

Contents

I	Deterministic Control	5
1	Static Optimization	7
1.1	Calculus Reminder	7
1.2	Abstract Results	8
1.3	Euler Conditions	9
1.4	Kuhn–Tucker Theorem	11
2	Calculus of Variations	15
2.1	Problem without Terminal Condition	17
2.2	Sufficient Condition for Optimality	18
2.3	Example: 1-Dimensional Quadratic Problem	19
2.4	Example: Optimal Consumption	19
3	Maximum Principle	21
3.1	Bolza, Lagrange and Mayer formulation	22
3.2	Pontryagin Maximum Principle	23
3.3	Sufficient Condition for Optimality	25
3.4	Example: Linear Quadratic Regulator	27
3.5	Example: Consumption and Savings	28
4	Dynamic Programming	31
4.1	Introductory Example	32
4.2	Dynamic Programming Principle (DPP)	33
4.3	Dynamic Programming Equation (DPE)	35
4.4	Verification	38
4.5	DPE and Maximum Principle	39
4.6	Example: Linear Quadratic Regulator	40
4.7	Example: Optimal Consumption	41

II	Stochastic Control	43
5	Stochastic Analysis Reminder	45
5.1	Stochastic Differential Equations	45
5.2	Feynman–Kac Representation	47
6	Dynamic Programming in Standard Form	49
6.1	Dynamic Programming Equation	54
6.2	Verification	57
6.3	Infinite Time Horizon	58
7	Portfolio Choice	63
7.1	Black–Scholes	64
7.2	Example with Stochastic Volatility	66
7.3	Logarithmic Utility	69
8	Optimal Stopping	73
8.1	Essential Supremum	73
8.2	Snell Envelope Theory in Discrete Time	74
8.3	Snell Envelope Theory in Continuous Time	79
8.4	Optimal Stopping of a Diffusion	80
8.5	Examples	88