Redoing the Foundations of Decision Theory

Joe Halpern

Cornell University

Joint work with Larry Blume and David Easley, Economics, Cornell

Savage's Approach

Savage's approach to decision making has dominated decision theory since the 1950's. It assumes that a decision maker (DM) is given/has

- a set S of states
- a set O of outcomes

A (Savage) *act* is a function from states to outcomes.

Savage's Approach

Savage's approach to decision making has dominated decision theory since the 1950's. It assumes that a decision maker (DM) is given/has

- a set S of states
- a set O of outcomes

A (Savage) *act* is a function from states to outcomes.

Example: Betting on a horse race.

- S = possible orders of finish
- O = how much you win
- act = bet

Savage's Theorem

Savage assumes that a DM has a preference order $\succeq$ on acts satisfying certain postulates:

- E.g. transitivity: if $a_1 \succeq a_2$ and $a_2 \succeq a_3$, then $a_1 \succeq a_3$.

He proves that if a DM's preference order satisfies these postulates, then the DM is acting as if

- he has a probability $\Pr$ on states
- he has a utility function u on outcomes
- he is maximizing expected utility:
  - $a \succeq b$ iff $E_{\Pr}[u_a] \geq E_{\Pr}[u_b]$.
  - $u_a(s) = u(a(s))$: the utility of act a in state s

Are Savage Acts Reasonable?

Many problems have been pointed out with Savage's framework. We focus on one:

- In a complex environment, can a DM completely specify the state space or the outcome space?
  - What are the states/outcomes if we're trying to decide whether to attack Iraq?
- What are the acts if we can't specify the state/outcome space?

Acts as Programs

Claim: people don’t think of acts as functions:

- We don’t think of the state space and the outcomes when we contemplate the act “Buy 100 shares of IBM”!

Acts as Programs

Claim: people don’t think of acts as functions:

- We don’t think of the state space and the outcomes when we contemplate the act “Buy 100 shares of IBM”!

An alternative: instead of taking acts to be functions from states to outcomes, we take acts to be syntactic objects

- essentially, acts are *programs* that the DM can run.
- Call the stock broker, place the order, . . .

Acts as Programs

Claim: people don't think of acts as functions:

- We don't think of the state space and the outcomes when we contemplate the act "Buy 100 shares of IBM"!

An alternative: instead of taking acts to be functions from states to outcomes, we take acts to be syntactic objects

- essentially, acts are *programs* that the DM can run.
- Call the stock broker, place the order, . . .

Program can also have *tests*

- **if** the Democrats win **then** buy 100 shares of IBM

To specify tests, we need a *language*

The Setting

Savage assumes that a DM is given a state space and an outcome space. We assume that the DM has

- a set $\mathcal{A}_0$ of primitive programs
  - Buy 100 shares of IBM
  - Attack Iraq
- a set T_0 of primitive tests (i.e., formulas)
  - The price/earnings ratio is at least 7
  - The moon is in the seventh house
- a theory AX
  - Some axioms that describe relations between tests
  - E.g., $t_1 \Leftrightarrow t_2 \wedge t_3$

The Programming Language

In this talk, we consider only one programming construct:

- **if** . . . **then** . . . **else**
  - If a_1 and a_2 are programs, and t is a test, then

    if t **then** a_1 **else** a_2 is a program
  - **if** moon in seventh house **then** buy 100 shares IBM
- tests formed by closing off T_0 under conjunction and negation:
  - tests are just propositional formulas

Let $\mathcal{A}$ denote this set of programs (acts).

In the full paper we also consider randomization.

- With probability r perform a_1; with probability $1 - r$, perform a_2

Programming Language Semantics

What should a program *mean*?

In this paper, we consider *input-output* semantics:

- A program defines a function from states to outcomes
  - once we are given a state space and an outcome space, a program determines a Savage act
- The state and outcome spaces are now subjective.
  - Different agents can model them differently
- The agent's theory AX affects the semantics:
  - interpretation of tests must respect the axioms

Semantics: Formal Details I

Given a state space S and an outcome space O, we want to view a program as a function from S to O, that respects AX. We first need

- a *program interpretation* ρ_{SO} that associates with each primitive program in $\mathcal{A}_0$ a function from S to O
- a *test interpretation* π_S that associates with each primitive proposition in T_0 an event (a subset of S)
  - extend to T in the obvious way
  - require that $\pi_S(t) = S$ for each axiom $t \in \mathrm{AX}$
    - axioms are necessarily true

Can extend ρ_{SO} to a function that associates with each program in $\mathcal{A}$ a function from S to O:

$$\rho_{SO}(\textbf{if } t \textbf{ then } a_1 \textbf{ else } a_2)(s) = \begin{cases} \rho_{SO}(a_1)(s) \text{ if } s \in \pi_S(t) \\ \rho_{SO}(a_2)(s) \text{ if } s \notin \pi_S(t) \end{cases}$$

Where We're Headed

We prove the following type of theorem:

If a DM has a preference order on programs satisfying appropriate postulates, then there exist

- a state space S,
- a probability $\Pr$ on S,
- an outcome space O,
- a utility function u on O,
- a program interpretation ρ_{SO},
- a test interpretation π_S

such that $a \succeq b$ iff $E_{\Pr}[u_{\rho_{SO}(a)}] \geq E_{\Pr}[u_{\rho_{SO}(b)}]$.

- This is a Savage-like result
  - The postulates are variants of standard postulates
  - The DM has to put a preference order only on “reasonable” acts

  But now S and O are subjective, just like $\Pr$ and u!
  - S, O, $\Pr$, u, ρ_{SO}, and π_S are all in the DM’s head
  - S and O are not part of the description of the problem

The Benefits of the Approach

We have replaced Savage acts by programs and prove Savage-type theorems. So what have we gained?

The Benefits of the Approach

We have replaced Savage acts by programs and prove Savage-type theorems. So what have we gained?

- Acts are easier for a DM to contemplate
  - No need to construct a state space/outcome space
  - Just think about what you can do

The Benefits of the Approach

We have replaced Savage acts by programs and prove Savage-type theorems. So what have we gained?

- Acts are easier for a DM to contemplate
  - No need to construct a state space/outcome space
  - Just think about what you can do
- Different agents can have different conceptions of the world
  - You might make decision on stock trading based on price/earnings ratio
  - I might use astrology (and might not even understand the notion of p/e ratio)

- “Agreeing to disagree” results [Aumann] (which assume a common state space) disappear

- “Agreeing to disagree” results [Aumann] (which assume a common state space) disappear
- (Un)awareness becomes particularly important

- “Agreeing to disagree” results [Aumann] (which assume a common state space) disappear
- (Un)awareness becomes particularly important
- Can deal with unanticipated events, novel concepts:
    - Updating $\neq$ conditioning

- “Agreeing to disagree” results [Aumann] (which assume a common state space) disappear
- (Un)awareness becomes particularly important
- Can deal with unanticipated events, novel concepts:
  - Updating $\neq$ conditioning
- We do not have to identify two acts that act the same as functions
  - Can capture resource-bounded reasoning (agent can’t tell two acts are equivalent)
  - allow nonstandard truth assignments
    - $t_1 \wedge t_2$ may not be equivalent to $t_2 \wedge t_1$
- Can capture framing effects

Framing Effects

Example: [McNeill et al.] DMs are asked to choose between surgery or radiation therapy as a treatment for lung cancer. They are told that,

- Version 1: of 100 people having surgery, 90 alive after operation, 68 alive after 1 year, 34 are alive aftter 5 years; with radition, all live through the treatment, 77 alive after 1 year, 22 alive after 5 years
- Version 2: with surgery, 10 die after operation, 32 dead after one year, 66 dead after 5 years; with radiation, all live through the treatment, 23 dead after one year, 78 dead after 5 years.

Both versions equivalent, but

- In Version 1, 18% of DMs prefer radiation;
- in Version 2, 44% do

Framing in our Framework

Primitive propositions:

- RT: 100 people have radiation therapy;
- S: 100 people have surgery;
- $L_0(k)$: $k/100$ people live through operation ($i = 0$)
- $L_1(k)$: $k/100$ are alive after one year
- $L_5(k)$: $k/100$ are alive after five years
- $D_0(k)$, $D_1(k)$, $D_5(k)$ similar, with death

Primitive programs

- a_S: perform surgery (primitive program)
- a_R: perform radiation therapy

- Version 1: Which program does the DM prefer:

$$
\begin{aligned}
a_1 &= \textbf{ if } t_1 \textbf{ then } a_S \textbf{ else } a\text{, or}\\
a_2 &= \textbf{ if } t_1 \textbf{ then } a_R \textbf{ else } a\text{,}
\end{aligned}
$$

  where a is an arbitary program and

$$
\begin{aligned}
t_1 = \ & (S \Rightarrow L_0(90) \land L_1(68) \land L_5(34)) \land \\
& (RT \Rightarrow L_0(100) \land L_1(77) \land L_5(22))
\end{aligned}
$$

- Can similarly capture Version 2, with analogous test t_2 and programs b_1 and b_2
- Perfectly consistent to have $a_1 \succ a_2$ and $b_2 \succ b_1$
- A DM does not have to identify t_1 and t_2
  - Preferences should change once $t_1 \Leftrightarrow t_2$ is added to theory

The Cancellation Postulate

Back to the Savage framework:

Cancellation Postulate: Given two sequences $\langle a_1, \ldots, a_n \rangle$ and $\langle b_1, \ldots, b_n \rangle$ of acts, suppose that for each state $s \in S$

$$\{\{a_1(s), \ldots, a_n(s)\}\} = \{\{b_1(s), \ldots, b_n(s)\}\}.$$

- $\{\{o, o, o, o', o'\}\}$ is a *multiset*

If $a_i \succeq b_i$ for $i = 1, \ldots, n-1$, then $b_n \succeq a_n$.

Cancellation is surprising powerful. It implies

- Reflexivity
- Transitivity:
    - Suppose $a \succeq b$ and $b \succeq c$. Take $\langle a_1, a_2, a_3 \rangle = \langle a, b, c \rangle$ and $\langle b_1, b_2, b_3 \rangle = \langle b, c, a \rangle$.
- Event independence:
    - Suppose that $T \subseteq S$ and $f_T g \succeq f'_T g$
        - $f_T g$ is the act that agrees with f on T and g on $S - T$.
    - Take $\langle a_1, a_2 \rangle = \langle f_T g, f'_T g' \rangle$ and $\langle b_1, b_2 \rangle = \langle f'_T g, f_T g' \rangle$.
    - Conclusion: $f_T g' \succeq f'_T g'$

Cancellation in Our Framework

A program maps truth assignments to primitive programs:

- E.g., consider **if** t **then** a_1 **else** (**if** t' **then** a_2 **else** a_3):
  - $t \land t' \longrightarrow a_1$
  - $t \land \neg t' \longrightarrow a_1$
  - $\neg t \land t' \longrightarrow a_2$
  - $\neg t \land \neg t' \longrightarrow a_3$

Similarly for every program.

Cancellation in Our Framework

A program maps truth assignments to primitive programs:

- E.g., consider **if** t **then** a_1 **else** (**if** t' **then** a_2 **else** a_3):
  - $t \land t' \rightarrow a_1$
  - $t \land \neg t' \rightarrow a_1$
  - $\neg t \land t' \rightarrow a_2$
  - $\neg t \land \neg t' \rightarrow a_3$

Similarly for every program.

Can rewrite the cancellation postulate using programs:

- replace “outcomes” by “primitive programs”
- replace “states” by “truth assignments”

The Main Result

Theorem: Given a preference orders $\succeq$ on acts satisfying Cancellation, there exist

- a set S of states and a set $\mathcal{P}$ of probability measures on S,
- a set O of outcomes and a utility function u on O,
- a program interpretation ρ_{SO},
- a test interpretation π_S

such that

$$a \succeq b \text{ iff } E_{\mathrm{Pr}}[u_a] \geq E_{\mathrm{Pr}}[u_b] \text{ for all } \mathrm{Pr} \in \mathcal{P}.$$

Moreover, if $\succeq$ is totally ordered, then $\mathcal{P}$ can be taken to be a singleton.

Uniqueness

Savage gets uniqueness; we don't:

- In the totally ordered case, S can be taken to be a subset of the set of truth assignments.
- Not in the partially ordered case:
  - Even with no primitive propositions, if primitive programs a and b are incomparable, need two states, two outcomes, and two probability measures to represent this.
- Can't hope to have a unique probability measure on S, even in the totally ordered case: there aren't enough acts.
  - Savage's postulates force uncountably many acts

Program Equivalence

When are two programs *equivalent*?

- That depends on the choice of semantics
- With input-output semantics, two programs are equivalent if they determine the same functions *no matter what* S, O, π_S, ρ_{SO} are.

Program Equivalence

When are two programs *equivalent*?

- That depends on the choice of semantics
- With input-output semantics, two programs are equivalent if they determine the same functions *no matter what* S, O, π_S, ρ_{SO} are.

Example 1: (**if** t **then** a **else** b) $\equiv$ (**if** $\neg t$ **then** b **else** a).

- These programs determine the same functions, no matter how t, a, and b are interpreted.

Program Equivalence

When are two programs *equivalent*?

- That depends on the choice of semantics
- With input-output semantics, two programs are equivalent if they determine the same functions *no matter what* S, O, π_S, ρ_{SO} are.

Example 1: (**if** t **then** a **else** b) $\equiv$ (**if** $\neg t$ **then** b **else** a).

- These programs determine the same functions, no matter how t, a, and b are interpreted.

Example 2: If $t \equiv t'$, then

(**if** t **then** a **else** b) $\equiv$ (**if** t' **then** a **else** b).

Cancellation and Equivalence

Testing equivalence of propositional formulas is hard

- co-NP complete, even for this simple programming language
- Have to check propositional equivalence

Cancellation implies a DM is indifferent beteween equivalent programs.

Lemma: Cancellation $\Rightarrow$ if $a \equiv b$, then $a \sim b$.

Cancellation and Equivalence

Testing equivalence of propositional formulas is hard

- co-NP complete, even for this simple programming language
- Have to check propositional equivalence

Cancellation implies a DM is indifferent beteween equivalent programs.

Lemma: Cancellation $\Rightarrow$ if $a \equiv b$, then $a \sim b$.

- Cancellation requires smart decision makers!
- We don’t have to require cancellation
  - Can consider more resource-bounded DM’s

Conclusions

The theorems we have proved show only that this approach generalizes the classic Savage approach.

- The really interesting steps are now to use the approach to deal with issues that the classical approach can't deal with
  - conditioning on unanticipated events
  - (un)awareness
    - papers with Rêgo
  - learning concepts
  - . . .