973, \kappa = 1.2641632371604865, X_0 = 0.7852264857858362, r = 1.9151933649036637, \kappa = 1.0141074063562392, X_0 = 0.8299957532445648, r = 2.0738603520220655, \kappa = 1.187620910330912, X_0 = 1.1344043926097065, r = 2.0463252714459936, \kappa = 1.122409869546898, X_0 = 0.7116598707629698, r = 1.9002636936181148, \kappa = 1.189933237216782, X_0 = 0.7550552945829774.$

0.03682566 0.03278314 0.03412819 0.02993927 0.03138862 0.02646729 0.02687729 0.02550817
0.02197918 0.01949890 0.02680004 0.02290738 0.01801939 0.01872908 0.01909837 0.01497874
0.01907834]

Notice that the error is about the same at all time steps.

In figure 4 the performance of the trained Neural Network performance on 6 new cases are shown. Each case corresponds to a set of parameters $[r, \kappa, X_0]$ and a new realization of the random noise. The “exact” control u is computed by the brute force method with $K = 100$ and compared with the solution u_{NN} given by the neural network (values at the 50 time steps).

In all cases except case 4 the control u_{NN} given by the network is close to the “exact” one. But even in case 4, X_{NN} computed by (10) with u_{NN} is close to X computed with u “exact”.

5. Bellman’s Stochastic Dynamic Programming for the dynamic problem

Consider the *value function*

$$V(t, X) = \min_{u \in \mathcal{U}} \int_t^T \mathbb{E} [(X_\tau - X_d)^2 - \alpha u + \beta |\partial_t u|^2] d\tau : \\ dX_\tau = X_\tau d\tau (r - \kappa X_\tau - u_\tau) + \sigma X_\tau dW_\tau, \quad X(t) = X \} \quad (19)$$

Let $[0, T] = \cup_1^M [(m-1)h, mh]$. Let $\zeta_h(X, u^m, z)$ denote one iterate of a numerical scheme (10)(11) for the SDE starting at X , for instance with (10)

$$\zeta_h(X, u, z) = X + X(r - \kappa X - u)h + X\sigma z\sqrt{h}, \quad z \text{ being the realization of a } \mathcal{N}_{0,1} \text{ r.v.}$$

Let $v^M(X) = 0$ and

$$\begin{aligned} v^m(X) &= \min_{u \in \mathcal{U}} \int_{mh}^{(m+1)h} \mathbb{E} [|\zeta_h(X, u, z) - X_d|^2 - \alpha u + \beta |\partial_t u|^2] d\tau + \mathbb{E}[v^{m+1}(\zeta_h(X, u, z))] \\ &\approx \min_{u \in \mathcal{U}} \left\{ h \mathbb{E} [|\zeta_h(X, u, z) - X_d|^2] - \alpha h u + \frac{\beta}{h} |u^{m+1}(X) - u|^2 + \mathbb{E}[v^{m+1}(\zeta_h(X, u, z))] \right\}. \end{aligned} \quad (20)$$

Evidently

$$\mathbb{E} [|\zeta_h(X, u, z) - X_d|^2] = [X - X_d + hX(r - \kappa X - u)]^2 + hX^2\sigma^2.$$

To compute $\mathbb{E}[v^{m+1}(\zeta_h(X; u; z))]$, we use a quadrature formula with Q points $\{z_q\}_1^Q$ and weights $\{w_q\}_1^Q$ based on optimal quantization of the normal distribution $\mathcal{N}(0, 1)$ (see [5] or [4, Chapter 5] and the website www.quantize.maths-fi.com for download of grids) so that

$$\mathbb{E}[v^{m+1}(\eta_h(X; u; z))] \approx \sum_{q=1}^Q w_q v^{m+1}(\zeta_h(X, u, z_q))$$

Finally at every time step and every $X_j = jL/J, j = 1..J$, with $L \gg 1$, the result is minimized with respect to $u \in \mathcal{U}$ by a dichotomy. In this fashion $\{u^m(X_j)\}_{j=1}^J$ is obtained and a piecewise linear interpolation is constructed to prepare for the next time step u^{m-1} . With the same parameters as above except $\beta = 0.1, L = 3, J = 50$ and $M = 50$, the results of figures 5, 6 have been obtained. Once $\{u^m(X)\}_0^{M-1}$ is known, for any realization

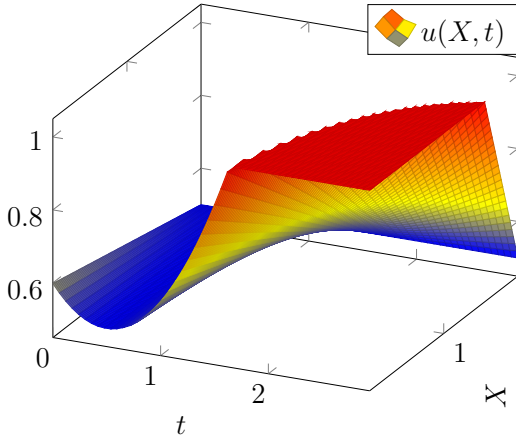


Figure 5: Solution of the Dynamic Programming equation: $u(x, t)$.

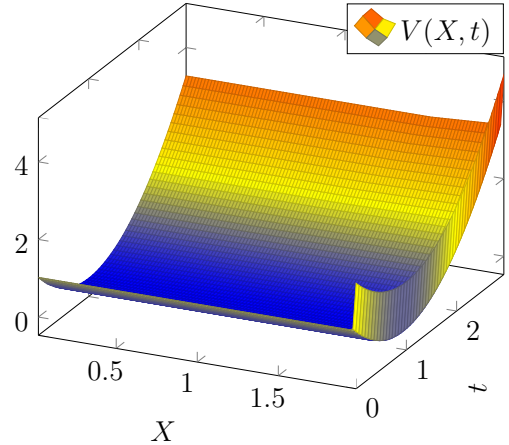


Figure 6: Solution of the Dynamic Programming equation: $V(x, t)$.

of the fishing model we use it as follows:

$$X^{m+1} = X^m + hX^m(r - \kappa X^m - u^m(X^m)) + X^m \sigma \sqrt{h} \mathcal{N}_{0,1}^m, \quad X^0 = X_0.$$

Two such simulations are shown on figure 7,8. The results are not as good as before, meaning that the dynamic setting gives a poor solution to the control of the fishing site. These results should be compared with those of Appendix B which deals with a very similar problem for which there is a polynomial in log X solution when $\alpha = 0$.

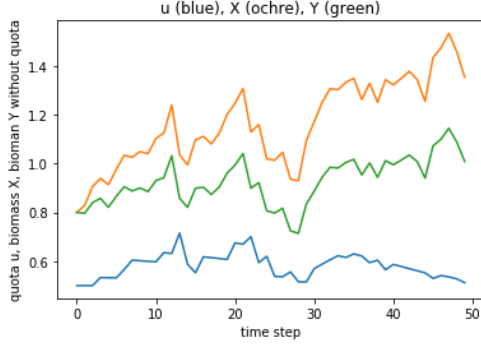


Figure 7: Simulation of the fishing model with a quota function computed by Dynamic Programming and $X_0 = 0.8$.

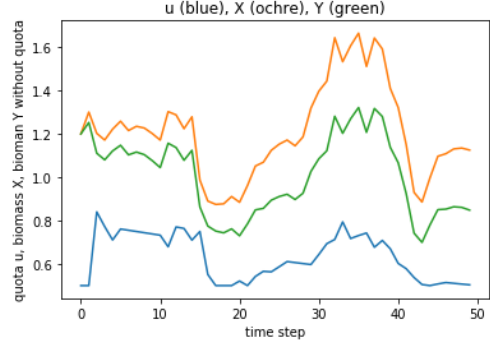


Figure 8: Simulation of the fishing model with a quota function computed by Dynamic Programming and $X_0 = 1.2$.

6. Solution with the Hamilton-Jacobi-Bellman partial differential equations

The Dynamic Programming equations can be written as a deterministic set of PDE: the Hamilton-Jacobi-Bellman (HJB) equations.

To this end we consider the same value function defined in (19)

Proposition 4. *The value function verifies $V(\cdot, T) = 0$ and*

$$0 = \inf_{u \in \mathcal{U}} \{ (X - X_d)^2 - \alpha u + \beta |\partial_t u|^2 + \partial_t V + (r - \kappa X - u) X \partial_X V + \frac{\sigma^2 X^2}{2} \partial_{XX} V \}. \quad (21)$$

Proof

The proof given below is heuristic and non standard but it gives a link with the previous section. For the standard argument see for instance [11]. We return to (20) above:

$$\begin{aligned} v^m(X) &= \min_{u \in \mathcal{U}} \int_{mh}^{(m+1)h} \mathbb{E} [|\zeta_h(X, u, z) - X_d|^2 - \alpha u + \beta |\partial_t u|^2] d\tau + \mathbb{E}[v^{m+1}(\zeta_h(X, u, z))] \\ &\approx \min_{u \in \mathcal{U}} \left[\mathbb{E} [|X - X_d|^2] - \alpha u + \frac{\beta}{h^2} |u^{m+1}(X) - u|^2 \right] h + \mathbb{E}[v^{m+1}(\zeta_h(X, u, z))] \end{aligned} \quad (22)$$

As u^M plays no role in the discretization we assume that $u^M = u^{M-1}$. Hence when $m = M - 1$ the minimization reduces to

$$v^{M-1} = h \min_{u \in \mathcal{U}} \{ \mathbb{E} [|X - X_d|^2] - \alpha u \} = h (|X - X_d|^2 - \alpha u_m)$$

and the minimizer is $u^{M-1} = u_m$. When $m < M - 1$ a similar argument gives,

$$v^m(X) \approx \min_{u \in \mathcal{U}} \left\{ \left(|X - X_d|^2 - \alpha u + \frac{\beta}{h^2} |u^{m+1}(X) - u|^2 \right) h + \mathbb{E}[v^{m+1}(\zeta_h(X, u, z))] \right\} \quad (23)$$

With a Taylor expansion, let us approximate $v^{m+1}(X + h) \approx \sum_{q=0}^{q_M} v^{(q)m+1}(X) \frac{h^q}{q!}$. For clarity denote $\lambda = r - \kappa X - u$, so

$$\mathbb{E}[v^{m+1}(\zeta_h(X, u, z))] = v^{m+1}(X) + \mathbb{E} \left[\sum_0^{q_M} v^{(q)m+1}(X) (X\sqrt{h})^q (\sigma z + \lambda\sqrt{h})^q \right] \approx v^{m+1}(X)$$

$$+Xv^{m+1}\lambda h + \frac{X^2}{2}v''^{m+1}(\lambda^2 h + \sigma^2)h + \frac{X^3}{6}\lambda\sigma^2v^{(3)m+1}h^2 + \frac{X^4}{24}\sigma^4v^{(4)m+1}h^2 + o(h^2)$$

$$\mathbb{E}[v^{m+1}(\zeta_h(X, u, z))] \approx v^{m+1}(X) + Xv'^{m+1}(r - \kappa X - u)h + \frac{X^2}{2}v''^{m+1}\sigma^2h + o(h)$$

Let us use it in (23). Then u must solve

$$\min \left\{ -\alpha u + \frac{\beta}{h^2}(u^2 - 2uu^{m+1}) - uXv'^{m+1} \right\}, \quad \Rightarrow u = u^{m+1} + \frac{h^2}{2\beta}(\alpha + Xv'^{m+1}) \quad (24)$$

but comply also with the box constraints, i.e.

$$u^m = \min \left\{ u_M, \max \left\{ u_m, u^{m+1} + \frac{h^2}{2\beta}(\alpha + Xv'^{m+1}) \right\} \right\}, \quad \text{and}$$

$$v^m \approx v^{m+1} + h \left(Xv'^{m+1}(r - \kappa X - u^m) + \frac{X^2\sigma^2}{2}v''^{m+1} + |X - X_d|^2 - \alpha u^m + \frac{\beta}{h^2}|u^{m+1} - u^m|^2 \right). \quad (25)$$

As this corresponds to an explicit discretization of a parabolic PDE, h will have to be extremely small: $h = O(\delta X^2)$, where δX is the spatial discretization increment.

6.1. Numerical Results

We have implemented the method using **FreeFEM++** [15] with a slight change in (25): the term $\frac{X^2\sigma^2}{2}v''^{m+1}$ is changed to $\frac{X^2\sigma^2}{2}v''^m$ so as to increase stability.

Numerical results shown on figure 9, 10 are obtained with the program in file `pagesbellmanstoch.edp` and the following parameters:

$$r = 2, \kappa = 1.2, \sigma = 0.3, X_d = 1, \alpha = 0.01, \beta = 0.1, u_m = 0.5, u_M = 1.$$

The computational domain is $X \in (0, 3)$ divided in 400 intervals, $t \in (0, 2)$, discretized with 40 time steps.

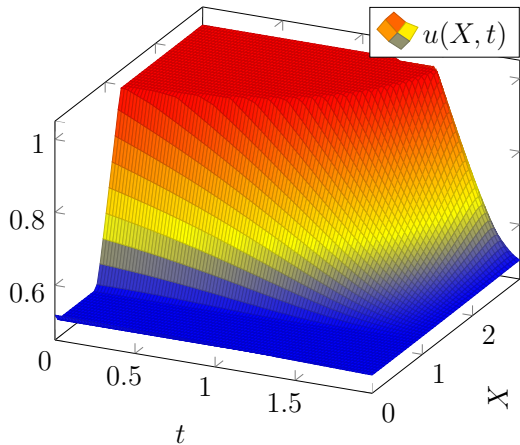


Figure 9: Solution of the Dynamic Programming equation: side view.

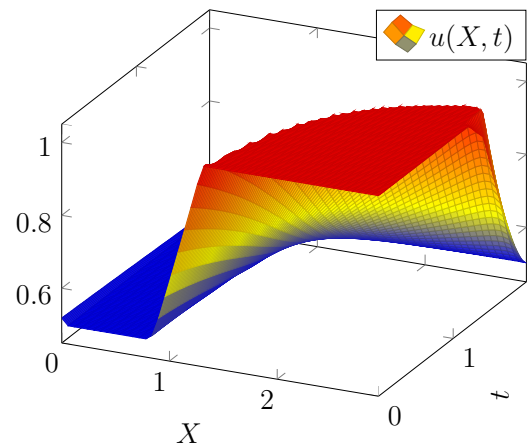


Figure 10: Solution of the Dynamic Programming equation: front view.

Once $\{u^m(X)\}_0^{M-1}$ is known, for any realization of the fishing model we use it as follows:

$$X^{m+1} = X^m + hX^m(r - \kappa X^m - u^m(X^m)) + X^m \sigma \sqrt{h} \mathcal{N}_{0,1}^m, \quad X^0 = X_0.$$

Two such simulations are shown on figure 11,20.

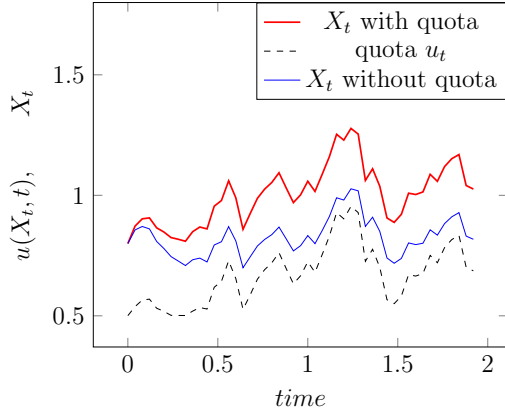


Figure 11: Simulation of the fishing model with a quota function computed by Dynamic Programming and $X_0 = 0.8$.

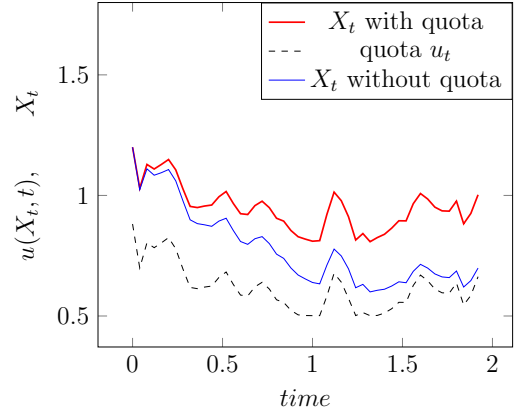


Figure 12: Simulation of the fishing model with a quota function computed by Dynamic Programming and $X_0 = 1.2$.

6.2. Analysis when $\beta = 0$

Proposition 5. *When $\beta = 0$, the solution is always bang-bang.*

Proof: With $\mathcal{U} = \{u \in [u_m, u_M]\}$ and $u_m > 0$, X being positive, the optimal control u^* must be such that if there are $0 < t_1, t_2 < T$ such that for all $t \in (t_1, t_2)$, $u(X, t)$ is constant then

1. $u^* = u_m$ when $X\partial_X V + \alpha < 0$, leading to $\partial_t u^* = 0$ and

$$\partial_t V + (r - \kappa X - u_m)X\partial_X V + \frac{\sigma^2 X^2}{2}\partial_{XX} V = \alpha u_m - (X - X_d)^2$$

2. $u^* = u_M$ when $X\partial_X V + \alpha > 0$, leading to $\partial_t u^* = 0$ and

$$\partial_t V + (r - \kappa X - u_M)X\partial_X V + \frac{\sigma^2 X^2}{2}\partial_{XX} V = \alpha u_M - (X - X_d)^2$$

3. Otherwise when $u_m < u^*(X, t) < u_M$, we must have $V(T) = 0$ and

$$0 = (X - X_d)^2 - \alpha u^* + \partial_t V + (r - \kappa X)X\partial_X V + \frac{\sigma^2 X^2}{2}\partial_{XX} V, \quad X\partial_X V + \alpha = 0$$

The third option being impossible, the solution of the problem is bang-bang.

Remark 1. *Note that this HJB dynamic solution is different from the non-dynamic solution of figure 1*

6.3. Discretization

One way to find u^* when it is neither u_m nor u_M is to discretize in time and solve

$$\inf_{u^m} g(u^m) := \left\{ -\alpha u^m + \frac{\beta}{h^2} |u^m - u^{m+1}|^2 - u^m X \partial_X V \right\}$$

The stationary point is at

$$-\alpha + \frac{2\beta}{h^2} (u^{m-1} - u^m) - X \partial_X V^{m-1} = 0, \text{ i.e. } \bar{u}^{m-1} = u^m + \frac{h^2}{2\beta} (\alpha + X \partial_X V^{m-1}).$$

So we have to compare $g(u_m)$, $g(\bar{u}^m)$ and $g(u_M)$ and choose the smallest. The end result is very similar to the previous section.

Two simulations are done with $\beta = 0$ and shown on figure 13,14. The control is indeed bang-bang.

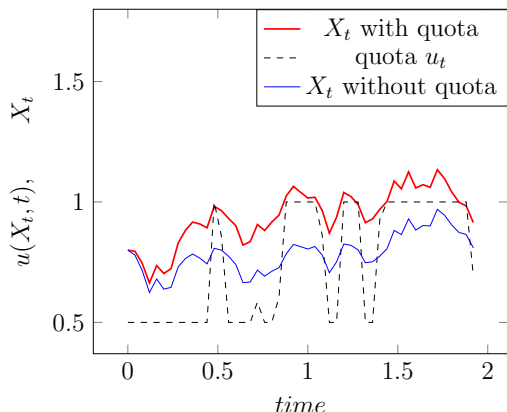


Figure 13: Simulation of the fishing model with a quota function computed by HJB when $\beta = 0$ and $X_0 = 0.8$.

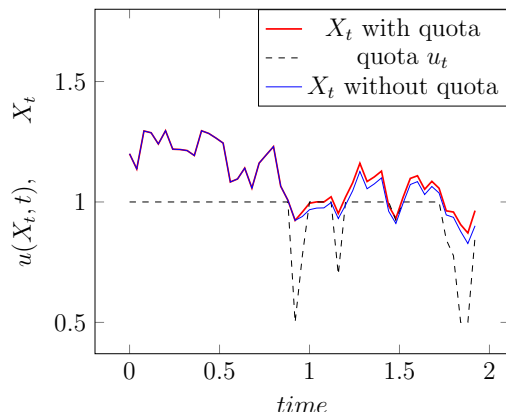


Figure 14: Simulation of the fishing model with a quota function computed by HJB when $\beta = 0$ and $X_0 = 1.2$.

7. Solution with the Kolmogorov equation

The Kolmogorov equation for the probability density $\rho(X, t)$ of $\{X_t\}_0^T$ is:

$$\partial_t \rho + \partial_X [(r - \kappa X - u) X \rho] - \partial_{XX} \left[\frac{X^2 \sigma^2}{2} \rho \right] = 0, \quad \rho(X, 0) = \rho^0(X), \quad \forall X \in \mathbb{R}^+. \quad (26)$$

The optimal control problem (1) is:

$$\min_{u \in \mathcal{U}} J(u) := \int_{\mathcal{Q}^+} \left[(X - X_d)^2 - \alpha u(X, t) + \beta |\partial_t u(X, t)|^2 \right] \rho(X, t) dX dt \quad : \text{ with (26)}. \quad (27)$$

Integration is done on $\mathcal{Q}^+ := \mathbb{R}^+ \times]0, T[$. The conditions for having equivalence between the stochastic control written as (1) and (27) are detailed in [13]. To avoid using weighted Sobolev spaces we make a change variable $y = \log X$, set $v = r - \frac{\sigma^2}{2} - \kappa e^y - u(e^y, t)$ so that $dY_t = v dt + \sigma dW_t$ and then study the existence of a PDF for Y_t given by

$$\partial_t \rho + \partial_Y (v \rho) - \partial_{YY} \left[\frac{\sigma^2}{2} \rho \right] = 0, \quad \rho(Y, 0) = \rho^0(Y), \quad \forall Y \in \mathbb{R}, \quad \forall t \in]0, T[. \quad (28)$$

The PDE is understood in the sense that for all $\hat{\rho} \in H^1(\mathbb{R})$,

$$\int_{\mathbb{R}} \left[\hat{\rho} \partial_t \rho - v \rho \partial_Y \hat{\rho} + \frac{\sigma^2}{2} \partial_Y \rho \partial_Y \hat{\rho} \right] = 0, \text{ a.e. } t \in]0, T[; \rho(Y, 0) = \rho^0(Y), \forall Y \in \mathbb{R}. \quad (29)$$

Note that v can be changed to $v - L$, $L \in \mathbb{R}$ by changing ρ to ρe^{-Lt} . Hence when $\lim_{Y \rightarrow \infty} u = u_\infty \neq 0$ we can take $L = r - \frac{\sigma^2}{2} - u_\infty$ and assume that $\lim_{Y \rightarrow \infty} v = 0$.

Proposition 6. *If $v \in W_{loc}^{1,1}(\mathbb{R})$, $v/(1+|y|) \in L^1(\mathbb{R}) \cap L^\infty(\mathbb{R})$, $\partial_Y v \in L^\infty(\mathbb{R})$ then Y_t has a PDF, $\rho \in L^\infty(L^2(\mathbb{R}) \cap L^\infty(\mathbb{R})) \cap L^2(H^1(\mathbb{R}))$, given by (28).*

Consequently, for the problem to make sense, $(r - \kappa X - u)$ needs to be multiplied by a regular cutoff function, tending to zero fast enough when $X \rightarrow +\infty$. We shall henceforth assume that κ is a function of X which is zero when $X > X_M$, for some X_M .

Theorem 2. *Given $X_d, \sigma, \alpha, \beta, K, T, R$ in \mathbb{R}^+ , v_m, v_M, K in \mathbb{R} and $\rho^0 \in [0, 1]$ with $\int_{\mathbb{R}} \rho^0 = 1$, let $\mathcal{Q} = \mathbb{R} \times]0, T[$ and $\mathcal{Q}_R =]-R, R[\times]0, T[$ and,*

$$\mathcal{V} = \{v : v_m \leq v \leq v_M, \|\partial_t v\|_{L^2(\mathcal{Q})} \leq K\}$$

and consider

$$\min_{v \in \mathcal{V}} J(v) := \int_{\mathcal{Q}_R} [(e^Y - X_d)^2 + \alpha v(Y, t) + \beta |\partial_t v(Y, t)|^2] \rho(Y, t) dY dt : \text{ with } (30)$$

$$\partial_t \rho + \partial_Y(v\rho) - \partial_{YY}[\frac{\sigma^2}{2}\rho] = 0, \rho(Y, 0) = \rho^0(Y), \forall Y \in \mathbb{R}, \forall t \in]0, T[. \quad (31)$$

Problem (30) has a solution.

Proof: Note first that $J \geq \alpha v_m$. Note also that when u_M is large enough so that $v = 0 \in \mathcal{V}$, the solution of the PDE is $\tilde{\rho}(Y, t) = (4\pi)^{-\frac{1}{2}} \int_{\mathbb{R}} e^{-\frac{X^2}{4t}} \rho^0(X - Y) dX$. As $\int_{-R}^R \tilde{\rho}(Y, t) e^{2Y}$ is finite and \mathcal{V} is non empty the infimum is finite. Multiplying the PDE by ρ and integrating over \mathbb{R} leads to

$$\int_{\mathbb{R}} [\partial_t |\rho|^2 + \sigma^2 |\partial_Y \rho|^2] \leq 2 \int_{\mathbb{R}} |v| \rho \partial_Y \rho \leq 2 \|v\|_\infty \|\rho\|_{L^2(\mathbb{R})} \|\partial_Y \rho\|_{L^2(\mathbb{R})}, \text{ a.e. } t \in]0, T[$$

Consequently, and because $\|v\|_\infty \leq v_M$, ρ is bounded in $L^2(H^1(\mathbb{R})) \cap L^\infty(L^2(\mathbb{R})) \cap L^2(\mathcal{Q})$ and $\partial_t \rho$ is bounded in $L^2(H^{-1}(\mathbb{R}))$. Consequently ρ is compact in $L^2(\mathcal{Q})$ when v varies in \mathcal{V} . From the maximum principle we also know that $0 \leq \rho_n \leq 1$ in \mathcal{Q} and that $\int_{\mathbb{R}} \rho(Y, t) dY = 1$ a.e.

Now let us take a minimizing sequence $\{v_n\}_{n \in \mathbb{N}}$ for (30). Then ρ_n is bounded in $L^2(H^2(\mathbb{R})) \cap L^\infty(L^2(\mathbb{R})) \cap W^{1,2}(H^{-1}(\mathbb{R}))$ and compact in $L^2(\mathcal{Q}_R)$. It follows from above that there is a v such that, for a subsequence, $v_n \rightarrow v$ in L^∞ -weak-star and weakly in $L^2(\mathcal{Q})$ and a ρ such that $\rho_n \rightarrow \rho$ strongly in $L^2(\mathcal{Q})$. Hence $\int_{\mathbb{R}} v_n \rho_n \partial_Y \hat{\rho} \rightarrow \int_{\mathbb{R}} v \rho \partial_Y \hat{\rho}$ for any $\hat{\rho} \in L^2(H^1(\mathbb{R}))$ and consequently ρ solves the PDE with v .

As $\rho_n \in [0, 1]$ and by Fatou's lemma, $\int_{\mathcal{Q}_R} (e^Y - X_d)^2 \geq \liminf \int_{\mathcal{Q}_R} (e^Y - X_d)^2 \rho_n \geq \int_{\mathcal{Q}} (e^Y - X_d)^2 \rho$.

By the weak convergence of v_n and the strong convergence of ρ_n , $\int_{\mathcal{Q}_R} \alpha v_n \rho_n \rightarrow \int_{\mathcal{Q}_R} \alpha v \rho$.

To analyze the last term in the criteria we write it as

$$\beta \int_{\mathcal{Q}_R} |\partial_t v_n|^2 \rho_n = \beta \int_{\mathcal{Q}_R} |\partial_t v_n|^2 \rho + \beta \int_{\mathcal{Q}_R} |\partial_t v_n|^2 (\rho_n - \rho).$$

By the lower semi-continuity of semi-norms, $\lim_{n \rightarrow \infty} \int_{\mathcal{Q}_R} |\partial_t v_n|^2 \rho \geq \int_{\mathcal{Q}_R} |\partial_t v|^2 \rho$. Finally the last term above is bounded by $\beta \|(\partial_t v_n)^2\|_{L^2(\mathcal{Q}_R)} \|\rho_n - \rho\|_{L^2(\mathcal{Q}_R)} \leq \beta K \|\rho_n - \rho\|_{L^2(\mathcal{Q}_R)} \rightarrow 0$. Consequently, the criteria in (30) is l.s.c.

Remark 2. If $\int_{\mathbb{R}^+} X^2 \rho^0(X) dX < \infty$, it may be possible to let $R \rightarrow \infty$ in the proof above.

7.1. Computation of gradients

Consider the variational form of the Kolmogorov equation: find $\rho \in L^2(0, T, V)$ such that, for all $\hat{\rho} \in V$,

$$\int_{\mathbb{R}^+} \left(\hat{\rho} \partial_t \rho - (r - \kappa X - u) X \rho \partial_X \hat{\rho} + \frac{\sigma^2}{2} \partial_X (X^2 \rho) \partial_X \hat{\rho} \right) = 0, \quad \rho(0) \text{ given.} \quad (32)$$

Calculus of variations leads to $\delta \rho(0) = 0$ and

$$\int_{\mathbb{R}^+} \left(\hat{\rho} \partial_t \delta \rho - (r - \kappa X - u) X \delta \rho \partial_X \hat{\rho} + \frac{\sigma^2}{2} \partial_X (X^2 \delta \rho) \partial_X \hat{\rho} \right) = - \int_{\mathbb{R}^+} \rho X \partial_X \hat{\rho} \delta u. \quad (33)$$

Define the adjoint p' by $p'(T) = 0$ and, for all $\hat{p} \in V$:

$$\int_{\mathbb{R}^+} \left(\hat{p} \partial_t p' + \hat{p} (r - \kappa X - u) X \partial_X p' - \frac{\sigma^2}{2} \partial_X (X^2 \hat{p}) \partial_X p' + \hat{p} \mathbf{1}_\Omega [(X - X_d)^2 - \alpha u + \beta |\partial_t u|^2] \right) = 0. \quad (34)$$

Add (33) and (34) with $\hat{\rho} = p'$ and $\hat{p} = \delta \rho$. It gives

$$\int_{\mathbb{R}^+} \partial_t (p' \delta \rho) + \int_{\Omega} [(X - X_d)^2 - \alpha u + \beta |\partial_t u|^2] \delta \rho = \int_{\mathbb{R}^+} \rho X \partial_X p' \delta u.$$

As $p'(T) = 0$ and $\delta \rho(0) = 0$, an integration in time gives

$$\int_{\Omega \times]0, T[} [(X - X_d)^2 - \alpha u + \beta |\partial_t u|^2] \delta \rho = - \int_{\mathcal{Q}^+} \rho X \partial_X p' \delta u.$$

Finally, from (27),

$$\begin{aligned} \delta J &= \langle \text{grad}_u J, \delta u \rangle = \int_{\Omega \times]0, T[} [((X - X_d)^2 - \alpha u + \beta |\partial_t u|^2) \delta \rho - \alpha \rho \delta u + 2\rho \partial_t u \partial_t \delta u] . \\ &= - \int_{\mathcal{Q}^+} \rho X \partial_X p' \delta u + \int_{\Omega \times]0, T[} \rho [-\alpha \delta u + 2\partial_t u \partial_t \delta u] \end{aligned} \quad (35)$$

7.2. Results

A steepest descent algorithm with fixed step size and projected gradient on the box constraints is

$$v = u^k - \mu \text{grad}_u J^k, \quad u^{k+1} = \max\{u_m, \min\{u_M, v\}\}. \quad (36)$$

Note that we have assumed that $\partial_t u(0) = \partial_t u(T) = 0$. The same parameters as above have been used except that the computational domain is $(0, 5)$ instead of $(0, 3)$. The PDF of X_0 is a Gaussian curve with $\sigma_0 = 0.2$. The computer program is in the file `GPOP2dxt.edp`. After 100 iterations J is a fifth of its initial value. Figure 15 shows the surfaces u, P and ρ versus X, t . Note that $(X, t) \mapsto u(X, t)$ is either 0.5 or 1, implying that all controls $u(X_t, t)$ will be bang-bang. Figures 16 and 17 show two applications, one with $X_0 = 0.8$ and the other with $X_0 = 1.2$. The method achieves a reasonable stabilization of the fish biomass, but the quotas vary rapidly, as if the β -term wasn't playing its regularizing role.

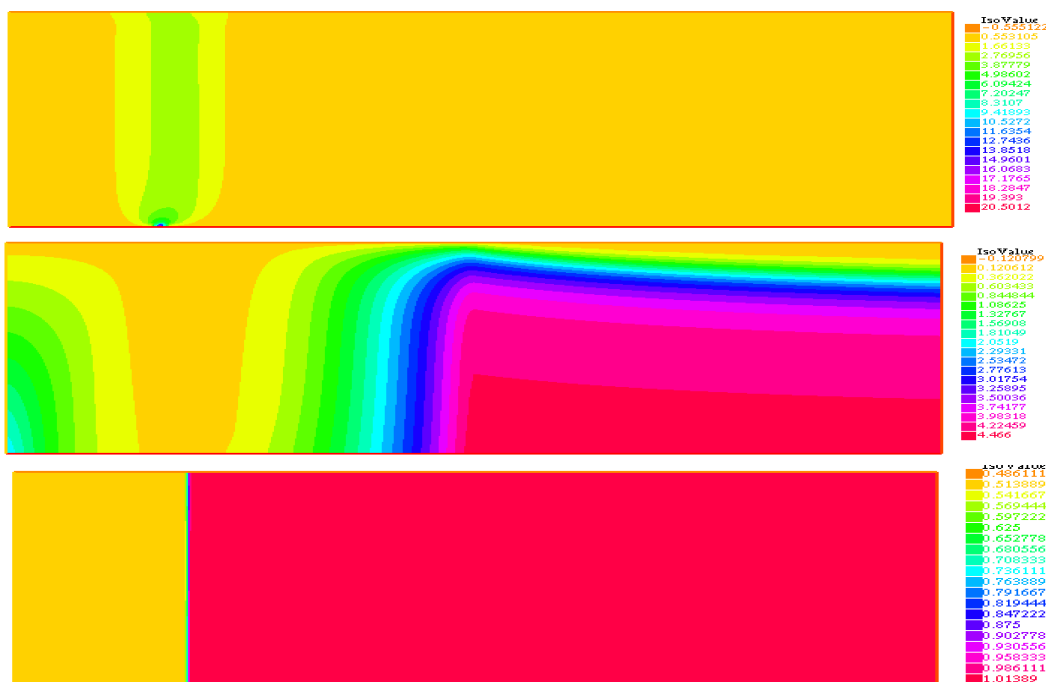


Figure 15: From left to right: optimal ρ, p', u . Horizontal axis is $X \in]0, X_M[$, vertical is $t \in [0, T]$ with $X_M = 5, T = 2, X_d = 1, u_m = 0.5, u_M = 1$. Note that $(X, t) \mapsto u(X, t)$ is either 0.5 or 1, implying that all controls $u(X_t, t)$ will be bang-bang. There is a vertical scale factor of 0.5 applied.

8. Solution by Itô calculus

In computational finance Itô calculus is preferred over the Kolmogorov setting, primarily because the initial condition for the PDF could be singular.

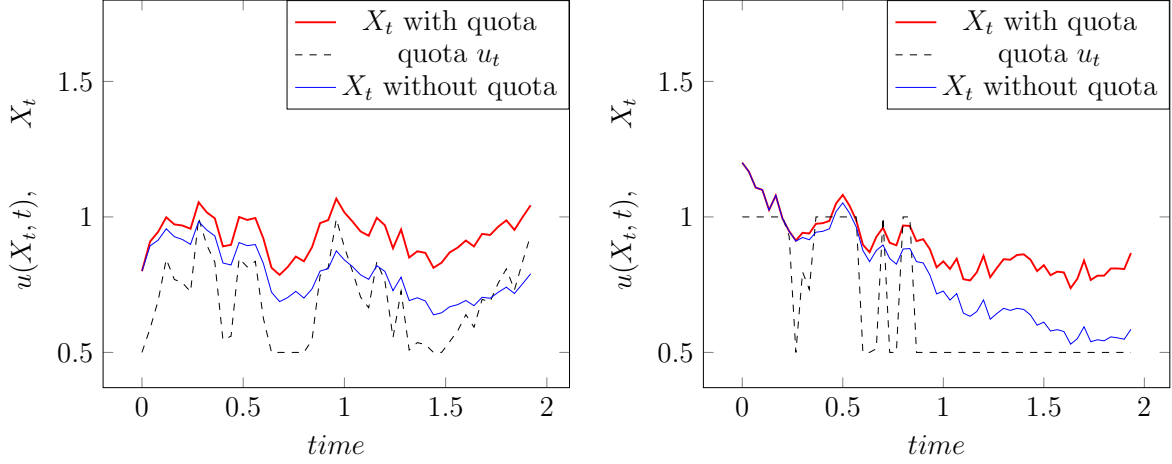


Figure 16: Optimal biomass and quota function computed by Optimal Control and compared with the solution with $u = u_M$ when $X_0 = 0.8$. Figure 17: Optimal biomass and quota function computed by Optimal Control and compared with the solution with $u = u_M$ when $X_0 = 1.2$.

Consider again Problem (1). Itô calculus applied to

$$j_t = \int_t^T \mathbb{E} [(X_\tau - X_d)^2 + \beta(\partial_t u)^2 - \alpha u] d\tau$$

as a function of X_t gives:

$$\begin{aligned} d_t j &= \partial_t j dt + \mathbb{E}[\partial_X j dX] + \frac{1}{2} \mathbb{E}[\partial_{XX} j dX dX] \\ &= dt \left(\partial_t j + \partial_X j (r - \kappa X - u) X + \frac{X^2 \sigma^2}{2} \partial_{XX} j \right) = -dt [(X - X_d)^2 + \beta(\partial_t u)^2 - \alpha u] \end{aligned} \quad (37)$$

This formulation is dual to the Kolmogorov calculus presented above.

Let us compute j as the solution at $\tau = 0$ and $X = X^0$ of the PDE, backward in time and initiated by $j(X, T) = 0$, $\forall X \in \mathbb{R}^+$, $\tau \in]0, T[$:

$$\partial_t j + (r - \kappa X - u) X \partial_X j + \frac{X^2 \sigma^2}{2} \partial_{XX} j = -[(X - X_d)^2 + \beta(\partial_t u)^2 - \alpha u] \quad (38)$$

The optimal control problem (1) is now

$$\min_{u \in \mathcal{U}} \int_{\mathbb{R}} j(X, 0) \rho^0(X) dX \quad : \text{ subject to (38)} \quad (39)$$

where $\rho^0(X)$ is the PDF of X^0 . We have to restrict $X < X_M$ for the right hand side of the PDE to be in $L^2(\mathbb{R})$.

On $\Omega := (0, X_M)$ the variational formulation of the PDE consists in finding j in a weighted Sobolev space:

$$\begin{aligned} j &\in V := \{g \in L^2(\Omega) : X \partial_X g \in L^2(\Omega)\}, \quad j(\cdot, T) = 0, \\ &\int_{\Omega} (\partial_t j + (r - \kappa X - u) X \partial_X j) \hat{j} - \int_{\Omega} \frac{\sigma^2}{2} \partial_X (X^2 \hat{j}) \partial_X j + \frac{\sigma^2}{2} X_M j(X_M) \hat{j}(X_M) \\ &= - \int_{\Omega} [(X - X_d)^2 + \beta(\partial_t u)^2 - \alpha u] \hat{j}, \quad \forall \hat{j} \in V. \end{aligned} \quad (40)$$

8.1. Gradient computation

The gradient of j with respect to u results from the following calculus:

$$\begin{aligned} \int_{\Omega \times]0, T[} \text{grad}_u j \delta u &:= \int_{\Omega} \rho^0 \delta j(X^0, 0) \text{ subject to} \\ \int_{\Omega} (\partial_t \delta j + (r - \kappa X - u) X \partial_X \delta j) \hat{j} - \int_{\Omega} \frac{\sigma^2}{2} \partial_X (X^2 \hat{j}) \partial_X \delta j \\ + \frac{\sigma^2}{2} X_M \delta j(X_M) \hat{j}(X_M) &= \int_{\Omega} \hat{j} [(X \partial_X j + \alpha) \delta u - 2\beta \partial_t u \partial_t \delta u], \quad \forall \hat{j} \in V. \end{aligned} \quad (41)$$

Define p by

$$\begin{aligned} \int_{\Omega} (\hat{p} \partial_t p - (p(r - \kappa X - u) X \partial_X \hat{p}) + \int_{\Omega} \frac{\sigma^2}{2} \partial_X (X^2 p) \partial_X \hat{p} - \frac{\sigma^2}{2} X_M \hat{p}(X_M) p(X_M) &= 0, \\ p(0) &= \rho^0 \end{aligned} \quad (42)$$

Then adding (42) to (41) with $\hat{p} = \delta j$ and $\hat{j} = p$ and remembering that $\delta j(X, T) = 0$, leads to

$$\int_{\Omega} (p \partial_t \delta j + \delta j \partial_t p) = \int_{\Omega \times]0, T[} [p(X \partial_X j + \alpha) \delta u - 2\beta \partial_t u \partial_t \delta u] \quad (43)$$

On the other hand

$$- \int_{\Omega} \rho^0 \delta j(X, 0) = \int_{\Omega} \delta j(X, T) p(T) - \int_{\Omega} \delta j(X, 0) p(0) = \int_{\Omega \times]0, T[} \partial_t (p \delta j) \quad (44)$$

Consequently

$$\int_{\Omega \times]0, T[} \text{grad}_u j \delta u = \int_{\Omega} \rho^0 \delta j(X^0, 0) = - \int_{\Omega \times]0, T[} [p(X \partial_X j + \alpha) \delta u - 2\beta \partial_t u \partial_t \delta u]$$

Hence this method is a minor variation of the method with the Kolmogorov equation: ρ and p have similar equations and p' and j too.

9. Limit with vanishing volatility

We have seen earlier that the optimal solution of the non-dynamic control is very close to the solution of the deterministic control problem.

We explore here the convergence of the PDE method to the deterministic case by letting σ tend to zero. For clarity we take $\alpha = \beta = 0$.

Consider again (39). Let $Y(X, \tau)$ be the solution of

$$\dot{Y}(\tau) = (r - \kappa Y(\tau) - u(Y(\tau), \tau)) Y(\tau), \quad Y(t) = X; \quad (45)$$

then

$$\partial_t j + (r - \kappa X - u) X \partial_X j = \frac{d}{d\tau} \rho(Y(\tau, X), \tau)|_{\tau=t}. \quad (46)$$

Hence (38) is rewritten as

$$\frac{d}{d\tau}j(Y(\tau, X), \tau)|_{\tau=t} = -\frac{\sigma^2}{2}\partial_{XX}(X^2\rho) - (X - X_d)^2.$$

Consequently, when $\sigma \rightarrow 0$, j becomes equal to \tilde{j} , the integral of $-(X - X_d)^2$ on the streamline (45) which passes through X^0 at $t = 0$:

$$\begin{aligned} \tilde{j}(Y(T), T) - \tilde{j}(Y(0), 0) &= -j(X^0, 0) = -\int_{Y(0)}^{Y(T)} (X(s) - X_d)^2 \\ i.e. \tilde{j}(0) &= \int_0^T (X(t) - X_d)^2 dt : \dot{X} = (r - \kappa X - u)X, \quad X(0) = X^0. \end{aligned} \quad (47)$$

This analysis shows that HJB becomes numerically singular when σ is too small.

10. Concluding discussion

Let us compare the 3 classes of methods:

1. Non-dynamic control (NDC) solved by Monte-Carlo.
2. Dynamic Programming in a stochasting setting (DP).
3. Dynamic Programming solved with Partial Differential equations (HJB).

NDC is a mathematical oddity because it does not take into account the necessity of a Markovian solution forbidding an attempt to use the current noise level to predict the next step (feedback); but from the practical point of view it is certainly the best solution for the fishing site regulator, especially when it is coupled with Supervised Learning. After all, provided that the model fits the reality, a Markovian solution is not needed. By reinitializing the data every so often at $\{T_k\}_0^J$ and solving J control problem on smaller time intervals $[T_{j-1}, T_j]$, one could borrow from Model Predictive Control (see [9]). Yet, it can be seen on figure 4 that the precision is hardly better at early times than at later times.

On this fishing site control problem DP and HJB are different implementations of the same approach. All four implementations gave disappointing results, probably because the parameter chosen gave a solution close to a bang-bang saturation of constraints and not far from the elementary but intuitive strategy which consists in taking $u_t = u_m$ when $X_t > X_d$ and u_M otherwise. Another possible reason is that penalization of $|\partial_t u|$ works for NDC but doesn't for DP and HJB. A penalization of $|\partial_X u|$ is probably needed as well. HJB with PDEs is the most taxing method numerically and DP is much faster and also capable of generating approximate solution which do not saturate the constraints as much. NDC requires brute force Monte-Carlo, which is also very expensive, yet with neural network training for NDC outperform traditional HJB and DP methods.

This problem belongs to a class for which the user cannot measure precisely the random errors in the data and the model; the number of boats at sea and the quantity of fish caught everyday may just reflect the roughness of the model rather than the stochasticity of the measurements; nevertheless this point needs to be investigated further and in the mean time the non-dynamic control problem makes sense and gives better results. Furthermore, when coupled with a neural network the optimization process is very fast, once the learning phase is done. Finally, porting the trained network to a hand held device is also a major advantage.

Acknowledgements

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APPENDIX A

11. A model with fishing quota

Let $X(t)$ be the fish biomass at time t , $E(t)$ the fishing effort – interpreted as the number of boats at sea – and $Q(t)$ is the fishing capacity per boat. In [10] $Q(t) = qX(t)$, with the catchability q constant, meaning that the more fish there is the more fishermen will catch them.

In this study a quota $Q(t)$, given to each fisherman, is imposed on the maximum weight of fish caught on a day t ; hence the total amount of fish caught on a day is $\min(qX(t), Q(t))E(t)$. The modified model is an equation for $X(t)$ which says that the biomass changes due to the natural growth/decay rate r , the long time limit κ' of X and the depletion due to fishing:

$$\frac{dX}{dt}(t) = X(t)(r - \kappa'X(t)) - \min(qX(t), Q(t))E(t). \quad \text{Biomass dynamics.} \quad (48)$$

Let $F(t) = \min(qX(t), Q(t))$. The fishing effort is driven by the profit pF minus the operating cost of a boat c , where p being the price of fish.

$$\frac{1}{E} \frac{dE}{dt} = pF - c. \quad \text{Fishing effort driven by profit,} \quad (49)$$

The price is driven by the difference between the demand $D(p)$ and the resource FE :

$$\Phi \frac{dp}{dt} = D(p) - FE \quad \text{with the demand } D(p) = \frac{a'}{1 + \gamma p} \quad (50)$$

where Φ is the inverse time scale at which the fish market price adjusts. When $\Phi \ll 1$, (50) may be approximated by

$$D(p) = FE \Rightarrow pFE = \frac{a'}{\gamma} - \frac{FE}{\gamma}.$$

With $a = a'/\gamma$ and $\kappa = \kappa'\gamma$, the whole system is :

$$\frac{dX}{dt} = X(r - \frac{\kappa}{\gamma}X) - \min(qX(t), Q(t))E, \quad \frac{dE}{dt} = a - \min(qX(t), Q(t))\frac{E}{\gamma} - cE, \quad (51)$$

Now notice that by changing the initial conditions $X_0 \rightarrow X_0/\gamma$ we may take $\gamma = 1$.

Remark 3. Finally with $\tilde{t} = tq$, $\tilde{Q} = Q/q$ and $(\tilde{r}, \tilde{\kappa}, \tilde{a}, \tilde{c}) = (r, \kappa, a, c)/q$ the above system is identical but now $q = 1$.

Remark 4. The ODE system is of the form $\dot{Y}(t) = \psi(Y(t))$, $t \in]0, T[$, $\psi : \mathbb{R}^2 \rightarrow \mathbb{R}^2$. Global existence of solution on $[0, T]$ is not known because ψ is only locally Lipschitz and not sublinear for large E, X .

A numerical simulation with and without optimal quota is shown on figure 18 with the following parameters (see file `fishingQuota0.py` and for the definition of α and β , see below):

$$\begin{aligned} r = 2, \kappa = 1.2, a = 1, c = 1, T = 2, M = 50, X_d = 1, q = 1.5 \\ X_0 = 0.9, E_0 = 2, \alpha = 0.01, \beta = 0.001, u_m = 0.5, u_M = 1.5 \end{aligned} \quad (52)$$

Notice that q is big enough so that $\min(qX(t), Q(t)) = Q(t)$, $\forall t$. Notice also that without quota the biomass tends to zero, in this case.

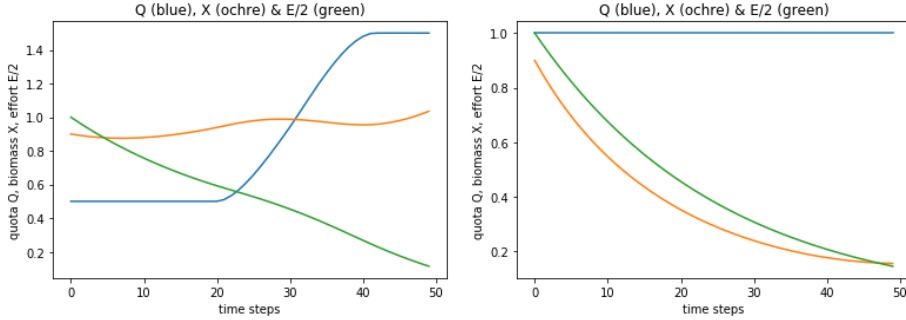


Figure 18: Left: Quota (blue) and fishing effort (ochre). No quota means that $Q(t) = 1$ for all t . Right: biomass with (blue) and without quota (ochre).

12. Reformulation

To prevent fish extinction a constraint is set on the total catch $\min(qX(t), Q(t))E(t)$. Optimization will then define $Q(t)$. It is expected that $Q(t) < qX(t)$ otherwise the policy of quota is irrelevant in the sense that the fisherman is given a maximum allowed catch which is greater than what he could possibly catch.

So let us add a constraint $Q(t) \leq Q_M$ so that $\min(qX(t), Q(t)) = Q(t)$. Denote $u(t) = E(t)Q(t)/X(t)$. Then we need $u(t) \leq qE(t)$ and the problem becomes

$$\min_{Q' \in \mathcal{Q}'} \{ \bar{J} := \int_0^T (X(t) - X_d(t))^2 dt : \frac{dX}{dt} = X(r - \kappa'X - u(t)), X(0) = X^0 \} \quad (53)$$

In the paper, the optimization is performed without computing E ; then E is computed with the optimal u by solving

$$\frac{dE}{dt} = a - cE - uX, \quad E(0) = E^0.$$

As said before it is not feasible too impose to small a quota, so finally $\mathcal{U} = \{u_m \leq u(t) \leq u_M\}$. where u_M is less than $qE(t)$ at all time.

12.1. More constraints on quotas

Small quotas are unpopular. To avoid them we may use penalty and add to the criteria $-\int_0^T \alpha u(t)$.

More over, it will be unpopular if $u(t) = u_m$ one day and $u(t) = u_M$ the next day, so to avoid too many changes we may add to the criteria a term like $\beta \left| \frac{du}{dt} \right|^2$.

An optimal policy is a solution of

$$\min_{Q \in \mathcal{Q}} J(u) := \int_0^T \left[|X - X_d|^2 - \alpha u + \beta \left| \frac{du}{dt} \right|^2 \right] : \text{subject to} \\ \frac{dX}{dt} = X(r - \kappa'X - u(t)), \quad X(0) = X^0. \quad (54)$$

Figure 1 shows the solution with the same parameters as for figure 18. There are differences because it is a different set of constraints. The policy given to each fisherman is $Q(t)$ for the full system and $u(t)X(t)/E(t)$ for the reduced system.

APPENDIX B

13. An analytical solution for a similar problem

It was said earlier that $Y_t = \log X_t$ could be used to simplify the problem. As the goal is to reach $X_t \sim X_d$, if we change it to $Y_t \sim Y_d$, then the problem is

$$\begin{aligned} & \min_{u \in \mathcal{U}} \left\{ \int_0^T \mathbb{E}[(Y_t - Y_d)^2 - \alpha u + \beta |\partial_t u|^2] \text{ with } dY_t = v_t dt + \sigma dW_t, v_t = r - \frac{\sigma^2}{2} - \kappa e^{Y_t} - u \right\} \\ \Rightarrow 0 &= \inf_{u \in \mathcal{U}} \left\{ \partial_t V + v \partial_Y V + \frac{\sigma^2}{2} \partial_{YY} V + (Y - Y_d)^2 - \alpha u + \beta |\partial_t u|^2 \right\}. \end{aligned} \quad (55)$$

If the constraints are not active, the equation for the optimality of u is

$$\partial_Y V + \alpha + 2\beta \partial_{tt} u = 0.$$

When $\alpha = 0$ there is a polynomial solution to this system: $V = aY^2 + bY + c$, $v = KY + k$ where a, b, c, K, k are functions of time with $a(T) = b(T) = c(T) = \dot{K}(T) = \dot{k}(T) = 0$. By identification for all Y it is found that ($X_d = 1 \Rightarrow Y_d = 0$):

$$\begin{aligned} \dot{a} + 2aK + \beta \dot{K}^2 + 1 &= 0, & \dot{b} + Kb + 2ak + 2\beta \dot{K}k &= 0, \\ \dot{c} + kb + \sigma^2 a + \beta \dot{k}^2 &= 0, & \beta \ddot{K} + a &= 0, & 2\beta \ddot{k} + b &= 0, \end{aligned} \quad (56)$$

One must also check that $u_t = r - \frac{\sigma^2}{2} - \kappa X_t - K(t) \log X_t - k(t)$ is in \mathcal{U} .

A solution procedure is to use the next to last equation in the first one and the last one into the second one:

$$\begin{aligned} -\ddot{K} - 2K\ddot{K} + \dot{K}^2 + \frac{1}{\beta} &= 0, & \ddot{K}(T) = \dot{K}(T) = K(T) &= 0 \\ -\ddot{k} - K\ddot{k} + \dot{K}\dot{k} - \ddot{K}k &= 0, & \ddot{k}(T) = \dot{k}(T) = k(T) = 0 &\Rightarrow k(t) = 0 \forall t. \end{aligned} \quad (57)$$

Results, obtained with a finite difference scheme, are shown on figures 19 & 20.

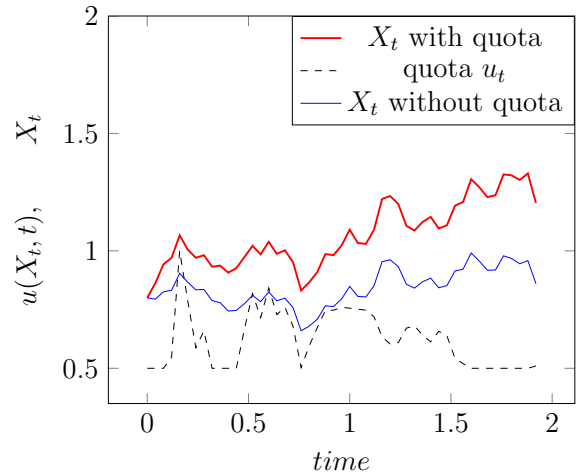
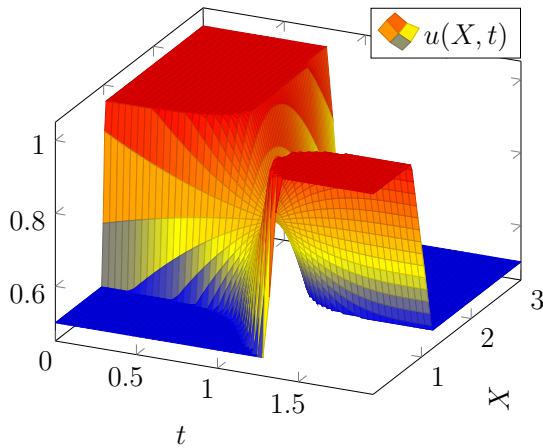


Figure 19: Solution of the Dynamic Programming equation: side view.

Figure 20: Optimal biomass and quota when $X_0 = 0.8$ and comparison with the solution with $u = u_M$.