

RATIONAL DECISIONS

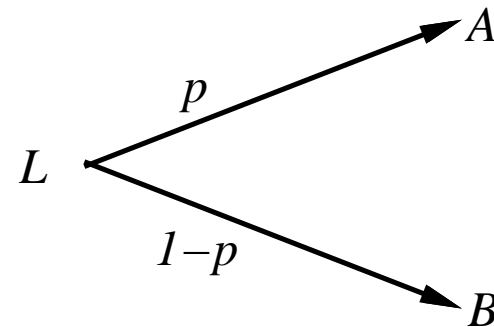
CHAPTER 16

Outline

- ◇ Rational preferences
- ◇ Utilities
- ◇ Money
- ◇ Multiattribute utilities
- ◇ Decision networks
- ◇ Value of information

Preferences

An agent chooses among prizes (A , B , etc.) and lotteries, i.e., situations with uncertain prizes



Lottery $L = [p, A; (1 - p), B]$

Notation:

- $A \succ B$ A preferred to B
- $A \sim B$ indifference between A and B
- $A \not\succeq B$ B not preferred to A

Rational preferences

Idea: preferences of a rational agent must obey constraints.

Rational preferences \Rightarrow
behavior describable as maximization of expected utility

Constraints:

Orderability

$$(A \succ B) \vee (B \succ A) \vee (A \sim B)$$

Transitivity

$$(A \succ B) \wedge (B \succ C) \Rightarrow (A \succ C)$$

Continuity

$$A \succ B \succ C \Rightarrow \exists p [p, A; 1 - p, C] \sim B$$

Substitutability

$$A \sim B \Rightarrow [p, A; 1 - p, C] \sim [p, B; 1 - p, C]$$

Monotonicity

$$A \succ B \Rightarrow (p \geq q \Leftrightarrow [p, A; 1 - p, B] \succsim [q, A; 1 - q, B])$$

Rational preferences contd.

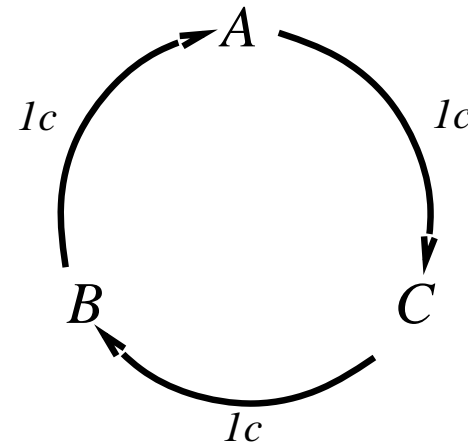
Violating the constraints leads to self-evident irrationality

For example: an agent with intransitive preferences can be induced to give away all its money

If $B \succ C$, then an agent who has C would pay (say) 1 cent to get B

If $A \succ B$, then an agent who has B would pay (say) 1 cent to get A

If $C \succ A$, then an agent who has A would pay (say) 1 cent to get C



Maximizing expected utility

Theorem (Ramsey, 1931; von Neumann and Morgenstern, 1944):

Given preferences satisfying the constraints
there exists a real-valued function U such that

$$U(A) \geq U(B) \Leftrightarrow A \succsim B$$
$$U([p_1, S_1; \dots; p_n, S_n]) = \sum_i p_i U(S_i)$$

MEU principle:

Choose the action that maximizes expected utility

Note: an agent can be entirely rational (consistent with MEU)
without ever representing or manipulating utilities and probabilities

E.g., a lookup table for perfect tictactoe

Utilities

Utilities map states to real numbers. Which numbers?

Standard approach to assessment of human utilities:

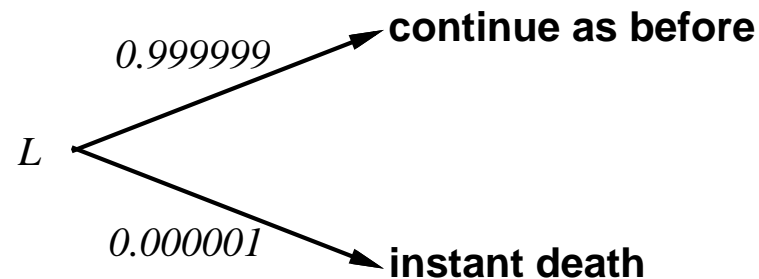
compare a given state A to a **standard lottery** L_p that has

“best possible prize” u_{\top} with probability p

“worst possible catastrophe” u_{\perp} with probability $(1 - p)$

adjust lottery probability p until $A \sim L_p$

pay \$30 \sim



Utility scales

Normalized utilities: $u_{\top} = 1.0$, $u_{\perp} = 0.0$

Micromorts: one-millionth chance of death

useful for Russian roulette, paying to reduce product risks, etc.

QALYs: quality-adjusted life years

useful for medical decisions involving substantial risk

Note: behavior is **invariant** w.r.t. +ve linear transformation

$$U'(x) = k_1 U(x) + k_2 \quad \text{where } k_1 > 0$$

With deterministic prizes only (no lottery choices), only **ordinal utility** can be determined, i.e., total order on prizes

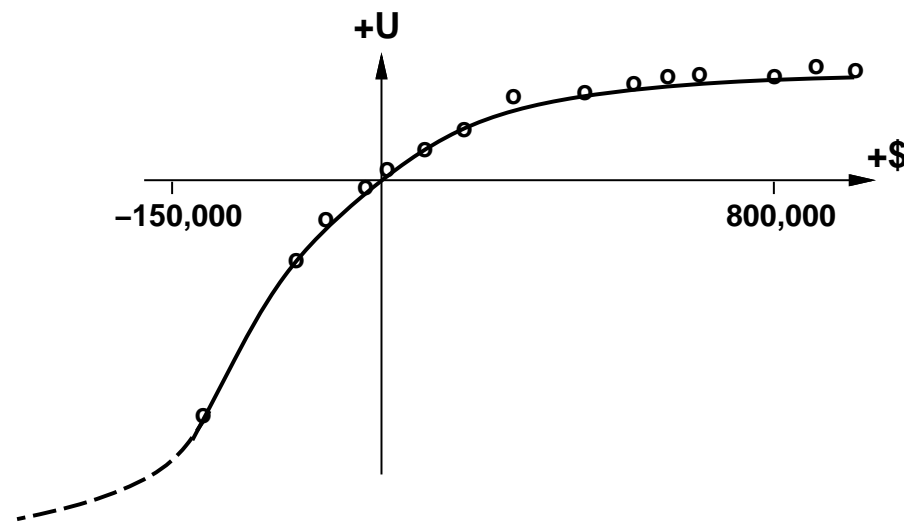
Money

Money does **not** behave as a utility function

Given a lottery L with expected monetary value $EMV(L)$, usually $U(L) < U(EMV(L))$, i.e., people are risk-averse

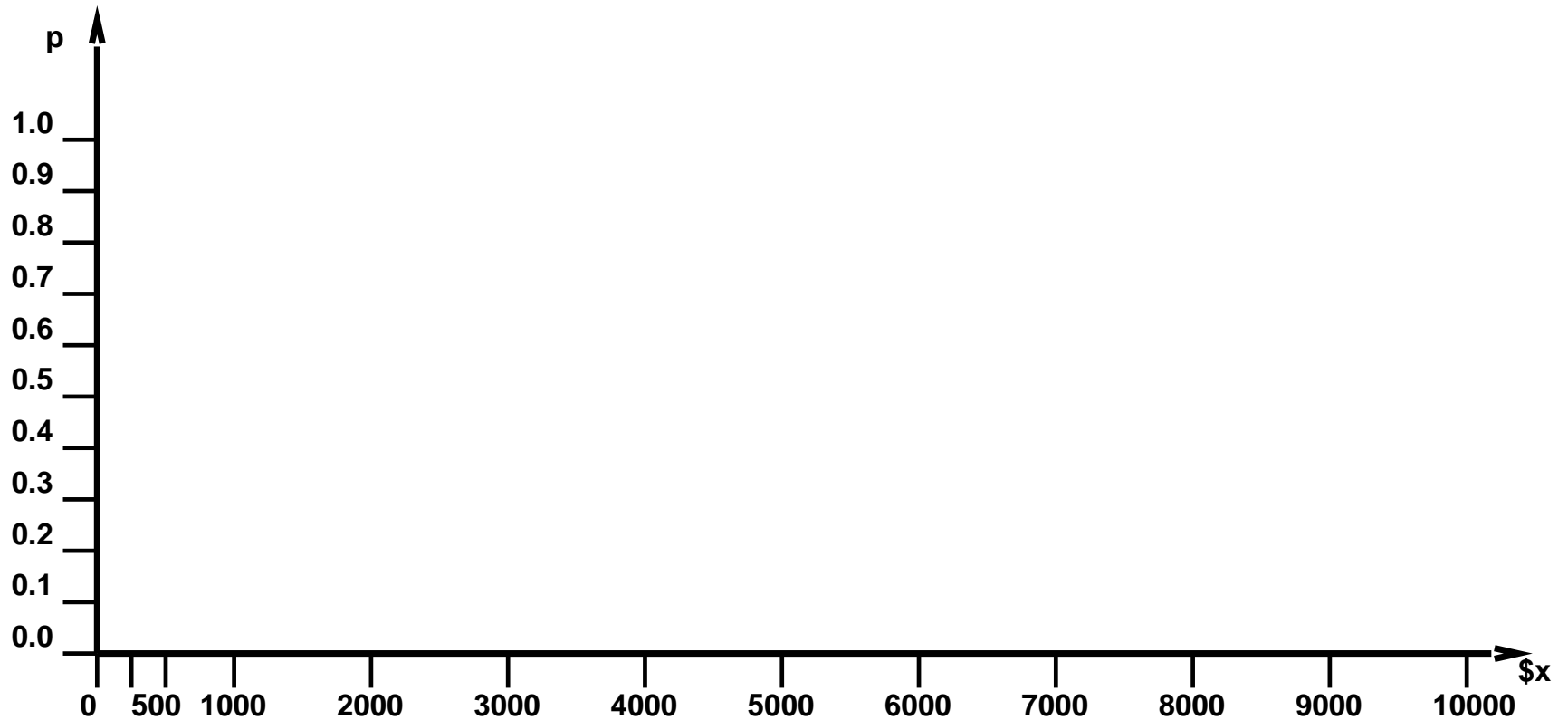
Utility curve: for what probability p am I indifferent between a prize x and a lottery $[p, \$M; (1 - p), \$0]$ for large M ?

Typical empirical data, extrapolated with risk-prone behavior:



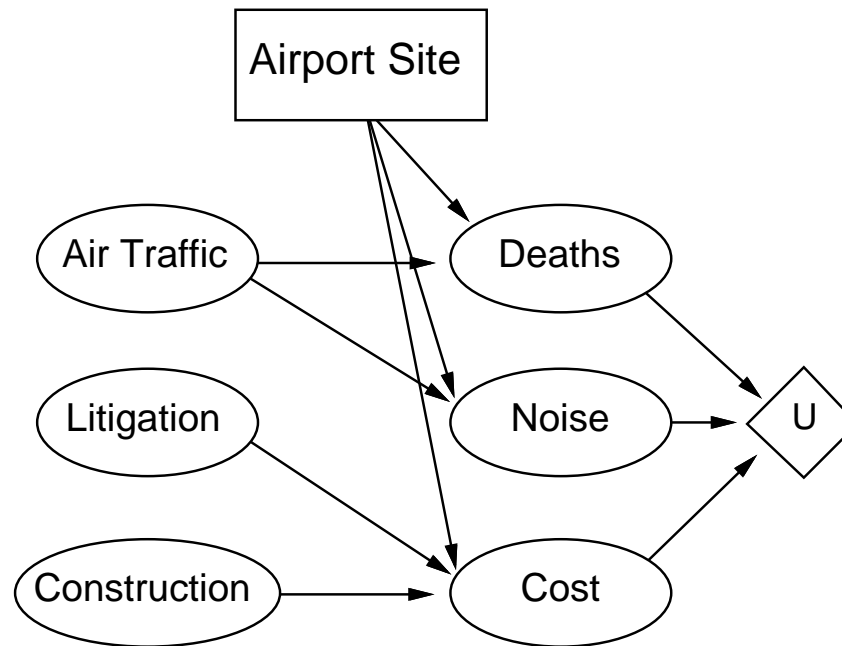
Student group utility

For each x , adjust p until half the class votes for lottery ($M=10,000$)



Decision networks

Add **action nodes** and **utility nodes** to belief networks to enable rational decision making



Algorithm:

For each value of action node

 compute expected value of utility node given action, evidence

Return MEU action

Multiattribute utility

How can we handle utility functions of many variables $X_1 \dots X_n$?
E.g., what is $U(\text{Deaths}, \text{Noise}, \text{Cost})$?

How can complex utility functions be assessed from preference behaviour?

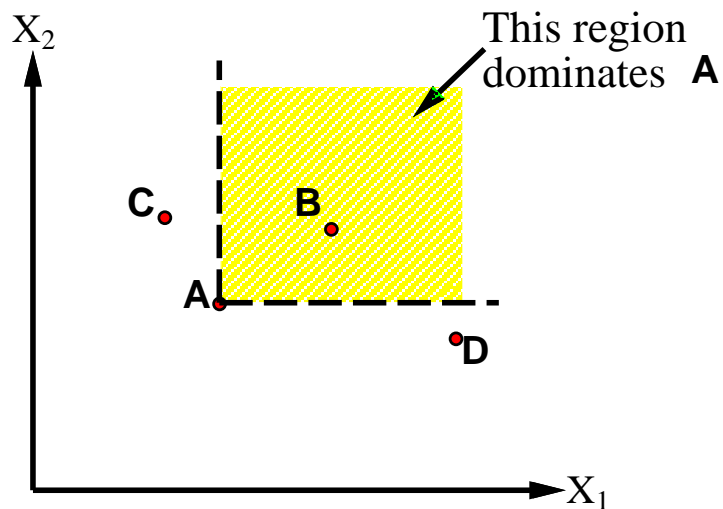
Idea 1: identify conditions under which decisions can be made without complete identification of $U(x_1, \dots, x_n)$

Idea 2: identify various types of **independence** in preferences and derive consequent canonical forms for $U(x_1, \dots, x_n)$

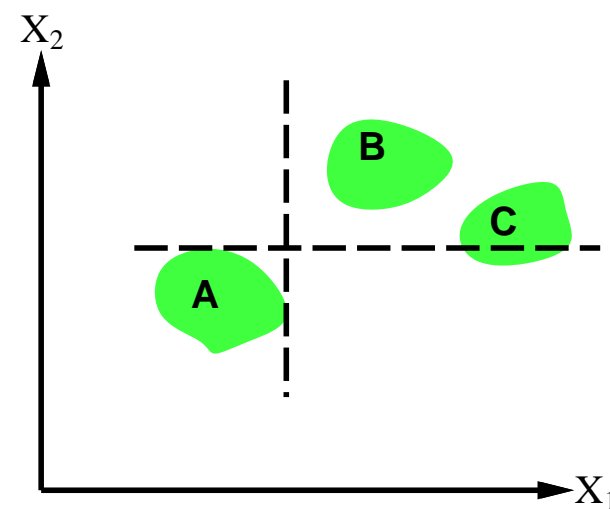
Strict dominance

Typically define attributes such that U is **monotonic** in each

Strict dominance: choice B strictly dominates choice A iff
 $\forall i X_i(B) \geq X_i(A)$ (and hence $U(B) \geq U(A)$)



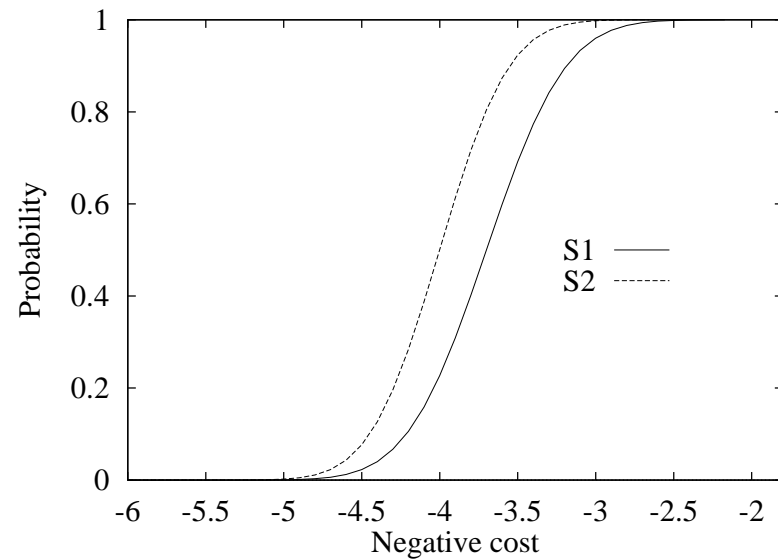
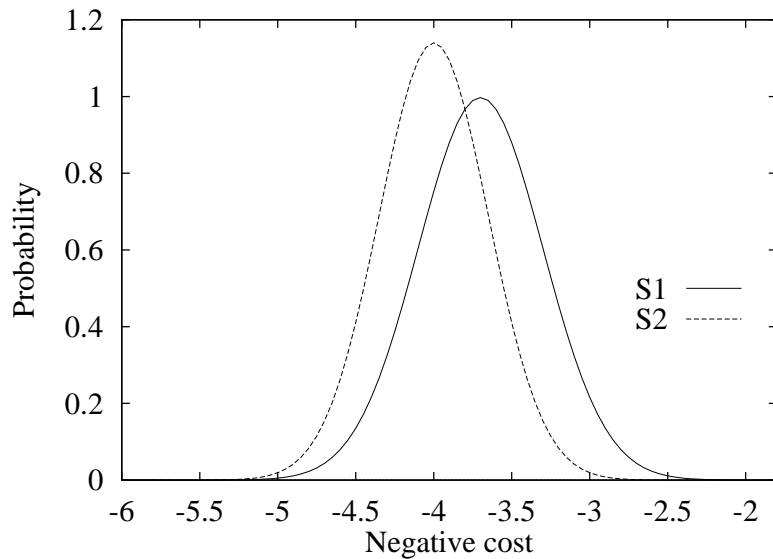
Deterministic attributes



Uncertain attributes

Strict dominance seldom holds in practice

Stochastic dominance



Distribution p_1 stochastically dominates distribution p_2 iff

$$\forall t \int_{-\infty}^t p_1(x) dx \leq \int_{-\infty}^t p_2(x) dx$$

If U is monotonic in x , then A_1 with outcome distribution p_1 stochastically dominates A_2 with outcome distribution p_2 :

$$\int_{-\infty}^{\infty} p_1(x) U(x) dx \geq \int_{-\infty}^{\infty} p_2(x) U(x) dx$$

Multiattribute case: stochastic dominance on all attributes \Rightarrow optimal

Stochastic dominance contd.

Stochastic dominance can often be determined without exact distributions using **qualitative** reasoning

E.g., construction cost increases with distance from city

S_1 is closer to the city than S_2
 $\Rightarrow S_1$ stochastically dominates S_2 on cost

E.g., injury increases with collision speed

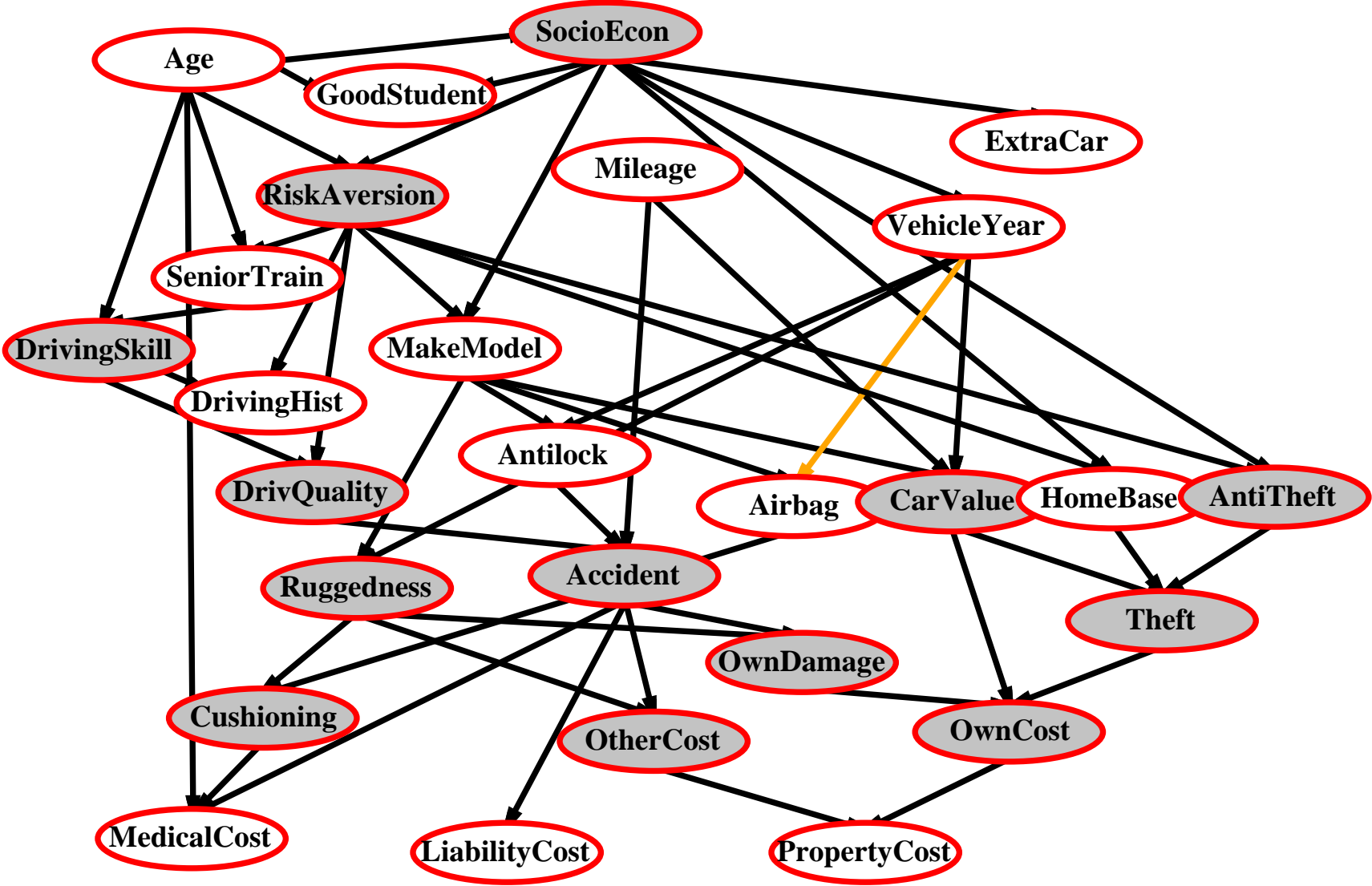
Can annotate belief networks with stochastic dominance information:

$X \xrightarrow{+} Y$ (X positively influences Y) means that

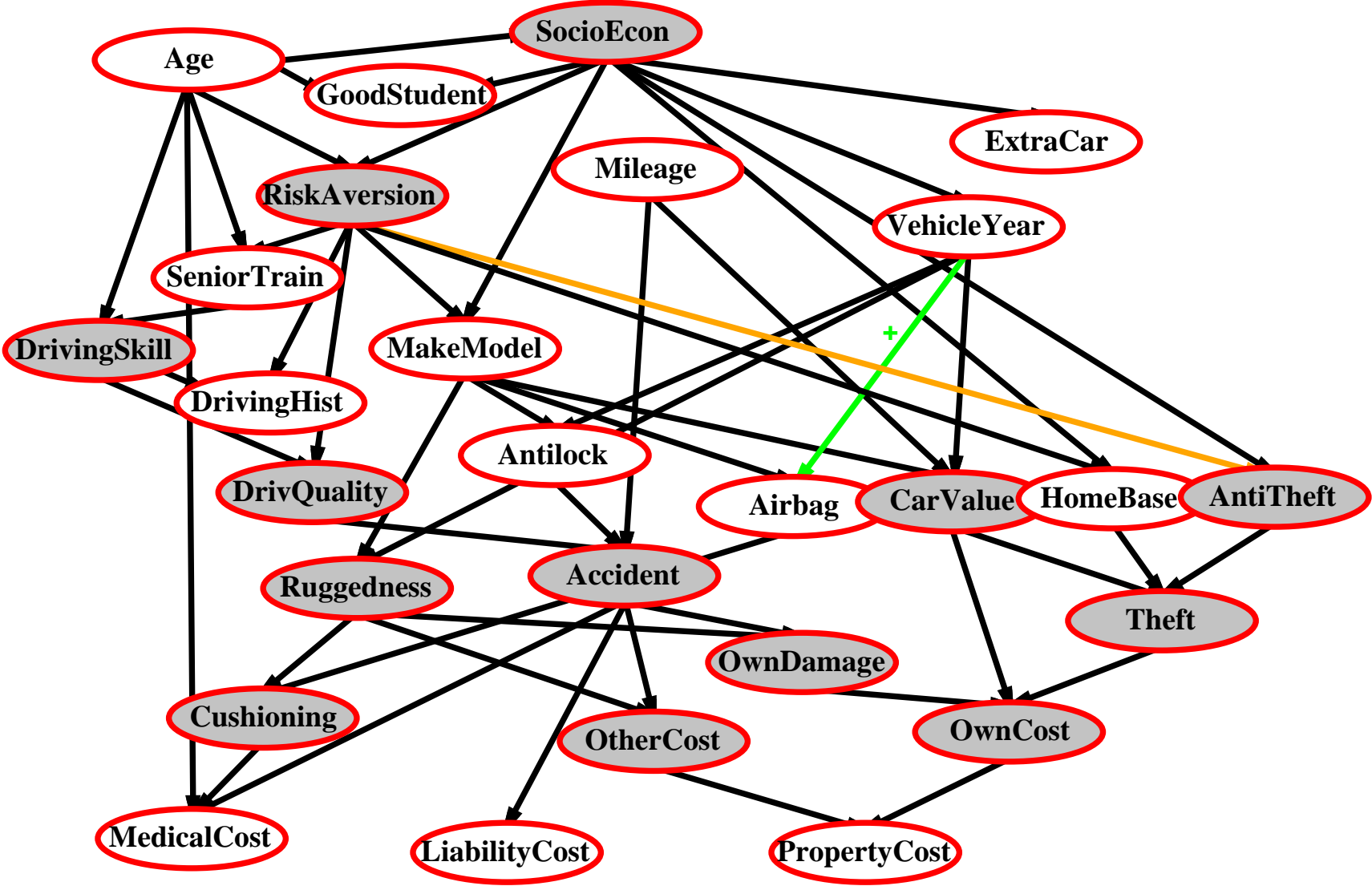
For every value \mathbf{z} of Y 's other parents \mathbf{Z}

$\forall x_1, x_2 \quad x_1 \geq x_2 \Rightarrow \mathbf{P}(Y|x_1, \mathbf{z})$ stochastically dominates $\mathbf{P}(Y|x_2, \mathbf{z})$

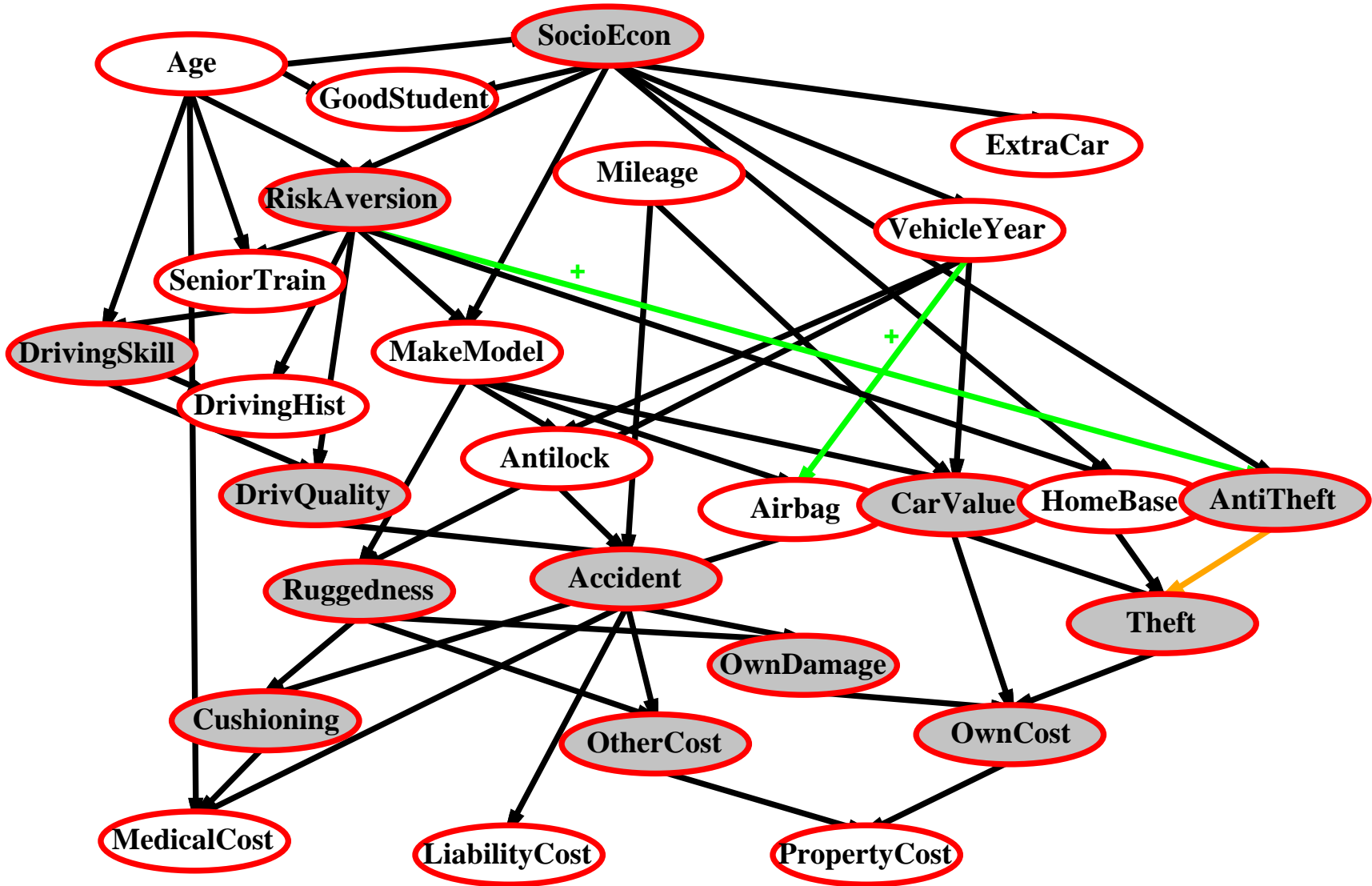
Label the arcs + or -



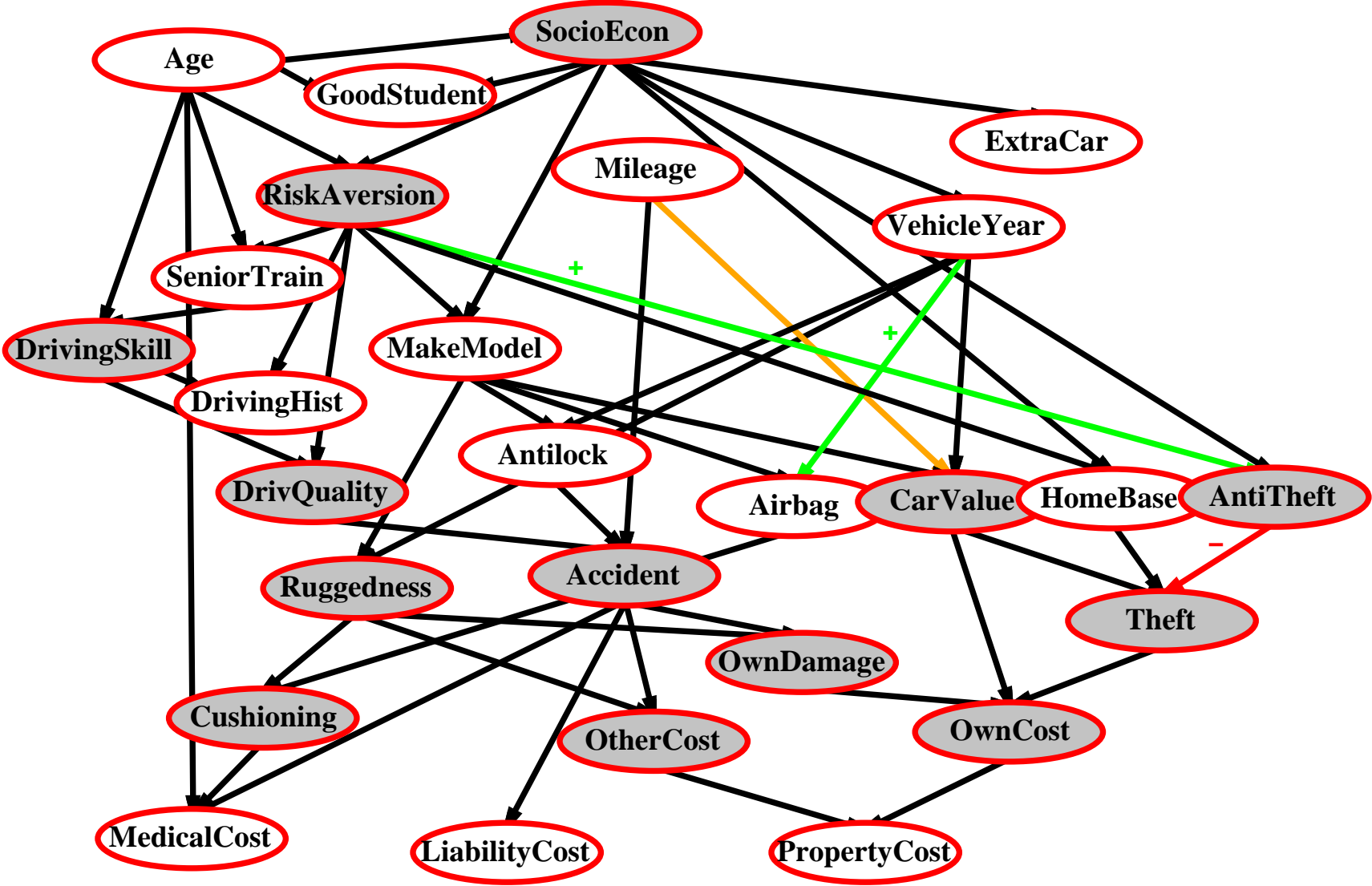
Label the arcs + or -



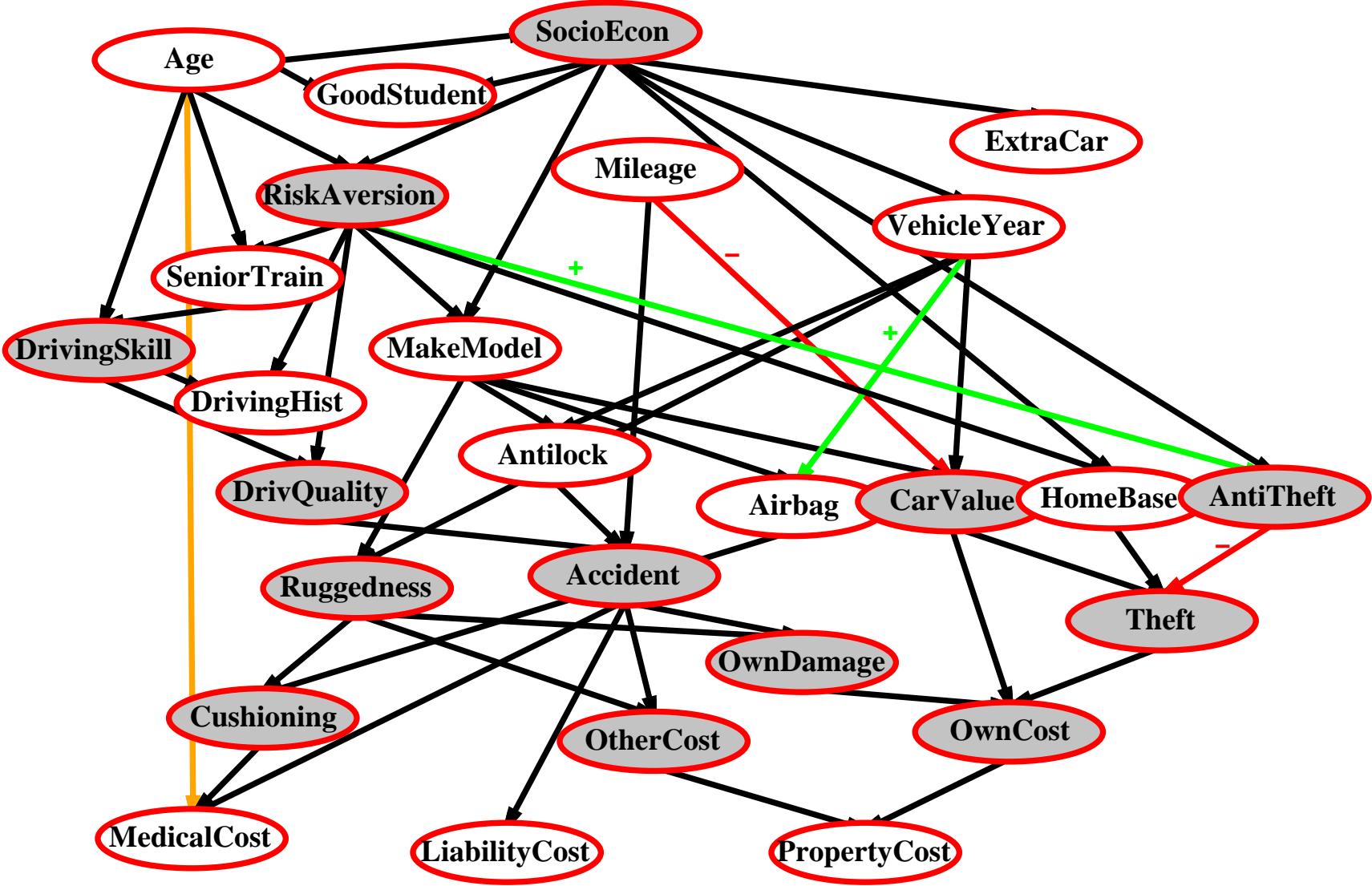
Label the arcs + or -



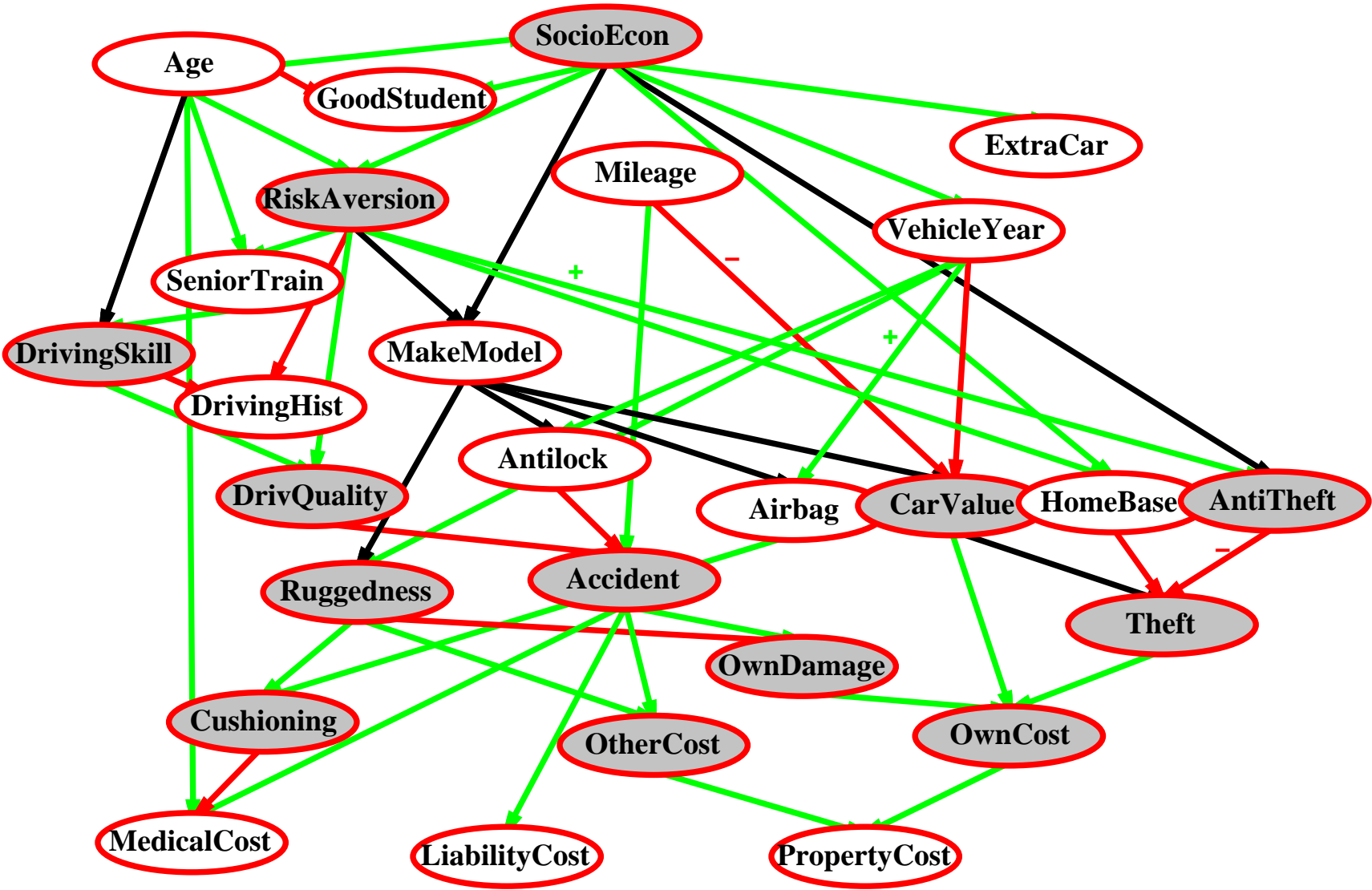
Label the arcs + or -



Label the arcs + or -



Label the arcs + or -



Preference structure: Deterministic

X_1 and X_2 preferentially independent of X_3 iff
preference between $\langle x_1, x_2, x_3 \rangle$ and $\langle x'_1, x'_2, x_3 \rangle$
does not depend on x_3

E.g., $\langle \text{Noise, Cost, Safety} \rangle$:

$\langle 20,000 \text{ suffer, } \$4.6 \text{ billion, } 0.06 \text{ deaths/mpm} \rangle$ vs.
 $\langle 70,000 \text{ suffer, } \$4.2 \text{ billion, } 0.06 \text{ deaths/mpm} \rangle$

Theorem (Leontief, 1947): if every pair of attributes is P.I. of its complement, then every subset of attributes is P.I. of its complement: **mutual P.I.**

Theorem (Debreu, 1960): mutual P.I. $\Rightarrow \exists$ additive value function:

$$V(S) = \sum_i V_i(X_i(S))$$

Hence assess n single-attribute functions; often a good approximation

Preference structure: Stochastic

Need to consider preferences over lotteries:

X is utility-independent of Y iff

preferences over lotteries in X do not depend on y

Mutual U.I.: each subset is U.I. of its complement

$\Rightarrow \exists$ multiplicative utility function:

$$\begin{aligned} U &= k_1U_1 + k_2U_2 + k_3U_3 \\ &+ k_1k_2U_1U_2 + k_2k_3U_2U_3 + k_3k_1U_3U_1 \\ &+ k_1k_2k_3U_1U_2U_3 \end{aligned}$$

Routine procedures and software packages for generating preference tests to identify various canonical families of utility functions

Value of information

Idea: compute value of acquiring each possible piece of evidence
Can be done **directly from decision network**

Example: buying oil drilling rights

Two blocks A and B , exactly one has oil, worth k

Prior probabilities 0.5 each, mutually exclusive

Current price of each block is $k/2$

“Consultant” offers accurate survey of A . Fair price?

Solution: compute expected value of information

= expected value of best action given the information

minus expected value of best action without information

Survey may say “oil in A ” or “no oil in A ”, **prob. 0.5 each** (given!)

= $[0.5 \times$ value of “buy A ” given “oil in A ”
+ $0.5 \times$ value of “buy B ” given “no oil in A ”]

– 0

= $(0.5 \times k/2) + (0.5 \times k/2) - 0 = k/2$

General formula

Current evidence E , current best action α

Possible action outcomes S_i , potential new evidence E_j

$$EU(\alpha|E) = \max_a \sum_i U(S_i) P(S_i|E, a)$$

Suppose we knew $E_j = e_{jk}$, then we would choose $\alpha_{e_{jk}}$ s.t.

$$EU(\alpha_{e_{jk}}|E, E_j = e_{jk}) = \max_a \sum_i U(S_i) P(S_i|E, a, E_j = e_{jk})$$

E_j is a random variable whose value is *currently* unknown

\Rightarrow must compute expected gain over all possible values:

$$VPI_E(E_j) = \left(\sum_k P(E_j = e_{jk}|E) EU(\alpha_{e_{jk}}|E, E_j = e_{jk}) \right) - EU(\alpha|E)$$

(VPI = value of perfect information)

Properties of VPI

Nonnegative—in **expectation**, not **post hoc**

$$\forall j, E \quad VPI_E(E_j) \geq 0$$

Nonadditive—consider, e.g., obtaining E_j twice

$$VPI_E(E_j, E_k) \neq VPI_E(E_j) + VPI_E(E_k)$$

Order-independent

$$VPI_E(E_j, E_k) = VPI_E(E_j) + VPI_{E, E_j}(E_k) = VPI_E(E_k) + VPI_{E, E_k}(E_j)$$

Note: when more than one piece of evidence can be gathered, maximizing VPI for each to select one is not always optimal

⇒ evidence-gathering becomes a **sequential** decision problem

Qualitative behaviors

- a) Choice is obvious, information worth little
- b) Choice is nonobvious, information worth a lot
- c) Choice is nonobvious, information worth little

