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(DEPARTMENT OF OPERATIONS RESEARCH)

BW 69/77 JANUARI

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INVENTORY CONTROL WITH TWO SWITCH-OVER LEVELS FOR A CLASS OF M/G/1 QUEUEING SYSTEMS WITH VARIABLE ARRIVAL AND SERVICE RATE

Prepublication

2e boerhaavestraat 49 amsterdam

Printed at the Mathematical Centre, 49, 2e Boerhaavestraat, Amsterdam.

The Mathematical Centre, founded the 11-th of February 1946, is a non-profit institution aiming at the promotion of pure mathematics and its applications. It is sponsored by the Netherlands Government through the Netherlands Organization for the Advancement of Pure Research (Z.W.O).

AMS(MOS) subject classification scheme (1970): 60K25,90B05

Inventory control with two switch-over levels for a class of M/G/1 queueing systems with variable arrival and service rate *)

by

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ABSTRACT

This paper deals with inventory control in a class of M/G/1 queueing systems with the inventory being the virtual waiting time. It is assumed that at each point of time the system is in one of two possible stages 1 and 2 where at any moment the system can be switched from one stage to another. The rate of arrival process and the service rate depend on the stage of the system. The cost structure imposed on the model includes both a holding cost at a general rate $h_i(x)$ when the system is in stage i and the inventory is x and fixed switch-over costs. The control rule for the inventory is specified by two switch-over levels y_1 and y_2 and prescribes to switch the system from stage 1 to stage 2 when the inventory exceeds level y_1 and to switch the system from stage 2 to stage 1 when the inventory has been decreased to the level y_2. Using an embedding approach, we will derive a formula for the long-run average expected costs per unit time of this policy. By an appropriate choice of the cost parameters, we may obtain various operating characteristics for the system amongst which the stationary distribution of the inventory and the average number of switch-overs per unit time. The above control problem includes as special cases a variety of problems previously studied in the literature and provides thus a unifying treatment of these problems.

KEY WORDS & PHRASES: M/G/1 *queue, variable arrival and service rate, inventory control, two switch-over levels, general cost structure, average costs, stationary distribution.*

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*) This report will be submitted for publication elsewhere

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1. INTRODUCTION AND THE MODEL

This paper deals with inventory control in a class of M/G/1 queueing systems which are considered as inventory systems with the inventory at time t being the virtual waiting time. The system is supposed to have a finite capacity K. It is assumed that at each point of time the system is in one of two possible stages 1 and 2 where at any moment the system can be switched from one stage to another without loss of time. If the system is in stage i, the epochs at which customers arrive are generated by a Poisson process with rate λ_i, i = 1,2. Let Y_i be a positive random variable having probability distribution function $F_i(x) = \Pr\{Y_i \le x\}$, i = 1,2. Any customer arriving while the system is in stage i and the inventory of the system is x enlarges the inventory with an amount which is distributed as $\min[K-x, Y_i]$ and causes an overflow which is distributed as $\max[0, Y_i-K+x]$, i = 1,2. If the system is in stage i and the inventory is positive, then between arrival epochs the inventory decreases linearly at rate $\sigma_i > 0$, i = 1,2.

The following cost structure is imposed on the model. There are holding (and service) costs at rate $h_i(x)$ when inventory is x and the system is in stage i where the functions $h_1(x)$ and $h_2(x)$ are assumed to be bounded functions having only a finite number of discontinuities in $0 \le x \le K$. An overflow cost of $p_i(y)$ is incurred when an overflow of an amount y is caused by a customer arriving while the system is in stage i where $p_i(y)$ is a nondecreasing function of $y \ge 0$ with $\int_0^\infty p_i(y)dF_i(y) < \infty$ for i = 1,2. Finally, a fixed cost of γ is incurred when the system is switched from stage 2 to stage 1.

The rule for controlling the inventory is specified by two switch-over levels y_1 and y_2 with $0 \le y_2 \le y_1 < K$. This (y_1, y_2) policy prescribes to switch the system from stage 1 to stage 2 only when the inventory exceeds the value y_1 and prescribes to switch the system from stage 2 to stage 1 only when the inventory has been decreased to the value y_2.

Using a powerful and simple approach involving embedded processes, we shall derive a formula for the long-run average expected costs per unit time of this policy. By an appropriate choice of the cost functions, we may obtain from this formula various operating characteristics for the system amongst which the stationary distribution of the inventory and the average number of switch-overs and overflows per unit time.

The above control problem includes as special cases a variety of problems previously studied in the literature and provides thus a unifying treatment of these problems. As examples we give the following two cases. Case (i) $\lambda_1 = \lambda_2$, $F_1(.) = F_2(.)$. In this case the control of the inventory is achieved by controlling the service rate. This problem was studied amongst others in [3] and [10]. In [3] the stationary distribution of the inventory was derived for the infinite capacity model with a single switch-over level $y_1 = y_2$ and in [10] the average cost of the (y_1,y_2) policy was obtained for the infinite capacity model for the case of linear holding costs.

Case (ii) $\lambda_1 > 0$, $\lambda_2 = 0$, $F_1(.) = F_2(.)$, $\sigma_1 = \sigma_2$. In this case we have in fact a queueing system with restricted accessibility and the control of the inventory is achieved by controlling the arrival process. For this model with an infinite capacity and a single switch-over level $y_1 = y_2$ the stationary distribution of the inventory was derived in [1], see also [4] for this specific model. Finally, we observe that by letting $y_1 = y_2$ and $y_1 \to K$ the model of case (ii) reduces to the well-known finite dam model.

2. AVERAGE COST ANALYSIS

In this section we will derive a formula for the average cost of the (y_1,y_2) policy. This will be done by using a generally applicable approach based on a properly chosen embedded process.

Let us define the state of the system as $x(x')$ when the inventory level is x and the system is in stage 1(2). Denote by $X(t)$ and $S(t)$ the inventory level and the state of the system at time t respectively where we take the processes $\{X(t), t \geq 0\}$ and $\{S(t), t \geq 0\}$ continuous from the right. So at time t the state of the system is $x(x')$ when at time t the inventory level is equal to x and the system is in stage 1 (2). To derive the formula for the average cost, we will consider an embedded Markov chain of the process $\{S(t)\}$.Consider now the inventory system controlled by a fixed (y_1,y_2) policy where for notational convenience we take $y_2 > 0$.

Unless stated otherwise, we also assume for ease that the system is empty at epoch 0. Now, let $T_0 = 0$ and, for $n \geq 1$, let T_n be the nth epoch at which either the inventory level exceeds y_1 while the system is in stage 1 or the inventory level decreases to y_2 while the system is in stage 2 or or the inventory becomes zero.
For any $n \geq 0$, define S_n as the state of the system at epoch T_n. The embedded discrete-time process $\{S_n, n = 0,1,\ldots\}$ is a Markov chain with state space

$$S = \{0\} \cup \{y_2\} \cup \{x' | y_1 < x \leq K\}.$$

Taking for ϕ any finite measure on the Borelsets of S such that $\phi(A) > 0$ if and only if $0 \in A$, it immediately follows that the Markov chain $\{S_n\}$ is uniformly ϕ-recurrent, see p. 26 in [7]. Now, by Theorem 7.1 in [7], the Markov chain $\{S_n\}$ has a unique invariant probability measure π such that, for any Borel subset A of S,

$$(1) \qquad \pi(A) = \int_S P(s,A)\ \pi\ (ds)$$

where P(.,.) denotes the one-step transition probability distribution function of $\{S_n\}$. Moreover by Theorem 3.3 in [6], we have

$$(2) \qquad \lim_{n\to\infty} \frac{1}{n} \sum_{k=0}^{n-1} Ef(S_k) = \int_S f(s)\pi(ds)$$

for any Baire function f such that $\int |f(s)|\pi(ds)$ is finite.

Define Z(t) as the total costs incurred in (0,t]. For any $n \geq 0$, let Z_n be the total costs incurred in $(T_n, T_{n+1}]$. Also let

$$c(s) = E(Z_n | S_n = s) \text{ and } \tau(s) = E(T_{n+1} - T_n | S_n = s) \text{ for } s \in S.$$

Since the process $\{S(t)\}$ is regenerative with the epochs at which the system becomes empty as regeneration epochs, it follows from the proof of Theorem 7.5 in [8] that

$$\lim_{t\to\infty} \frac{1}{t} EZ(t) = \lim_{n\to\infty} \sum_{k=0}^{n-1} EZ_k / \sum_{k=0}^{n-1} E(T_{k+1}-T_k).$$

Hence, by (2), the average cost of the (y_1,y_2) policy is given by

(3) $$\lim_{t\to\infty} \frac{1}{t} EZ(t) = \int_S c(s)\pi(ds) / \int_S \tau(s)\pi(ds).$$

We shall next determine the stationary distribution π and the functions $c(.)$ and $\tau(.)$. To do this, we first introduce the following notation. For $i = 1,2$, let $H_i(x) = 0$ for $x < 0$ and let

$$H_i(x) = \frac{\lambda_i}{\sigma_i} \int_0^x \{1-F_i(y)\}dy \qquad \text{for } x \geq 0.$$

For $i = 1,2$, define δ_i as the unique root to

$$\int_0^\infty e^{-xy} dH_i(y) - 1 = 0$$

For $i = 1,2$, define the probability distribution function G_i by $G_i(x) = 0$ for $x < 0$ and

$$G_i(x) = \int_0^x e^{-\delta_i y} dH_i(y), \qquad \text{for } x \geq 0.$$

Finally define for $i = 1,2$, the renewal function M_i by $M_i(x) = 0$ for $x < 0$ and

$$M_i(x) = \sum_{n=1}^\infty G_i^n(x), \qquad \text{for } x \geq 0,$$

where G_i^n is the n-fold convolution of G_i with itself. Fix $1 \leq i \leq 2$ and $w > 0$. Consider now the following "renewal-type" equation

$$u(x) = a(x) + \int_0^{w-x} u(x+y) dH_i(y) \qquad 0 \leq x \leq w,$$

where a(x) is a given bounded function. This equation has the unique bounded solution (see [2] and [5]),

$$(4)\qquad u(x) = a(x) + \int_0^{w-x} e^{\delta_i y} a(x+y)dM_i(y) \qquad \text{for } 0 \le x \le w.$$

To determine the stationary distribution π, define for all $0 \le u \le y_1$ and $y_1 \le v \le K$.

$p(u,v)$ = probability that the first value of the process $\{X(t), t \ge 0\}$ taken on in the set $\{0\} \cup \{x | y_1 < x \le K\}$ belongs to the set $\{x | v \le x \le K\}$ given that $X(0) = u$,

and let $p_0(u) = 1-p(u,y_1)$ for $0 \le u \le y_1$. For ease of notation, write

$$\pi_0 = \pi(\{0\}),\ \pi_2 = \pi(\{y_2\}) \text{ and } \pi(v) = \pi(\{x' | v \le x \le K\} \qquad \text{for } y_1 \le v \le K$$

Also, let $\bar{F}_1(y) = 1 - \lim_{x \uparrow y} F_1(x) = \Pr\{Y_1 \ge y\}$. Then, by (1),

$$(5)\qquad \pi(v) = \pi_0\{\bar{F}_1(v) + \int_0^{y_1} p(y,v)dF_1(y)\} + \pi_2 p(y_2,v) \qquad \text{for } y_1 \le v \le K,$$

$$(6)\qquad \pi_0 = \pi_0 \int_0^{y_1} p_0(y)dF_1(y) + \pi_2 p_0(y_2) \quad \text{and} \quad \pi_2 = \pi(y_1).$$

We note that any interval of integration is closed, unless stated otherwise. Together (5), (6) and the relation $\pi_0 + \pi_2 + \pi(y_1) = 1$ determine the stationary distribution π once we have calculated the probabilities $p(u,v)$. Using standard arguments, we have for all $y_1 \le v \le K$,

$$p(u+\Delta u,v) = \lambda_1 \frac{\Delta u}{\sigma_1} \{\bar{F}_1(v-u) + \int_0^{y_1-u} p(u+y,v)dF_1(y)\} + $$
$$+ (1-\lambda_1 \frac{\Delta u}{\sigma_1})p(u,v) + o(\Delta u) \quad \text{for } 0 < u < y_1,$$

from which we get

$$\frac{\partial p(u,v)}{\partial u} = \frac{\lambda_1}{\sigma_1}\{\bar{F}_1(v-u) - p(u,v) + \int_0^{y_1-u} p(u+y,v)dF_1(y)\},$$

$$\text{for } 0 < u < y_1.$$

We now give the following relation, cf.[2]. Fix $1 \le i \le 2$ and $w > 0$. At each point x such that F_i is continuous at w-x we have for any continuous function a (.)(use the fact that $F_i(0) = 0$),

$$(7) \qquad \frac{\partial}{\partial x}\int_0^{w-x} a(x+y)\{1-F_i(y)\}dy = -a(x) + \int_0^{w-x} a(x+y)dF_i(y).$$

Using this relation and the continuity of p(.,v) we find for all $y_1 \le v \le K$,

$$p(u,v) = \phi(u,v) + \int_0^{y_1-u} p(u+y,v)dH_1(y) \quad \text{for} \quad 0 \le u \le y_1$$

where, for some constant c_v,

$$\phi(u,v) = c_v + H_1(v) - H_1(v-u).$$

Next, by (4), we get for all $y_1 \le v \le K$,

$$p(u,v) = \phi(u,v) + \int_0^{y_1-u} e^{\delta_1 y}\phi(u+y,v)dM_1(y) \qquad \text{for } 0 \le u \le y_1.$$

For any v with $y_1 \le v \le K$ the constant c_v follows from the boundary condition

$$p(0,v) = 0.$$

This completes the determination of the stationary distribution π. To determine the functions c(.) and τ(.), we define for all $0 \le x \le y_1$,

$k_1(x)$ = the expected holding and overflow costs incurred up to the first epoch at which the process $\{S(t), t \geq 0\}$ takes on a state in the set $\{0\} \cup \{y' | y_1 < y \leq K\}$ given that $S(0) = x$

and, for all $y_2 \leq x \leq K$,

$k_2(x)$ = the expected holding and overflow costs incurred up to the first epoch at which the process $\{S(t), t \geq 0\}$ takes on the state y_2 given that $S(0) = x$!

It is now easily seen that the function $c(s)$, $s \in S$ is given by

$$c(0) = \frac{h_1(0)}{\lambda_1} + \int_0^{y_1} k_1(y)dF_1(y) + \int_K^{\infty} p_1(y-K)dF_1(y),$$

$$c(y_2) = k_1(y_2) \quad \text{and} \quad c(x') = k_2(x) + \gamma \quad \text{for } y_1 < x \leq K.$$

Clearly, for any $s \in S$ the formula for $\tau(s)$ follows from the corresponding one for $c(s)$ by putting $h_i(x) = 1$ for $x \geq 0$, $p_i(y) = 0$ for $y \geq 0$ $(i = 1,2)$ and $\gamma = 0$. The function $k_1(x)$ and $k_2(x)$ will be determined in a very similar way as $p(u,v)$. First observe that these functions are continuous in $0 \leq x \leq K$. Then, for any $0 < x < y_1$ such that x is a continuity point of $h_1(.)$,

$$k_1(x+\Delta x) = h_1(x) \frac{\Delta x}{\sigma_1} + \lambda_1 \frac{\Delta x}{\sigma_1} \{ \int_0^{y_1-x} k_1(x+y)dF_1(y) + \\ + \int_{K-x}^{\infty} p_1(x+y-K)dF_1(y)\} + (1-\lambda_1 \frac{\Delta x}{\sigma_1}) k_1(x) + o(\Delta x),$$

from which we get for any $0 < x < y_1$ such that x is a continuity point of h_1,

$$k_1'(x) = \frac{h_1(x)}{\sigma_1} + \frac{\lambda_1}{\sigma_1} \int_{K-x}^{\infty} p_1(x+y-K)dF_1(y) - \frac{\lambda_1}{\sigma_1} k_1(x) + \\ + \frac{\lambda_1}{\sigma_1} \int_0^{y_1-x} k_1(x+y)dF_1(y).$$

In the same way as above we get from this differential equation that, for some constant b_1,

$$k_1(x) = d_1(x) + b_1 + \int_0^{y_1-x} e^{\delta_1 y} \{d_1(x+y)+b_1\}dM_1(y)$$

$$\text{for } 0 \le x \le y_1,$$

where

$$d_1(x) = \int_0^x [\frac{h_1(u)}{\sigma_1} + \frac{\lambda_1}{\sigma_1} \int_{K-u}^{\infty} p_1(u+y-K)dF_1(y)]du \quad \text{for } 0 \le x \le y_1.$$

The constant b_1 is determined by the boundary condition $k_1(0) = 0$. Similarly, we find from the corresponding differential equation for $k_2(x)$ that, for some constant b_2,

$$k_2(x) = d_2(x) + b_2 + \int_0^{K-x} e^{\delta_2 y} \{d_2(x+y)+b_2\}dM_2(y)$$

$$\text{for } y_2 \le x \le K.$$

where, for $y_2 \le x \le K$,

$$d_2(x) = \int_0^x [\frac{h_2(u)}{\sigma_2} + \frac{\lambda_2}{\sigma_2} \int_{K-u}^{\infty} p_2(u+y-K)dF_2(y) +$$

$$+ \frac{\lambda_2}{\sigma_2} \{1-F_2(K-u)\} k_2(K)]du.$$

The constant b_2 and the value $k_2(K)$ follow by putting $x = K$ in the above formula for $k_2(x)$ and using the boundary condition $k_2(y_2) = 0$.

We now have completed the determination of π,c(.) and τ(.) and so, by (3), we have determined a formula for the average cost of the (y_1,y_2) policy. From this formula we may obtain various operating characteristics for the system. To obtain the stationary distribution of the inventory, define for any $t \ge 0$ the random variable $A(t) = i$ when the system is in stage i at time t, i = 1,2, where we take the process $\{A(t)\}$ continuous from the right. Fix now k and z with k = 1,2 and $0 \le z \le K$, take $h_k(x) = 1$ for $0 \le x \le z$, $h_k(x) = 0$ for $x > z$ and take the other holding cost function, the overflow cost functions and the fixed switch-over cost identical to zero. Then, using standard results from the theory of regenerative processes (e.g. [9]), we have

$$\lim_{t\to\infty} \Pr\{A(t) = k, X(t) \le z\} = \lim_{t\to\infty} \frac{EZ(t)}{t},$$

so the stationary distribution of the inventory is determined by the right-hand side of (3).

Clearly, the average number of switch-overs per unit time is equal to the coefficient of γ in the formula for the average cost and is given by

$$(1-\pi_0-\pi_2)/\int_S \tau(s)\pi(ds).$$

Finally, letting $p_i(y) = p_i$ for $y > 0$ and $p_i(0) = 0$, we have that the coefficient of p_i in the formula for the average cost gives the average number of overflows in stage i per unit time, i = 1,2.

To the end, we consider the special case where

$$F_i(x) = 1-e^{-\eta_i x} \quad \text{for } x > 0 \quad \text{and } i = 1,2.$$

We then find $\delta_i = (\lambda_i/\sigma_i)-\eta_i$ and

$$e^{\delta_i y} M_i'(y) = (\lambda_i/\sigma_i)e^{-(\eta_i-\lambda_i/\sigma_i)y} \qquad \text{for } y \ge 0 \quad \text{and} \quad i = 1,2.$$

In the remainder it is supposed that $\lambda_i/\sigma_i \ne \eta_i$ for i = 1,2. Put for abbreviation,

$$\alpha_i = \frac{\lambda_i}{\sigma_i},\ \beta_i = \eta_i-\alpha_i \text{ for } i = 1,2,\ R(y_1,y_2) = \beta_1^{-1}\{\eta_1 e^{\beta_1 y_1}-\alpha_1 e^{\beta_1 y_2}\},$$

$$S(y_1) = e^{-\eta_1(K-y_1)}.$$

We find after elementary but lengthy calculations

$$\pi_0 = c.R(y_1,y_2), \pi_2 = c, -\frac{d\pi(v)}{dv} = c\eta_1 e^{-\eta_1(v-y_1)} \quad \text{for } y_1 < v < K,$$

$$\pi(K) = c.S(y_1),$$

where the normalizing constant c equals $1/\{R(y_1,y_2)+2\}$. We next find

$$\frac{1}{c}\int_S \tau(s)\pi(ds) = \left(\frac{\eta_2}{\sigma_2\beta_2} - \frac{\eta_1}{\sigma_1\beta_1}\right)(y_1-y_2+\frac{1}{\eta_1}) + \frac{\eta_1}{\lambda_1\beta_1} R(y_1,y_2)+$$

$$-\frac{\eta_2}{\sigma_2\eta_1\beta_2} S(y_1) + \frac{\alpha_2\eta_1}{\sigma_2\beta_2^2(\beta_2-\eta_1)}\{e^{-\beta_2(K-y_1)}-S(y_1)\} +$$

$$+\frac{\alpha_2}{\sigma_2\beta_2^2}\{e^{-\beta_2(K-y_2)}-S(y_1)\}.$$

Denote by $D(y_1,y_2)$ the right-hand side of this equation. We then obtain

$$\lim_{t\to\infty} \Pr\{A(t) = 1,\ X(t) \le z\} = \frac{1}{D(y_1,y_2)}\frac{R(y_1,y_2)}{\lambda_1\beta_1}\{\eta_1-\alpha_1 e^{-\beta_1 z}\},$$

$$0 \le z \le y_2,$$

$$\lim_{t\to\infty} \Pr\{A(t) = 1,\ X(t) \le z\} = \frac{1}{D(y_1,y_2)}\left[\frac{\eta_1}{\sigma_1\beta_1}(y_2-z) +\right.$$

$$\left.+\frac{\eta_1}{\lambda_1\beta_1} R(y_1,y_2) + \frac{1}{\sigma_1\beta_1 2}(\alpha_1-\eta_1 e^{-\beta_1(z-y_1)})\right], \quad y_2 \le z \le y_1,$$

$$\lim_{t\to\infty} \Pr\{A(t) = 2,\ X(t) \le z\} = \frac{1}{D(y_1,y_2)}\left[\frac{\eta_2}{\sigma_2\beta_2}(z-y_2) +\right.$$

$$\left.+\frac{\alpha_2}{\sigma_2\beta_2^2}(e^{-\beta_2(z-y_2)}-1)\right], \quad y_2 \le z \le y_1,$$

$$\lim_{t\to\infty} \Pr\{A(t) = 2, X(t) \le z\} = \frac{1}{D(y_1,y_2)} \Big[\frac{\eta_2}{\sigma_2\beta_2}\Big(y_1-y_2+\frac{1}{\eta_1}\Big) +$$

$$+ \frac{\alpha_2}{\sigma_2\beta_2^2} e^{-\beta_2(z-y_2)} + \frac{\eta_1\alpha_2}{\sigma_2\beta_2^2(\beta_2-\eta_1)} \{e^{-\beta_2(z-y_1)} - e^{-\eta_1(z-y_1)}\} +$$

$$- \frac{1}{\sigma_2\beta_2}\Big(\frac{\eta_2}{\eta_1} + \frac{\alpha_2}{\beta_2}\Big) e^{-\eta_1(z-y_1)}\Big], \qquad y_1 \le z \le K.$$

Further, the average number of overflows in stage 1 per unit time equals

$$S(y_1)/D(y_1,y_2)$$

and the average number of overflows in stage 2 per unit time is equal to

$$\frac{1}{D(y_1,y_2)} \Big[\frac{\alpha_2}{\beta_2} \{S(y_1) - e^{-\beta_2(K-y_2)}\} + \frac{\alpha_2\eta_1}{\beta_2(\beta_2-\eta_1)} \{S(y_1) - e^{-\beta_2(K-y_1)}\}\Big].$$

Finally, letting $\lambda_2 = 0$, $\sigma_1 = \sigma_2 = 1$, $y_1 = y_2 = N$ and $K \to\infty$, we find

$$\lim_{t\to\infty} \Pr\{X(t) \le z\} = \begin{cases} c_1[1-(\lambda_1/\eta_1)e^{-\beta_1 z}], & 0 \le z \le N, \\ c_1[1-(\lambda_1/\eta_1)^2 e^{-\beta_1 N} - (\lambda_1/\eta_1)(1-\lambda_1/\eta_1)e^{-\eta_1 z+\lambda_1 N}], & z \ge N. \end{cases}$$

where $c_1 = 1/[1-(\lambda_1/\eta_1)^2 e^{-\beta_1 N}]$. This formula corrects a slight error in a corresponding formula in [1].

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