

**FICO™ Xpress
Optimization Suite**

Getting Started with Xpress

Release 7.8

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Preface

'Getting Started' is a quick and easy-to-understand introduction to modeling and solving different types of optimization problems with FICO™ Xpress. It shows how Linear, Mixed-Integer, and Quadratic Programming problems are formulated with the Mosel language and solved by Xpress-Optimizer. We work with these Mosel models by means of the graphical user interface Xpress-IVE. Two alternatives to using this high-level language are also discussed: a model may be defined in a programming language environment using the model builder library Xpress-BCL or directly input into the Optimizer in the form of a matrix.

Throughout this book we employ variants of a single problem, namely optimal portfolio selection. To readers who are interested in other types of optimization problems we recommend the book 'Applications of Optimization with Xpress-MP' (Dash Optimization, 2002), see also

<http://optimization.fico.com/product-information/>

This book shows how to formulate and solve a large number of application problems with Xpress.

A short introduction such as the present book highlights certain features but necessarily remains incomplete. The interested reader is directed to various other documents available from the [Xpress website](#), such as the user guides and reference manuals for the various pieces of software of the FICO™ Xpress suite (Optimizer, Mosel language, Mosel modules, etc.) and the collection of white papers on modeling topics. A list of the available documentation is given in the appendix.

Whom this book is intended for

This book is an ideal starting point for software *evaluators* as it gives an overview of the various Xpress products and shows how to get up to speed quickly through experimenting with the models discussed via a high-level language used in a graphical environment.

Starting from a simple linear model, every chapter adds new features to it. *First time users* are taken in small steps from the textual description, via the mathematical model to a complete application (Chapter 9) or the implementation of a solution heuristic that involves some more advanced optimization tasks (Chapter 8).

The variety of topics covered may also help *occasional users* to quickly refresh their knowledge of Mosel, IVE, BCL and the Optimizer.

How to read this book

For a complete overview and introduction to modeling and solving with the FICO™ Xpress product suite, we recommend reading the entire document. However, readers who are only interested in certain topics, may well skip certain parts or chapters as shown in the following diagram.

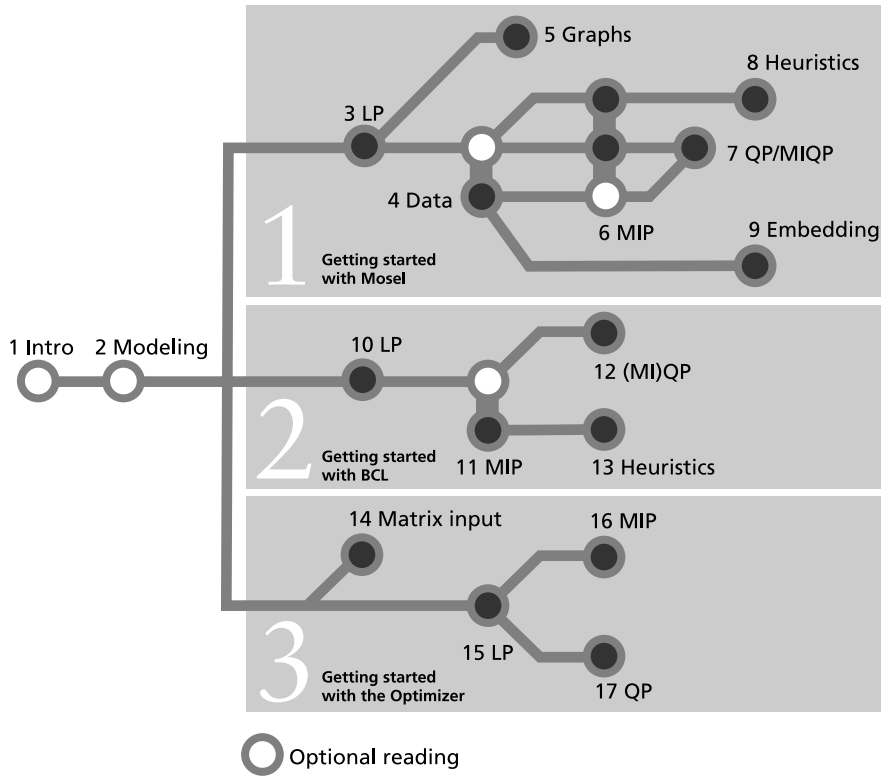


Figure 1: Suggested flow through the book

Using the Mosel language with IVE

The approach presented in the first part of this book is recommended for first time users, novices to Mathematical Programming, and users who wish to develop and deploy new models quickly, supported by graphical displays for problem and solution analysis.

For example, if you wish to develop a Linear Programming (LP) model and embed it into some existing application, you should read the first four chapters, followed by Chapter 9 on embedding Mosel models.

To find out how to model and solve Quadratic Programming (QP) problems with Xpress, you should read at least Chapters 1-3, the beginning of Chapter 4 and then Chapter 7; for Mixed Integer Quadratic Programming (MIQP) also include Chapter 6 on Mixed Integer Programming (MIP).

To see how you may implement your own solution algorithms and heuristics in the Mosel language, we suggest reading Chapters 1-3, the beginning of Chapter 4, followed by Chapter 6 on MIP and then Chapter 8 on Heuristics.

Working in a programming language environment

Users who wish to develop their entire application in a programming language environment have two options, using the model builder library BCL or inputting their problem directly into Xpress-Optimizer.

Users who are looking for modeling support whilst model execution speed is a decisive factor in their choice of the tool should look at the model builder library BCL. Due to the modeling objects defined by BCL, the resulting code remains relatively close to the algebraic model and is easy to

maintain. BCL supports modeling of LP, MIP, and QP problems (Chapters 10-12). Model input with BCL may be combined with direct calls to Xpress-Optimizer to define solution algorithms as shown with the example in Chapter 13.

The direct access to the Optimizer (discussed in the last part) is provided mainly for low-level integration with applications that possess their own matrix generation routines (Chapters 15-17 for LP, MIP, and QP problems), or to solve matrices given in standard format (MPS or LP) that were generated externally (Chapter 14). The possibility to directly access very specific features of the Optimizer is also appreciated by advanced users, mostly in the domain of research, who implement their own algorithms involving the solution of LP, MIP, or QP problems.

CHAPTER 1

Introduction

1.1 Mathematical Programming

Mathematical Programming is a technique of mathematical optimization. Many real-world problems in such different areas as industrial production, transport, telecommunications, finance, or personnel planning may be cast into the form of a *Mathematical Programming problem*: a set of decision variables, constraints over these variables and an objective function to be maximized or minimized.

Mathematical Programming problems are usually classified according to the types of the decision variables, constraints, and the objective function.

A well-understood case for which efficient algorithms (Simplex, interior point) are known comprises *Linear Programming (LP)* problems. In this type of problem all constraints and the objective function are linear expressions of the decision variables, and the variables have continuous domains—i.e., they can take on any, usually non-negative, real values. Luckily, many application problems fit into this category. Problems with hundreds of thousands, or even millions of variables and constraints are routinely solved with commercial Mathematical Programming software like Xpress-Optimizer.

Researchers and practitioners working on LP quickly found that continuous variables are insufficient to represent decisions of a discrete nature ('yes''no' or 1,2,3,...). This observation led to the development of *Mixed Integer Programming (MIP)* where constraints and objective function are linear just as in LP and variables may have either discrete or continuous domains. To solve this type of problems, LP techniques are coupled with an enumeration (known as *Branch-and-Bound*) of the feasible values of the discrete variables. Such enumerative methods may lead to a computational explosion, even for relatively small problem instances, so that it is not always realistic to solve MIP problems to optimality. However, in recent years, continuously increasing computer speed and even more importantly, significant algorithmic improvements (e.g. cutting plane techniques and specialized branching schemes) have made it possible to tackle ever larger problems, modeling ever more exactly the underlying real-world situations.

Another class of problems that is relatively well-handled are *Quadratic Programming (QP)* problems: these differ from LPs in that they have quadratic terms in the objective function (the constraints remain linear). The decision variables may be continuous or discrete, in the latter case we speak of *Mixed Integer Quadratic Programming (MIQP)* problems. In Chapters 7 and 12 of this book we show examples of both cases.

More difficult is the case of non-linear constraints or objective functions, *Non-linear Programming (NLP)* problems. Frequently heuristic or approximation methods are employed to find good (locally optimal) solutions. One method for solving problems of this type is *Successive Linear Programming (SLP)*; such a solver forms part of the FICO™ Xpress suite. However, in this book we shall not enlarge on this topic.

Building a model, solving it and then implementing the 'answers' is not generally a linear process.

We often make mistakes in our modeling which are usually only detected by the optimization process, where we could get answers that were patently wrong (e.g. unbounded or infeasible) or that do not accord with our intuition. If this happens we are forced to reflect further about the model and go into an iterative process of model refinement, re-solution and further analyses of the optimum solution. During this process it is quite likely that we will add extra constraints, perhaps remove constraints that we were misled into adding, correct erroneous data or even be forced to collect new data that we had previously not considered necessary.

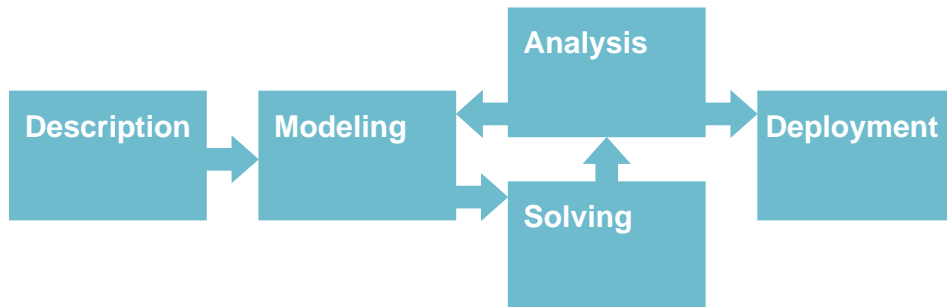


Figure 1.1: Scheme of an optimization project

This book takes the reader through all these steps: from the textual description we develop a mathematical model which is then implemented and solved. Various improvements, additions and reformulations are suggested in the following chapters, including an introduction of the available means to support the analysis of the results. The deployment of a Mathematical Programming application typically includes its embedding into other applications to turn it into a part of a company's information system.

1.2 Xpress product suite

Arising from different users' needs and preferences, there are several ways of working with the modeling and optimization tools that form the FICO™ Xpress product suite:

1. *High-level language*: the *Xpress-Mosel language* allows the user to define his models in a form that is close to algebraic notation and to solve them in the same environment. Mosel's programming facilities also make it possible to implement solution algorithms directly in this high-level language. Mosel may be used as a standalone program or through the *Xpress-IVE* development environment that provides, amongst many other tools, graphical displays of solution information.
Via the concept of *modules* the Mosel environment is entirely open to additions; modules of the Xpress distribution include access to solvers (Xpress-Optimizer for LP, MIP, and QP, Xpress-SLP, and Xpress-Kalis), data handling facilities (e.g. via ODBC) and access to system functions. In addition, via the *Mosel Native Interface* users may define their own modules to add new features to the Mosel language according to their needs (e.g. to implement problem-specific data handling, or connections to external solvers or solution algorithms).
2. *Libraries for embedding*: two different options are available for embedding mathematical models into large applications. A model developed using the Mosel language may be executed and accessed from a programming language environment (e.g. C, C++, Java, etc.) through the *Mosel libraries*; certain modules also provide direct access to their functions from a programming language environment.
The second possibility consists of developing a model directly in a programming language with the help of the model builder library *Xpress-BCL*. BCL allows the user to formulate his

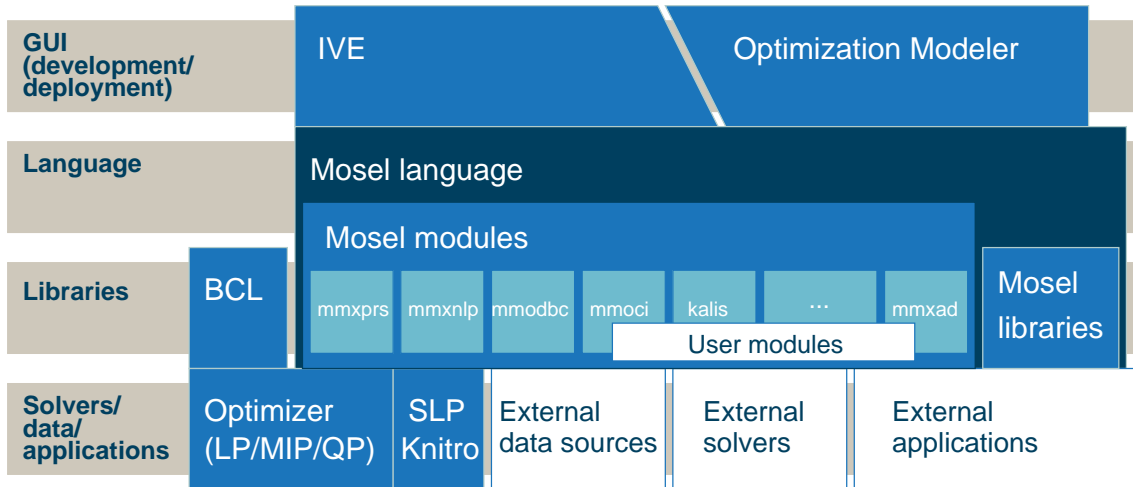


Figure 1.2: Xpress product suite

models with objects (decision variables, constraints, index sets) similar to those of a dedicated modeling language.

All libraries are available for C, C++, Java, C#, and Visual Basic (VB).

3. *Direct access to solvers*: on the lowest, most immediate level, it is possible to work directly with the Xpress-Optimizer or Xpress-SLP in the form of a library or a standalone program. This facility may be useful for embedding the Optimizer into applications that possess their own, dedicated matrix generation routines. Advanced Xpress users may wish to employ special features of the Optimizer that are not available through the different interfaces, possibly using a matrix that has previously been generated by Mosel or BCL.

Of the three above mentioned approaches, a high-level language certainly provides the easiest-to-understand access to Mathematical Programming. So in the first and largest part of this book we show how to define and solve problems with the Xpress-Mosel language, and also how the resulting models may be embedded into applications using the Mosel libraries or Optimization Modeler. We work with Mosel models in the graphical user interface Xpress-IVE, exploiting its facilities for debugging and solution analysis and display.

In the reminder of this book we show how to formulate and solve Mathematical Programming problems directly in a programming language environment. This may be done with modeling support from BCL or directly using the Xpress-Optimizer library. With BCL, models can be implemented in a form that is relatively close to their algebraic formulation and so are quite easy to understand and to maintain. We discuss BCL implementations of the same example problems as used with Mosel.

The last part of this book explains how problems may be input directly into the Optimizer, either in the form of matrices (possibly generated by another tool such as Mosel or BCL) that are read from file, or by specifying the problem matrix coefficient-wise directly in the application program. The facility of working directly with the Optimizer library is destined at embedders and advanced Xpress users. It is not recommendable as a starting point for the novice in Mathematical Programming.

1.2.1 Note on product versions

The Mosel examples in this book have been updated to the FICO™ Xpress Release 7.7 (Mosel 3.6.0); IVE screenshots have been taken with Release 7.0.1 (IVE 1.20.05). The Optimization

Modeler examples have been developed with Xpress Release 7.8. The BCL examples are using BCL 4.4.0 that is distributed with Xpress Release 7.2. The Optimizer examples have been developed using the Xpress Release 7.1 (Optimizer 21.0.3). If the examples are run with other product versions the output obtained may look different. In particular, improvements to the algorithms or modifications to the default settings in Xpress-Optimizer may influence the behavior of the LP search or the shape of the MIP branching trees. The IVE interface may also undergo slight changes in future releases as new features are added, but this will not affect the actions described in this book.

CHAPTER 2

Building models

This chapter shows in detail how the textual description of a real world problem is converted into a mathematical model. We introduce an example problem, optimal portfolio selection, that will be used throughout this book.

Though not requiring any prior experience of Mathematical Programming, when formulating the mathematical models we assume that the reader is comfortable with the use of symbols such as x or y to represent unknown quantities, and the use of this sort of variable in simple linear equations and inequalities, for example:

$$x + y \leq 6$$

which says that 'the quantity represented by x plus the quantity represented by y must be less than or equal to six'.

You should also be familiar with the idea of summing over a set of variables. For example, if $produce_i$ is used to represent the quantity produced of product i then the total production of all items in the set $ITEMS$ can be written as:

$$\sum_{i \in ITEMS} produce_i$$

This says 'sum the produced quantities $produce_i$ over all products i in the set $ITEMS$ '.

Another common mathematical symbol that is used in the text is the all-quantifier \forall (read 'for all'): if $ITEMS$ consists in the elements 1, 4, 7, 9 then writing

$$\forall i \in ITEMS : produce_i \leq 100$$

is a shorthand for

$$produce_1 \leq 100$$

$$produce_4 \leq 100$$

$$produce_7 \leq 100$$

$$produce_9 \leq 100$$

Computer based modeling languages, and in particular the language we use, Mosel, closely mimic the mathematical notation an analyst uses to describe a problem. So provided you are happy using the above mathematical notation the step to using a modeling language will be straightforward.

2.1 Example problem

An investor wishes to invest a certain amount of money. He is evaluating ten different securities ('shares') for his investment. He estimates the return on investment for a period of one year. The following table gives for each share its country of origin, the risk category (R: high risk, N: low risk) and the expected return on investment (ROI). The investor specifies certain constraints. To spread the risk he wishes to invest at most 30% of the capital into any share. He further wishes to invest at least half of his capital in North-American shares and at most a third in high-risk shares. How should the capital be divided among the shares to obtain the highest expected return on investment?

Table 2.1: List of shares with countries of origin and estimated return on investment

Number	Description	Origin	Risk	ROI
1	treasury	Canada	N	5
2	hardware	USA	R	17
3	theater	USA	R	26
4	telecom	USA	R	12
5	brewery	UK	N	8
6	highways	France	N	9
7	cars	Germany	N	7
8	bank	Luxemburg	N	6
9	software	India	R	31
10	electronics	Japan	R	21

To construct a mathematical model, we first identify the *decisions* that need to be taken to obtain a solution: in the present case we wish to know how much of every share to take into the portfolio. We therefore define *decision variables* $frac_s$ that denote the fraction of the capital invested in share s . That means, these variables will take fractional values between 0 and 1 (where 1 corresponds to 100% of the total capital). Indeed, every variable is *bounded* by the maximum amount the investor wishes to spend per share: at most 30% of the capital may be invested into every share. The following constraint establishes these bounds on the variables $frac_s$ (read: 'for all s in SHARES ...').

$$\forall s \in SHARES : 0 \leq frac_s \leq 0.3$$

In the mathematical formulation, we write $SHARES$ for the set of shares that the investor may wish to invest in and RET_s the expected ROI per share s . NA denotes the subset of the shares that are of North-American origin and $RISK$ the set of high-risk values.

The investor wishes to spend all his capital, that is, the fractions spent on the different shares must add up to 100%. This fact is expressed by the following *equality constraint*:

$$\sum_{s \in SHARES} frac_s = 1$$

We now also need to express the two constraints that the investor has specified: At most one third of the values may be high-risk values—i.e., the sum invested into this category of shares must not exceed 1/3 of the total capital:

$$\sum_{s \in RISK} frac_s \leq 1/3$$

The investor also insists on spending at least 50% on North-American shares:

$$\sum_{s \in NA} frac_s \geq 0.5$$

These two constraints are *inequality constraints*.

The investor's objective is to maximize the return on investment of all shares, in other terms, to maximize the following sum:

$$\sum_{s \in SHARES} RET_s \cdot frac_s$$

This is the *objective function* of our mathematical model.

After collecting the different parts, we obtain the following complete mathematical model formulation:

$$\begin{aligned} &\text{maximize } \sum_{s \in SHARES} RET_s \cdot frac_s \\ &\sum_{s \in RISK} frac_s \leq 1 / 3 \\ &\sum_{s \in NA} frac_s \geq 0.5 \\ &\sum_{s \in SHARES} frac_s = 1 \\ &\forall s \in SHARES : 0 \leq frac_s \leq 0.3 \end{aligned}$$

In the next chapter we shall see how this mathematical model is transformed into a Mosel model that is then solved with Xpress-Optimizer. In Chapter 10 we show how to use BCL for this purpose and Chapter 15 discusses how to input this model directly into the Optimizer without modeling support.

I. Getting started with Mosel

CHAPTER 3

Inputting and solving a Linear Programming problem

In this chapter we take the example formulated in Chapter 2 and show how to transform it into a Mosel model which is solved as an LP using Xpress-IVE. More precisely, this involves the following steps:

- starting up Xpress-IVE,
- creating and saving the Mosel file,
- using the Mosel language to enter the model,
- correcting errors and debugging the model,
- solving the model and understanding the LP optimization displays in IVE,
- viewing and verifying the solution and understanding the solution in terms of the real world problem instance.

Chapter 10 shows how to formulate and solve the same example with BCL and in Chapter 15 the problem is input and solved directly with Xpress-Optimizer.

3.1 Starting up Xpress-IVE and creating a new model

We shall develop and execute our Mosel model with the graphical environment Xpress-IVE. If you have followed the standard installation procedure for Xpress-IVE, start the program by a double click onto the icon on the desktop or select *Start* » *Programs* » *FICO* » *Xpress* » *Xpress-IVE*. Otherwise, you may also start up IVE by typing `ive` in a DOS window or, if you have installed any model examples, by double clicking onto a model file (file with extension `.mos`).

Xpress-IVE opens with a window that is subdivided into several panes:

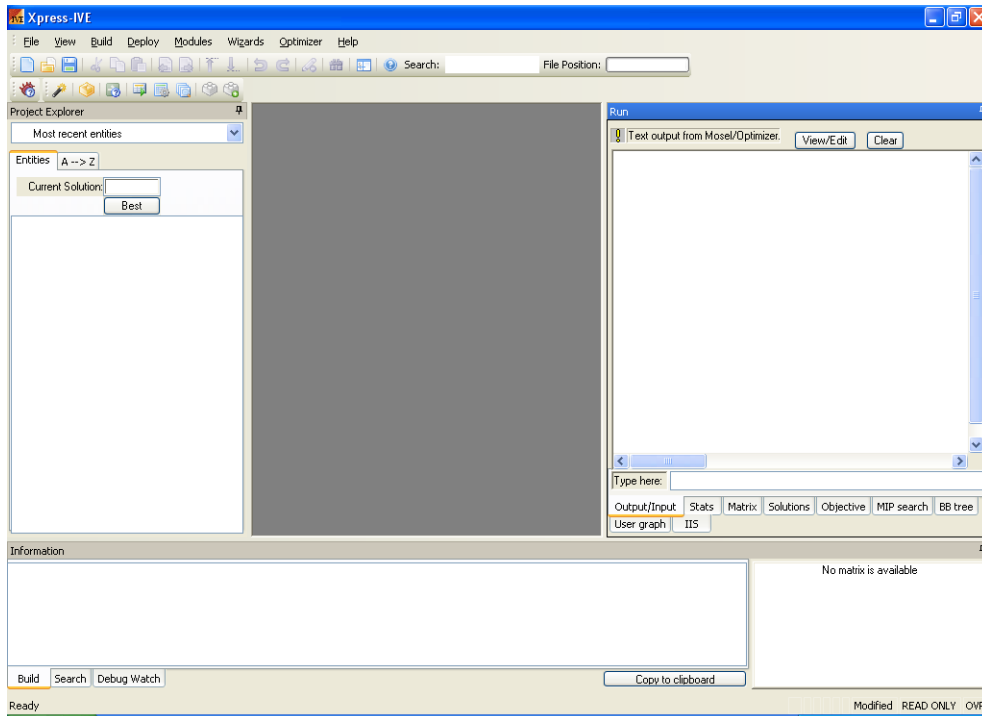




Figure 3.1: IVE at startup

At the top, we have the menu and tool bars. The window on the left is the *project bar*, at the bottom is located the *info bar*, and the right window is the *run bar*. You may blend out these bars using the *View* menu. To restore the original layout select *View* \gg *Repair Window Layout* or the restore button: . The central, grey window is the place where the working file will be displayed.

To create a new model file select *File* \gg *New* or alternatively, click on the first button of the tool bar:  This will open a dialog window where you can choose a directory and enter the name of the new file. We shall give it the name `foliolp`, the extension `.mos` for 'Mosel file' will be appended automatically. Click *Save* to confirm your choice. The central window of IVE has now turned white and the cursor is positioned at its top line, ready for you to enter the model into the input template displayed by IVE.

3.2 LP model

The mathematical model in the previous chapter may be transformed into the following Mosel model entered into IVE:

```

model "Portfolio optimization with LP"
  uses "mxxprs"                ! Use Xpress-Optimizer

  declarations
    SHARES = 1..10              ! Set of shares
    RISK = {2,3,4,9,10}         ! Set of high-risk values among shares
    NA = {1,2,3,4}              ! Set of shares issued in N.-America
    RET: array(SHARES) of real  ! Estimated return in investment

    frac: array(SHARES) of mpar ! Fraction of capital used per share
  
```

```

end-declarations

RET:: [5,17,26,12,8,9,7,6,31,21]

! Objective: total return
Return:= sum(s in SHARES) RET(s)*frac(s)

! Limit the percentage of high-risk values
sum(s in RISK) frac(s) <= 1/3

! Minimum amount of North-American values
sum(s in NA) frac(s) >= 0.5

! Spend all the capital
sum(s in SHARES) frac(s) = 1

! Upper bounds on the investment per share
forall(s in SHARES) frac(s) <= 0.3

! Solve the problem
maximize(Return)

! Solution printing
writeln("Total return: ", getobjval)
forall(s in SHARES) writeln(s, ": ", getsol(frac(s))*100, "%")

end-model

```

Let us now try to understand what we have just written.

3.2.1 General structure

Every Mosel program starts with the keyword `model`, followed by a model name chosen by the user. The Mosel program is terminated with the keyword `end-model`.

All objects must be declared in a `declarations` section, unless they are defined unambiguously through an assignment. For example,

```
Return:= sum(s in SHARES) RET(s)*frac(s)
```

defines `Return` as a linear constraint and assigns to it the expression

```
sum(s in SHARES) RET(s)*frac(s)
```

There may be several such `declarations` sections at different places in a model.

In the present case, we define three *sets*, and two arrays:

- `SHARES` is a so-called *range set*—i.e., a set of consecutive integers (here: from 1 to 10).
- `RISK` and `NA` are simply *sets of integers*.
- `RET` is an array of real values indexed by the set `SHARES`, its values are assigned after the declarations.
- `frac` is an array of decision variables of type `mpvar`, also indexed by the set `SHARES`. These are the decision variables in our model.

The model then defines the objective function, two linear inequality constraints and one equality constraint and sets upper bounds on the variables.

As in the mathematical model, we use a *forall loop* to enumerate all the indices in the set `SHARES`.

3.2.2 Solving

With the procedure `maximize`, we call Xpress-Optimizer to maximize the linear expression `Return`. As Mosel is itself not a solver, we specify that Xpress-Optimizer is to be used with the statement

```
uses "mmxprs"
```

at the begin of the model (the module `mmxprs` is documented in the ‘Mosel Language Reference Manual’).

Instead of defining the objective function `Return` separately, we could just as well have written

```
maximize (sum (s in SHARES) RET(s) + frac(s))
```

3.2.3 Output printing

The last two lines print out the value of the optimal solution and the solution values for all variables.

To print an additional empty line, simply type `writeln` (without arguments). To write several items on a single line use `write` instead of `writeln` for printing the output.

3.2.4 Formatting

Indentation, spaces, and empty lines in our model have been added to increase readability. They are skipped by Mosel.


Line breaks: It is possible to place several statements on a single line, separating them by semicolons, like

```
RISK = {2,3,4,9,10}; NA = {1,2,3,4}
```

But since there are no special ‘line end’ or continuation characters, every line of a statement that continues over several lines must end with an operator (+, >=, etc.) or characters like ‘,’ that make it obvious that the statement is not terminated.

As shown in the example, single line *comments* in Mosel are preceded by `!`. Comments over multiple lines start with `(!` and terminate with `!)`.

3.3 Correcting errors and debugging a model

Having entered the model printed in the previous section, we now wish to execute it, that is, solve the optimization problem and retrieve the results. Choose *Build* \gg *Run* or alternatively, click on the run button: 

At a first attempt to run a model, you are likely to see the message ‘Compilation failed. Please check for errors.’ The bottom window displays the error messages generated by Mosel, for instance as shown in the following figure (Figure 3.2).

When typing in the model from the previous section (there printed in its correct form), we have deliberately introduced some common mistakes that we shall now correct—see the example file `foliolperr.mos` for the erroneous model. Clicking on an error message will highlight the corresponding line in the model.

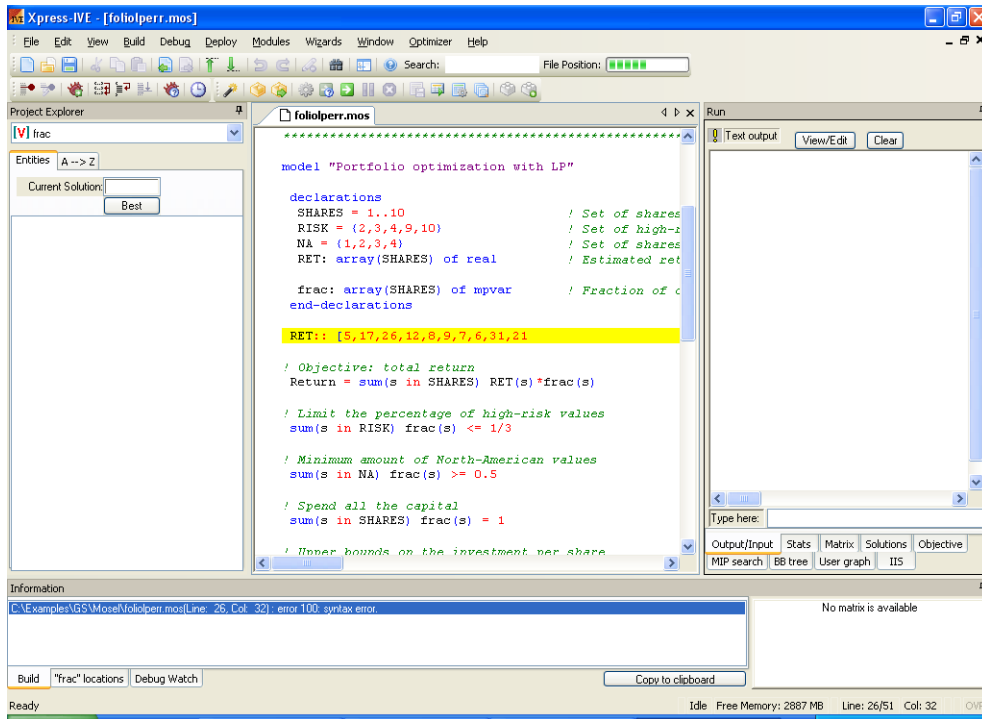


Figure 3.2: Info bar with error messages

The first message:

```
error 100: syntax error
```

takes us to the line

```
RET:: [5,17,26,12,8,9,7,6,31,21
```

We need to add the closing bracket to terminate the definition of RET (if the definition continues on the next line, we need to add a comma at the end of this line to indicate continuation).

The next messages that appear after re-running the model:

```
error 100: syntax error before '='
error 123: 'Return' is not defined
warning 121: Statement with no effect
```

take us to the line

```
Return = sum(s in SHARES) RET(s)*frac(s)
```

Warnings will not hinder the model from being executed, but since the Mosel compiler tells us that this line has no meaning, something must be wrong. Finding the error here requires taking a very close look: instead of := we have used =. Since Return should have been defined by assigning it the sum on the right side, this statement now does not have any meaning.

After correcting this error, we try to run the model again, but we are still left with one error message:

```
error 123: 'maximize' is not defined
```

located in the line

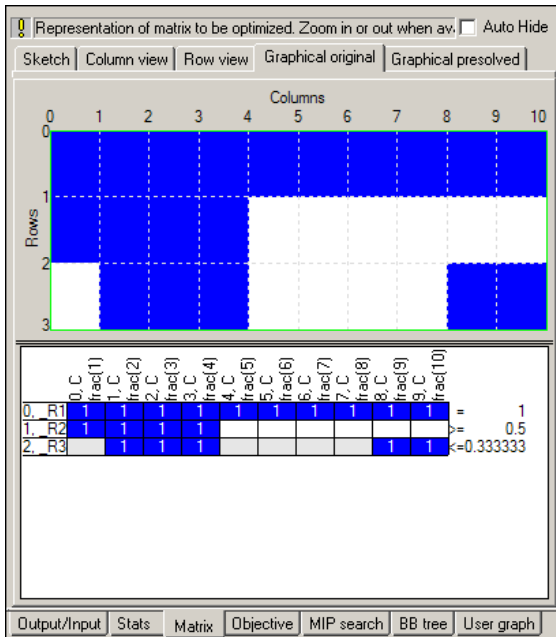



Figure 3.3: LP matrix display

```
maximize (Return)
```

The procedure `maximize` is defined in the module `mmxprs` but we have forgotten to add the line

```
uses "mmxprs"
```


at the beginning of the Mosel model. After adding this line, the model compiles correctly.

A useful functionality to quickly see what is provided by a module is provided in the form of the *module browser*: select `Modules` \gg `List available modules` or alternatively, click on the button . This opens a window with the list of modules available in your Xpress installation and also allows you to check in detail the functionality (subroutines, types, constants, etc.) added by each module to the Mosel language.

If you do not remember the correct name of a Mosel keyword while typing in a model, then you may use the *code completion* feature of the IVE editor: hold down the CTRL and spacebar keys to get a list of keywords from which you may select the desired one.

3.3.1 Debugging

If a model is correct from Mosel's point of view, this does of course not guarantee that it really does what we would like it to do. For instance, we may have forgotten to initialize data, or variables and constraints are not created correctly (they may be part of complex expressions, including logical tests etc.). To check what has indeed been generated by Mosel, we may pause the execution of the model immediately before it is solved. Select `Build` \gg `Options` or

alternatively, click on the run options button:  In the dialog window that gets displayed, under *Matrix visualization* check `Show original matrix` and confirm with `Apply`. When we now execute the model, it will generate a graphical matrix display in the Run bar on the right side of the IVE workspace (Figure 3.3). Select the tab `Matrix` at the bottom of the Run bar and then `Graphical original` at its top to view the display.

The upper part shows the general structure and the lower part allows to zoom in onto single

coefficients, indicating their values. The display uses blue color for positive coefficients, red for negative and white or grey for zero-valued coefficients. One may recognize the three constraints of our model: note that the constraints in matrices always appear in inverse order from their definition in the model.

Another change to the screen display may be observed in the left window of the workspace: it now displays all entities defined in the model. Click on the '+' signs to view the full information (Figure 3.4).

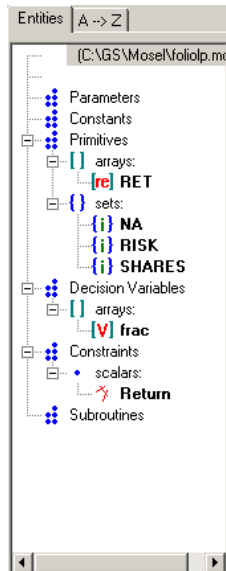







Figure 3.4: Entity display

When moving the cursor slowly over the various entities, their current contents and status are displayed. This allows you, for instance, to check the contents of index sets and data arrays and to see that the array `frac` consists indeed of 10 variables. You can also double-click on an entity to obtain a new window with the full contents of the entity value (useful especially for large arrays). In addition, when clicking on an entity its occurrences in the editor are shown in the info bar.


To inspect models during their execution you may use the IVE *debugger*. Select *Debug* >>

Start/Continue or click on the button  to start or stop the debugger. The *Debug* menu entries and the debugger buttons allow you to perform standard debugging tasks, such as setting

breakpoints (button ) , running a model up to the cursor position (button ) , or executing it step-by-step (buttons  and ).

3.4 Solving, optimization displays, and viewing the solution

As mentioned in the previous section, to execute our model we have to select *Build* >> *Run* or

alternatively, click on the run button: . After the successful execution of our model the screen display changes to the following (Figure 3.5).

The bottom window contains the log of the Mosel execution, the right window displays solution information and the left window displays all model entities. Choose the tab *Output/input* under the right window to see the *output* printed by our program:

```
Total return: 14.0667
```

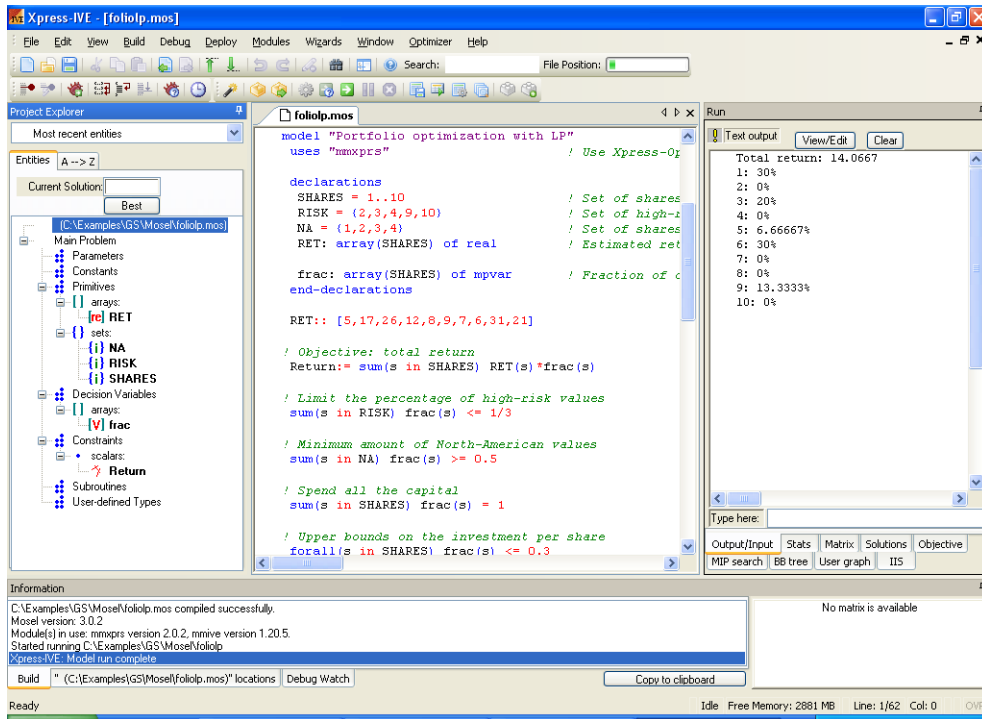



Figure 3.5: Display after model execution

- 1: 30%
- 2: 0%
- 3: 20%
- 4: 0%
- 5: 6.66667%
- 6: 30%
- 7: 0%
- 8: 0%
- 9: 13.3333%
- 10: 0%

This means, that the maximum return of 14.0667 is obtained with a portfolio consisting of shares 1, 3, 5, 6, and 9. 30% of the total amount are spent in shares 1 and 6 each, 20% in 3, 13.3333% in 9 and 6.6667% in 5. It is easily verified that all constraints are indeed satisfied: we have 50% of North-American shares (1 and 3) and 33.33% of high-risk shares (3 and 9).

Now select the tab *Stats* to obtain the *detailed LP optimization information* shown in Figure 3.6.

The upper part of the window contains some statistics about the matrix, in its original and in presolved form (presolving a problem means applying some numerical methods to simplify or transform it). The center part tells us which LP algorithm has been used (Simplex), and the number of iterations and total time needed by the algorithm. The lower part lists the time overheads caused by the various displays in IVE. Since this problem is very small, it is solved almost instantaneously.

To see more *detailed solution information* than what is printed by our model, go to the entities display in the left hand side window, and expand the decision variables and constraints by clicking on the '+' signs. When moving the cursor slowly over the different entities, the full solution information gets displayed (for large arrays double-click on the entity to obtain a new window with the full contents of the entity value). Note that under 'constraints' only the objective function is listed since this is the only constraint that has been assigned a name.

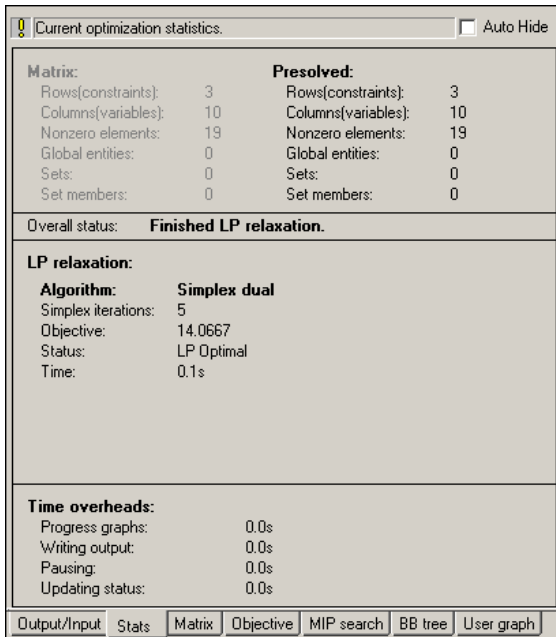


Figure 3.6: LP status display

3.4.1 String indices

To make the output of the model more easily understandable, it may be a good idea to replace the numerical indices by *string indices*.

In our model, we replace the three declaration lines

```
SHARES = 1..10
RISK = {2,3,4,9,10}
NA = {1,2,3,4}
```

by the following lines:

```
SHARES = {"treasury", "hardware", "theater", "telecom", "brewery",
          "highways", "cars", "bank", "software", "electronics"}
RISK = {"hardware", "theater", "telecom", "software", "electronics"}
NA = {"treasury", "hardware", "theater", "telecom"}
```

And in the initialization of the array RET we now need to use the indices:

```
RET:({"treasury", "hardware", "theater", "telecom", "brewery",
      "highways", "cars", "bank", "software", "electronics"})[
5,17,26,12,8,9,7,6,31,21]
```

No other changes in the model are required. We save the modified model as `foliolps.mos`.

The solution output then prints as follows which certainly makes the interpretation of the result easier and more immediate:

```
Total return: 14.0667
treasury: 30%
hardware: 0%
theater: 20%
telecom: 0%
```

```

brewery: 6.66667%
highways: 30%
cars: 0%
bank: 0%
software: 13.3333%
electronics: 0%

```

Of course, the entity display also works with these string names:

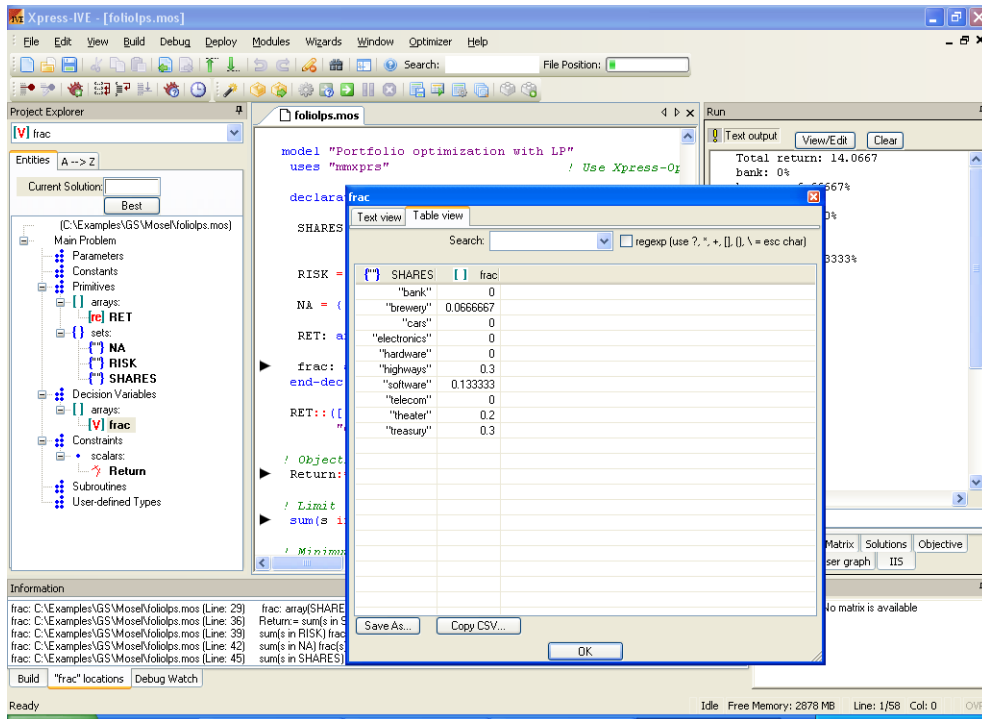


Figure 3.7: Entity display

CHAPTER 4

Working with data

In this chapter we introduce some basic data handling facilities of Mosel:

- the `initializations` block for reading and writing data in Mosel-specific format,
- data output to a file in free format,
- parameterization of files names and numerical constants, and
- some output formatting.

4.1 Data input from file

With Mosel, there are several different ways of reading and writing data from and to external files. For simplicity's sake we shall limit the discussion here to files in text format. Mosel also provides specific modules to exchange data with spreadsheets and databases, for instance using an ODBC connection, but this is beyond the scope of this book and the interested reader is referred to the documentation of these modules (see the *Mosel Language Reference Manual* and the whitepaper *Using ODBC and other database interfaces with Mosel*).

The data file `folio.dat` that we are going to work with has the following contents:

```
! Data file for `folio*.mos`

RET: [("treasury") 5 ("hardware") 17 ("theater") 26 ("telecom") 12
      ("brewery") 8 ("highways") 9 ("cars") 7 ("bank") 6
      ("software") 31 ("electronics") 21 ]

RISK: ["hardware" "theater" "telecom" "software" "electronics"]

NA: ["treasury" "hardware" "theater" "telecom"]
```

Just as in model files, single-line comments preceded by `!` may be used in data files. Every data entry is labeled with the name given to the corresponding entity in the model. Data items may be separated by blanks, tabulations, line breaks, or commas.

We modify the Mosel model from Chapter 3 as follows:

```
declarations
  SHARES: set of string           ! Set of shares
  RISK: set of string             ! Set of high-risk values among shares
  NA: set of string              ! Set of shares issued in N.-America
  RET: array(SHARES) of real     ! Estimated return in investment
end-declarations

initializations from "folio.dat"
```

```

RISK RET NA
end-initializations

declarations
  frac: array(SHARES) of mpvar      ! Fraction of capital used per share
end-declarations

```

As opposed to the previous model `foliolp.mos`, all index sets and the data array are now created as *dynamic* objects: their size is not known at their creation and they are initialized later with data from the file `folio.dat`. Optionally, after the initialization from file, we may *finalize* the sets to make them static. This will make more efficient the handling of any arrays declared later on and indexed by these sets, and more importantly, this allows Mosel to check for 'out of range' errors that cannot be detected if the sets are dynamic.

```
finalize(SHARES); finalize(RISK); finalize(NA)
```

Notice that we do not initialize explicitly the set `SHARES`, it is filled automatically when the array `RET` is read. Notice further that we only declare the decision variables *after* initializing the data, and hence when their index set is known.

4.2 Formated data output to file

Just like `initializations` from in the previous section, `initializations` to also exists in Mosel to write out data in a standardized format. However, if we wish to redirect to a file exactly the text that is currently displayed in the 'Output' window of IVE, then we simply need to surround the printing of this text by calls to the procedures `fopen` and `fclose`:

```

fopen("result.dat", F_OUTPUT)
writeln("Total return: ", getobjval)
forall(s in SHARES) writeln(s, ": ", getsol(frac(s))*100, "%")
fclose(F_OUTPUT)

```

The first argument of `fopen` is the name of the output file, the second indicates in which mode to open it: with the settings shown above, at every re-execution of the model the contents of the result file will be replaced. To append the new output to the existing file contents use:

```
fopen("result.dat", F_OUTPUT+F_APPEND)
```

We may now also wish to format the output more nicely, for instance:

```

forall(s in SHARES)
  writeln(strfmt(s,-12), ": \t", strfmt(getsol(frac(s))*100,5,2), "%")

```

The function `strfmt` indicates the minimum space reserved for printing a string or a number. A negative value for its second argument means left-justified printing. The optional third argument denotes the number of digits after the decimal point. With this formatted way of printing the result file has the following contents:

```

Total return: 14.0667
treasury      : 30.00%
hardware      :  0.00%
theater       : 20.00%
telecom       :  0.00%
brewery       :  6.67%
highways      : 30.00%
cars          :  0.00%
bank          :  0.00%
software      : 13.33%

```

4.3 Parameters


It is commonly considered a good modeling style to hard-code as little information as possible directly in a model. Instead, parameters and data should be specified and read from external sources during the execution of a model to make it more versatile and easily re-usable. With Mosel it is therefore possible to define, for example, file names and numerical constants in the form of *parameters* the values of which may be modified at an execution without changing the model itself.

In our example, we may define the input and output file as parameters and also the constant terms ('right hand side' values) of the constraints and bounds. These parameter definitions must be added to the beginning of the model file, immediately after the `uses` statement:

```
parameters
  DATAFILE= "folio.dat"           ! File with problem data
  OUTFILE= "result.dat"           ! Output file
  MAXRISK = 1/3                    ! Max. investment into high-risk values
  MAXVAL = 0.3                    ! Max. investment per share
  MINAM = 0.5                     ! Min. investment into N.-American values
end-parameters
```

and in the rest of the model the actual file names and data values are replaced by the parameters.

To modify the settings of these parameters when executing a model with IVE, select *Build* >>

Options or alternatively, click on the run button: . In the dialog box that opens, check the field *Use model parameters* and enter the new values for the parameters in the next line. For instance to change the name of the result file and modify the values of `MAXRISK` and `MAXVAL`:

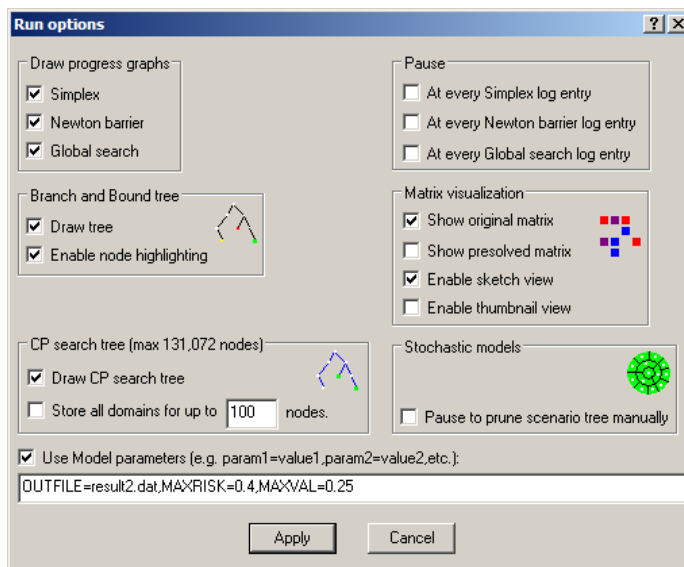


Figure 4.1: Changing model parameter settings

Notice that parameters really become important when the model is not just run in the development environment IVE but rather used for testing and experimentation (batch mode, scripts using the command line interface) and for final deployment (see Chapter 8). For example, we may wish to write a batch file that runs our model `foliodata.mos` repeatedly with different

parameter settings, and writes out the results each time to a different file. To do so, we simply need to add the following lines to a batch file (we then use the standalone version of Mosel to execute the model, which is invoked with the command `mosel`):

```
mosel exec foliodata MAXRISK=0.1 OUTFILE='result1.dat'
mosel exec foliodata MAXRISK=0.2 OUTFILE='result2.dat'
mosel exec foliodata MAXRISK=0.3 OUTFILE='result3.dat'
mosel exec foliodata MAXRISK=0.4 OUTFILE='result4.dat'
```

Another advantage of the use of parameters is that if models are distributed as *BIM files* (portable, compiled **Binary Model files**), then they remain parameterizable, without having to disclose the model itself and hence protecting your intellectual property.

4.4 Complete example

The complete model file `foliodata.mos` with all the features discussed in this chapter looks as follows:

```
model "Portfolio optimization with LP"
uses "moxprs"                ! Use Xpress-Optimizer

parameters
  DATAFILE= "folio.dat"      ! File with problem data
  OUTFILE= "result.dat"      ! Output file
  MAXRISK = 1/3               ! Max. investment into high-risk values
  MAXVAL = 0.3               ! Max. investment per share
  MINAM = 0.5                ! Min. investment into N.-American values
end-parameters

declarations
  SHARES: set of string       ! Set of shares
  RISK: set of string         ! Set of high-risk values among shares
  NA: set of string           ! Set of shares issued in N.-America
  RET: array(SHARES) of real ! Estimated return in investment
end-declarations

initializations from DATAFILE
  RISK RET NA
end-initializations

declarations
  frac: array(SHARES) of mpvar ! Fraction of capital used per share
end-declarations

! Objective: total return
Return:= sum(s in SHARES) RET(s)*frac(s)

! Limit the percentage of high-risk values
sum(s in RISK) frac(s) <= MAXRISK

! Minimum amount of North-American values
sum(s in NA) frac(s) >= MINAM

! Spend all the capital
sum(s in SHARES) frac(s) = 1

! Upper bounds on the investment per share
forall(s in SHARES) frac(s) <= MAXVAL

! Solve the problem
maximize(Return)

! Solution printing to a file
fopen(OUTFILE, F_OUTPUT)
```

```
writeln("Total return: ", getobjval)
forall(s in SHARES)
  writeln(strfmt(s,-12), ": \t", strfmt(getsol(frac(s))*100,2,3), "%")
fclose(F_OUTPUT)

end-model
```


CHAPTER 5

Drawing user graphs

In this chapter we show how to draw a user-defined graph with IVE. The graph we wish to display is generated as a result of repeated executions of a model with different parameter settings. So we shall first see an example of writing a simple algorithm in the Mosel language involving

- re-definition of constraints,
- repeated re-optimization,
- saving solution information,
- definition of a user graph: drawing points, lines, and labels, and
- simple programming tasks (loops and selections).

5.1 Extended problem description

In addition to the data considered so far (see table in Chapter 2), the investor now also has at hand the estimations of the deviations from the expected return per share (Table 5.1). With this additional information, he decides to run the LP model with different limits on the portion of high-risk shares and to represent the results as a graph, plotting the resulting total return against the deviation as a measure of risk.

Table 5.1: Estimated deviations

Number	Description	Deviation
1	treasury	0.1
2	hardware	19
3	theater	28
4	telecom	22
5	brewery	4
6	highways	3.5
7	cars	5
8	bank	0.5
9	software	25
10	electronics	16

5.2 Looping over optimization

We are going to modify the model `foliodata.mos` from the previous chapter in such a way that the problem is re-optimized repeatedly with different limits on the percentage of high-risk values.

In detail, the model will be transformed to implement the following algorithm:

1. Definition of the part of the model that remains unchanged by the parameter changes.
2. For every parameter value:
 - Re-define the constraint limiting the percentage of high-risk values.
 - Solve the resulting problem.
 - If the problem is feasible: store the solution values.
3. Draw the result graph.

To store the solution value and the total estimated deviation of the result after each optimization run, we declare the following two arrays:

```
declarations
  SOLRET: array(range) of real      ! Solution values (total return)
  SOLDEV: array(range) of real      ! Solution values (average deviation)
end-declarations
```

The following code fragment introduces a loop around the definition of the constraint limiting the portion of high-risk shares and the solution procedure. To be able to override its previous definition at every iteration, we now give this constraint a name, `RISK`. If the constraint did not have a name, then each time the loop was executed, a new constraint would be added, and the existing constraint would not be replaced.

```
ct:=0
forall(r in 0..20) do
  ! Limit the percentage of high-risk values
  Risk:= sum(s in RISK) frac(s) <= r/20

  maximize(Return)          ! Solve the problem
  if (getprobstat = XPRS_OPT) then ! Save the optimal solution value
    ct+=1
    SOLRET(ct):= getobjval
    SOLDEV(ct):= getsol(sum(s in SHARES) DEV(s)*frac(s))
  else
    writeln("No solution for high-risk values <= ", 100*r/20, "%")
  end-if
end-do
```

Above we have used the second form of the *forall* loop, namely *forall/do*. This form must be used when several statements are included in the loop. The loop is terminated by `end-do`.

Another new feature in this code extract is the *if/then/else/end-if* statement. We only want to save the values for a problem instance if the optimal solution has been found—the solution status is obtained with function `getprobstat` and tested whether it is 'solved to optimality', represented by the constant `XPRS_OPT`.

The selection statement has two other forms, *if/then/end-if* and *if/then/elif/then/else/end-if* where *elif/then* may be repeated several times.

For further examples and a complete description of all loops and selection statements available in Mosel the reader is referred to the 'Mosel User Guide'.

5.3 Drawing a user graph

We now have gathered all the data required to draw the graph. Graphing functions are provided by the module *mmive* (documented in the 'Mosel Language Reference Manual'), so it needs to be loaded at the beginning of the model by adding the following line:

```
uses "mmive"
```

Then the following lines draw the graph:

```
declarations
  plot1: integer
end-declarations

plot1 := IVEaddplot("Solution values", IVE_BLACK)
forall(r in 1..ct) IVEdrawpoint(plot1, SOLRET(r), SOLDEV(r));
forall(r in 2..ct)
  IVEdrawline(plot1, SOLRET(r-1), SOLDEV(r-1), SOLRET(r), SOLDEV(r))
```

The user graph will be displayed in the right window of the IVE workspace. Select the tab *User graph* to move it to the foreground. With the above we obtain the following output (due to the interplay of the various constraints the resulting graph is not a straight line as one might have expected at first thought):

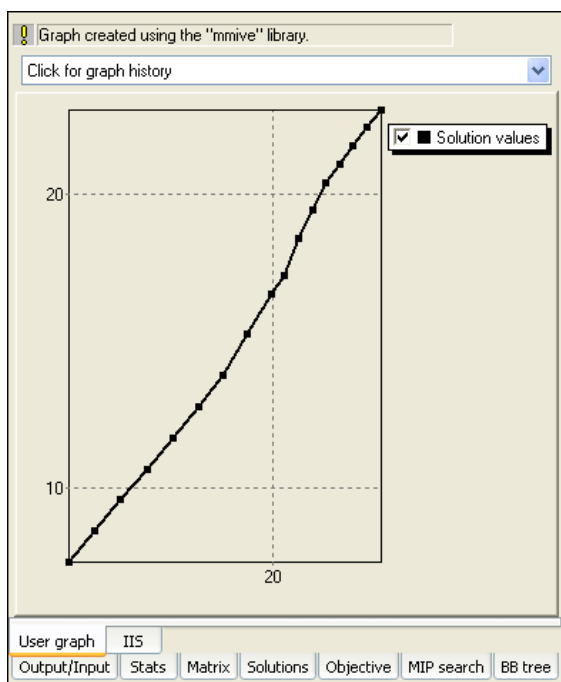


Figure 5.1: Plot of the result graph

In addition to this graph, we may also display labeled points representing the input data ('plot2' for low risk shares and 'plot3' for high risk shares):

```
declarations
  plot2, plot3: integer
end-declarations

plot2 := IVEaddplot("Low risk", IVE_YELLOW)
forall (s in SHARES - RISK) do
  IVEdrawpoint(plot2, RET(s), DEV(s))
  IVEdrawlabel(plot2, RET(s)+3.4, 1.3*(DEV(s)-1), s)
end-do

plot3 := IVEaddplot("High risk", IVE_RED)
forall (s in RISK) do
  IVEdrawpoint(plot3, RET(s), DEV(s))
  IVEdrawlabel(plot3, RET(s)-2.5, DEV(s)-2, s)
```

end-do

Notice the set notation: $\text{SHARES} - \text{RISK}$ means 'all elements of SHARES that are not contained in RISK '.

The complete output now is:

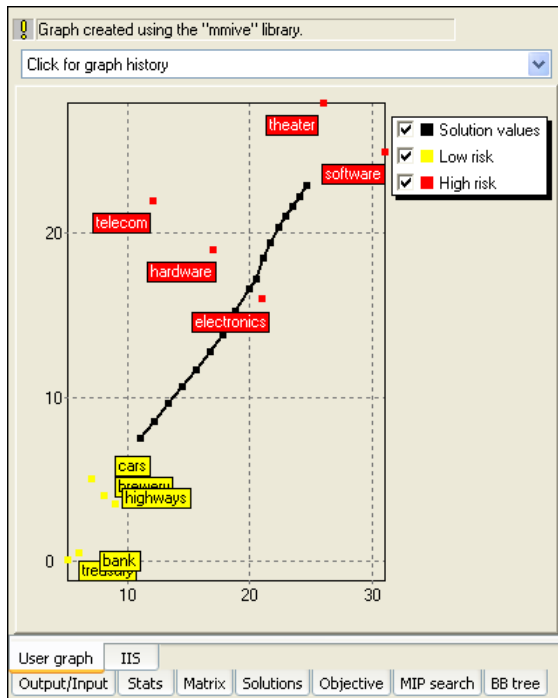


Figure 5.2: Plot of result graph and data

5.4 Complete example

The complete model file `foliograph.mos` with all the features discussed in this chapter looks as follows. Notice that the two modules `mmxprs` and `mmive` may be loaded with a single `uses` statement. The deviation data may either be added to the original data file or, as shown here, read from a second file.

```
model "Portfolio optimization with LP"
  uses "mmxprs", "mmive"           ! Use Xpress-Optimizer with IVE graphing

parameters
  DATAFILE= "folio.dat"           ! File with problem data
  DEVDATA= "foliodev.dat"         ! File with deviation data
  MAXVAL = 0.3                     ! Max. investment per share
  MINAM = 0.5                      ! Min. investment into N.-American values
end-parameters

declarations
  SHARES: set of string             ! Set of shares
  RISK: set of string               ! Set of high-risk values among shares
  NA: set of string                 ! Set of shares issued in N.-America
  RET: array(SHARES) of real        ! Estimated return in investment
  DEV: array(SHARES) of real        ! Standard deviation
  SOLRET: array(range) of real      ! Solution values (total return)
  SOLDEV: array(range) of real      ! Solution values (average deviation)
end-declarations
```

```

initializations from DATAFILE
  RISK RET NA
end-initializations

initializations from DEVDATA
  DEV
end-initializations

declarations
  frac: array(SHARES) of mpvar      ! Fraction of capital used per share
  Return, Risk: lincpr              ! Constraint declaration (optional)
end-declarations

! Objective: total return
Return:= sum(s in SHARES) RET(s)*frac(s)

! Minimum amount of North-American values
sum(s in NA) frac(s) >= MINAM

! Spend all the capital
sum(s in SHARES) frac(s) = 1

! Upper bounds on the investment per share
forall(s in SHARES) frac(s) <= MAXVAL

! Solve the problem for different limits on high-risk shares
ct:=0
forall(r in 0..20) do
  ! Limit the percentage of high-risk values
  Risk:= sum(s in RISK) frac(s) <= r/20

  maximize(Return)                ! Solve the problem

  if (getprostat = XPRS_OPT) then ! Save the optimal solution value
    ct+=1
    SOLRET(ct):= getobjval
    SOLDEV(ct):= getsol(sum(s in SHARES) DEV(s)*frac(s))
  else
    writeln("No solution for high-risk values <= ", 100*r/20, "%")
  end-if
end-do

! Drawing a graph to represent results ('plot1') and data ('plot2' & 'plot3')
declarations
  plot1, plot2, plot3: integer
end-declarations

plot1 := IVEaddplot("Solution values", IVE_BLACK)
plot2 := IVEaddplot("Low risk", IVE_YELLOW)
plot3 := IVEaddplot("High risk", IVE_RED)

forall(r in 1..ct) IVEdrawpoint(plot1, SOLRET(r), SOLDEV(r));

forall(r in 2..ct)
  IVEdrawline(plot1, SOLRET(r-1), SOLDEV(r-1), SOLRET(r), SOLDEV(r))

forall (s in SHARES-RISK) do
  IVEdrawpoint(plot2, RET(s), DEV(s))
  IVEdrawlabel(plot2, RET(s)+3.4, 1.3*(DEV(s)-1), s)
end-do

forall (s in RISK) do
  IVEdrawpoint(plot3, RET(s), DEV(s))
  IVEdrawlabel(plot3, RET(s)-2.5, DEV(s)-2, s)
end-do

end-model

```

The problem is not feasible for small limit values on the constraint `Risk`. Besides the graphs we therefore obtain the following text output:

```
No solution for high-risk values <= 0%  
No solution for high-risk values <= 5%  
No solution for high-risk values <= 10%  
No solution for high-risk values <= 15%
```

CHAPTER 6

Mixed Integer Programming

This chapter extends the model developed in Chapter 3 to a Mixed Integer Programming (MIP) problem. It describes how to

- define different types of discrete variables,
- understand and exploit the MIP optimization displays in IVE.

Chapter 11 shows how to formulate and solve the same example with BCL and in Chapter 16 the problem is input and solved directly with Xpress-Optimizer.

6.1 Extended problem description

The investor is unwilling to have small share holdings. He looks at the following two possibilities to formulate this constraint:

1. Limiting the number of different shares taken into the portfolio.
2. If a share is bought, at least a certain minimum amount $MINVAL = 10\%$ of the budget is spent on the share.

We are going to deal with these two constraints in two separate models.

6.2 MIP model 1: limiting the number of different shares

To be able to count the number of different values we are investing in, we introduce a second set of variables buy_s in the LP model developed in Chapter 2. These variables are *indicator variables* or *binary variables*. A variable buy_s takes the value 1 if the share s is taken into the portfolio and 0 otherwise.

We introduce the following constraint to limit the total number of assets to a maximum of $MAXNUM$. It expresses the constraint that at most $MAXNUM$ of the variables buy_s may take the value 1 at the same time.

$$\sum_{s \in SHARES} buy_s \leq MAXNUM$$

We now still need to link the new binary variables buy_s with the variables $frac_s$, the quantity of every share selected into the portfolio. The relation that we wish to express is 'if a share is selected into the portfolio, then it is counted in the total number of values' or 'if $frac_s > 0$ then $buy_s = 1$ '. The following inequality formulates this implication:

$$\forall s \in SHARES : frac_s \leq buy_s$$

If, for some s , $frac_s$ is non-zero, then buy_s must be greater than 0 and hence 1. Conversely, if buy_s is at 0, then $frac_s$ is also 0, meaning that no fraction of share s is taken into the portfolio. Notice that these constraints do not prevent the possibility that buy_s is at 1 and $frac_s$ at 0. However, this does not matter in our case, since any solution in which this is the case is also valid with both variables, buy_s and $frac_s$, at 0.

6.2.1 Implementation with Mosel

We extend the LP model developed in Chapter 3 (using the initialization of data from file introduced in Chapter 4) with the new variables and constraints. The fact that the new variables are *binary variables* (i.e. they only take the values 0 and 1) is expressed through the `is_binary` constraint.

Another common type of discrete variable is an *integer variable*, that is, a variable that can only take on integer values between given lower and upper bounds. This variable type is defined in Mosel with an `is_integer` constraint. In the following section (MIP model 2) we shall see yet another example of discrete variables, namely semi-continuous variables.

```

model "Portfolio optimization with MIP"
uses "mxxprs"                                ! Use Xpress-Optimizer

parameters
  MAXRISK = 1/3                               ! Max. investment into high-risk values
  MAXVAL = 0.3                               ! Max. investment per share
  MINAM = 0.5                                 ! Min. investment into N.-American values
  MAXNUM = 4                                  ! Max. number of different assets
end-parameters

declarations
  SHARES: set of string                       ! Set of shares
  RISK: set of string                         ! Set of high-risk values among shares
  NA: set of string                          ! Set of shares issued in N.-America
  RET: array(SHARES) of real                 ! Estimated return in investment
end-declarations

initializations from "folio.dat"
  RISK RET NA
end-initializations

declarations
  frac: array(SHARES) of mpvar               ! Fraction of capital used per share
  buy: array(SHARES) of mpvar                ! 1 if asset is in portfolio, 0 otherwise
end-declarations

! Objective: total return
Return:= sum(s in SHARES) RET(s)*frac(s)

! Limit the percentage of high-risk values
sum(s in RISK) frac(s) <= MAXRISK

! Minimum amount of North-American values
sum(s in NA) frac(s) >= MINAM

! Spend all the capital
sum(s in SHARES) frac(s) = 1

! Upper bounds on the investment per share
forall(s in SHARES) frac(s) <= MAXVAL

! Limit the total number of assets
sum(s in SHARES) buy(s) <= MAXNUM

forall(s in SHARES) do
  buy(s) is_binary                            ! Turn variables into binaries
  frac(s) <= buy(s)                          ! Linking the variables
end-do

```



```

end-do

! Solve the problem
maximize(Return)

! Solution printing
writeln("Total return: ", getobjval)
forall(s in SHARES)
  writeln(s, " : ", getsol(frac(s))*100, "% (", getsol(buy(s)), ")")

end-model

```


In the model `foliomip1.mos` above we have used the second form of the *forall* loop, namely *forall/do*, that needs to be used if the loop encompasses several statements. Equivalently we could have written

```

forall(s in SHARES) buy(s) is_binary
forall(s in SHARES) frac(s) <= buy(s)

```

6.2.2 Analyzing the solution

If we pause the execution (using *Build* \gg *Options* or the button , then under *Pause* check *to view matrix*) to visualize the matrix we now get the following display:

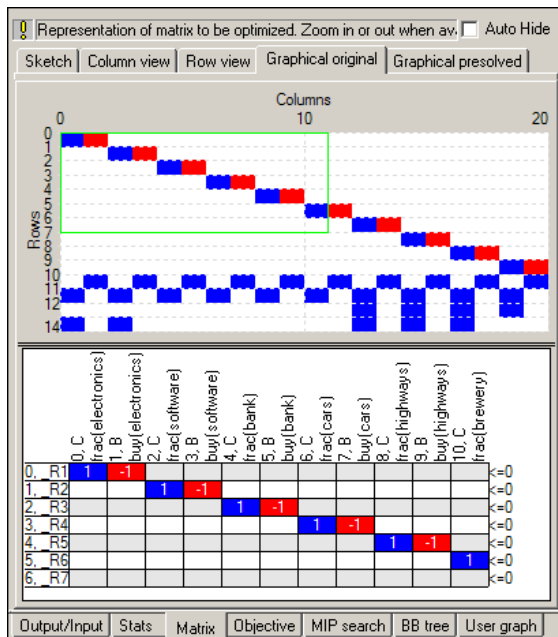


Figure 6.1: Matrix of the MIP problem

There are now more rows (constraints) and columns (variables) than in the LP matrix of the previous chapters. Notice that the constraints $frac_s \leq buy_s$ have been transformed to $frac_s - buy_s \leq 0$ since in the matrix all decision variables are on the left hand side of the operator sign (Mosel also stores constraints in this normalized form).

As the result of our model execution (select tab *Output/input* of the solution information window) we obtain the following output:

```

Total return: 13.1
treasury: 20% (1)

```

```

hardware: 0% (0)
theater: 30% (1)
telecom: 0% (0)
brewery: 20% (1)
highways: 30% (1)
cars: 0% (0)
bank: 0% (0)
software: 0% (0)
electronics: 0% (0)

```

The maximum return is now lower than in the original LP problem due to the additional constraint. As required, only four different shares are selected to form the portfolio.

Let us now have a look at the detailed solution information (tab *Stats*):

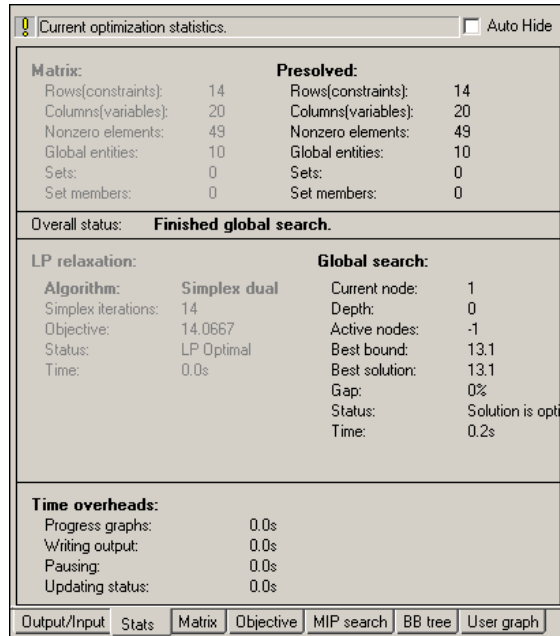


Figure 6.2: Detailed MIP solution information

An additional column, *Global search*, containing the MIP-specific information, now appears in the center of the display. As we have seen, it is relatively easy to turn an LP model into a MIP model by adding an integrality condition on some (or all) variables. However, the same does not hold for the solution algorithms: MIP problems are solved by repeatedly solving LP problems. Initially, the problem is solved without any integrality constraints (the *LP relaxation*). Then, one at a time, a discrete variable is chosen that does not satisfy the integrality condition in the current solution and new upper or lower bounds are added for this variable to bring it to an integer value. If we represent every LP solution as a node and connect these nodes by the bound changes or added constraints, then we obtain a tree-like structure, the *Branch-and-Bound tree*.

In particular, the branching information tells us how many Branch-and-Bound nodes have been needed to solve the problem: here it is just one, the enumeration did not even start. By default, Xpress-Optimizer enables certain MIP pre-treatment algorithms (see the 'Optimizer Reference Manual' for further detail on algorithmic settings), among others the automated generation of cuts—i.e., additional constraints that cut off parts of the LP solution space, but no solution of the MIP. This problem is of very small size and becomes so easy through the pre-treatment that it is solved immediately.

Add the line

```

setparam("XPRS_CUTSTRATEGY", 0)
setparam("XPRS_HEURSTRATEGY", 0)
setparam("XPRS_PRESOLVE", 0)

```

to your model before the call to `maximize` and re-execute it. You have now switched off the MIP pre-treatment routines for automated cut generation and MIP heuristics, and also the presolve mechanism (a treatment to the matrix that tries to reduce its size and improve its numerical properties).

It now takes several nodes to solve the problem:

The screenshot shows a dialog box titled "Current optimization statistics" with an "Auto Hide" checkbox. The dialog is divided into several sections:

- Matrix:** Rows(constraints): 14, Columns(variables): 20, Nonzero elements: 49, Global entities: 10, Sets: 0, Set members: 0.
- Presolved:** Rows(constraints): 14, Columns(variables): 20, Nonzero elements: 49, Global entities: 10, Sets: 0, Set members: 0.
- Overall status:** Finished global search.
- LP relaxation:** Algorithm: Simplex dual, Simplex iterations: 14, Objective: 14.0667, Status: LP Optimal, Time: 0.1s.
- Global search:** Current node: 9, Depth: 3, Active nodes: 0, Best bound: 13.1, Best solution: 13.1, Gap: 0%, Status: Solution is optimal, Time: 0.2s.
- Time overheads:** Progress graphs: 0.0s, Writing output: 0.0s, Pausing: 0.0s, Updating status: 0.0s.

At the bottom, there are tabs for "Output/Input", "Stats", "Matrix", "Objective", "MIP search", "BB tree", and "User graph".

Figure 6.3: Detailed MIP solution information (after disabling cuts)

and we may display the Branch-and-Bound tree by selecting the tab *BB tree* (see Figure 6.4).

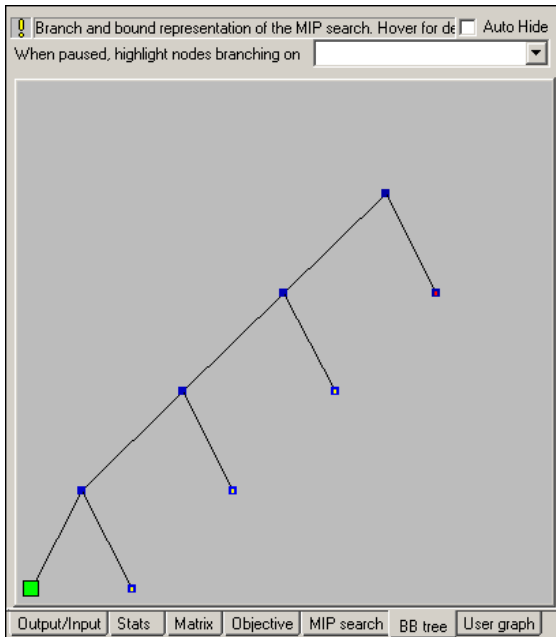





Figure 6.4: Branch-and-Bound tree

Different color codes are used to represent the tree nodes. Most importantly, the nodes where integer solutions have been found are displayed as large green squares. Small red dots identify infeasible LP relaxations. By moving the cursor over the tree nodes, additional information is displayed, including the node number and the branching variable choice.

It is possible to pause the Branch-and-Bound algorithm to study in detail the construction of the search tree. Select *Build* \gg *Options* or alternatively, click on the run options button: . In the dialog window that gets displayed, under *Pause* check *at every global search log entry* and confirm with *Apply*. When we now execute the model, it will pause after each node letting you follow the construction of the search tree (to continue executing the model, click on the pause button: ; to interrupt the execution use the stop button: ).

6.3 MIP model 2: imposing a minimum investment in each share

To formulate the second MIP model, we start again with the LP model from Chapters 2 and 3. The new constraint we wish to formulate is ‘if a share is bought, at least a certain minimum amount $MINVAL = 10\%$ of the budget is spent on the share.’ Instead of simply constraining every variable $frac_s$ to take a value between 0 and $MAXVAL$, it now must either lie in the interval between $MINVAL$ and $MAXVAL$ or take the value 0. This type of variable is known as *semi-continuous variable*. In the new model, we replace the bounds on the variables $frac_s$ by the following constraint:

$$\forall s \in SHARES : frac_s = 0 \text{ or } MINVAL \leq frac_s \leq MAXVAL$$

6.3.1 Implementation with Mosel

The following model `foliomip2.mos` implements the MIP model 2, again starting with the LP model from Chapter 3 augmented by the data initialization from file explained in Chapter 4. The semi-continuous variables are defined with the `is_semcont` constraint.

A similar type is available for integer variables that take either the value 0 or an integer value

between a given limit and their upper bound (so-called *semi-continuous integers*): `is_semint`. A third composite type is a *partial integer* which takes integer values from its lower bound to a given limit value and is continuous beyond this value (marked by `is_partint`).

```

model "Portfolio optimization with MIP"
uses "mmsprs"                ! Use Xpress-Optimizer

parameters
  MAXRISK = 1/3                ! Max. investment into high-risk values
  MINAM = 0.5                  ! Min. investment into N.-American values
  MAXVAL = 0.3                ! Max. investment per share
  MINVAL = 0.1                ! Min. investment per share
end-parameters

declarations
  SHARES: set of string        ! Set of shares
  RISK: set of string          ! Set of high-risk values among shares
  NA: set of string            ! Set of shares issued in N.-America
  RET: array(SHARES) of real   ! Estimated return in investment
end-declarations

initializations from "folio.dat"
  RISK RET NA
end-initializations

declarations
  frac: array(SHARES) of mpvar ! Fraction of capital used per share
end-declarations

! Objective: total return
Return:= sum(s in SHARES) RET(s)*frac(s)

! Limit the percentage of high-risk values
sum(s in RISK) frac(s) <= MAXRISK

! Minimum amount of North-American values
sum(s in NA) frac(s) >= MINAM

! Spend all the capital
sum(s in SHARES) frac(s) = 1

! Upper and lower bounds on the investment per share
forall(s in SHARES) do
  frac(s) <= MAXVAL
  frac(s) is_semcont MINVAL
end-do

! Solve the problem
maximize(Return)

! Solution printing
writeln("Total return: ", getobjval)
forall(s in SHARES) writeln(s, ": ", getsol(frac(s))*100, "%")

end-model

```

When executing this model (select tab *Output/input* of the solution information window) we obtain the following output:

```

Total return: 14.0333
treasury: 30%
hardware: 0%
theater: 20%
telecom: 0%
brewery: 10%
highways: 26.6667%
cars: 0%

```

bank: 0%
software: 13.3333%
electronics: 0%

Now five securities are chosen for the portfolio, each forming at least 10% and at most 30% of the total investment. Due to the additional constraint, the optimal MIP solution value is again lower than the initial LP solution value.

CHAPTER 7

Quadratic Programming

In this chapter we turn the LP problem from Chapter 3 into a Quadratic Programming (QP) problem, and the first MIP model from Chapter 6 into a Mixed Integer Quadratic Programming (MIQP) problem. The chapter shows how to

- define quadratic objective functions,
- incrementally define and solve problems,
- understand and exploit the MIP optimization displays in IVE.

Chapter 12 shows how to formulate and solve the same examples with BCL and in Chapter 17 the QP problem is input and solved directly with Xpress-Optimizer.

7.1 Problem description

The investor may also look at his portfolio selection problem from a different angle: instead of maximizing the estimated return and limiting the portion of high-risk investments he now wishes to minimize the risk whilst obtaining a certain target yield. He adopts the Markowitz idea of getting estimates of the variance/covariance matrix of estimated returns on the securities. (For example, hardware and software company worths tend to move together, but are oppositely correlated with the success of theatrical production, as people go to the theater more when they have become bored with playing with their new computers and computer games.) The return on theatrical productions are highly variable, whereas the treasury bill yield is certain. The estimated returns and the variance/covariance matrix are given in the following table:

Table 7.1: Variance/covariance matrix

	treasury	hardw.	theater	telecom	brewery	highways	cars	bank	softw.	electr.
treasury	0.1	0	0	0	0	0	0	0	0	0
hardware	0	19	-2	4	1	1	1	0.5	10	5
theater	0	-2	28	1	2	1	1	0	-2	-1
telecom	0	4	1	22	0	1	2	0	3	4
brewery	0	1	2	0	4	-1.5	-2	-1	1	1
highways	0	1	1	1	-1.5	3.5	2	0.5	1	1.5
cars	0	1	1	2	-2	2	5	0.5	1	2.5
bank	0	0.5	0	0	-1	0.5	0.5	1	0.5	0.5
software	0	10	-2	3	1	1	1	0.5	25	8
electronics	0	5	-1	4	1	1.5	2.5	0.5	8	16

Question 1: Which investment strategy should the investor adopt to minimize the variance subject to getting some specified minimum target yield?

Question 2: Which is the least variance investment strategy if the investor wants to choose at most four different securities (again subject to getting some specified minimum target yield)?

The first question leads us to a *Quadratic Programming* problem, that is, a Mathematical Programming problem with a quadratic objective function and linear constraints. The second question necessitates the introduction of discrete variables to count the number of securities, and so we obtain a *Mixed Integer Quadratic Programming* problem. The two cases will be discussed separately in the following two sections.

7.2 QP

To adapt the model developed in Chapter 2 to the new way of looking at the problem, we need to make the following changes:

- New objective function: mean variance instead of total return.
- The risk-related constraint disappears.
- Addition of a new constraint: target yield.

The new objective function is the mean variance of the portfolio, namely:

$$\sum_{s,t \in \text{SHARES}} \text{VAR}_{st} \cdot \text{frac}_s \cdot \text{frac}_t$$

where VAR_{st} is the variance/covariance matrix of all shares. This is a *quadratic objective function* (an objective function becomes quadratic either when a variable is squared, e.g., frac_1^2 , or when two variables are multiplied together, e.g., $\text{frac}_1 \cdot \text{frac}_2$).

The target yield constraint can be written as follows:

$$\sum_{s \in \text{SHARES}} \text{RET}_s \cdot \text{frac}_s \geq \text{TARGET}$$

The limit on the North-American shares as well as the requirement to spend all the money, and the upper bounds on the fraction invested into every share are retained. We therefore obtain the following complete mathematical model formulation:

$$\begin{aligned} &\text{minimize} && \sum_{s,t \in \text{SHARES}} \text{VAR}_{st} \cdot \text{frac}_s \cdot \text{frac}_t \\ &&& \sum_{s \in \text{NA}} \text{frac}_s \geq \text{MINAM} \\ &&& \sum_{s \in \text{SHARES}} \text{frac}_s = 1 \\ &&& \sum_{s \in \text{SHARES}} \text{RET}_s \cdot \text{frac}_s \geq \text{TARGET} \\ &&& \forall s \in \text{SHARES} : 0 \leq \text{frac}_s \leq \text{MAXVAL} \end{aligned}$$

7.2.1 Implementation with Mosel

In addition to the Xpress-Optimizer module *mmxprs* we now also need to load the QP module *mmquad* that adds to the Mosel language the facilities required for the definition of quadratic

expressions (*mmquad* is documented in the 'Mosel Language Reference Manual'). We can then use the optimization function `maximize` (or alternatively `minimize`) for quadratic objective functions to start the solution process.

This model uses a different data file (`folioqp.dat`) than the previous models:

```

      ! trs  haw  thr  tel  brw  hgw  car  bnk  sof  elc
RET: [ (1)  5  17  26  12   8   9   7   6  31  21]

VAR: [ (1 1) 0.1   0   0   0   0   0   0   0   0   0 ! treasury
      (2 1)  0  19  -2   4   1   1   1  0.5  10   5 ! hardware
      (3 1)  0  -2  28   1   2   1   1   0  -2  -1 ! theater
      (4 1)  0   4   1  22   0   1   2   0   3   4 ! telecom
      (5 1)  0   1   2   0   4 -1.5  -2  -1   1   1 ! brewery
      (6 1)  0   1   1   1 -1.5  3.5   2  0.5   1  1.5 ! highways
      (7 1)  0   1   1   2   -2   2   5  0.5   1  2.5 ! cars
      (8 1)  0  0.5  0   0  -1  0.5  0.5   1  0.5  0.5 ! bank
      (9 1)  0  10  -2   3   1   1   1  0.5  25   8 ! software
      (10 1) 0   5  -1   4   1  1.5  2.5  0.5   8  16 ! electronics
      ]

RISK: [2 3 4 9 10]
NA: [1 2 3 4]

```

Note that we have chosen to use numerical instead of string indices. Since the set `SHARES` is defined in the model, we do not have to list the index-tuple for every data entry in the file—those tuples given are for clarity's sake only.

```

model "Portfolio optimization with QP/MIQP"
uses "mmxprs", "mmquad"           ! Use Xpress-Optimizer with QP solver

parameters
  MAXVAL = 0.3                    ! Max. investment per share
  MINAM = 0.5                    ! Min. investment into N.-American values
  MAXNUM = 4                      ! Max. number of different assets
  TARGET = 9.0                   ! Minimum target yield
end-parameters

declarations
  SHARES = 1..10                 ! Set of shares
  RISK: set of integer           ! Set of high-risk values among shares
  NA: set of integer            ! Set of shares issued in N.-America
  RET: array(SHARES) of real    ! Estimated return in investment
  VAR: array(SHARES,SHARES) of real ! Variance/covariance matrix of
                                   ! estimated returns
end-declarations

initializations from "folioqp.dat"
  RISK RET NA VAR
end-initializations

declarations
  frac: array(SHARES) of mpvar  ! Fraction of capital used per share
end-declarations

! Objective: mean variance
Variance:= sum(s,t in SHARES) VAR(s,t)*frac(s)*frac(t)

! Minimum amount of North-American values
sum(s in NA) frac(s) >= MINAM

! Spend all the capital
sum(s in SHARES) frac(s) = 1

! Target yield
sum(s in SHARES) RET(s)*frac(s) >= TARGET

```

```

! Upper bounds on the investment per share
forall(s in SHARES) frac(s) <= MAXVAL

! Solve the problem
minimize(Variance)

! Solution printing
writeln("With a target of ", TARGET, " minimum variance is ", getobjval)
forall(s in SHARES) writeln(s, ": ", getsol(frac(s))*100, "%")

end-model

```

This model (file `folioqp.mos`) produces the following solution output (tab *Output/input* of the solution information window):

```

With a target of 9 minimum variance is 0.557393
1: 30%
2: 7.15391%
3: 7.38246%
4: 5.46363%
5: 12.6554%
6: 5.91228%
7: 0.332458%
8: 30%
9: 1.09983%
10: 0%

```

Similarly to the algorithm shown in Chapter 5, we may re-solve this problem with different values of `TARGET` and plot the results in a target return/standard deviation graph, know as the 'efficient frontier' (model file `folioqgraph.mos`):

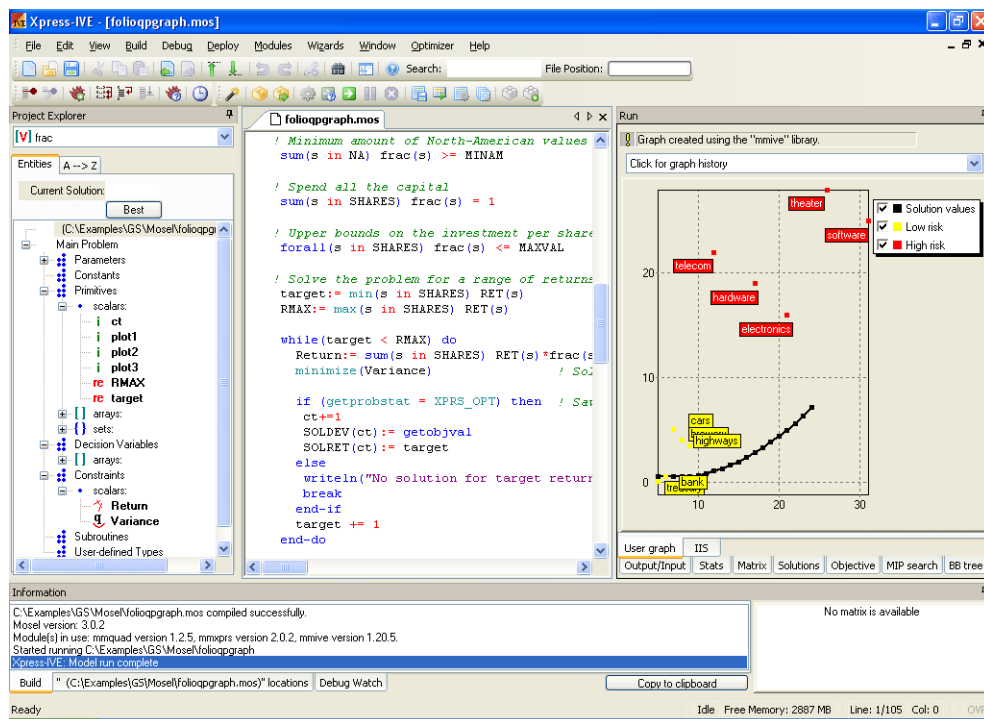


Figure 7.1: Graph of the efficient frontier

7.3 MIQP

We now wish to express the fact that at most a given number *MAXNUM* of different assets may be selected into the portfolio, subject to all other constraints of the previous QP model. In Chapter 6 we have already seen how this can be done, namely by introducing an additional set of binary decision variables *buy_s* that are linked logically to the continuous variables:

$$\forall s \in \text{SHARES} : \text{frac}_s \leq \text{buy}_s$$

Through this relation, a variable *buy_s* will be at 1 if a fraction *frac_s* greater than 0 is selected into the portfolio. If, however, *buy_s* equals 0, then *frac_s* must also be 0.

To limit the number of different shares in the portfolio, we then define the following constraint:

$$\sum_{s \in \text{SHARES}} \text{buy}_s \leq \text{MAXNUM}$$

7.3.1 Implementation with Mosel

We may modify the previous QP model or simply add the following lines to the end of the QP model in the previous section: the problem is then solved once as a QP and once as a MIQP in a single model run.

```
declarations
  buy: array(SHARES) of mpsvar      ! 1 if asset is in portfolio, 0 otherwise
end-declarations

! Limit the total number of assets
sum(s in SHARES) buy(s) <= MAXNUM

forall(s in SHARES) do
  buy(s) is_binary
  frac(s) <= buy(s)
end-do

! Solve the problem
minimize(Variance)

writeln("With a target of ", TARGET," and at most ", MAXNUM,
        " assets, minimum variance is ", getobjval)
forall(s in SHARES) writeln(s, ": ", getsol(frac(s))*100, "%")
```

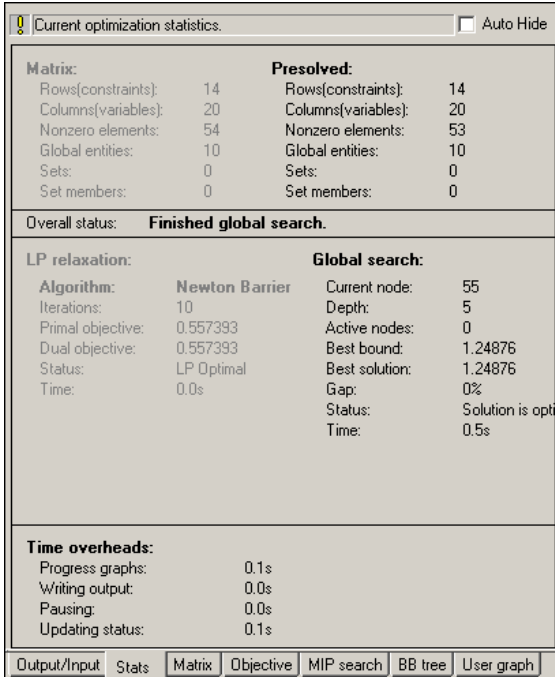
When executing the MIQP model, we obtain the following solution output:

```
With a target of 9 and at most 4 assets,
  minimum variance is 1.24876
1: 30%
2: 20%
3: 0%
4: 0%
5: 23.8095%
6: 26.1905%
7: 0%
8: 0%
9: 0%
10: 0%
```

With the additional constraint on the number of different assets the minimum variance is more than twice as large as in the QP problem.

7.3.2 Analyzing the solution

Let us have a look at some of the solution displays. If we select the *Stats* window, we see the following information:



The screenshot shows a window titled "Current optimization statistics" with an "Auto Hide" checkbox. The window is divided into several sections:

- Matrix:**
 - Rows(constraints): 14
 - Columns(variables): 20
 - Nonzero elements: 54
 - Global entities: 10
 - Sets: 0
 - Set members: 0
- Presolved:**
 - Rows(constraints): 14
 - Columns(variables): 20
 - Nonzero elements: 53
 - Global entities: 10
 - Sets: 0
 - Set members: 0
- Overall status:** Finished global search.
- LP relaxation:**
 - Algorithm:** Newton Barrier
 - Iterations: 10
 - Primal objective: 0.557393
 - Dual objective: 0.557393
 - Status: LP Optimal
 - Time: 0.0s
- Global search:**
 - Current node: 55
 - Depth: 5
 - Active nodes: 0
 - Best bound: 1.24876
 - Best solution: 1.24876
 - Gap: 0%
 - Status: Solution is optimal
 - Time: 0.5s
- Time overheads:**
 - Progress graphs: 0.1s
 - Writing output: 0.0s
 - Pausing: 0.0s
 - Updating status: 0.1s

At the bottom, there is a tabbed interface with the following tabs: Output/Input, Stats, Matrix, Objective, MIP search, BB tree, and User graph. The "Stats" tab is currently selected.

Figure 7.2: Detailed MIQP solution information

This is quite similar to the MIP statistics, perhaps with the exception of the LP solution algorithm: the initial LP relaxation has been solved by the Newton-Barrier algorithm. Since the Branch-and-Bound tree has more than one node, we may also look at the resulting search tree (window *BB tree*):

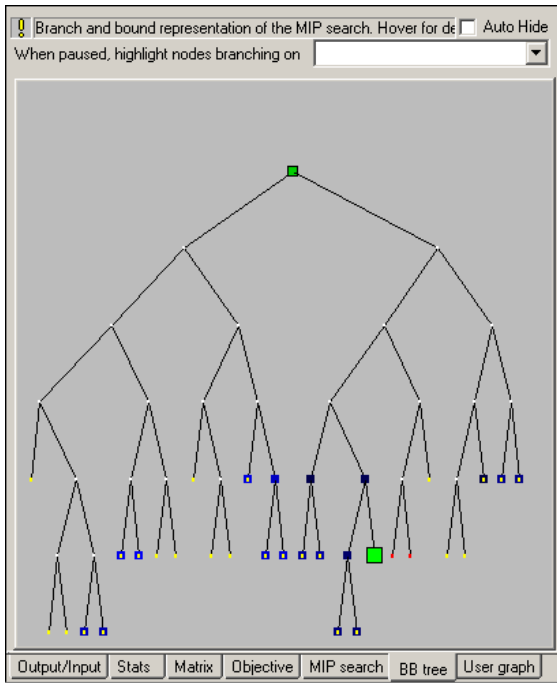


Figure 7.3: MIQP Branch-and-Bound search tree

During the search, two integer feasible solutions have been found (all marked with green squares). The best one is highlighted with a square of slightly larger size. The window *Objective* provides more detail on the two solutions that have been found (Figure 7.4).

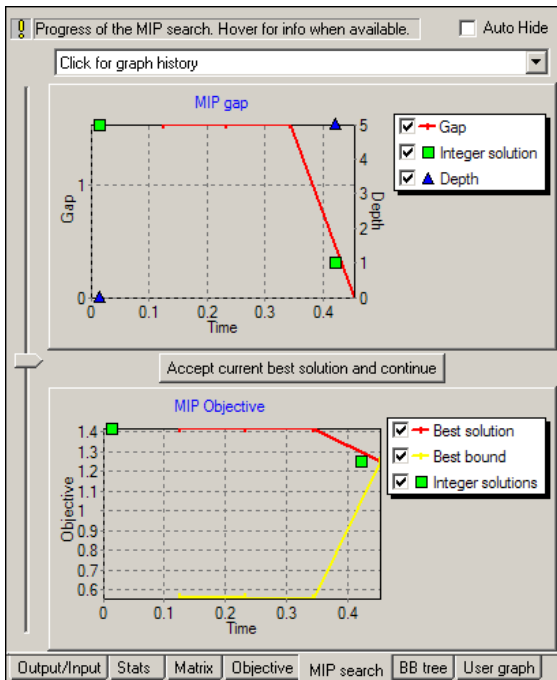


Figure 7.4: MIQP solutions

The upper half of this window shows the gap between the MIP solution values and the value of

the LP relaxation. The graph in the lower half represents the absolute values of the solutions found and the curve of the best (lower) bound obtained from the LP relaxations of the remaining open nodes. At the end, the curve reaches the value of the best solution. This means that optimality of this solution has been proven (we may have chosen to stop the search, for example, after a given number of nodes, in which case it may not be possible to prove optimality or even to find the best solution).

CHAPTER 8

Heuristics

In this chapter we show a simple binary variable fixing solution heuristic that involves

- structuring a Mosel model via the definition of subroutines, and
- a heuristic solution procedure interacting with Xpress-Optimizer through parameter settings, saving and recovering bases, and modifications of variable bounds.

Chapter 13 shows how to implement the same heuristic with BCL.

8.1 Binary variable fixing heuristic

The heuristic we wish to implement should perform the following steps:

1. Solve the LP relaxation and save the basis of the optimal solution
2. *Rounding heuristic*: Fix all variables ‘buy’ to 0 if the corresponding fraction bought is close to 0, and to 1 if it has a relatively large value.
3. Solve the resulting MIP problem.
4. If an integer feasible solution was found, save the value of the best solution.
5. Restore the original problem by resetting all variables to their original bounds, and load the saved basis.
6. Solve the original MIP problem, using the heuristic solution as cutoff value.

Step 2: Since the fraction variables *frac* have an upper bound of 0.3, as a ‘relatively large value’ in this case we may choose 0.2. In other applications, for binary variables a more suitable choice may be $1 - \varepsilon$, where ε is a very small value such as 10^{-5} .

Step 6: Setting a *cutoff value* means that we only search for solutions that are better than this value. If the LP relaxation of a node is worse than this value it gets cut off, because this node and its descendants can only lead to integer feasible solutions that are even worse than the LP relaxation.

8.2 Implementation with Mosel

For the implementation (file `folioheur.mos`) of the variable fixing solution heuristic we work with the MIP 1 model from Chapter 6. Through the definition of the heuristic in the form of a subroutine (more precisely, a *procedure*) we only make minimal changes to the model itself: at

the beginning we declare the procedure using the keyword `forward`, and before solving our problem with the standard call to the maximization function we execute our own solution heuristic. The solution printing also has been adapted.

```

model "Portfolio optimization solved heuristically"
uses "mmsxprs"                ! Use Xpress-Optimizer

parameters
  MAXRISK = 1/3                ! Max. investment into high-risk values
  MAXVAL = 0.3                 ! Max. investment per share
  MINAM = 0.5                  ! Min. investment into N.-American values
  MAXNUM = 4                   ! Max. number of assets
end-parameters

forward procedure solve_heur   ! Heuristic solution procedure

declarations
  SHARES: set of string        ! Set of shares
  RISK: set of string          ! Set of high-risk values among shares
  NA: set of string            ! Set of shares issued in N.-America
  RET: array(SHARES) of real  ! Estimated return in investment
end-declarations

initializations from "folio.dat"
  RISK RET NA
end-initializations

declarations
  frac: array(SHARES) of mpvar ! Fraction of capital used per share
  buy: array(SHARES) of mpvar  ! 1 if asset is in portfolio, 0 otherwise
end-declarations

! Objective: total return
Return:= sum(s in SHARES) RET(s)*frac(s)

! Limit the percentage of high-risk values
sum(s in RISK) frac(s) <= MAXRISK

! Minimum amount of North-American values
sum(s in NA) frac(s) >= MINAM

! Spend all the capital
sum(s in SHARES) frac(s) = 1

! Upper bounds on the investment per share
forall(s in SHARES) frac(s) <= MAXVAL

! Limit the total number of assets
sum(s in SHARES) buy(s) <= MAXNUM

forall(s in SHARES) do
  buy(s) is_binary
  frac(s) <= buy(s)
end-do

! Solve problem heuristically
solve_heur

! Solve the problem
maximize(Return)

! Solution printing
if getprobatat=XPRS_OPT then
  writeln("Exact solution: Total return: ", getobjval)
  forall(s in SHARES) writeln(s, ": ", getsol(frac(s))*100, "%")
else
  writeln("Heuristic solution is optimal.")
end-if

```



```

!-----
procedure solve_heur
  declarations
    TOL: real                ! Solution feasibility tolerance
    fsol: array(SHARES) of real ! Solution values for 'frac' variables
    bas: basis                ! LP basis
  end-declarations

  setparam("XPRS_VERBOSE",true) ! Enable message printing in mmxprs
  setparam("XPRS_CUTSTRATEGY",0) ! Disable automatic cuts
  setparam("XPRS_HEURSTRATEGY",0) ! Disable automatic MIP heuristics
  setparam("XPRS_PRESOLVE",0) ! Switch off presolve
  TOL:=getparam("XPRS_FEASTOL") ! Get feasibility tolerance
  setparam("ZEROTOL",TOL) ! Set comparison tolerance

  maximize(XPRS_LPSTOP,Return) ! Solve the LP problem
  savebasis(bas) ! Save the current basis

! Fix all variables 'buy' for which 'frac' is at 0 or at a relatively
! large value
forall(s in SHARES) do
  fsol(s):= getsol(frac(s)) ! Get the solution values of 'frac'
  if (fsol(s) = 0) then
    setub(buy(s), 0)
  elif (fsol(s) >= 0.2) then
    setlb(buy(s), 1)
  end-if
end-do

  maximize(XPRS_CONT,Return) ! Solve the MIP problem
  ifgsol:=false
  if getprobatat=XPRS_OPT then ! If an integer feas. solution was found
    ifgsol:=true
    solval:=getobjval ! Get the value of the best solution
    writeln("Heuristic solution: Total return: ", solval)
    forall(s in SHARES) writeln(s, ":", getsol(frac(s))*100, "%")
  end-if

! Reset variables to their original bounds
forall(s in SHARES)
  if ((fsol(s) = 0) or (fsol(s) >= 0.2)) then
    setlb(buy(s), 0)
    setub(buy(s), 1)
  end-if

  loadbasis(bas) ! Load the saved basis

  if ifgsol then ! Set cutoff to the best known solution
    setparam("XPRS_MIPABSCUTOFF", solval+TOL)
  end-if
end-procedure

end-model

```

This model certainly requires some more detailed explanations.

8.2.1 Subroutines

A *subroutine* in Mosel has a similar structure as the model itself: a procedure starts with the keyword `procedure`, followed by the name of the procedure, and terminates with `end-procedure`. Similarly, a function starts with the keyword `function`, followed by its name, and terminates with `end-function`. Both types of subroutines may take a list of arguments and for functions in addition the return type must be indicated, for example:

```
function myfunc(myint: integer, myarray: array(range) of string): real
```

for a function that returns a real and takes as input arguments an integer and an array of string.

As shown in our example, a subroutine may contain one (or several) `declarations` blocks. The objects defined in a subroutine are only valid locally and are deleted at the end of the subroutine.

Subroutine definitions may be *overloaded*, that is, a single subroutine may take different combinations of arguments. It is possible to overload any subroutines defined by Mosel and its modules, provided that the new definition differs from the existing one(s) in at least one argument.

For more detail and further examples of subroutine definition see the 'Mosel User Guide'.

8.2.2 Optimizer parameters and functions

Parameters: The solution heuristic starts with parameter settings for Xpress-Optimizer. Remember that with IVE all parameters and other functionality provided by a module can be listed with the

module browser: select *Modules* >> *List available modules* or alternatively, click on the button .

For a detailed explanation of all Optimizer parameters the reader is referred to the 'Optimizer Reference Manual'. All parameters are accessed through the Mosel subroutines `setparam` and `getparam`. In the example, we first enable the output printing by the module `mmxprs`. As a result, more information than what is printed by our model will be displayed in the *Output/input* window. Output from the Optimizer is highlighted with colored bars (blue for the LP part, orange for the MIP part):

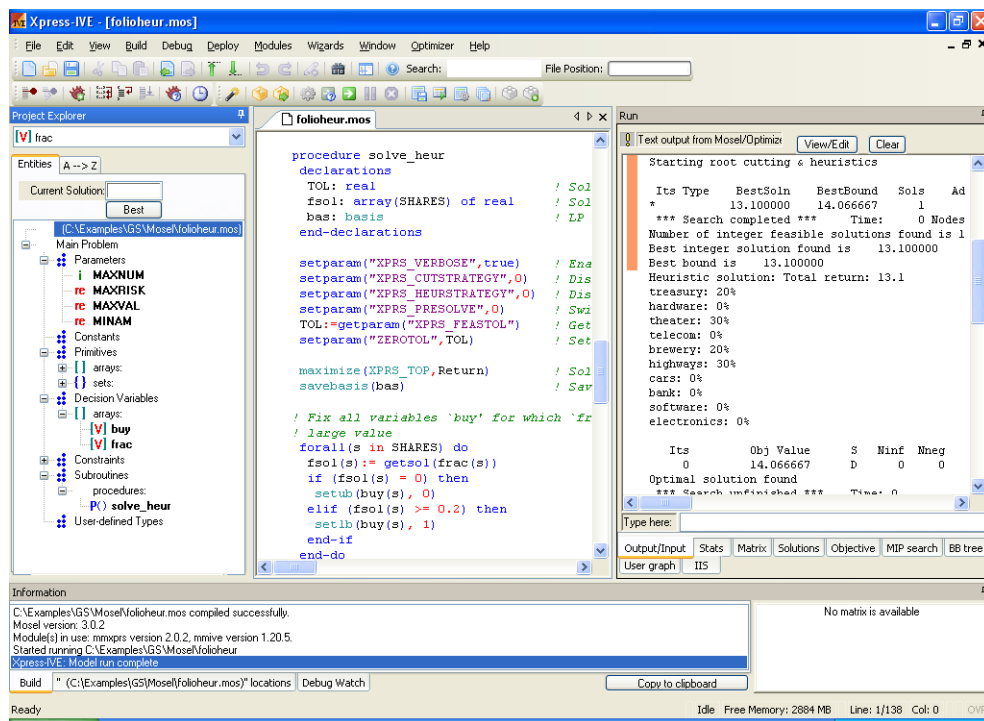


Figure 8.1: Optimizer output display

Switching off the automated cut generation (parameter `XPRS_CUTSTRATEGY`) and the MIP heuristics (parameter `XPRS_HEURSTRATEGY`) is optional, whereas it is required in our case to disable the presolve mechanism (a treatment of the matrix that tries to reduce its size and improve its numerical properties, set with parameter `XPRS_PRESOLVE`), because we interact with the problem in the Optimizer in the course of its

solution and this is only possible correctly if the matrix has not been modified by the Optimizer.

In addition to the parameter settings we also retrieve the feasibility tolerance used by Xpress-Optimizer: the Optimizer works with tolerance values for integer feasibility and solution feasibility that are typically of the order of 10^{-6} by default. When evaluating a solution, for instance by performing comparisons, it is important to take into account these tolerances.

Optimization statement: We use a new version of the maximization procedure with an additional argument, `XPRS_LPSTOP`, indicating that we only want to solve the top node LP relaxation (and not yet the entire MIP problem). To continue with MIP solving from the point where we have stopped the algorithm we use the argument `XPRS_CONT`. This is an example of an overloaded subroutine definition.

Saving and loading bases: To speed up the solution process, we save (in memory) the current basis of the Simplex algorithm after solving the initial LP relaxation, before making any changes to the problem. This basis is loaded again at the end, once we have restored the original problem. The MIP solution algorithm then does not have to re-solve the LP problem from scratch, it resumes the state where it was 'interrupted' by our heuristic.

Bound changes: When a problem has already been loaded into the Optimizer (e.g. after executing an optimization statement or following an explicit call to `loadprob`) bound changes via `setlb` and `setub` are passed on directly to the Optimizer. Any other changes (addition or deletion of constraints or variables) always lead to a complete reloading of the problem.

For more detail on the Optimizer functionality used in this example see the documentation of the module `mmxprs` in the 'Mosel Language Reference Manual'.

8.2.3 Comparison tolerance

After retrieving the feasibility tolerance of the Optimizer we set the comparison tolerance of Mosel (`ZEROTOL`) to this value `TOL`. This means that the test `fsol(s) = 0` evaluates to true if `fsol(s)` lies between `-TOL` and `TOL`, and `fsol(s) >= 0.2` is satisfied if the value of `fsol(s)` is at least `0.2-TOL`.

Comparisons in Mosel always use a tolerance, with a very small default value. By resetting this parameter to the Optimizer feasibility tolerance Mosel evaluates solution values just like the Optimizer.


CHAPTER 9

Embedding a Mosel model in an application

Mosel models frequently need to be embedded in applications so they can be deployed easily. In this chapter we discuss

- how to generate a deployment template,
- the meaning and use of BIM files,
- the use of parameterized model and BIM files,
- how to export and import matrix files with Mosel and IVE, and
- how to create an Optimization Modeler application from a model file.

9.1 Generating a deployment template

Select *Deploy* » *Deploy* or click the deploy button . In the selection window that is opened (Figure 9.1) under *Run Mosel model from* we choose the option *Visual Basic*. (For deployment with C, Java, or any other supported language the procedure is similar.)

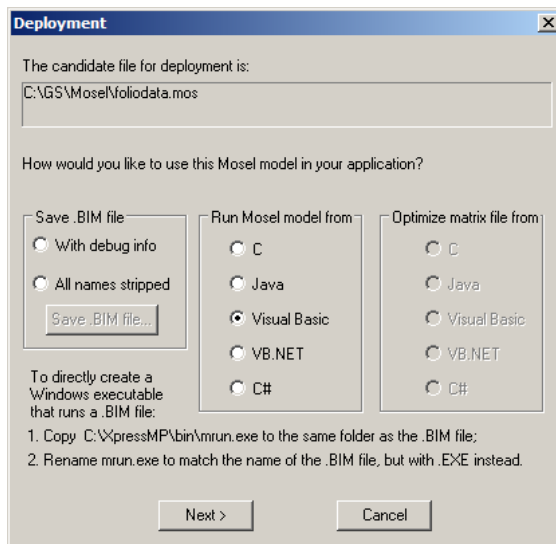
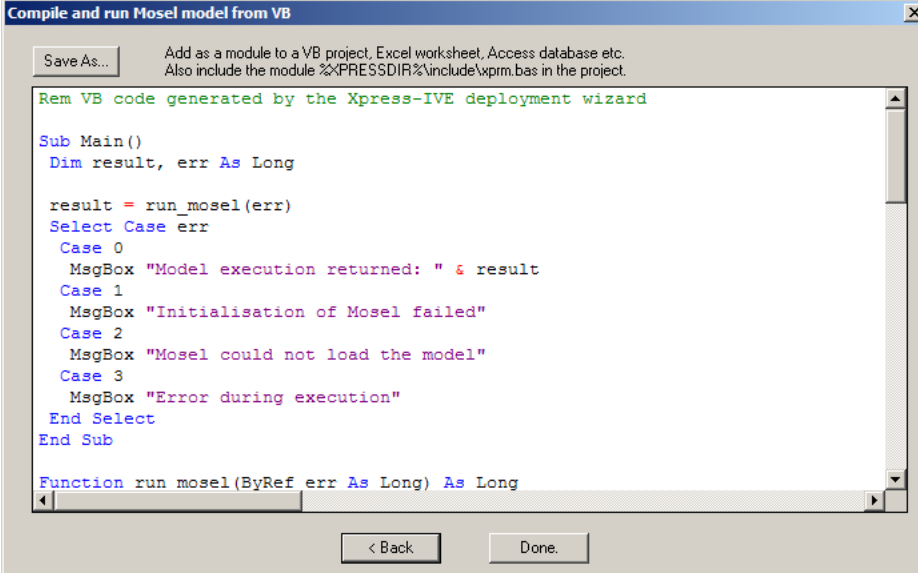


Figure 9.1: Choosing the deployment type

Clicking on the *Next* button will open a new window with the resulting code (Figure 9.2).



```
Rem VB code generated by the Xpress-IVE deployment wizard

Sub Main()
  Dim result, err As Long

  result = run_mosel(err)
  Select Case err
  Case 0
    MsgBox "Model execution returned: " & result
  Case 1
    MsgBox "Initialisation of Mosel failed"
  Case 2
    MsgBox "Mosel could not load the model"
  Case 3
    MsgBox "Error during execution"
  End Select
End Sub

Function run_mosel(ByRef err As Long) As Long
```


Figure 9.2: Code preview

Use the *Save as* button to set the name (*foliorun.bas*) and location of the new file. You may add this file as a module to a Visual Basic project, an MS Excel worksheet, etc. In a Visual Basic project, you also need to include the module *xprm.bas* for the model to run.

Any C or Java programs created with the deployment wizard can be run on all systems for which Mosel is available.

9.2 BIM files

The template we have just generated assumes that the Mosel model is distributed in the form of a *BIM file* (**B**inary **M**odel file). A BIM file is a compiled version of the *.mos* model file that is portable across all platforms for which Mosel is available. It does *not* include any data read from external files. These must still be provided in separate files, thus making it possible to run the same BIM file with different data sets (see section *Parameters* below).

To generate a BIM file you may use *Build* » *Compile* or equivalently, click on the button . The BIM file will then be created in the same directory as the Mosel file by appending the extension *.bim* to the file name (instead of *.mos*). You may also again use the deployment wizard, this time choosing one of the options *With debug info* or *All names stripped* under the heading *Save .BIM file*. The first option is the IVE default, the second option is recommended for final deployment, especially if you wish to protect your intellectual property in the model, since it removes all names used in your model.

It is also possible to execute Mosel source files (*.mos*) directly from an application (see the following section). In this case the BIM file does not need to be generated.

9.3 Modifying the template

9.3.1 Executing Mosel models

Leaving out the error checking, the relevant lines of the generated code are the following:

```
Sub Main()
  Dim result As Long
  Dim model

  ' Initialize Mosel
  XPRMinit

  ' Load compiled model
  model = XPRMloadmod("foliodata.bim", "")

  ' Run the model
  XPRMrunmod model, result, ""

  ' Unload the model
  XPRMunloadmod (model)
End Sub
```

If we do not wish to create the BIM file separately, we may also compile, load, and run the Mosel model `foliodata.mos` directly, for instance as shown in the following code fragment.

```
Sub Main()
  Dim result As Long
  Dim model

  ' Initialize Mosel
  XPRMinit

  ' Execute = compile/load/run a model
  XPRMexecmod "", "foliodata.mos", "", result, model

  ' Unload the model
  XPRMunloadmod (model)
End Sub
```

9.3.2 Parameters

In Chapter 4 we have shown how to modify parameter settings with IVE or when running the Mosel standalone version (for instance in batch files or scripts). The model parameters may also be reset when a Mosel model or BIM file is embedded in an application, making it possible to solve many different problem instances without having to change the model source.

In this example (file `folioparam.bas`) we modify the name of the result file and the settings for two numerical parameters of our model `foliodata.mos`. All other model parameters will take the default values specified at their definition in the model.

```
Sub Main()
  Dim result As Long
  Dim model

  ' Initialize Mosel
  XPRMinit

  ' Execute model with changed parameters
  XPRMexecmod "", "foliodata.mos", "OUTFILE=result2.dat,MAXRISK=0.4,MAXVAL=0.25",
  result, model
```

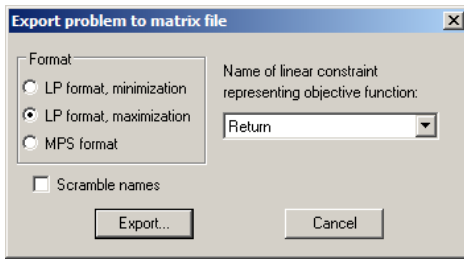


Figure 9.3: Matrix export window

```
' Unload the model
XPRMunloadmod(model)
End Sub
```

Similarly, to run the BIM file with changed parameter settings, we simply need to add the parameters to the 'run' function call:

```
XPRMrunmod model, result, "OUTFILE=result2.dat,MAXRISK=0.4,MAXVAL=0.25"
```

9.3.3 Redirecting the VB output

Since Visual Basic does not provide any standard output channel, Mosel's VB interface enables the user to redirect all output produced by Mosel to files. To redirect all output of a model to the file `folioout.txt` add the following function call before the execution of the Mosel model:

```
' Redirect all output to the file "folioout.txt"
XPRMsetdefstream vbNull, XPRM_F_OUTPUT, "folioout.txt"
```

Since in our example `foliodata.mos` the output is already redirected to the file `result.dat` by the model itself, it may be more important to be able to recover any possible error messages produced by Mosel: in the line above, replace `XPRM_F_OUTPUT` by `XPRM_F_ERROR` to redirect the error stream to a file.

9.4 Matrix files

9.4.1 Exporting matrices

If the optimization process with Xpress-Optimizer is started from within a Mosel program, or if the solving procedure is part of the application into which a Mosel model has been embedded, then the problem matrix is loaded in memory into the solver without writing it out to a file (which would be expensive in terms of running time). However, in certain cases it may still be required to be able to produce a matrix. With Xpress, the user has the choice between two matrix formats: extended MPS and extended LP format, the latter being in general more easily human-readable since constraints are printed in algebraic form.

With Mosel and IVE, there are several possibilities for generating a matrix:

1. *Using the IVE menu:*

After executing the model select *Build* » *Export matrix file* or click on the button . In the resulting matrix export window choose the file name and type and select the objective function (Figure 9.3).

2. *With a matrix generation statement in the model file:*
to create an MPS matrix for our problem add the line

```
exportprob(EP_MPS, "folio", Return)
```


for an LP format matrix (which we intend to maximize at some point) add the line

```
exportprob(EP_MAX, "folio", Return)
```

immediately before or instead of the optimization statement.

3. *From an application after having executed the model file:* only possible with C programs

9.4.2 Importing matrices

Matrices may also be loaded and solved with IVE: Select *Build* >> *Optimize matrix file* or click on the button . The following window opens (Figure 9.4).

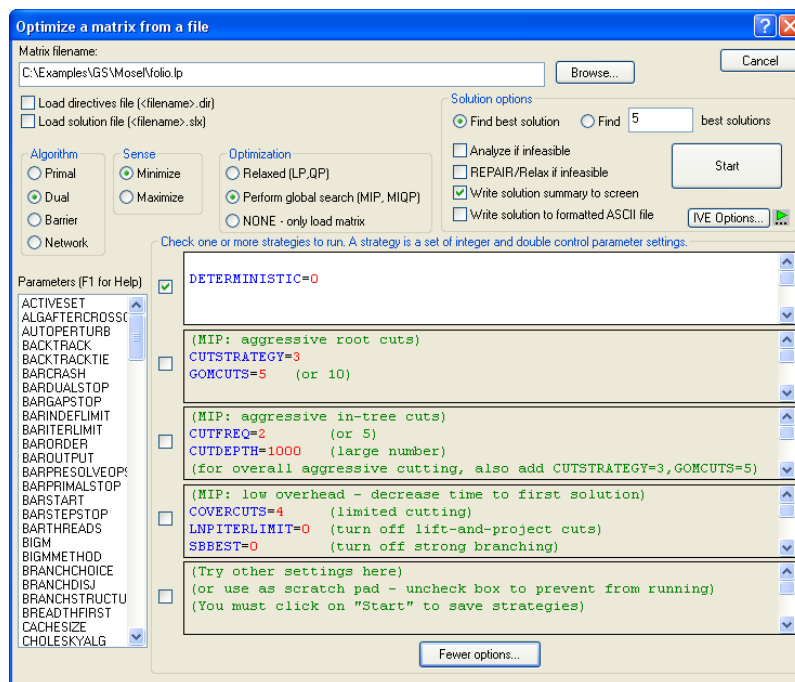


Figure 9.4: Matrix import window

When solving a matrix with IVE, some of the displays are disabled since a matrix does not contain the full information of a Mosel model. However, the solution information in the right window (execution log, problem statistics, etc.) remains accessible (Figure 9.5).

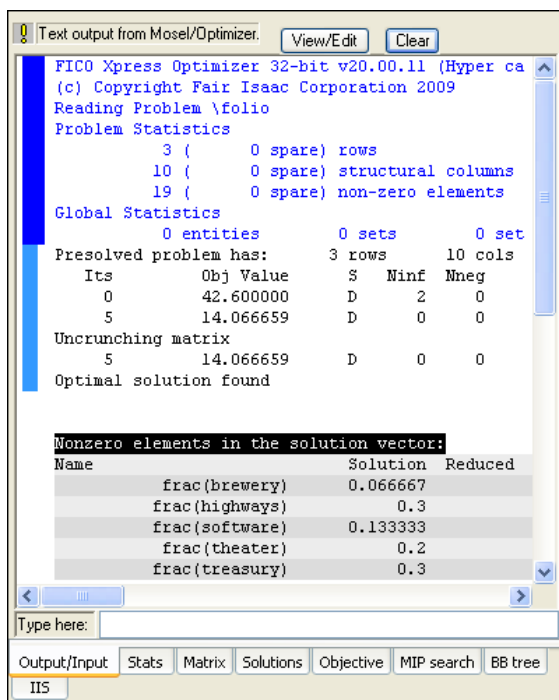


Figure 9.5: Matrix optimization output

9.5 Deployment to Optimization Modeler

Optimization Modeler embeds Mosel models into a multi-user application for deploying optimization models in a distributed client-server architecture. Through the Optimization Modeler GUI, business users interact with Mosel models to evaluate different scenarios and model configurations without directly accessing to the model itself.

The description in the following paragraphs assumes that we are working with the developer version of an Optimization Modeler desktop installation.

9.5.1 Preparing the model file

For embedding a Mosel model into Optimization Modeler, we need to make a few edits to the Mosel model in order to establish the connection between Mosel and Optimization Modeler.

Firstly, we need to load the package *mminsight* that provides the required additional functionality. Since Optimization Modeler manages the data scenarios, we only need to read in data from the original sources when *loading* the scenario (also referred to as *baseline run*) into Optimization Modeler (triggered by the test of `insight_use_original_data` in the model below). Scenario data will otherwise be input directly from Optimization Modeler at the insertion point marked with `insight_end_initializations`. Furthermore, the solver call to start the optimization is replaced by `insight_minimize / insight_maximize`. The resulting model file `folioinsight.mos` (based on `foliodata.mos`) has the following contents.

```

model "Portfolio optimization with LP"
  uses "mmxprs"                ! Use Xpress-Optimizer
  uses "mminsight"            ! Use Optimization Modeler

  parameters
    DATAFILE= "folio.dat"    ! File with problem data

```

```

    MAXRISK = 1/3           ! Max. investment into high-risk values
    MAXVAL = 0.3           ! Max. investment per share
    MINAM = 0.5           ! Min. investment into N.-American values
end-parameters

declarations
  SHARES: set of string   ! Set of shares
  RISK: set of string     ! Set of high-risk values among shares
  NA: set of string       ! Set of shares issued in N.-America
  RET: array(SHARES) of real ! Estimated return in investment
end-declarations

if insight_use_original_data then ! Data for baseline
  initializations from DATAFILE
  RISK RET NA
  end-initializations
end-if

declarations
  frac: array(SHARES) of mpvar ! Fraction of capital used per share
  Return, LimitRisk, LimitAM, TotalOne: lincpr ! Constraints
end-declarations

! Input data injection point for all scenarios other than baseline
insight_end_initializations

! Objective: total return
Return:= sum(s in SHARES) RET(s)*frac(s)

! Limit the percentage of high-risk values
LimitRisk:= sum(s in RISK) frac(s) <= MAXRISK

! Minimum amount of North-American values
LimitAM:= sum(s in NA) frac(s) >= MINAM

! Spend all the capital
TotalOne:= sum(s in SHARES) frac(s) = 1

! Upper bounds on the investment per share
forall(s in SHARES) frac(s) <= MAXVAL

! Solve the problem through Optimization Modeler
insight_maximize(Return)

end-model

```

Note that we have removed all solution output from this model: we are going to use Optimization Modeler for representing the results.

9.5.1.1 The project archive

Optimization Modeler expects models to be provided in compiled form, that is, as BIM files—see Section 9.2 on how to generate BIM files from the model source. Since Optimization Modeler executes Mosel models in a distributed architecture (so, possibly not on the same machine from where the model file is input) we recommend to include any input data files used by the model in the Optimization Modeler *project archive*. The project archive is a ZIP archive that contains the BIM file and the optional subdirectories `model_resources` (data files), `client_resources` (custom view definitions), and `source` (Mosel model source files). For our example, we create a ZIP archive `folioinsight.zip` with the file `folioinsight.bim` and the data file `folio.dat` in the subdirectory `model_resources`.

9.5.2 Working with the Optimization Modeler GUI

The Optimization Modeler Analyst Client can be started from the Windows Start Menu or from the command line. To start the client from the Windows Start menu select *Start* » *FICO* » *Xpress* » *Optimization Modeler Analyst Client*. To start the client from the command line, open a Command Prompt window and change directory to the `bin` subdirectory of the Xpress installation. Then type: `Optimization Modeler Analyst Client`

Starting up the Optimization Modeler Analyst Client might take a little while, since the program attempts to locate an Optimization Modeler server and if it cannot locate a server, it will start one locally. Once the application is ready you will see the Optimization Modeler entry screen:

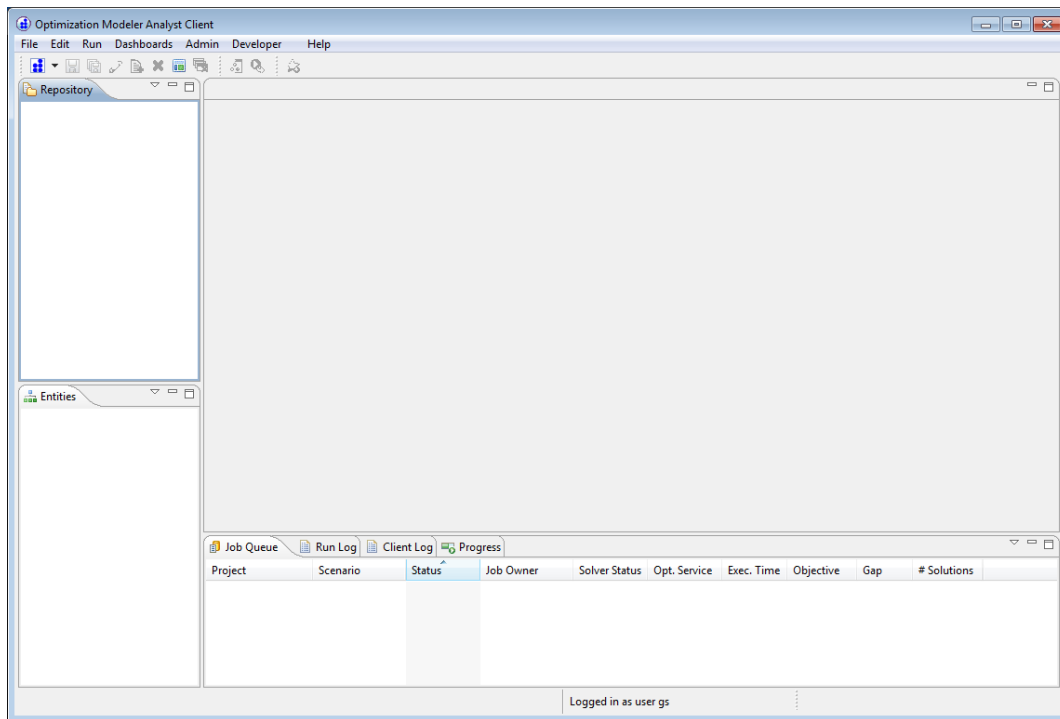



Figure 9.6: Optimization Modeler entry screen

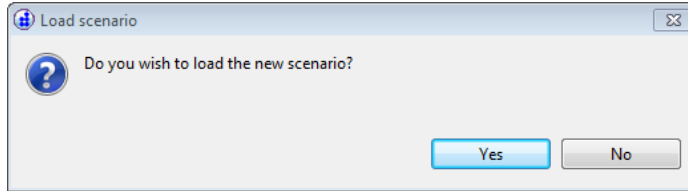
At the top we see the Optimization Modeler menu and tool bar. The windows on the left are the *Repository pane* and the *Entities pane*, at the bottom is located the *Run pane*. The grey area is the place where the *views* of data or model information will be opened. If you have modified the window layout while working with an application, you can always return to this original layout by selecting the button .

9.5.2.1 Starting a new Optimization Modeler project

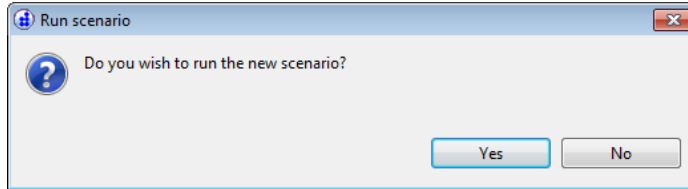
We now want to load the project archive `folioinsight.zip` that we have prepared:

1. Click into the *Repository* pane.
2. Select the menu *File* » *New* » *New Project* to open a file selection dialogue.
3. Choose the project archive `folioinsight.zip` and confirm with the *Open* button.

4. One after the other, you will now see these two prompts where each time, you need to select Yes.

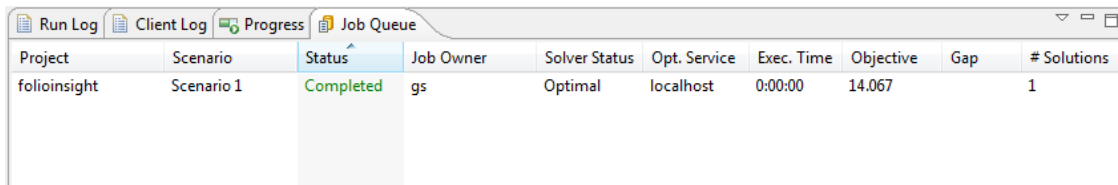


The *scenario loading* performs a partial model execution (up to the marker `insight_end_initializations`) to import the external data.



This *scenario run* executes the complete model with a copy of the data imported when loading the scenario.

The *Job Queue* pane at the bottom of the screen should now have changed to the following display, indicating that the Mosel model has been executed and is ready for exploration by Optimization Modeler:



Project	Scenario	Status	Job Owner	Solver Status	Opt. Service	Exec. Time	Objective	Gap	# Solutions
folioinsight	Scenario 1	Completed	gs	Optimal	localhost	0:00:00	14.067		1

Figure 9.7: Optimization Modeler job queue pane

9.5.2.2 Exploring the Optimization Modeler project

In the *Repository* pane, expand the entries (left mouse key) to obtain the following display:

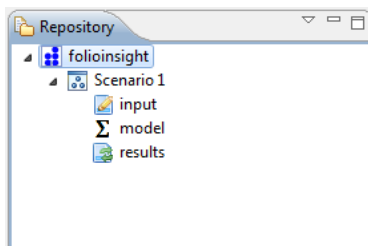


Figure 9.8: Optimization Modeler repository pane

When selecting *Scenario 1*, the *Entities* pane will get populated with the following contents.

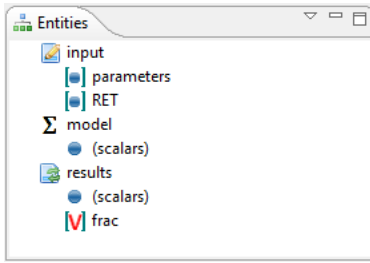



Figure 9.9: Optimization Modeler entities pane

Notice that by default, Optimization Modeler classifies model objects of types `string`, `integer` or `real` as *input* and objects of type `mpvar` or `linctr` as *results*.

Double clicking on input, model, or result entries in the *Repository* or *Entities* panes will open the built-in default view (entity: table view) for that object type in the central *View* pane. Right click on any node in the *Repository* or *Entities* panes to display a context menu (such as 'Delete', 'Rename', and a list of *Open with XXX*). To inspect the `folioinsight` model, we suggest to open the following views from the *entities* pane using the context menu:

1. input parameters: *Open with Table*. These are the values of the run-time parameters used by the scenario run (NB: the data file name setting is only relevant when reading external data during the loading of the scenario).
2. results (scalars): *Open with Table*. This will display detailed solution information for the constraints in our model since all of them are scalars.
3. results frac: *Open with Table*. This view shows the solution values for the decision variables `frac` and in an additional column it displays the values of the array `RET` (Optimization Modeler automatically adds all arrays from the scenario data that share the same index sets as the selected entry).
4. results frac: *Open with Chart*. To configure the chart, select menu *Chart* \gg *Settings...* (or the button  from the toolbar) and in the drop down list under *Chart type* select "Pie", then confirm with the "OK" button. (An alternative method for creating this chart is to select the header `frac` in the view *Table: frac* and choose *New Chart* from the context menu.)

All these views are opened in the central view pane. To arrange the overlapping views in this window, select the label tag of the view and while keeping the left mouse key pressed, drag it towards the border of the area where the view should be positioned, e.g. select the view label *Chart: frac* and drag it towards the right border of the Optimization Modeler screen until you see appearing a grey border outline that indicates the desired new position of the view. The resulting application screen might look as follows:

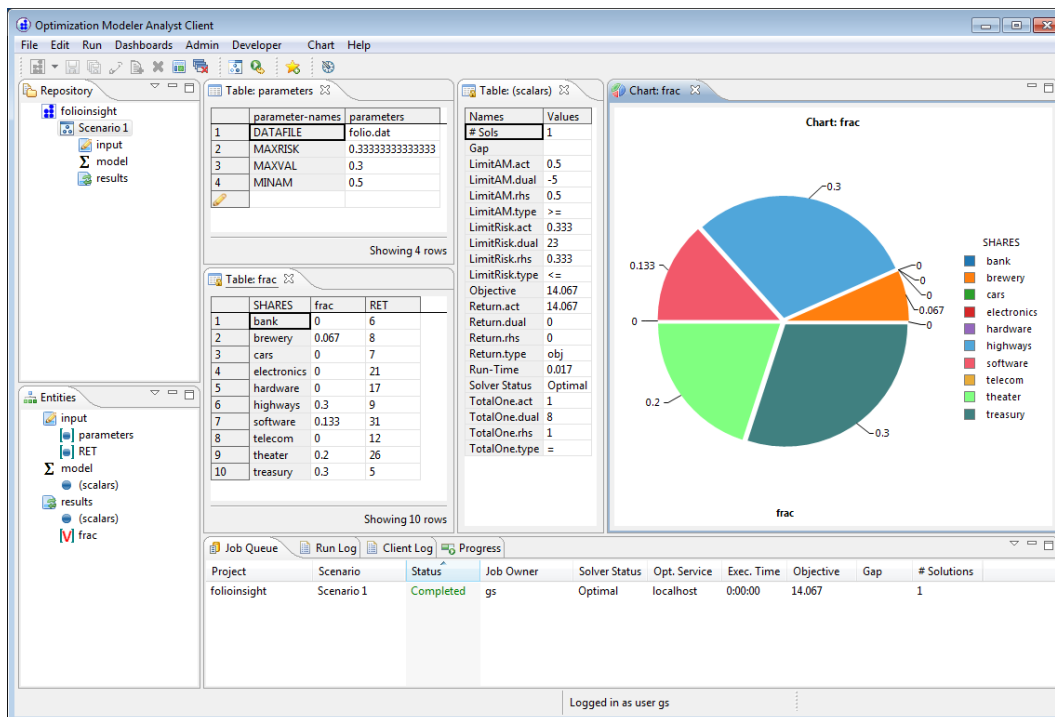





Figure 9.10: Optimization Modeler application window for the 'folioinsight' project

9.5.2.3 Editing model data

Once we have conveniently arranged all the views that we wish to observe, we are ready to start making edits to input data displayed in any of the views on our screen. Optimization Modeler implements a locking mechanism to prevent users from making inconsistent edits to their application data. If the icon of the view that you wish to edit is overlaid with a yellow padlock, e.g. , you need to click on the icon  or select menu *Edit* \gg *Edit* to make this view editable. This may prompt you whether you wish to save changes made to the project up to this point.

Editing a value: click on a cell in the table and make a selection from the drop-down list or enter a value

Adding a new entry in array data: click on the blank row at the bottom of the table

For example, modify the value of 'MAXVAL' in the view *Table: parameters*. Then select menu *Run* (or the run button  from the toolbar) and observe how the displayed results are changing. Now add a new entry at the bottom of the table in the view *Table: frac* by entering its name 'newone' in the column *SHARES* and the value 50 in the column *RET* (leaving empty the cell of the result column *frac*). Rerun the model to see the new results.


Any changes to scenario data can be saved within Optimization Modeler with menu *File* \gg *Save*. Modified configuration settings for charts can be saved as a named profile in the chart configuration dialogue, they will then appear as a separate menu option for this chart.


9.5.2.4 Comparing data scenarios

Instead of editing and re-running a single scenario, it usually is more convenient to create several distinct scenarios and use the built-in multi-scenario table and chart views to display and compare input and results data from several scenarios.

New scenarios are created either from the project: right click on the project name and choose *New Scenario*, or from another scenario: right click on the scenario and choose *Clone*.

For example, let us create two new scenarios by cloning the original Scenario 1. In the first copy, we change the parameter MAXVAL to 0.2, and in the second copy we set MAXVAL to 0.4. After modifying the scenario data, we select *Run* for each of the scenarios.

In the Repository pane, select the project name *folioinsight* and select *Open with Multi Scenario Table* from the context menu. This results in a table with the objective function values for each of the scenarios. To add further columns to this comparison, right-click on any cell in a table view and select the option *Add to MS Table*. We choose to add all solution values for decision variables *frac* to this comparison, and also remove the objective function value by selecting *Remove* from the context menu (right mouse key) on the column header. Now click on the chart icon  to

generate the chart view, followed by  to open the *Chart Settings* dialogue where we select the Chart type *Bar*, enter a custom title (uncheck *Use default title*), and check the box *Depth effect* to obtain the diagram displayed in the screenshot below.

We have also created a second multi scenario table that reports besides the objective function value the setting of the parameter MAXVAL (in the corresponding cell of the 'parameters' view, select the context menu *Add to MS Table*), and a multi-scenario chart with the objective function values (on the header 'Objective' of the multi-scenario table select the context menu *New Multi Scenario Chart*). At the bottom, we have opened a chart view of the 'frac' array for individual scenarios as described above in Section 9.5.2.2.

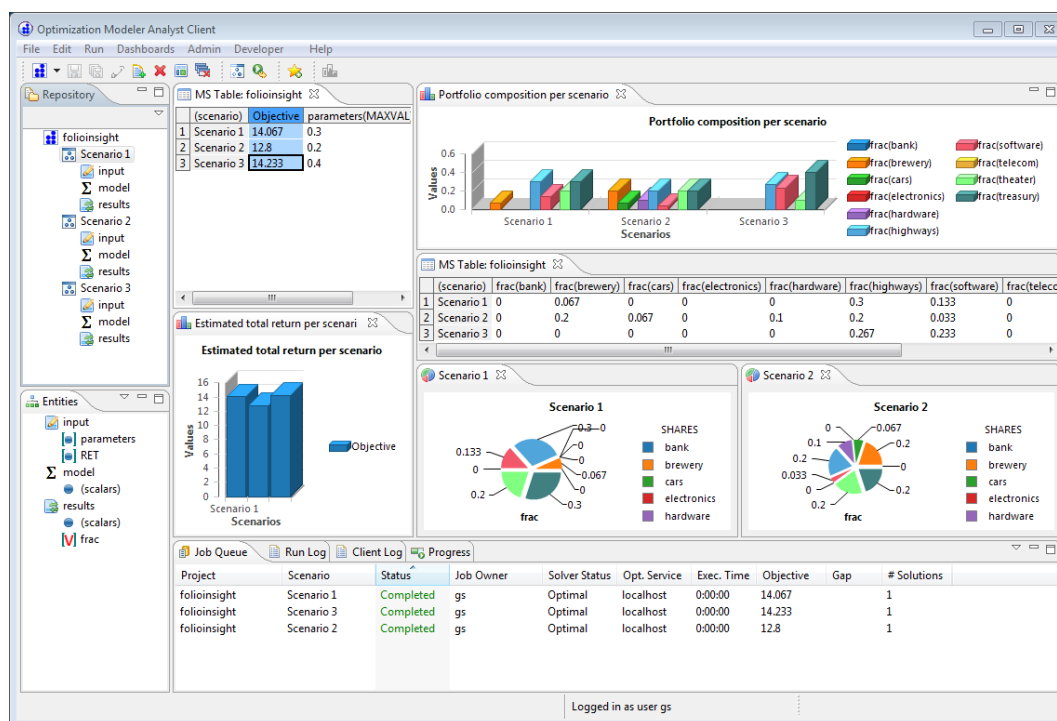


Figure 9.11: Multi-scenario comparison with Optimization Modeler

II. Getting started with BCL

CHAPTER 10

Inputting and solving a Linear Programming problem

In this chapter we take the example formulated in Chapter 2 and show how to implement the model with BCL. With some extensions to the initial formulation we also introduce input and output functionalities of BCL:

- writing an LP model with BCL,
- data input from file using index sets,
- output facilities of BCL,
- exporting a problem to a matrix file.

Chapter 3 shows how to formulate and solve the same example with Mosel and in Chapter 15 the problem is input and solved directly with Xpress-Optimizer.

10.1 Implementation with BCL

All BCL examples in this book are written with C++. Due to the possibility of overloading arithmetic operators in the C++ programming language, this interface provides the most convenient way of stating models in a close to algebraic form. The same models can also be implemented using the C, Java, or Visual Basic interfaces of BCL.

The following BCL program implements the LP example introduced in Chapter 2:

```
#include <iostream>
#include "xprb_cpp.h"

using namespace std;
using namespace ::dashoptimization;

#define NSHARES 10           // Number of shares
#define NRISK 5             // Number of high-risk shares
#define NNA 4               // Number of North-American shares

double RET[] = {5,17,26,12,8,9,7,6,31,21}; // Estimated return in investment
int RISK[] = {1,2,3,8,9}; // High-risk values among shares
int NA[] = {0,1,2,3}; // Shares issued in N.-America

int main(int argc, char **argv)
{
    int s;
```

```

XPRBprob p("FolioLP"); // Initialize a new problem in BCL
XPRBexpr Risk,Na,Return,Cap;
XPRBvar frac[NSHARES]; // Fraction of capital used per share

// Create the decision variables
for(s=0;s<NSHARES;s++) frac[s] = p.newVar("frac");

// Objective: total return
for(s=0;s<NSHARES;s++) Return += RET[s]*frac[s];
p.setObj(Return); // Set the objective function

// Limit the percentage of high-risk values
for(s=0;s<NRISK;s++) Risk += frac[RISK[s]];
p.newCtr("Risk", Risk <= 1.0/3);

// Minimum amount of North-American values
for(s=0;s<NNA;s++) Na += frac[NA[s]];
p.newCtr("NA", Na >= 0.5);

// Spend all the capital
for(s=0;s<NSHARES;s++) Cap += frac[s];
p.newCtr("Cap", Cap == 1);

// Upper bounds on the investment per share
for(s=0;s<NSHARES;s++) frac[s].setUB(0.3);

// Solve the problem
p.setSense(XPRB_MAXIM);
p.lpOptimize("");

// Solution printing
cout << "Total return: " << p.getObjVal() << endl;
for(s=0;s<NSHARES;s++)
    cout << s << ": " << frac[s].getSol()*100 << "%" << endl;

return 0;
}

```

Let us now have a closer look at what we have just written.

10.1.1 Initialization

To use the BCL C++ interface you need to include the header file `xprb_cpp.h`. We also define the namespace to which the BCL classes belong.

If the software has not been initialized previously, BCL is initialized automatically when the first problem is created, that is by the line

```
XPRBprob p("FolioLP");
```

which creates a new problem with the name 'FolioLP'.

10.1.2 General structure

The definition of the model itself starts with the creation of the decision variables (method `newVar`), followed by the definition of the objective function and the constraints. In C++ (and Java) constraints may be created starting with linear expressions as shown in the example. Equivalently, they may be constructed termwise, for instance the constraint limiting the percentage of high-risk shares:

```

XPRBctr CRisk;
CRisk = p.newCtr("Risk");
for(s=0;s<NRISK;s++) CRisk.addTerm(frac[RISK[s]], 1);
CRisk.setType(XPRB_L);

```

```
CRisk.addTerm(1.0/3);
```

This second type of constraint definition is common to all BCL interfaces and is the only method of defining constraints in C and VB where overloading is not available.

Notice that in the definition of *equality constraints* (here the constraint stating that we wish to spend all the capital) we need to employ a double equality sign ==.

The method `setUB` is used to set the *upper bounds* on the decision variables `frac`. Alternatively to this separate function call, we may also specify the bounds directly at the creation of the variables, but in this case we need to provide the full information including the name, variable type (XPRB_PL for continuous), lower and upper bound values:

```
for(s=0;s<NSHARES;s++) frac[s] = p.newVar("frac", XPRB_PL, 0, 0.3);
```

Giving string *names* to modeling objects (decision variables, constraints, etc.) as shown in our example program is optional. If the user does not specify any name, BCL will generate a default name. However, user-defined names may be helpful for debugging and for the interpretation of output produced by the Optimizer.

10.1.3 Solving

Prior to launching the solver, the optimization direction is set to maximization with a call to `setSense`. With the method `lpOptimize` we then call Xpress-Optimizer to maximize the objective function (`Return`) set with the method `setObj`, subject to all constraints that have been defined. The empty string argument of `lpOptimize` indicates that the default LP algorithm is to be used. Other possible values are "p" for primal, "d" for dual Simplex, and "b" for Newton-Barrier.

10.1.4 Output printing

The last few lines print out the value of the optimal solution and the solution values for all variables.

10.2 Compilation and program execution

If you have followed the standard installation procedure of Xpress-Optimizer and BCL, you may compile this file with the following command under Windows (note that it is important to use the flag `/MD`):

```
cl /MD /I%XPRESSDIR%\include %XPRESSDIR%\lib\xprb.lib foliolp.cpp
```

For Linux or Solaris use

```
cc -D_REENTRANT -I${XPRESSDIR}/include -L${XPRESSDIR}/lib foliolp.C -o foliolp -lxprb
```

For other systems please refer to the example makefile provided with the corresponding distribution.

Running the resulting program will generate the following output:

```
Reading Problem FolioLP
Problem Statistics
      3 (      0 spare) rows
     10 (      0 spare) structural columns
```

```

          19 (      0 spare) non-zero elements
Global Statistics
      0 entities          0 sets          0 set members
Maximizing LP FolioLP
Original problem has:
      3 rows             10 cols          19 elements
Presolved problem has:
      3 rows             10 cols          19 elements

      Its      Obj Value      S      Ninf      Nneg      Sum Inf      Time
      0         42.600000      D        2        0         .000000         0
      5         14.066667      D        0        0         .000000         0
Uncrunching matrix
      5         14.066667      D        0        0         .000000         0
Optimal solution found
Problem status: optimal
Total return: 14.0667
0: 30%
1: 0%
2: 20%
3: 0%
4: 6.66667%
5: 30%
6: 0%
7: 0%
8: 13.3333%
9: 0%

```

The upper half of this display is the log of Xpress-Optimizer: the size of the matrix, 3 rows (i.e. constraints) and 10 columns (i.e. decision variables), and the log of the LP solution algorithm (here: 'D' for dual Simplex). The lower half is the output produced by our program: the maximum return of 14.0667 is obtained with a portfolio consisting of shares 1, 3, 5, 6, and 9. 30% of the total amount are spent in shares 1 and 6 each, 20% in 3, 13.3333% in 9 and 6.6667% in 5. It is easily verified that all constraints are indeed satisfied: we have 50% of North-American shares (1 and 3) and 33.33% of high-risk shares (3 and 9).

It is possible to modify the amount of output printing by BCL and Xpress-Optimizer by adding the following line before the start of the optimization:

```
p.setMsgLevel(1);
```

This setting will disable all output (including warnings) from BCL and Xpress-Optimizer, with the exception of error messages. The possible values for the printing level range from 0 to 4. In Chapter 13 we show how to access the Optimizer control parameters directly which, for instance, allows fine tuning the message display.

10.3 Data input from file

Instead of simply numbering the decision variables, we may wish to use more meaningful indices in our model. For instance, the problem data may be given in file(s) using string indices such as the file `foliocpplp.dat` we now wish to read:

```

! Return
"treasury"  5
"hardware"  17
"theater"   26
"telecom"   12
"brewery"   8
"highways"  9
"cars"      7
"bank"      6
"software"  31

```

We modify our previous model as follows to work with this data file:

```

#include <iostream>
#include "xprb_cpp.h"

using namespace std;
using namespace ::dashoptimization;

#define DATAFILE "foliocpplp.dat"

#define NSHARES 10           // Number of shares
#define NRISK 5             // Number of high-risk shares
#define NNA 4              // Number of North-American shares

double RET[NSHARES];       // Estimated return in investment
char RISK[][100] = {"hardware", "theater", "telecom", "software",
                   "electronics"}; // High-risk values among shares
char NA[][100] = {"treasury", "hardware", "theater", "telecom"};
// Shares issued in N.-America

XPRBindexSet SHARES;      // Set of shares

XPRBprob p("FolioLP");    // Initialize a new problem in BCL

void readData(void)
{
    double value;
    int s;
    FILE *datafile;
    char name[100];

    SHARES=p.newIndexSet("Shares",NSHARES); // Create the 'SHARES' index set

    // Read 'RET' data from file
    datafile=fopen(DATAFILE,"r");
    for(s=0;s<NSHARES;s++)
    {
        XPRBreadlinecb(XPRB_FGETS, datafile, 200, "T g", name, &value);
        RET[SHARES+=name]=value;
    }
    fclose(datafile);

    SHARES.print();       // Print out the set contents
}

int main(int argc, char **argv)
{
    int s;
    XPRBexpr Risk,Na,Return,Cap;
    XPRBvar frac[NSHARES]; // Fraction of capital used per share

    // Read data from file
    readData();

    // Create the decision variables
    for(s=0;s<NSHARES;s++) frac[s] = p.newVar("frac");

    // Objective: total return
    for(s=0;s<NSHARES;s++) Return += RET[s]*frac[s];
    p.setObj(Return); // Set the objective function

    // Limit the percentage of high-risk values
    for(s=0;s<NRISK;s++) Risk += frac[SHARES[RISK[s]]];
    p.newCtr("Risk", Risk <= 1.0/3);

    // Minimum amount of North-American values

```

```

    for(s=0;s<NNA;s++) Na += frac[SHARES[NA[s]]];
    p.newCtr("NA", Na >= 0.5);

// Spend all the capital
for(s=0;s<NSHARES;s++) Cap += frac[s];
p.newCtr("Cap", Cap == 1);

// Upper bounds on the investment per share
for(s=0;s<NSHARES;s++) frac[s].setUB(0.3);

// Solve the problem
p.setSense(XPRB_MAXIM);
p.lpOptimize("");

// Solution printing
cout << "Total return: " << p.getObjVal() << endl;
for(s=0;s<NSHARES;s++)
    cout << SHARES[s] << ": " << frac[s].getSol()*100 << "%" << endl;

return 0;
}

```

The arrays `RISK` and `NA` now store indices in the form of strings and we have added a new object, the *index set* `SHARES` that is defined while the return-on-investment values `RET` are read from the data file. In this example we have initialized the index set with exactly the right size. This is not really necessary since index sets may grow dynamically if more entries are added to them than the initially allocated space. The actual set size can be obtained with the method `getSize`.

For reading the data we use the function `XPRBreadlinecb`. It will skip comments preceded by `!` and any empty lines in the data file. The format string `"T g"` indicates that we wish to read a text string (surrounded by single or double quotes if it contains blanks) followed by a real number, the two separated by spaces (including tabulation). If the data file used another separator sign such as `,` then the format string could be changed accordingly (e.g. `"T,g"`).

In the model itself, the definition of the linear expressions `Risk` and `Na` has been adapted to the new indices.

Another modification concerns the solution printing: we print the name of every share, not simply its sequence number and hence the solution now gets displayed as follows:

```

Total return: 14.0667
treasury: 30%
hardware: 0%
theater: 20%
telecom: 0%
brewery: 6.66667%
highways: 30%
cars: 0%
bank: 0%
software: 13.3333%
electronics: 0%

```

10.4 Output functions and error handling

Most BCL modeling objects (`XPRBprob`, `XPRBvar`, `XPRBctr`, `XPRBsos`, and `XPRBindexSet`) have a method `print`. For variables, depending on where the method is invoked either their bounds or their solution value is printed: adding the line

```
frac[2].print();
```

before the call to the optimization will print the name of the variable and its bounds,

```
frac2: [0,0.3]
```

whereas after the problem has been solved its solution value gets displayed:

```
frac2: 0.2
```

Whenever BCL detects an error it stops the program execution with an error message so that it will usually not be necessary to test the return value of every operation. If a BCL program is embedded into some larger application, it may be helpful to use the *explicit initialization* to check early on that the software can be accessed correctly, for instance:

```
if(XPRB::init() != 0)
{
    cout << "Initialization failed." << endl;
    return 1;
}
```

The method `getLPStat` may be used to test the *LP problem status*. Only if the LP problem has been solved successfully BCL will return or print out meaningful solution values:

```
char *LPSTATUS[] = {"not loaded", "optimal", "infeasible",
                   "worse than cutoff", "unfinished", "unbounded",
                   "cutoff in dual", "unsolved", "nonconvex"};

cout << "Problem status: " << LPSTATUS[p.getLPStat()] << endl;
```

10.5 Exporting matrices

If the optimization process with Xpress-Optimizer is started from within a BCL program (methods `lpOptimize` or `mipOptimize` of `XPRBprob`), then the problem matrix is loaded in memory into the solver without writing it out to a file (which would be expensive in terms of running time). However, in certain cases it may still be required to be able to produce a matrix. With Xpress, the user has the choice between two matrix formats: extended MPS and extended LP format, the latter being in general more easily human-readable since constraints are printed in algebraic form.

To export a matrix in MPS format add the following line to your BCL program, immediately before or instead of the optimization statement; this will create the file `Folio.mat` in your working directory:

```
p.exportProb(XPRB_MPS, "Folio");
```

For an LP format matrix use the following:

```
p.setSense(XPRB_MAXIM);
p.exportProb(XPRB_LP, "Folio");
```

The LP format contains information about the sense of optimization. Since the default is to minimize, for maximization we first need to reset the sense. The resulting matrix file will have the name `Folio.lp`.

CHAPTER 11

Mixed Integer Programming

This chapter extends the model developed in Chapter 10 to a Mixed Integer Programming (MIP) problem. It describes how to

- define different types of discrete variables,
- get the MIP solution status and understand the MIP optimization log produced by Xpress-Optimizer.

Chapter 6 shows how to formulate and solve the same example with Mosel and in Chapter 16 the problem is input and solved directly with Xpress-Optimizer.

11.1 Extended problem description

The investor is unwilling to have small share holdings. He looks at the following two possibilities to formulate this constraint:

1. Limiting the number of different shares taken into the portfolio.
2. If a share is bought, at least a minimum amount 10% of the budget is spent on the share.

We are going to deal with these two constraints in two separate models.

11.2 MIP model 1: limiting the number of different shares

To be able to count the number of different values we are investing in, we introduce a second set of variables buy_s in the LP model developed in Chapter 2. These variables are *indicator variables* or *binary variables*. A variable buy_s takes the value 1 if the share s is taken into the portfolio and 0 otherwise.

We introduce the following constraint to limit the total number of assets to a maximum of $MAXNUM$. It expresses the constraint that at most $MAXNUM$ of the variables buy_s may take the value 1 at the same time.

$$\sum_{s \in SHARES} buy_s \leq MAXNUM$$

We now still need to link the new binary variables buy_s with the variables $frac_s$, the quantity of every share selected into the portfolio. The relation that we wish to express is 'if a share is selected into the portfolio, then it is counted in the total number of values' or 'if $frac_s > 0$ then $buy_s = 1$ '. The following inequality formulates this implication:

$$\forall s \in SHARES : frac_s \leq buy_s$$

If, for some s , $frac_s$ is non-zero, then buy_s must be greater than 0 and hence 1. Conversely, if buy_s is at 0, then $frac_s$ is also 0, meaning that no fraction of share s is taken into the portfolio. Notice that these constraints do not prevent the possibility that buy_s is at 1 and $frac_s$ at 0. However, this does not matter in our case, since any solution in which this is the case is also valid with both variables, buy_s and $frac_s$, at 0.

11.2.1 Implementation with BCL

We extend the LP model developed in Chapter 10 with the new variables and constraints. The fact that the new variables are *binary variables* (i.e. they only take the values 0 and 1) is expressed through the type `XPRB_BV` at their creation.

Another common type of discrete variable is an *integer variable*, that is, a variable that can only take on integer values between given lower and upper bounds. These variables are defined in BCL with the type `XPRB_UI`. In the following section (MIP model 2) we shall see yet another example of discrete variables, namely semi-continuous variables.

```
#include <iostream>
#include "xprb_cpp.h"

using namespace std;
using namespace ::dashoptimization;

#define MAXNUM 4           // Max. number of shares to be selected

#define NSHARES 10        // Number of shares
#define NRISK 5           // Number of high-risk shares
#define NNA 4             // Number of North-American shares

double RET[] = {5,17,26,12,8,9,7,6,31,21}; // Estimated return in investment
int RISK[] = {1,2,3,8,9}; // High-risk values among shares
int NA[] = {0,1,2,3}; // Shares issued in N.-America

int main(int argc, char **argv)
{
    int s;
    XPRBprob p("FolioMIP1"); // Initialize a new problem in BCL
    XPRBexpr Risk,Na,Return,Cap,Num;
    XPRBvar frac[NSHARES]; // Fraction of capital used per share
    XPRBvar buy[NSHARES]; // 1 if asset is in portfolio, 0 otherwise

    // Create the decision variables (including upper bounds for 'frac')
    for(s=0;s<NSHARES;s++)
    {
        frac[s] = p.newVar("frac", XPRB_PL, 0, 0.3);
        buy[s] = p.newVar("buy", XPRB_BV);
    }

    // Objective: total return
    for(s=0;s<NSHARES;s++) Return += RET[s]*frac[s];
    p.setObj(Return); // Set the objective function

    // Limit the percentage of high-risk values
    for(s=0;s<NRISK;s++) Risk += frac[RISK[s]];
    p.newCtr(Risk <= 1.0/3);

    // Minimum amount of North-American values
    for(s=0;s<NNA;s++) Na += frac[NA[s]];
    p.newCtr(Na >= 0.5);

    // Spend all the capital
    for(s=0;s<NSHARES;s++) Cap += frac[s];
    p.newCtr(Cap == 1);

    // Limit the total number of assets
```

```

for(s=0;s<NSHARES;s++) Num += buy[s];
p.newCtr(Num <= MAXNUM);

// Linking the variables
for(s=0;s<NSHARES;s++) p.newCtr(frac[s] <= buy[s]);

// Solve the problem
p.setSense(XPRB_MAXIM);
p.mipOptimize("");

// Solution printing
cout << "Total return: " << p.getObjVal() << endl;
for(s=0;s<NSHARES;s++)
  cout << s << ": " << frac[s].getSol()*100 << "% (" << buy[s].getSol()
    << ")" << endl;

return 0;
}

```

Besides the additional variables and constraints, the choice of optimization algorithm needs to be adapted to the problem type: we now wish to solve a MIP problem via Branch-and-Bound, and we therefore use the method `mipOptimize`.

Just as with the LP problem in the previous chapter, it is usually helpful to check the solution status before accessing the MIP solution—only if the MIP status is ‘unfinished (solution found)’ or ‘optimal’ will BCL print out a meaningful solution:

```

char *MIPSTATUS[] = {"not loaded", "not optimized", "LP optimized",
                    "unfinished (no solution)",
                    "unfinished (solution found)", "infeasible",
                    "optimal", "unbounded"};

cout << "Problem status: " << MIPSTATUS[p.getMIPStat()] << endl;

```

11.2.2 Analyzing the solution

As the result of the execution of our program we obtain the following output:

```

Reading Problem FolioMIP1
Problem Statistics
    14 (    514 spare) rows
    20 (     0 spare) structural columns
    49 (   5056 spare) non-zero elements
Global Statistics
    10 entities          0 sets          0 set members
Maximizing MILP FolioMIP1
Original problem has:
    14 rows              20 cols              49 elements          10 globals
Presolved problem has:
    13 rows              19 cols              46 elements          9 globals
LP relaxation tightened

Concurrent solve, 0s
      Dual                      Primal
  objective   suminf          objective   suminf
D 33.933333   .0000000 | p 15.600000  1.4000000
D 33.933333   .0000000 | P 14.066667  .0000000
----- interrupted ----- | ----- optimal -----
Deterministic concurrent statistics:
  Dual: 5 simplex iterations, 10802312.490000s
  Primal: 34 simplex iterations, 10821319.870444s
Primal solved problem

  Its      Obj Value      S   Ninf  Nneg      Sum Inf  Time
   34      14.066667      P     0     0      .000000   0

```

```

Optimal solution found

Starting root cutting & heuristics

  Its Type      BestSoln      BestBound      Sols      Add      Del      Gap      GInf      Time
+-----+-----+-----+-----+-----+-----+-----+-----+-----
  1  K      13.100000      13.908571      1         2         0      6.17%  2         0
  2  K      13.100000      13.568750      1        11         1      3.58%  3         0
*** Search completed ***      Time:      0 Nodes:      1
Number of integer feasible solutions found is 1
Best integer solution found is      13.100000
Best bound is      13.100000
Uncrunching matrix
Problem status: optimal
Total return: 13.1
0: 20% (1)
1: 0% (0)
2: 30% (1)
3: 0% (0)
4: 20% (1)
5: 30% (1)
6: 0% (0)
7: 0% (0)
8: 0% (0)
9: 0% (0)

```

At the beginning we see the log of the execution of Xpress-Optimizer: the problem statistics (we now have 14 constraints and 20 variables, out of which 10 are MIP variables, referred to as 'entities'), the log of the execution of the LP algorithm (concurrently solving with primal and dual simplex on a multi-core processor), the log of the built-in MIP heuristics (a solution with the value 13.1 has been found) and the automated cut generation (a total of 13 cuts of type 'K' = knapsack have been generated). Since this problem is very small, it is solved by the MIP heuristics and the addition of cuts (additional constraints that cut off parts of the LP solution space, but no MIP solution) tightens the LP formulation in such a way that the solution to the LP relaxation becomes integer feasible. The Branch-and-Bound search therefore stops at the first node and no log of the Branch-and-Bound search gets displayed.

The output printed by our program tells us that the problem has been solved to optimality (i.e. the MIP search has been completed and at least one integer feasible solution has been found). The maximum return is now lower than in the original LP problem due to the additional constraint. As required, only four different shares are selected to form the portfolio.

11.3 MIP model 2: imposing a minimum investment in each share

To formulate the second MIP model, we start again with the LP model from Chapters 2 and 10. The new constraint we wish to formulate is 'if a share is bought, at least a minimum amount 10% of the budget is spent on the share.' Instead of simply constraining every variable $frac_s$ to take a value between 0 and 0.3, it now must either lie in the interval between 0.1 and 0.3 or take the value 0. This type of variable is known as *semi-continuous variable*. In the new model, we replace the bounds on the variables $frac_s$ by the following constraint:

$$\forall s \in SHARES : frac_s = 0 \text{ or } 0.1 \leq frac_s \leq 0.3$$

11.3.1 Implementation with BCL

The following program implements the MIP model 2. The semi-continuous variables are defined by the type `XPRB_SC`. By default, BCL assumes a continuous limit of 1, so we need to set this value to 0.1 with the method `setLim`.

A similar type is available for integer variables that take either the value 0 or an integer value between a given limit and their upper bound (so-called *semi-continuous integers*): `XPRB_SI`. A third composite type is a *partial integer* which takes integer values from its lower bound to a given limit value and is continuous beyond this value (marked by `XPRB_PI`).

```
#include <iostream>
#include "xprb_cpp.h"

using namespace std;
using namespace ::dashoptimization;

#define NSHARES 10 // Number of shares
#define NRISK 5 // Number of high-risk shares
#define NNA 4 // Number of North-American shares

double RET[] = {5,17,26,12,8,9,7,6,31,21}; // Estimated return in investment
int RISK[] = {1,2,3,8,9}; // High-risk values among shares
int NA[] = {0,1,2,3}; // Shares issued in N.-America

int main(int argc, char **argv)
{
    int s;
    XPRBprob p("FolioSC"); // Initialize a new problem in BCL
    XPRBexpr Risk,Na,Return,Cap;
    XPRBvar frac[NSHARES]; // Fraction of capital used per share

    // Create the decision variables
    for(s=0;s<NSHARES;s++)
    {
        frac[s] = p.newVar("frac", XPRB_SC, 0, 0.3);
        frac[s].setLim(0.1);
    }

    // Objective: total return
    for(s=0;s<NSHARES;s++) Return += RET[s]*frac[s];
    p.setObj(Return); // Set the objective function

    // Limit the percentage of high-risk values
    for(s=0;s<NRISK;s++) Risk += frac[RISK[s]];
    p.newCtr(Risk <= 1.0/3);

    // Minimum amount of North-American values
    for(s=0;s<NNA;s++) Na += frac[NA[s]];
    p.newCtr(Na >= 0.5);

    // Spend all the capital
    for(s=0;s<NSHARES;s++) Cap += frac[s];
    p.newCtr(Cap == 1);

    // Solve the problem
    p.setSense(XPRB_MAXIM);
    p.mipOptimize("");

    // Solution printing
    cout << "Total return: " << p.getObjVal() << endl;
    for(s=0;s<NSHARES;s++)
        cout << s << ": " << frac[s].getSol()*100 << "% " << endl;

    return 0;
}
```

When executing this program we obtain the following output (leaving out the part printed by the Optimizer):

```
Total return: 14.0333
0: 30%
1: 0%
```

2: 20%
3: 0%
4: 10%
5: 26.6667%
6: 0%
7: 0%
8: 13.3333%
9: 0%

Now five securities are chosen for the portfolio, each forming at least 10% and at most 30% of the total investment. Due to the additional constraint, the optimal MIP solution value is again lower than the initial LP solution value.

CHAPTER 12

Quadratic Programming

In this chapter we turn the LP problem from Chapter 10 into a Quadratic Programming (QP) problem, and the first MIP model from Chapter 11 into a Mixed Integer Quadratic Programming (MIQP) problem. The chapter shows how to

- define quadratic objective functions,
- incrementally define and solve problems.

Chapter 7 shows how to formulate and solve the same examples with Mosel and in Chapter 17 the QP problem is input and solved directly with Xpress-Optimizer.

12.1 Problem description

The investor may also look at his portfolio selection problem from a different angle: instead of maximizing the estimated return and limiting the portion of high-risk investments he now wishes to minimize the risk whilst obtaining a certain target yield. He adopts the Markowitz idea of getting estimates of the variance/covariance matrix of estimated returns on the securities. (For example, hardware and software company worths tend to move together, but are oppositely correlated with the success of theatrical production, as people go to the theater more when they have become bored with playing with their new computers and computer games.) The return on theatrical productions are highly variable, whereas the treasury bill yield is certain.

Question 1: Which investment strategy should the investor adopt to minimize the variance subject to getting some specified minimum target yield?

Question 2: Which is the least variance investment strategy if the investor wants to choose at most four different securities (again subject to getting some specified minimum target yield)?

The first question leads us to a *Quadratic Programming* problem, that is, a Mathematical Programming problem with a quadratic objective function and linear constraints. The second question necessitates the introduction of discrete variables to count the number of securities, and so we obtain a *Mixed Integer Quadratic Programming* problem. The two cases will be discussed separately in the following two sections.

12.2 QP

To adapt the model developed in Chapter 2 to the new way of looking at the problem, we need to make the following changes:

- New objective function: mean variance instead of total return.

- The risk-related constraint disappears.
- Addition of a new constraint: target yield.

The new objective function is the mean variance of the portfolio, namely:

$$\sum_{s,t \in \text{SHARES}} \text{VAR}_{st} \cdot \text{frac}_s \cdot \text{frac}_t$$

where VAR_{st} is the variance/covariance matrix of all shares. This is a *quadratic objective function* (an objective function becomes quadratic either when a variable is squared, e.g., frac_1^2 , or when two variables are multiplied together, e.g., $\text{frac}_1 \cdot \text{frac}_2$).

The target yield constraint can be written as follows:

$$\sum_{s \in \text{SHARES}} \text{RET}_s \cdot \text{frac}_s \geq \text{TARGET}$$

The limit on the North-American shares as well as the requirement to spend all the money, and the upper bounds on the fraction invested into every share are retained. We therefore obtain the following complete mathematical model formulation:

$$\begin{aligned} & \text{minimize} && \sum_{s,t \in \text{SHARES}} \text{VAR}_{st} \cdot \text{frac}_s \cdot \text{frac}_t \\ & && \sum_{s \in \text{NA}} \text{frac}_s \geq 0.5 \\ & && \sum_{s \in \text{SHARES}} \text{frac}_s = 1 \\ & && \sum_{s \in \text{SHARES}} \text{RET}_s \cdot \text{frac}_s \geq \text{TARGET} \\ & && \forall s \in \text{SHARES} : 0 \leq \text{frac}_s \leq 0.3 \end{aligned}$$

12.2.1 Implementation with BCL

The estimated returns and the variance/covariance matrix are given in the data file `foliocppqp.dat`:

```
! trs  haw  thr  tel  brw  hgw  car  bnk  sof  elc
0.1  0  0  0  0  0  0  0  0  0 ! treasury
0  19  -2  4  1  1  1  0.5  10  5 ! hardware
0  -2  28  1  2  1  1  0  -2  -1 ! theater
0  4  1  22  0  1  2  0  3  4 ! telecom
0  1  2  0  4  -1.5  -2  -1  1  1 ! brewery
0  1  1  1  -1.5  3.5  2  0.5  1  1.5 ! highways
0  1  1  2  -2  2  5  0.5  1  2.5 ! cars
0  0.5  0  0  -1  0.5  0.5  1  0.5  0.5 ! bank
0  10  -2  3  1  1  1  0.5  25  8 ! software
0  5  -1  4  1  1.5  2.5  0.5  8  16 ! electronics
```

We may read this datafile with the function `XPRBreadarrlinecb`: all comments preceded by `!` and also empty lines are skipped. We read an entire line at once indicating the format of an entry ('g') and the separator (any number of spaces or tabulations).

For the definition of the objective function we now use a *quadratic expression* (equally represented by the class `XPRBexpr`). Since we now wish to minimize the problem, we use the default optimization sense setting and optimization as a continuous problem is again started with the method `lpOptimize` (with empty string argument indicating the default algorithm).

```

#include <iostream>
#include "xprb_cpp.h"

using namespace std;
using namespace ::dashoptimization;

#define DATAFILE "foliocppqp.dat"

#define TARGET 9 // Target yield
#define MAXNUM 4 // Max. number of different assets

#define NSHARES 10 // Number of shares
#define NNA 4 // Number of North-American shares

double RET[] = {5,17,26,12,8,9,7,6,31,21}; // Estimated return in investment
int NA[] = {0,1,2,3}; // Shares issued in N.-America
double VAR[NSHARES][NSHARES]; // Variance/covariance matrix of
// estimated returns

int main(int argc, char **argv)
{
    int s,t;
    XPRBprob p("FolioQP"); // Initialize a new problem in BCL
    XPRBexpr Na,Return,Cap,Num,Variance;
    XPRBvar frac[NSHARES]; // Fraction of capital used per share
    FILE *datafile;

    // Read 'VAR' data from file
    datafile=fopen(DATAFILE,"r");
    for(s=0;s<NSHARES;s++)
        XPRBreadarrlinecb(XPRB_FGETS, datafile, 200, "g ", VAR[s], NSHARES);
    fclose(datafile);

    // Create the decision variables
    for(s=0;s<NSHARES;s++)
        frac[s] = p.newVar(XPRBnewname("frac(%d)",s+1), XPRB_PL, 0, 0.3);

    // Objective: mean variance
    for(s=0;s<NSHARES;s++)
        for(t=0;t<NSHARES;t++) Variance += VAR[s][t]*frac[s]*frac[t];
    p.setObj(Variance); // Set the objective function

    // Minimum amount of North-American values
    for(s=0;s<NNA;s++) Na += frac[NA[s]];
    p.newCtr(Na >= 0.5);

    // Spend all the capital
    for(s=0;s<NSHARES;s++) Cap += frac[s];
    p.newCtr(Cap == 1);

    // Target yield
    for(s=0;s<NSHARES;s++) Return += RET[s]*frac[s];
    p.newCtr(Return >= TARGET);

    // Solve the problem
    p.lpOptimize("");

    // Solution printing
    cout << "With a target of " << TARGET << " minimum variance is " <<
        p.getObjVal() << endl;
    for(s=0;s<NSHARES;s++)
        cout << s << ": " << frac[s].getSol()*100 << "% " << endl;

    return 0;
}

```

This program produces the following solution output with a dual-core processor (notice that the default algorithm for solving QP problems is Newton-Barrier, not the Simplex as in all previous

examples):

```

Reading Problem FolioQP
Problem Statistics
    3 (      0 spare) rows
    10 (     0 spare) structural columns
    24 (     0 spare) non-zero elements
    76 quadratic elements
Global Statistics
    0 entities          0 sets          0 set members
Minimizing QP FolioQP
Original problem has:
    3 rows              10 cols          24 elements
    76 qobjelem
Presolved problem has:
    3 rows              10 cols          24 elements
    76 qobjelem
Checking convexity took 0 seconds
Barrier cache sizes : L1=32K L2=4096K
Cores per CPU (CORESPERCPU): 2
Barrier starts, using up to 2 threads, with L2 cache 2048K per thread
Matrix ordering - Dense cols.:   9   NZ(L):   92   Flops:   584

Its   P.inf   D.inf   U.inf   Primal obj.   Dual obj.   Compl.
  0   1.90e+01  1.00e+03  3.70e+00  8.7840000e+02 -3.8784000e+03  4.4e+04
  1   2.70e-01  2.50e+00  5.26e-02  8.2966236e+00 -2.6938426e+03  3.2e+03
  2   7.35e-04  2.93e-03  1.43e-04  5.2443717e+00 -9.5768733e+01  1.0e+02
  3   3.31e-05  1.32e-04  6.45e-06  4.1146720e+00 -1.0420241e+01  1.5e+01
  4   6.94e-17  3.33e-15  2.78e-17  1.6111574e+00 -2.5214717e+00  4.1e+00
  5   3.47e-17  1.33e-15  5.55e-17  7.2642096e-01  3.1286182e-01  4.1e-01
  6   9.89e-17  1.62e-15  5.55e-17  5.6822910e-01  5.2583251e-01  4.2e-02
  7   1.46e-16  5.71e-16  1.39e-17  5.5899605e-01  5.5588942e-01  3.1e-03
  8   1.42e-16  9.97e-16  1.59e-17  5.5758472e-01  5.5727257e-01  3.1e-04
  9   3.16e-17  7.81e-16  2.78e-17  5.5740972e-01  5.5738488e-01  2.5e-05
 10   5.38e-17  7.86e-16  2.78e-17  5.5739376e-01  5.5739329e-01  4.7e-07
Barrier method finished in 0 seconds
Uncrunching matrix

Its      Obj Value      S   Ninf  Nneg      Sum Inf  Time
  0          .557394      B     0     0          .000000     0
Optimal solution found
With a target of 9 minimum variance is 0.557394
0: 30%
1: 7.15401%
2: 7.38237%
3: 5.46362%
4: 12.6561%
5: 5.91283%
6: 0.333491%
7: 29.9979%
8: 1.0997%
9: 6.97039e-06%

```

12.3 MIQP

We now wish to express the fact that at most a given number *MAXNUM* of different assets may be selected into the portfolio, subject to all other constraints of the previous QP model. In Chapter 11 we have already seen how this can be done, namely by introducing an additional set of binary decision variables *buy_s*, that are linked logically to the continuous variables:

$$\forall s \in \text{SHARES} : \text{frac}_s \leq \text{buy}_s$$

Through this relation, a variable *buy_s* will be at 1 if a fraction *frac_s* greater than 0 is selected into the portfolio. If, however, *buy_s* equals 0, then *frac_s* must also be 0.

To limit the number of different shares in the portfolio, we then define the following constraint:

$$\sum_{s \in \text{SHARES}} \text{buy}_s \leq \text{MAXNUM}$$

12.3.1 Implementation with BCL

We may modify the previous QP model or simply append the following lines to the program of the previous section, just after the solution printing: the problem is then solved once as a QP and once as a MIQP in a single program run.

```
XPRBvar buy[NSHARES];           // 1 if asset is in portfolio, 0 otherwise

// Create the decision variables
for(s=0;s<NSHARES;s++)
  buy[s] = p.newVar(XPRBnewname("buy(%d)",s+1), XPRB_BV);

// Limit the total number of assets
for(s=0;s<NSHARES;s++) Num += buy[s];
p.newCtr(Num <= MAXNUM);

// Linking the variables
for(s=0;s<NSHARES;s++) p.newCtr(frac[s] <= buy[s]);

// Solve the problem
p.mipOptimize("");

// Solution printing
cout << "With a target of " << TARGET << " and at most " << MAXNUM <<
      " assets, minimum variance is " << p.getObjVal() << endl;
for(s=0;s<NSHARES;s++)
  cout << s << ": " << frac[s].getSol()*100 << "% (" << buy[s].getSol()
      << ")" << endl;
```

When executing the MIQP model, we obtain the following solution output:

```
Reading Problem FolioQP
Problem Statistics
    14 (    514 spare) rows
    20 (     0 spare) structural columns
    54 (   5056 spare) non-zero elements
    76 quadratic elements
Global Statistics
    10 entities          0 sets          0 set members
Minimizing MIQP FolioQP
Original problem has:
    14 rows              20 cols          54 elements          10 globals
    76 qobjelem
Presolved problem has:
    14 rows              20 cols          54 elements          10 globals
    76 qobjelem
LP relaxation tightened
Checking convexity took 0 seconds
Crash basis containing 0 structural columns created

    Its          Obj Value      S   Ninf  Nneg          Sum Inf  Time
    0             .000000      p    1     0          .100000    0
    8             .000000      p    0     0          .000000    0
    8             4.609000      p    0     0          .000000    0

    Its          Obj Value      S   Nsft  Nneg          Dual Inf  Time
    27             .557393      QP    0     0          .000000    0
QP solution found
Optimal solution found

Starting root cutting & heuristics
```

Its	Type	BestSoln	BestBound	Sols	Add	Del	Gap	GInf	Time
+		4.094716	.557393	1			86.39% 0		
+		1.839007	.557393	2			69.69% 0		
+		1.825618	.557393	3			69.47% 0		
+		1.419003	.557393	4			60.72% 0		
	1 K	1.419003	.557393	4	3	0	60.72% 7	0	
	2 K	1.419003	.557393	4	9	2	60.72% 7	0	
	3 K	1.419003	.557393	4	7	6	60.72% 7	0	
	4 K	1.419003	.557393	4	3	6	60.72% 7	0	
	5 K	1.419003	.557393	4	7	2	60.72% 7	0	
	6 K	1.419003	.557676	4	18	10	60.70% 7	0	
	7 K	1.419003	.561133	4	6	16	60.46% 7	0	
	8 K	1.419003	.566040	4	7	4	60.11% 7	0	
	9 K	1.419003	.582382	4	19	7	58.96% 8	0	
	10 K	1.419003	.587384	4	4	17	58.61% 9	0	
	11 K	1.419003	.590887	4	7	2	58.36% 8	0	
	12 K	1.419003	.595128	4	6	4	58.06% 9	0	
	13 K	1.419003	.598643	4	9	4	57.81% 8	0	
	14 K	1.419003	.598924	4	2	12	57.79% 7	0	
	15 K	1.419003	.599261	4	5	1	57.77% 7	0	
	16 K	1.419003	.600166	4	3	4	57.71% 7	0	
	17 K	1.419003	.600166	4	0	2	57.71% 7	0	

Heuristic search started
Heuristic search stopped

Cuts in the matrix : 16
Cut elements in the matrix : 132
Will try to keep branch and bound tree memory usage below 1.6Gb

Starting tree search with up to 2 threads (deterministic mode)

Node	BestSoln	BestBound	Sols Active	Depth	Gap	GInf	Time
+	24	1.248762	1.045795	5	3	7	16.25% 0

*** Search completed *** Time: 0 Nodes: 29

Number of integer feasible solutions found is 5

Best integer solution found is 1.248762

Uncrunching matrix

With a target of 9 and at most 4 assets, minimum variance is 1.24876

0: 30% (1)
1: 20% (1)
2: 0% (0)
3: 0% (0)
4: 23.8095% (1)
5: 26.1905% (1)
6: 0% (0)
7: 0% (0)
8: 0% (0)
9: 0% (0)

The log of the Branch-and-Bound search tells us this time that 5 integer feasible solutions have been found (all by the MIP heuristics) and a total of 29 nodes have been enumerated to complete the search. With the additional constraint on the number of different assets the minimum variance is more than twice as large as in the QP problem.

CHAPTER 13

Heuristics

In this chapter we show a simple binary variable fixing solution heuristic that involves a heuristic solution procedure interacting with Xpress-Optimizer through

- parameter settings,
- saving and recovering bases, and
- modifications of variable bounds.

Chapter 8 shows how to implement the same heuristic with Mosel.

13.1 Binary variable fixing heuristic

The heuristic we wish to implement should perform the following steps:

1. Solve the LP relaxation and save the basis of the optimal solution
2. *Rounding heuristic*: Fix all variables 'buy' to 0 if they are close to 0, and to 1 if they have a relatively large value.
3. Solve the resulting MIP problem.
4. If an integer feasible solution was found, save the value of the best solution.
5. Restore the original problem by resetting all variables to their original bounds, and load the saved basis.
6. Solve the original MIP problem, using the heuristic solution as cutoff value.

Step 2: Since the fraction variables *frac* have an upper bound of 0.3, as a 'relatively large value' in this case we may choose 0.2. In other applications, for binary variables a more suitable choice may be $1 - \epsilon$, where ϵ is a very small value such as 10^{-5} .

Step 6: Setting a *cutoff value* means that we only search for solutions that are better than this value. If the LP relaxation of a node is worse than this value it gets cut off, because this node and its descendants can only lead to integer feasible solutions that are even worse than the LP relaxation.

13.2 Implementation with BCL

For the implementation of the variable fixing solution heuristic we work with the MIP 1 model from Chapter 11. Through the definition of the heuristic in a separate function we only make minimal changes to the model itself: before solving our problem with the standard call to the method `mipOptimize` we execute our own solution heuristic and the solution printing also has been adapted.

```
#include <iostream>
#include "xprb_cpp.h"
#include "xprs.h"

using namespace std;
using namespace ::dashoptimization;

#define MAXNUM 4 // Max. number of shares to be selected

#define NSHARES 10 // Number of shares
#define NRISK 5 // Number of high-risk shares
#define NNA 4 // Number of North-American shares

void solveHeur();

double RET[] = {5,17,26,12,8,9,7,6,31,21}; // Estimated return in investment
int RISK[] = {1,2,3,8,9}; // High-risk values among shares
int NA[] = {0,1,2,3}; // Shares issued in N.-America

XPRBprob p("FolioMIPHeur"); // Initialize a new problem in BCL
XPRBvar frac[NSHARES]; // Fraction of capital used per share
XPRBvar buy[NSHARES]; // 1 if asset is in portfolio, 0 otherwise

int main(int argc, char **argv)
{
    int s;
    XPRBexpr Risk,Na,Return,Cap,Num;

    // Create the decision variables (including upper bounds for 'frac')
    for(s=0;s<NSHARES;s++)
    {
        frac[s] = p.newVar("frac", XPRB_PL, 0, 0.3);
        buy[s] = p.newVar("buy", XPRB_BV);
    }

    // Objective: total return
    for(s=0;s<NSHARES;s++) Return += RET[s]*frac[s];
    p.setObj(Return); // Set the objective function

    // Limit the percentage of high-risk values
    for(s=0;s<NRISK;s++) Risk += frac[RISK[s]];
    p.newCtr(Risk <= 1.0/3);

    // Minimum amount of North-American values
    for(s=0;s<NNA;s++) Na += frac[NA[s]];
    p.newCtr(Na >= 0.5);

    // Spend all the capital
    for(s=0;s<NSHARES;s++) Cap += frac[s];
    p.newCtr(Cap == 1);

    // Limit the total number of assets
    for(s=0;s<NSHARES;s++) Num += buy[s];
    p.newCtr(Num <= MAXNUM);

    // Linking the variables
    for(s=0;s<NSHARES;s++) p.newCtr(frac[s] <= buy[s]);

    // Solve problem heuristically
    p.setSense(XPRB_MAXIM);
}
```

```

solveHeur();

// Solve the problem
p.mipOptimize("");

// Solution printing
if(p.getMIPStat()==4 || p.getMIPStat()==6)
{
    cout << "Exact solution: Total return: " << p.getObjVal() << endl;
    for(s=0;s<NSHARES;s++)
        cout << s << ": " << frac[s].getSol()*100 << "%" << endl;
}
else
    cout << "Heuristic solution is optimal." << endl;

return 0;
}

void solveHeur()
{
    XPRBbasis basis;
    int s, ifgsol;
    double solval, bsol[NSHARES],TOL;

    XPRSsetintcontrol(p.getXPRSprob(), XPRS_CUTSTRATEGY, 0);
    // Disable automatic cuts
    XPRSsetintcontrol(p.getXPRSprob(), XPRS_HEURSTRATEGY, 0);
    // Disable MIP heuristics
    XPRSsetintcontrol(p.getXPRSprob(), XPRS_PRESOLVE, 0);
    // Switch presolve off
    XPRSgetdblcontrol(p.getXPRSprob(), XPRS_FEASTOL, &TOL);
    // Get feasibility tolerance

    p.mipOptimize("l"); // Solve the LP-relaxation
    basis=p.saveBasis(); // Save the current basis

    // Fix all variables 'buy' for which 'frac' is at 0 or at a relatively
    // large value
    for(s=0;s<NSHARES;s++)
    {
        bsol[s]=buy[s].getSol(); // Get the solution values of 'frac'
        if(bsol[s] < TOL) buy[s].setUB(0);
        else if(bsol[s] > 0.2-TOL) buy[s].setLB(1);
    }

    p.mipOptimize("c"); // Solve the MIP-problem
    ifgsol=0;
    if(p.getMIPStat()==4 || p.getMIPStat()==6)
    {
        // If an integer feas. solution was found
        ifgsol=1;
        solval=p.getObjVal(); // Get the value of the best solution
        cout << "Heuristic solution: Total return: " << p.getObjVal() << endl;
        for(s=0;s<NSHARES;s++)
            cout << s << ": " << frac[s].getSol()*100 << "%" << endl;
    }

    // Reset variables to their original bounds
    for(s=0;s<NSHARES;s++)
        if((bsol[s] < TOL) || (bsol[s] > 0.2-TOL))
        {
            buy[s].setLB(0);
            buy[s].setUB(1);
        }

    p.loadBasis(basis); /* Load the saved basis: bound changes are
                        immediately passed on from BCL to the
                        Optimizer if the problem has not been modified
                        in any other way, so that there is no need to
                        reload the matrix */
}

```

```

basis.reset();           // No need to store the saved basis any longer
if(ifgsol==1)
  XPRSsetdblcontrol(p.getXPRSProb(), XPRS_MIPABSCUTOFF, solval+TOL);
                        // Set the cutoff to the best known solution
}

```

The implementation of the heuristic certainly requires some explanations.

In this example for the first time we use the *direct access to Xpress-Optimizer*. To do so, we need to include the Optimizer header file `xprs.h`. The Optimizer functions are applied to the problem representation (of type `XPRSProb`) held by the Optimizer which can be retrieved with the method `getXPRSProb` of the BCL problem. For more detail on how to use the BCL and Optimizer libraries in combination the reader is referred to the 'BCL Reference Manual'. The complete documentation of all Optimizer functions and parameters is provided in the 'Optimizer Reference Manual'.

Parameters: The solution heuristic starts with parameter settings for the Xpress-Optimizer. Switching off the automated cut generation (parameter `XPRS_CUTSTRATEGY`) and the MIP heuristics (parameter `XPRS_HEURSTRATEGY`) is optional, whereas it is required in our case to disable the presolve mechanism (a treatment of the matrix that tries to reduce its size and improve its numerical properties, set with parameter `XPRS_PRESOLVE`), because we interact with the problem in the Optimizer in the course of its solution and this is only possible correctly if the matrix has not been modified by the Optimizer.

In addition to the parameter settings we also retrieve the feasibility tolerance used by Xpress-Optimizer: the Optimizer works with tolerance values for integer feasibility and solution feasibility that are typically of the order of 10^{-6} by default. When evaluating a solution, for instance by performing comparisons, it is important to take into account these tolerances.

The fine tuning of output printing mentioned in Chapter 10 can be obtained by setting the parameters `XPRS_LPLOG` and `XPRS_MIPLOG` (both to be set with function `XPRSsetintcontrol`).

Optimization calls: We use the optimization method `mipOptimize` with the argument "1", indicating that we only want to solve the top node LP relaxation (and not yet the entire MIP problem). To continue with MIP solving from the point where we have stopped the algorithm we use the argument "c".

Saving and loading bases: To speed up the solution process, we save (in memory) the current basis of the Simplex algorithm after solving the initial LP relaxation, before making any changes to the problem. This basis is loaded again at the end, once we have restored the original problem. The MIP solution algorithm then does not have to re-solve the LP problem from scratch, it resumes the state where it was 'interrupted' by our heuristic.

Bound changes: When a problem has already been loaded into the Optimizer (e.g. after executing an optimization statement or following an explicit call to method `loadMat`) bound changes via `setLB` and `setUB` are passed on directly to the Optimizer. Any other changes (addition or deletion of constraints or variables) always lead to a complete reloading of the problem.

The program produces the following output. As can be seen, when solving the original problem for the second time the Simplex algorithm performs 0 iterations because it has been started with the basis of the optimal solution saved previously.

```

Reading Problem FolioMIPHeur
Problem Statistics
    14 (    0 spare) rows
    20 (    0 spare) structural columns
    49 (    0 spare) non-zero elements
Global Statistics
    10 entities          0 sets          0 set members
Maximizing MILP FolioMIPHeur
Original problem has:
    14 rows              20 cols              49 elements          10 globals

```

```

Concurrent solve, 0s
      Dual                Primal
      objective    suminf    objective    suminf
      | p 14.400000    .3666667
      | p 14.066667    .0000000
----- interrupted ----- | ----- optimal -----
Deterministic concurrent statistics:
  Dual: 5 simplex iterations, 10802312.490000s
  Primal: 17 simplex iterations, 10821319.870444s
Primal solved problem

```

```

      Its      Obj Value      S   Ninf  Nneg      Sum Inf  Time
      17      14.066667      P     0     0      .000000    0
Optimal solution found
*** Search unfinished ***      Time: 0
Number of integer feasible solutions found is 0
Best bound is      14.066667

```

Starting root cutting & heuristics

```

      Its Type      BestSoln      BestBound      Sols      Add      Del      Gap      GInf      Time
+      13.100000      14.066667      1
Heuristic search started
Heuristic search stopped
*** Search completed ***      Time: 0 Nodes: 1
Number of integer feasible solutions found is 1
Best integer solution found is      13.100000
Best bound is      13.100000
Heuristic solution: Total return: 13.1
0: 20%
1: 0%
2: 30%
3: 0%
4: 20%
5: 30%
6: 0%
7: 0%
8: 0%
9: 0%
Maximizing MILP FolioMIPHeur
Original problem has:
      14 rows      20 cols      49 elements      10 globals

```

```

Concurrent solve, 0s
      Dual                Primal
      objective    suminf    objective    suminf
      D 14.066667    .0000000
      D 14.066667    .0000000 | p 14.066667    .0000000
----- optimal ----- | ----- interrupted -----
Deterministic concurrent statistics:
  Dual: 0 simplex iterations, 10802312.490000s
  Primal: 0 simplex iterations, 10821319.870444s
Dual solved problem

```

```

      Its      Obj Value      S   Ninf  Nneg      Sum Inf  Time
      0      14.066667      P     0     0      .000000    0
Optimal solution found

```

Starting root cutting & heuristics

```

      Its Type      BestSoln      BestBound      Sols      Add      Del      Gap      GInf      Time
Heuristic search started
Heuristic search stopped
Will try to keep branch and bound tree memory usage below 1.6Gb
Starting tree search with up to 2 threads (deterministic mode)

```

```

      Node      BestSoln      BestBound      Sols Active  Depth      Gap      GInf      Time
*** Search completed ***      Time: 0 Nodes: 5

```



```
Problem is integer infeasible  
Number of integer feasible solutions found is 0  
Best bound is 13.100001  
Heuristic solution is optimal.
```

Observe that the heuristic found a solution of 13.1, and that the MIP optimizer without the heuristic could not find a better solution (hence the infeasible message). The heuristic solution is therefore optimal.

III. Getting started with the Optimizer

CHAPTER 14

Matrix input

In this chapter we show how to

- initialize Xpress-Optimizer,
- load matrices in MPS or LP format into the Optimizer,
- solve a problem, and
- write out the solution to a file.

14.1 Matrix files

With Xpress, the user has the choice between two matrix formats: extended MPS and extended LP format, the latter being in general more easily human-readable since constraints are printed in algebraic form. Such matrices may be written out by Xpress-Optimizer, but more likely they will have been generated by some other tool.

If the optimization process with Xpress-Optimizer is started from within a Mosel or BCL program, then the problem matrix is loaded in memory into the solver without writing it out to a file (which would be expensive in terms of running time). However, both tools may also be used to produce matrix files (see Chapter 9 for matrix generation with Mosel and Chapter 10 for BCL).

14.2 Implementation

To load a matrix into Xpress-Optimizer we need to perform the following steps:

1. Initialize Xpress-Optimizer.
2. Create a new problem.
3. Read the matrix file.

The following C program `folioinput.c` (similar interfaces exist for Java and Visual Basic) shows how to load a matrix file, solve it, and write out the results. For clarity's sake we have omitted all error checking in this program. In general it is recommended to test the return value of the initialization function and also whether the problem has been created and read correctly.

To use Xpress-Optimizer, we need to include the header file `xprs.h`.

```

#include <stdio.h>
#include "xprs.h"

int main(int argc, char **argv)
{
    XPRSProb prob;

    XPRSinit(NULL); /* Initialize Xpress-Optimizer */
    XPRScreateprob(&prob); /* Create a new problem */

    XPRSreadprob(prob, "Folio", ""); /* Read the problem matrix */

    XPRSschgobjsense(prob, XPRS_OBJ_MAXIMIZE); /* Set sense to maximization */
    XPRSloptimize(prob, ""); /* Solve the problem */

    XPRSwriteprtsol(prob, "Folio.prt", ""); /* Write results to 'Folio.prt' */

    XPRSdestroyprob(prob); /* Delete the problem */
    XPRSfree(); /* Terminate Xpress */

    return 0;
}

```

14.3 Compilation and program execution

If you have followed the standard installation procedure of Xpress-Optimizer, you may compile this file with the following command under Windows:

```
cl /MD /I%XPRESSDIR%\include %XPRESSDIR%\lib\xprs.lib foliomat.c
```

For Linux or Solaris use

```
cc -D_REENTRANT -I${XPRESSDIR}/include -L${XPRESSDIR}/lib foliomat.c -o foliomat -lxprs
```

For other systems please refer to the example makefile provided with the corresponding distribution.

If we run this program with the matrix `Folio.mat` produced by BCL for the LP example problem of Chapter 2, then we obtain an output file `Folio.prt` with the following contents:

```

Problem Statistics
Matrix FolioLP
Objective *OBJ*

RHS *RHS*
Problem has      4 rows and      10 structural columns

Solution Statistics
Maximization performed
Optimal solution found after      5 iterations
Objective function value is      14.066659

Rows Section
  Number   Row   At   Value   Slack Value   Dual Value   RHS
N         1 *OBJ* BS   14.066659  -14.066659    .000000    .000000
E         2  Cap   EQ    1.000000    .000000     8.000000    1.000000
G         3  NA    LL    .500000    .000000    -5.000000    .500000
L         4 Risk  UL    .333333    .000000    23.000000    .333333

Columns Section
  Number   Column  At   Value   Input Cost   Reduced Cost
C         5  frac   UL    .300000     5.000000     2.000000
C         6  frac_1 LL    .000000    17.000000    -9.000000

```

C	7	frac_2	BS	.200000	26.000000	.000000
C	8	frac_3	LL	.000000	12.000000	-14.000000
C	9	frac_4	BS	.066667	8.000000	.000000
C	10	frac_5	UL	.300000	9.000000	1.000000
C	11	frac_6	LL	.000000	7.000000	-1.000000
C	12	frac_7	LL	.000000	6.000000	-2.000000
C	13	frac_8	BS	.133333	31.000000	.000000
C	14	frac_9	LL	.000000	21.000000	-10.000000

The upper half contains some statistics concerning the problem size and the solution algorithm: the optimal LP solution found has a value of 14.066659. The `Rows` Section gives detailed solution information for the constraints in the problem. The solution values for the decision variables are located in the column labeled `Value of the` `Columns` Section.

CHAPTER 15

Inputting and solving a Linear Programming problem

In this chapter we take the example formulated in Chapter 2 and show how to input and solve this problem with Xpress-Optimizer. In detail, we shall discuss the following topics:

- transformation of an LP model into matrix format,
- LP problem input with Xpress-Optimizer,
- solving and solution output.

Chapter 3 shows how to formulate and solve this example with Mosel and Chapter 10 does the same for BCL.

15.1 Matrix representation

As a first step in the transformation of the mathematical problem into the form required by the LP problem input function of Xpress-Optimizer we write the problem in the form of a table where the columns represent the decision variables and the rows are the constraints. All non-zero coefficients are then entered into this table, resulting in the problem *matrix*, completed by the operators and the constant terms (the latter are usually referred to as the *right hand side*, RHS, values).

Table 15.1: LP matrix

		$frac_1$	$frac_2$	$frac_3$	$frac_4$	$frac_5$	$frac_6$	$frac_7$	$frac_8$	$frac_9$	$frac_{10}$		
		0	1	2	3	4	5	6	7	8	9	Oper.	RHS
Risk	0		1^2	1^5	1^8					1^{15}	1^{17}	\leq	1/3
MinNA	1	1^0	1^3	1^6	1^9							\geq	0.5
Allfrac	2	1^1	1^4	1^7	1^{10}	1^{11}	1^{12}	1^{13}	1^{14}	1^{16}	1^{18}	=	1
		\uparrow	\uparrow										
		<i>rowidx</i>	<i>matval</i>										
<i>colbeg</i>		0	2	5	8	11	12	13	14	15	17	19	
<i>nelem</i>		2	3	3	3	1	1	1	1	2	2		

The matrix specified to Xpress-Optimizer does not consist of the full *number_of_rows* x *number_of_columns* table; instead, only the list of non-zero coefficients is given and an indication where they are located. The superscripts in the table above indicate the order of the matrix entries in this list. The coefficient values will be stored in the array *matval*, the corresponding row numbers in the array *rowidx*, the values of the first few entries of these

arrays are printed in italics to highlight them (see the code example in the following section for the full definition of these arrays). To complete this information, the array `colbeg` contains the index of the first entry per column and the array `nelem` the number of entries per column.

15.2 Implementation with Xpress-Optimizer

The following C program `foliolp.c` shows how to input and solve this LP problem with Xpress-Optimizer. We have also added printing of the solution. Before trying to access the solution, the LP problem status is checked (see the 'Optimizer Reference Manual' for further explanation). To use Xpress-Optimizer, we need to include the header file `xprs.h`.

To load a problem into Xpress-Optimizer we need to perform the following steps:

1. Initialize Xpress-Optimizer.
2. Create a new problem.
3. Load the matrix data.

```
#include <stdio.h>
#include <stdlib.h>
#include "xprs.h"

int main(int argc, char **argv)
{
    XPRSProb prob;
    int s, status;
    double objval, *sol;

    /* Problem parameters */
    int ncol = 10;
    int nrow = 3;

    /* Row data */
    char rowtype[] = { 'L','G','E' };
    double rhs[] = {1.0/3,0.5, 1};

    /* Column data */
    double obj[] = { 5, 17, 26, 12, 8, 9, 7, 6, 31, 21};
    double lb[] = { 0, 0, 0, 0, 0, 0, 0, 0, 0, 0};
    double ub[] = {0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3};

    /* Matrix coefficient data */
    int colbeg[] = {0, 2, 5, 8, 11,12,13,14,15, 17, 19};
    int rowidx[] = {1,2,0,1,2,0,1,2,0,1,2, 2, 2, 2, 2, 0,2, 0,2};
    double matval[] = {1,1,1,1,1,1,1,1,1,1, 1, 1, 1, 1, 1,1, 1,1};

    XPRSinit(NULL); /* Initialize Xpress-Optimizer */
    XPRScreateprob(&prob); /* Create a new problem */

    /* Load the problem matrix */
    XPRSloadlp(prob, "FolioLP", ncol, nrow, rowtype, rhs, NULL,
               obj, colbeg, NULL, rowidx, matval, lb, ub);

    XPRSchgobjsense(prob, XPRS_OBJ_MAXIMIZE); /* Set sense to maximization */
    XPRSloptimize(prob, ""); /* Solve the problem */

    XPRSgetintattrib(prob, XPRS_LPSTATUS, &status); /* Get LP sol. status */

    if(status == XPRS_LP_OPTIMAL)
    {
        XPRSgetdblattrtrib(prob, XPRS_LPOBJVAL, &objval); /* Get objective value */
        printf("Total return: %g\n", objval);
    }
}
```

```

    sol = (double *)malloc(ncol*sizeof(double));
    XPRSgetlp(sol, NULL, NULL, NULL); /* Get primal solution */
    for(s=0;s<ncol;s++) printf("%d: %g%\n", s+1, sol[s]*100);
}

XPRSdestroyprob(prob); /* Delete the problem */
XPRSfree(); /* Terminate Xpress */

return 0;
}

```

Instead of defining `colbeg` with one extra entry for the last+1 column we may give the numbers of coefficients per column in the array `nelem`:

```

/* Matrix coefficient data */
int colbeg[] = {0, 2, 5, 8, 11,12,13,14,15, 17};
int nelem[] = {2, 3, 3, 3, 1, 1, 1, 1, 2, 2};
int rowidx[] = {1,2,0,1,2,0,1,2,0,1,2, 2, 2, 2, 2, 0,2, 0,2};
double matval[] = {1,1,1,1,1,1,1,1,1,1, 1, 1, 1, 1, 1,1, 1,1};

...

/* Load the problem matrix */
XPRSloadlp(prob, "FolioLP", ncol, nrow, rowtype, rhs, NULL,
           obj, colbeg, nelem, rowidx, matval, lb, ub);

```

The seventh argument of the function `XPRSloadlp` remains empty for our problem since it is reserved for range information on constraints.

The second argument of the optimization function `XPRSlpoptimize` indicates the algorithm to be used: an empty string stands for the default LP algorithm. After solving the problem we check whether the LP has been solved and if so, we retrieve the objective function value and the primal solution for the decision variables.

15.3 Compilation and program execution

If you have followed the standard installation procedure of Xpress-Optimizer, you may compile this file with the following command under Windows:

```
cl /MD /I%XPRESSDIR%\include %XPRESSDIR%\lib\xprs.lib foliolp.c
```

For Linux or Solaris use

```
cc -D_REENTRANT -I${XPRESSDIR}/include -L${XPRESSDIR}/lib foliolp.c -o foliolp -lxprs
```

For other systems please refer to the example makefile provided with the corresponding distribution.

Running the resulting program will generate the following output:

```

Total return: 14.0667
1: 30%
2: 0%
3: 20%
4: 0%
5: 6.66667%
6: 30%
7: 0%
8: 0%
9: 13.3333%
10: 0%

```


Under Unix this is preceded by the log of Xpress-Optimizer:

```
Reading Problem FolioLP
Problem Statistics
      3 (      0 spare) rows
     10 (      0 spare) structural columns
     19 (      0 spare) non-zero elements
Global Statistics
      0 entities          0 sets          0 set members
Maximizing LP FolioLP
Original problem has:
      3 rows              10 cols          19 elements
Presolved problem has:
      3 rows              10 cols          19 elements

      Its      Obj Value      S      Ninf      Nneg      Sum Inf      Time
      0         42.600000      D        2        0         .000000        0
      5         14.066667      D        0        0         .000000        0
Uncrunching matrix
      5         14.066667      D        0        0         .000000        0
Optimal solution found
```

Windows users can retrieve the Optimizer log by redirecting it to a file. Add the following line to your program immediately after the problem creation:

```
XPRSsetlogfile(prob, "logfile.txt");
```

The Optimizer log displays the size of the matrix, 3 rows (i.e. constraints) and 10 columns (i.e. decision variables), and the log of the LP solution algorithm (here: 'D' for dual Simplex). The output produced by our program tells us that the maximum return of 14.0667 is obtained with a portfolio consisting of shares 1, 3, 5, 6, and 9. 30% of the total amount are spent in shares 1 and 6 each, 20% in 3, 13.3333% in 9 and 6.6667% in 5. It is easily verified that all constraints are indeed satisfied: we have 50% of North-American shares (1 and 3) and 33.33% of high-risk shares (3 and 9).

CHAPTER 16

Mixed Integer Programming

This chapter extends the LP problem from Chapter 2 to a Mixed Integer Programming (MIP) problem. It describes how to

- transform a MIP model into matrix format,
- input MIP problems with different types of discrete variables into Xpress-Optimizer,
- solve MIP problems and output the solution.

Chapter 6 shows how to formulate and solve this example with Mosel and in Chapter 11 the same is done with BCL.

16.1 Extended problem description

The investor is unwilling to have small share holdings. He looks at the following two possibilities to formulate this constraint:

1. Limiting the number of different shares taken into the portfolio to 4.
2. If a share is bought, at least a minimum amount 10% of the budget is spent on the share.

We are going to deal with these two constraints in two separate models.

16.2 MIP model 1: limiting the number of different shares

To be able to count the number of different values we are investing in, we introduce a second set of variables buy_s in the LP model developed in Chapter 2. These variables are *indicator variables* or *binary variables*. A variable buy_s takes the value 1 if the share s is taken into the portfolio and 0 otherwise.

We introduce the following constraint to limit the total number of assets to a maximum of 4 different ones. It expresses the constraint that at most 4 of the variables buy_s may take the value 1 at the same time.

$$\sum_{s \in SHARES} buy_s \leq 4$$

We now still need to link the new binary variables buy_s with the variables $frac_s$, the quantity of every share selected into the portfolio. The relation that we wish to express is 'if a share is

selected into the portfolio, then it is counted in the total number of values' or 'if $frac_s > 0$ then $buy_s = 1$ '. The following inequality formulates this implication:

$$\forall s \in SHARES : frac_s \leq buy_s$$

If, for some s , $frac_s$ is non-zero, then buy_s must be greater than 0 and hence 1. Conversely, if buy_s is at 0, then $frac_s$ is also 0, meaning that no fraction of share s is taken into the portfolio. Notice that these constraints do not prevent the possibility that buy_s is at 1 and $frac_s$ at 0. However, this does not matter in our case, since any solution in which this is the case is also valid with both variables, buy_s and $frac_s$, at 0.

16.2.1 Matrix representation

The mathematical model can be transformed into the following table. Compared to the LP matrix of the previous chapter, we now have ten additional columns for the variables buy_s and ten additional rows for the constraints linking the two types of variables. Notice that we have to transform the linking constraints so that all terms involving decision variables are on the left hand side of the operator sign.

Table 16.1: MIP matrix

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	Op.	RHS		
Risk	0	<i>1³</i>	<i>1⁷</i>	<i>1¹¹</i>					<i>1²³</i>	<i>1²⁶</i>											≤	1/3		
MinNA	1	<i>1⁰</i>	<i>1⁴</i>	<i>1⁸</i>	<i>1¹²</i>																	≥	0.5	
Allfrac	2	<i>1¹</i>	<i>1⁵</i>	<i>1⁹</i>	<i>1¹³</i>	<i>1¹⁵</i>	<i>1¹⁷</i>	<i>1¹⁹</i>	<i>1²¹</i>	<i>1²⁴</i>	<i>1²⁷</i>											=	1	
Maxnum	3										<i>1²⁹</i>	<i>1³¹</i>	<i>1³³</i>	<i>1³⁵</i>	<i>1³⁷</i>	<i>1³⁹</i>	<i>1⁴¹</i>	<i>1⁴³</i>	<i>1⁴⁵</i>	<i>1⁴⁷</i>		≤	4	
Linking	4	<i>1²</i>																					≤	0
	5		<i>1⁶</i>																				≤	0
	6			<i>1¹⁰</i>																			≤	0
	7				<i>1¹⁴</i>																		≤	0
	8					<i>1¹⁶</i>																	≤	0
	9						<i>1¹⁸</i>																≤	0
	10							<i>1²⁰</i>															≤	0
	11								<i>1²²</i>														≤	0
	12									<i>1²⁵</i>													≤	0
	13										<i>1²⁸</i>												≤	0
		↑	↑																					
		<i>rowidx matval</i>																						
<i>colbeg</i>	0	3	7	11	15	17	19	21	23	26	29	31	33	35	37	39	41	43	45	47	49			

The superscripts for the matrix coefficients indicate again the order of the entries in the arrays `rowidx` and `matval`, the first three entries of which are highlighted (printed in italics).

16.2.2 Implementation with Xpress-Optimizer

In addition to the structures related to the matrix coefficients that are in common with LP problems, we now also need to specify the MIP-specific information, namely the types of the MIP variables (here all marked 'B' for *binary variable*) in the array `miptype` and the corresponding column indices in the array `mipcol`.

Another common type of discrete variable is an *integer variable*, that is, a variable that can only take on integer values between given lower and upper bounds. These variables are defined with the type 'I'. In the following section (MIP model 2) we shall see yet another example of discrete variables, namely semi-continuous variables.

```

#include <stdio.h>
#include <stdlib.h>
#include "xprs.h"

int main(int argc, char **argv)
{
    XPRSProb prob;
    int s, status;
    double objval, *sol;

    /* Problem parameters */
    int ncol = 20;
    int nrow = 14;
    int nmip = 10;

    /* Row data */
    char rowtype[] = { 'L','G','E','L','L','L','L','L','L','L','L','L','L','L','L' };
    double rhs[] = { 1.0/3,0.5, 1, 4, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0 };

    /* Column data */
    double obj[] = { 5, 17, 26, 12, 8, 9, 7, 6, 31, 21,0,0,0,0,0,0,0,0,0,0 };
    double lb[] = { 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0 };
    double ub[] = { 0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3,1,1,1,1,1,1,1,1,1,1 };

    /* Matrix coefficient data */
    int colbeg[] = { 0,3,7,11,15,17,19,21,23,26,29,31,33,35,37,39,41,43,45,47,49 };
    int rowidx[] = { 1,2,4,0,1,2,5,0,1,2,6,0,1,2,7,2,8,2,9,2,10,2,11,0,2,12,0,2,
                    13,3,4,3,5,3,6,3,7,3,8,3,9,3,10,3,11,3,12,3,13 };
    double matval[] = { 1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,1,
                       1,1,-1,1,-1,1,-1,1,-1,1,-1,1,-1,1,-1,1,-1,1,-1,1,-1,1,-1 };

    /* MIP problem data */
    char miptype[] = { 'B','B','B','B','B','B','B','B','B','B','B','B' };
    int mipcol[] = { 10, 11, 12, 13, 14, 15, 16, 17, 18, 19 };

    XPRSinit(NULL); /* Initialize Xpress-Optimizer */
    XPRScreateprob(&prob); /* Create a new problem */

    /* Load the problem matrix */
    XPRSloadglobal(prob, "FolioMIP1", ncol, nrow, rowtype, rhs, NULL,
                  obj, colbeg, NULL, rowidx, matval, lb, ub,
                  nmip, 0, miptype, mipcol, NULL, NULL, NULL, NULL, NULL);

    XPRSschgobjsense(prob, XPRS_OBJ_MAXIMIZE); /* Set sense to maximization */
    XPRSmipoptimize(prob, ""); /* Solve the problem */

    XPRSgetintattrib(prob, XPRS_MIPSTATUS, &status); /* Get MIP sol. status */

    if((status == XPRS_MIP_OPTIMAL) || (status == XPRS_MIP_SOLUTION))
    {
        XPRSgetdblattrib(prob, XPRS_MIPOBJVAL, &objval); /* Get objective value */
        printf("Total return: %g\n", objval);

        sol = (double *)malloc(ncol*sizeof(double));
        XPRSgetmipsol(prob, sol, NULL); /* Get primal solution */
        for(s=0;s<ncol/2;s++)
            printf("%d: %g%% (%g)\n", s, sol[s]*100, sol[ncol/2+s]);
    }

    XPRSdestroyprob(prob); /* Delete the problem */
    XPRSfree(); /* Terminate Xpress */

    return 0;
}

```

To load the problem into Xpress-Optimizer we now use the function `XPRSloadglobal`. The first 14 arguments of this function are the same as for `XPRSloadlp`. The use of the 19th argument

will be discussed in the next section; the remaining four arguments are related to the definition of SOS (Special Ordered Sets)—the value 0 for the 16th argument indicates that there are none in our problem.

In this program, not only the function for loading the problem but also those for solving and solution access have been adapted to the problem type: we now solve a MIP problem via a Branch-and-Bound search (the second argument "" of the optimization function `XPRSmipoptimize` stands for 'default MIP algorithm'). We then retrieve the MIP solution status and if an integer feasible solution has been found we print out the objective value of the best integer solution found and the corresponding solution values of the decision variables.

Running this program produces the following solution output. The maximum return is now lower than in the original LP problem due to the additional constraint. As required, only four different shares are selected to form the portfolio:

```
Total return: 13.1
0: 20% (1)
1: 0% (0)
2: 30% (1)
3: 0% (0)
4: 20% (1)
5: 30% (1)
6: 0% (0)
7: 0% (0)
8: 0% (0)
9: 0% (0)
```

16.3 MIP model 2: imposing a minimum investment in each share

To formulate the second MIP model, we start again with the LP model from Chapters 2 and 15. The new constraint we wish to formulate is 'if a share is bought, at least a minimum amount 10% of the budget is spent on the share.' Instead of simply constraining every variable $frac_s$ to take a value between 0 and 0.3, it now must either lie in the interval between 0.1 and 0.3 or take the value 0. This type of variable is known as *semi-continuous variable*. In the new model, we replace the bounds on the variables $frac_s$ by the following constraint:

$$\forall s \in SHARES : frac_s = 0 \text{ or } 0.1 \leq frac_s \leq 0.3$$

16.3.1 Matrix representation

This problem has the same matrix as the LP problem in the previous chapter, and so we do not repeat it here. The only changes are in the specification of the MIP-related column data.

16.3.2 Implementation with Xpress-Optimizer

The following program `foliomip2.c` loads the MIP model 2 into the Optimizer. We have the same matrix data as for the LP problem in the previous chapter, but the variables are now semi-continuous, defined by the type marker 'S'. By default, Xpress-Optimizer assumes a continuous limit of 1, we therefore specify the value 0.1 in the array `sclim`. Please note in this context that limits for semi-continuous and semi-continuous integer variables given in the array `sclim` are overwritten by the value in the array `lb` if the latter is different from 0.

Other available composite variable types are *semi-continuous integer variables* that take either the value 0 or an integer value between a given limit and their upper bound (marked by 'R') and *partial integers* that take integer values from their lower bound to a given limit value and are continuous beyond this value (marked by 'P').

```
#include <stdio.h>
```

```

#include <stdlib.h>
#include "xprs.h"

int main(int argc, char **argv)
{
    XPRSprob prob;
    int s, status;
    double objval, *sol;

    /* Problem parameters */
    int ncol = 10;
    int nrow = 3;
    int nmip = 10;

    /* Row data */
    char rowtype[] = { 'L','G','E' };
    double rhs[] = { 1.0/3, 0.5, 1 };

    /* Column data */
    double obj[] = { 5, 17, 26, 12, 8, 9, 7, 6, 31, 21 };
    double lb[] = { 0, 0, 0, 0, 0, 0, 0, 0, 0, 0 };
    double ub[] = { 0.3, 0.3, 0.3, 0.3, 0.3, 0.3, 0.3, 0.3, 0.3, 0.3 };

    /* Matrix coefficient data */
    int colbeg[] = { 0, 2, 5, 8, 11, 12, 13, 14, 15, 17, 19 };
    int rowidx[] = { 1, 2, 0, 1, 2, 0, 1, 2, 0, 1, 2, 2, 2, 2, 2, 0, 2, 0, 2 };
    double matval[] = { 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1 };

    /* MIP problem data */
    char miptype[] = { 'S','S','S','S','S','S','S','S','S','S' };
    int mipcol[] = { 0, 1, 2, 3, 4, 5, 6, 7, 8, 9 };
    double sclim[] = { 0.1, 0.1, 0.1, 0.1, 0.1, 0.1, 0.1, 0.1, 0.1, 0.1 };

    XPRSinit(NULL); /* Initialize Xpress-Optimizer */
    XPRScreateprob(&prob); /* Create a new problem */

    /* Load the problem matrix */
    XPRSloadglobal(prob, "FolioSC", ncol, nrow, rowtype, rhs, NULL,
        obj, colbeg, NULL, rowidx, matval, lb, ub,
        nmip, 0, miptype, mipcol, sclim, NULL, NULL, NULL, NULL);

    XPRSchgobjsense(prob, XPRS_OBJ_MAXIMIZE); /* Set sense to maximization */
    XPRSmipoptimize(prob, ""); /* Solve the problem */

    XPRSgetintattrib(prob, XPRS_MIPSTATUS, &status); /* Get MIP sol. status */

    if((status == XPRS_MIP_OPTIMAL) || (status == XPRS_MIP_SOLUTION))
    {
        XPRSgetdblattrib(prob, XPRS_MIPOBJVAL, &objval); /* Get objective value */
        printf("Total return: %g\n", objval);

        sol = (double *)malloc(ncol*sizeof(double));
        XPRSgetmipsol(prob, sol, NULL); /* Get primal solution */
        for(s=0; s<ncol; s++) printf("%d: %g%\n", s, sol[s]*100);
    }

    XPRSdestroyprob(prob); /* Delete the problem */
    XPRSfree(); /* Terminate Xpress */

    return 0;
}

```

When executing this program we obtain the following output:

```

Total return: 14.0333
0: 30%
1: 0%
2: 20%

```

3: 0%
4: 10%
5: 26.6667%
6: 0%
7: 0%
8: 13.3333%
9: 0%

Now five securities are chosen for the portfolio, each forming at least 10% and at most 30% of the total investment. Due to the additional constraint, the optimal MIP solution value is again lower than the initial LP solution value.

CHAPTER 17

Quadratic Programming

In this chapter we turn the LP problem from Chapter 15 into a Quadratic Programming (QP) problem, showing how to

- transform a QP model into matrix format,
- input and solve QP problems with Xpress-Optimizer.

Chapter 7 shows how to formulate and solve this example with Mosel and in Chapter 12 the same is done with BCL.

17.1 Problem description

The investor may also look at his portfolio selection problem from a different angle: instead of maximizing the estimated return and limiting the portion of high-risk investments he now wishes to minimize the risk whilst obtaining a certain target yield. He adopts the Markowitz idea of getting estimates of the variance/covariance matrix of estimated returns on the securities. Which investment strategy should the investor adopt to minimize the variance subject to getting a minimum target yield of 9?

17.2 QP model

To adapt the model developed in Chapter 2 to the new way of looking at the problem, we need to make the following changes:

- New objective function: mean variance instead of total return.
- The risk-related constraint disappears.
- Addition of a new constraint: target yield.

The new objective function is the mean variance of the portfolio, namely:

$$\sum_{s,t \in \text{SHARES}} VAR_{st} \cdot frac_s \cdot frac_t$$

where VAR_{st} is the variance/covariance matrix of all shares. This is a *quadratic objective function* (an objective function becomes quadratic either when a variable is squared, e.g., $frac_1^2$, or when two variables are multiplied together, e.g., $frac_1 \cdot frac_2$).

The target yield constraint can be written as follows:

$$\sum_{s \in \text{SHARES}} RET_s \cdot frac_s \geq 9$$

The limit on the North-American shares as well as the requirement to spend all the money, and the upper bounds on the fraction invested into every share are retained. We therefore obtain the following complete mathematical model formulation:

$$\begin{aligned} & \text{minimize} && \sum_{s,t \in \text{SHARES}} VAR_{st} \cdot frac_s \cdot frac_t \\ & && \sum_{s \in \text{NA}} frac_s \geq 0.5 \\ & && \sum_{s \in \text{SHARES}} frac_s = 1 \\ & && \sum_{s \in \text{SHARES}} RET_s \cdot frac_s \geq 9 \\ & && \forall s \in \text{SHARES} : 0 \leq frac_s \leq 0.3 \end{aligned}$$

17.3 Matrix representation

For the problem input into Xpress-Optimizer, the mathematical model is transformed into the following constraint matrix (Table 17.1).

Table 17.1: QP matrix

		<i>frac₁</i>	<i>frac₂</i>	<i>frac₃</i>	<i>frac₄</i>	<i>frac₅</i>	<i>frac₆</i>	<i>frac₇</i>	<i>frac₈</i>	<i>frac₉</i>	<i>frac₁₀</i>		
		0	1	2	3	4	5	6	7	8	9	Oper.	RHS
MinNA	0	<i>1⁰</i>	<i>1³</i>	<i>1⁶</i>	<i>1⁹</i>							≥	0.5
Allfrac	1	<i>1¹</i>	<i>1⁴</i>	<i>1⁷</i>	<i>1¹⁰</i>	<i>1¹²</i>	<i>1¹⁴</i>	<i>1¹⁶</i>	<i>1¹⁸</i>	<i>1²⁰</i>	<i>1²²</i>	=	1
Yield	2	<i>5²</i>	<i>17⁵</i>	<i>26⁸</i>	<i>12¹¹</i>	<i>8¹³</i>	<i>9¹⁵</i>	<i>7¹⁷</i>	<i>6¹⁹</i>	<i>31²¹</i>	<i>21²³</i>	≥	9
		↑	↑										
		<i>rowidx</i>	<i>matval</i>										
<i>colbeg</i>		0	3	6	9	12	14	16	18	20	22	24	

As in the previous chapters, the superscripts for the matrix coefficients indicate the order of the entries in the arrays `rowidx` and `matval`, the first three entries of which are highlighted (printed in italics).

The coefficients of the quadratic objective function are given by the following variance/covariance matrix (Table 17.2).

17.4 Implementation with Xpress-Optimizer

The following program `folioqp.c` loads the QP problem into Xpress-Optimizer and solves it. Notice that the quadratic part of the objective function must be specified in triangular form, that is, either the lower or the upper triangle of the original matrix. Here we have chosen the upper triangle, which means that instead of $4 \cdot frac_2 \cdot frac_4 + 4 \cdot frac_4 \cdot frac_2$ we only specify the sum of these terms, $8 \cdot frac_2 \cdot frac_4$. Due to the input conventions of the Optimizer the values of the main diagonal also need to be multiplied with 2. As with the matrix coefficients, only quadratic terms with non-zero coefficients are specified to the Optimizer (hence the spaces in the array definitions below).

Table 17.2: Variance/covariance matrix

	<i>frac</i> ₁	<i>frac</i> ₂	<i>frac</i> ₃	<i>frac</i> ₄	<i>frac</i> ₅	<i>frac</i> ₆	<i>frac</i> ₇	<i>frac</i> ₈	<i>frac</i> ₉	<i>frac</i> ₁₀
	0	1	2	3	4	5	6	7	8	9
<i>frac</i> ₁	0	0.1								
<i>frac</i> ₂	1	19	-2	4	1	1	1	0.5	10	5
<i>frac</i> ₃	2	-2	28	1	2	1	1		-2	-1
<i>frac</i> ₄	3	4	1	22		1	2		3	4
<i>frac</i> ₅	4	1	2		4	-1.5	-2	-1	1	1
<i>frac</i> ₆	5	1	1	1	-1.5	3.5	2	0.5	1	1.5
<i>frac</i> ₇	6	1	1	2	-2	2	5	0.5	1	2.5
<i>frac</i> ₈	7	0.5			-1	0.5	0.5	1	0.5	0.5
<i>frac</i> ₉	8	10	-2	3	1	1	1	0.5	25	8
<i>frac</i> ₁₀	9	5	-1	4	1	1.5	2.5	0.5	8	16

```

#include <stdio.h>
#include <stdlib.h>
#include "xprs.h"

int main(int argc, char **argv)
{
    XPRSprob prob;
    int s, status;
    double objval, *sol;

    /* Problem parameters */
    int ncol = 10;
    int nrow = 3;
    int nqt = 43;

    /* Row data */
    char rowtype[] = {'G','E','G'};
    double rhs[] = {0.5, 1, 9};

    /* Column data */
    double obj[] = { 0, 0, 0, 0, 0, 0, 0, 0, 0, 0};
    double lb[] = { 0, 0, 0, 0, 0, 0, 0, 0, 0, 0};
    double ub[] = {0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3,0.3};

    /* Matrix coefficient data */
    int colbeg[] = {0, 3, 6, 9, 12, 14, 16, 18, 20, 22, 24};
    int rowidx[] = {0,1,2,0,1, 2,0,1, 2,0,1, 2,1,2,1,2,1,2,1, 2,1,2};
    double matval[] = {1,1,5,1,1,17,1,1,26,1,1,12,1,8,1,9,1,7,1,6,1,31,1,21};

    /* QP problem data */
    int qcol1[] = {0,
        1,1,1,1,1,1,1,1,1,
        2,2,2,2,2, 2,2,
        3, 3,3, 3,3,
        4,4,4,4,4,4,
        5,5,5,5,5,
        6,6,6,6,
        7,7,7,
        8,8,
        9};

    int qcol2[] = {0,
        1,2,3,4,5,6,7,8,9,
        2,3,4,5,6, 8,9,
        3, 5,6, 8,9,
        4,5,6,7,8,9,
        5,6,7,8,9,
        6,7,8,9,
        7,8,9,
        8,9,
        9};

```

```

double qval[] = {0.1,
                19,-2, 4,1, 1, 1,0.5, 10, 5,
                28, 1,2, 1, 1, -2, -1,
                22, 1, 2, 3, 4,
                4,-1.5,-2, -1, 1, 1,
                3.5, 2,0.5, 1,1.5,
                5,0.5, 1,2.5,
                1,0.5,0.5,
                25, 8,
                16};

for(s=0;s<nqt;s++) qval[s]*=2;

XPRSinit(NULL); /* Initialize Xpress-Optimizer */
XPRScreateprob(&prob); /* Create a new problem */
/* Load the problem matrix */
XPRSloadqp(prob, "FolioQP", ncol, nrow, rowtype, rhs, NULL,
           obj, colbeg, NULL, rowidx, matval, lb, ub,
           nqt, qcol1, qcol2, qval);

XPRSchgobjsense(prob, XPRS_OBJ_MINIMIZE); /* Set sense to maximization */
XPRSloptimize(prob, ""); /* Solve the problem */

XPRSgetintattrib(prob, XPRS_LPSTATUS, &status); /* Get solution status */

if(status == XPRS_LP_OPTIMAL)
{
  XPRSgetdblattrib(prob, XPRS_LPOBJVAL, &objval); /* Get objective value */
  printf("Minimum variance: %g\n", objval);

  sol = (double *)malloc(ncol*sizeof(double));
  XPRSgetlpsol(prob, sol, NULL, NULL, NULL); /* Get primal solution */
  for(s=0;s<ncol;s++) printf("%d: %g%%\n", s, sol[s]*100);
}

XPRSdestroyprob(prob); /* Delete the problem */
XPRSfree(); /* Terminate Xpress */

return 0;
}

```

A QP problem is loaded into the Optimizer with the function `XPRSloadqp`. This function takes the same arguments as function `XPRSloadlp` with four additional arguments at the end for the quadratic part of the objective function: the number of quadratic terms, `nqt`, the column numbers of the variables in every quadratic term (`qcol1` and `qcol2`) and their coefficient, `qval`.

If we wish to load a Mixed Integer Quadratic Programming (MIQP) problem, then we need to use the function `XPRSloadqglobal` that takes the same arguments as `XPRSloadqp` plus the nine arguments for MIP problems introduced with function `XPRSloadgglobal` in the previous chapter.

As opposed to the previous examples we now minimize the objective function. Notice that for solving and solution access we use the same functions as for LP problems. When solving MIQP problems, correspondingly we need to use the MIP solving and solution functions presented in Chapter 16.

Executing this program produces the following output:

```

Minimum variance: 0.557394
0: 30%
1: 7.15401%
2: 7.38237%
3: 5.46362%
4: 12.6561%
5: 5.91283%
6: 0.333491%
7: 29.9979%
8: 1.0997%
9: 6.97039e-06%

```

All but the last share are selected into the portfolio (the value printed for θ is so close to 0 that Xpress-Optimizer interprets it as 0 with its default tolerance settings).

Appendix

APPENDIX A

Going further

A.1 Installation, licensing, and trouble shooting

Detailed information on how to install Xpress is provided with every distribution. The 'Licensing User Guide' can also be downloaded from the client area of the [Xpress website](#). To obtain a license key please contact your nearest Xpress sales office.

Should you encounter any problems with installing the software or setting up the license, please contact Xpress Support:

support@fico.com

(Please include 'Xpress', in the subject line.)

You may also consult the FAQs and discussion groups on the FICO website:

<http://decisions.fico.com>

(select *Business rules & optimization*)

A.2 User guides, reference manuals, and other publications

Under the following address you may find a collection of white papers on various topics:

<http://optimization.fico.com/product-information/>

Some whitepapers and all of the documents referred to in the following sections are included in the Xpress distribution, for an overview direct your webbrowser to the subdirectory `docs` of your Xpress installation directory.

A useful online resource is the searchable database of Xpress examples that you can reach following this link:

<http://examples.xpress.fico.com/example.pl>

A.2.1 Modeling

The book 'Applications of Optimization with Xpress-MP' (Dash Optimization, 2002) shows how to formulate and solve a large number of application problems with Xpress:

<http://optimization.fico.com/product-information/>

A.2.2 Mosel

For a more in-depth introduction to working with Mosel, we suggest to read the 'Mosel User Guide'.

The 'Mosel Language Reference Manual' provides a complete documentation of the Mosel language, also including the features defined by the modules of the Mosel distribution (*mmxprs*, *mmodbc*, *mmive*, etc.).

The Mosel Compiler and Mosel Run-time libraries are documented in the 'Mosel Libraries Reference Manual'.

To learn how to implement your own Mosel modules, please refer to the 'Mosel NI User Guide'.

The Mosel Native Interface is documented in the 'Mosel NI Reference Manual'.

A.2.3 BCL

The 'BCL Reference Manual' contains further examples of the use of BCL and a complete documentation of all C library functions and C++ classes.

For Java, a separate 'Java on-line documentation' is available.

A.2.4 Optimizer

All functions of the Optimizer library are documented in the 'Optimizer Reference Manual'. In this manual you also find exhaustive lists of all problem attributes and control parameters that may be used with Xpress-Optimizer.

An introduction to fully automated tuning of the optimization algorithms for your problems is provided in the 'Xpress-Tuner User Guide'

A.2.5 Other solvers and solution methods

The FICO™ Xpress suite comprises some other products that have not been mentioned in this manual since they are typically reserved for more advanced uses. Each of these components comes with its own documentation. However, reading the introduction to Mosel in the first part of this manual is recommended to all first-time users who wish to employ these other products as Mosel modules.

Successive Linear Programming (SLP) is a method for solving Non-linear Programming problems to (local) optimality. The Xpress-SLP solver is provided in the form of a Mosel module, *mmxnlp*, or as a library. For further detail see the 'Xpress-SLP Reference Manual'.

Constraint Programming (CP) is an approach to problem solving that has been particularly successful for dealing with nonlinear constraint relations over discrete variables, such as frequently occur in scheduling and planning applications. The Xpress-Kalis software, an interface to the Artelys Kalis constraint solver is provided in the form of a Mosel module, *kalis*, which defines aggregate modeling objects specialized for scheduling and planning problems. For a description of this software see the 'Xpress-Kalis Reference Manual' and 'Xpress-Kalis User Guide'.

APPENDIX B

Glossary

Basis: when solving an LP problem with the Simplex algorithm, the basis provides the complete information about which variables and constraints are active in a given solution. It can therefore be used to save and quickly restore the status of the solution algorithm at a given point.

Binary model file (BIM file): a compiled version of the `.mos` model file that is portable across all platforms for which Mosel is available. It does *not* include any data read from external files. These must still be provided in separate files, thus making it possible to run the same BIM file with different data sets.

Bound: equality or inequality constraint on a single decision variable. When working with Xpress-Optimizer through Mosel or BCL, bounds may be changed without having to reload the problem.

Branch-and-Bound: solution method for MIP problems consisting of an enumeration of the feasible values of the discrete variables (*branching*) coupled with LP techniques (providing *bounding* information). Typically represented in the form of a *Branch-and-Bound tree* where every *node* stands for the solution of an LP problem, and the connections between these nodes are the bound changes or added constraints. Such enumerative methods may lead to a computational explosion, even for relatively small problem instances, so that it is not always realistic to solve MIP problems to optimality.

Branch-and-Cut: solution algorithm for MIP problems similar to Branch-and-Bound. At some or all nodes of the search tree violated *cuts* are added to the problem to tighten the LP relaxation.

Builder Component Library (BCL): model builder library for developing a model directly in a programming language. BCL allows users to formulate their models with objects (decision variables, constraints, index sets) similar to those of a dedicated modeling language.

Constraint: relation between decision variables. Constraint types include *equality constraints* (operator `=` in Mosel and `==` in BCL C++), *inequality constraints* (operators `>=` and `<=` in Mosel and BCL C++), and *integrality conditions*. *Bounds* are special cases of inequality or equality constraints.

Cut: also called *valid inequality*; additional constraint in MIP problems that is not required to characterize the set of integer solutions, but must be satisfied by all feasible solutions. Cuts *tighten* the LP relaxation by drawing the LP solution space closer to the convex hull of the MIP solution space.

Decision variable (or *variable* for short): unknown that needs to be assigned a value by the solution algorithm. The basic variable type is a *continuous variable* (a variable taking values from a continuous domain between a given lower and upper bound). *Discrete variable* types include *binary variables* (also called *indicator variables*; variables that may only take the values 0 or 1); *integer variables* (taking values in an integer range between given lower and upper bounds); *semi-continuous variables* (either 0 or values from a continuous interval between a given limit and upper bound); *semi-continuous integer variables* (either 0 or integer values between a given limit and upper bound); *partial integer variables* (integer-valued from the lower bound to a given limit and continuous beyond this limit value)

Declaration: the declaration of an object states its form and type and usually precedes the *definition* of its contents. With Mosel, the declaration of basic types and linear constraints is optional, but decision variables must always be declared; subroutines must be declared if they are used in a model prior to their definition.

Dynamic set, dynamic array: in Mosel, all sets and arrays are created as dynamic objects if their size is not known at their creation. They increase dynamically with the contents assigned to them; sets may also decrease. Dynamic sets may be *finalized* to make them *static*. This will make the handling of any arrays indexed by these sets and declared after their finalization more efficient, and more importantly, this allows Mosel to check for 'out of range' errors that cannot be detected if the sets are dynamic. Sparse data tables should preferably be stored in dynamic arrays whereas constant arrays are more efficient for dense tables.

Heuristic: algorithm for finding feasible solution(s) to a problem. Some heuristics guarantee a bound on the solution quality but usually no proof of optimality is possible.

Index set: set used for indexing an array. Using *string indices* may help to make the output produced by Mosel or BCL more easily understandable.

Interactive Visual Environment (IVE): development environment for Mosel that provides, amongst many other tools, graphical displays of solution information.

Linear Programming (LP) problem: a Mathematical Programming problem where all constraints and the objective function are linear expressions of the decision variables, and the variables have continuous domains—i.e., they can take on any, usually non-negative, real values. A well-understood case for which efficient algorithms (Simplex, interior point) are known.

Loop: Loops group actions that need to be repeated a certain number of times, either for all values of some index or counter (*forall* in Mosel) or depending on whether a condition is fulfilled or not (*while, repeat until* in Mosel).

LP relaxation: in a MIP problem, the LP relaxation is obtained by dropping the integrality conditions on the decision variables.

Mathematical Programming problem (or *problem* for short): a set of decision variables, constraints over these variables and an objective function to be maximized or minimized.

Matrix: the matrix representation of Mathematical Programming problems with linear constraints is a table where the *columns* are the variables and the *rows* represent the constraints. The table entries are the coefficients of the variables in the constraints, usually stored in *sparse format*, that is, only the non-zero entries are given.

Mixed Integer Programming (MIP) problem: a Mathematical Programming problem where constraints and objective function are linear just as in LP and variables may have either discrete or continuous domains. To solve this type of problems, LP techniques are coupled with an enumeration (known as *Branch-and-Bound*).

Modeling language: a high-level language (such as the Mosel language) that allows the user to state Mathematical Programming problems in a form close to their algebraic representation. Carries out automatically the transformation to the representation required by the solver(s).

Model: algebraic representation of a problem; also employed to denote the implementation with a modeling tool such as Mosel or BCL.

Module: also called *dynamic shared object (DSO)*; dynamic library written in the C programming language that observes the conventions set out by the Mosel Native Interface. Modules enable users to extend the Mosel language with new features (e.g. to implement problem-specific data handling, or connections to external solvers or solution algorithms). Modules of the Xpress distribution include access to Xpress-Optimizer (LP, MIP, QP) and Xpress-SLP, data handling facilities (e.g. via ODBC) and access to system functions.

Mosel: modeling and solving environment comprising the *Mosel language* (a modeling and

programming language), the *Mosel libraries* (for embedding Mosel models into applications), and the *Mosel Native Interface* (opening up the Mosel language to external additions in the form of *modules*).

Mosel Native Interface (NI): a subroutine library giving access to Mosel models during their execution; defines also the conventions to be observed by Mosel modules. The NI enables users to extend the Mosel language with new features.

Newton-Barrier algorithm: also *interior point algorithm*; solution algorithm for LP and QP problems that proceeds from some initial interior point in the set of feasible solutions towards an optimal solution without touching the border of the feasible set.

Non-linear Programming (NLP) problem: a Mathematical Programming problem with non-linear constraints or objective function. Frequently heuristic or approximation methods are employed to find good (locally optimal) solutions. A method provided by Xpress for solving problems of this type is *Successive Linear Programming (SLP)*.

Objective function: an expression of decision variables to be minimized or maximized (in this manual only linear or quadratic expressions are considered).

Optimization: finding a feasible solution to a problem that minimizes or maximizes a given objective function.

Optimizer: the Xpress solver for LP, MIP, and QP. Available in the form of a library or a standalone program.

Overloading: subroutines that are defined in several versions for different types or numbers of arguments; operators that are defined for different operand types or combinations of operand types.

Parameter: depending on the context this term has several slightly different meanings: the settings of *model parameters* (in Mosel) may be changed at run-time, for instance to define different input data sets; *problem parameters* (in the Optimizer usually called *problem attributes*) provide access to information about a problem (e.g. solution status) and are typically read-only; *algorithm control parameters* are used to control algorithmic settings (choice of the solution algorithm, tolerances, etc.).

Problem instance: a Mathematical Programming problem complete with a specific data set.

Quadratic Programming (QP) problem: differs from LP problems in that there are quadratic terms in the objective function (the constraints remain linear). The decision variables may be continuous or discrete, in the latter case we speak of *Mixed Integer Quadratic Programming (MIQP)*.

Range set: (in Mosel) a set of consecutive integers.

Right hand side (RHS): constant term of a (linear) constraint; a standard format (used, for example, in the matrix representation) is to write all terms involving decision variables on the left of the operator sign and the constant term on its right side.

Selection statement: statement to express a selection between different actions to be taken in a program. In Mosel these are *if/then/elif/then/else/end-if* and *case*.

Simplex algorithm: solution algorithm for LP problems. The idea of the Simplex algorithm is moving from vertex to vertex of the polytope ('simplex') that represents the set of feasible solutions for an LP problem, to improve the objective function value.

Solution: this term may be used with two different meanings: it may denote an assignment of values to all decision variables that satisfies all constraints (*feasible solution*). In optimization problems where the best possible solution is sought—i.e., a solution minimizing or maximizing a given objective function, the term solution usually is equivalent to *optimal solution*.

Solver: software used to solve (usually optimize) a problem. With Xpress we use Xpress-Optimizer.

Status information: Mosel, BCL, and the Optimizer define different *parameters* providing status information, such as the LP or MIP status that tell the user among others whether the problem has been solved correctly and a solution is available.

Subroutine: substructures allowing programs to be broken down into smaller subtasks that are easier to understand and to work with. In Mosel, subroutines may be employed in the form of procedures or functions. *Procedures* are called as a program statement, they have no return value, *functions* must be called in an expression that uses their return value.

Successive Linear Programming (SLP): method for solving NLP problems via a sequence of LP problems.

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