NUS National University of Singapore | Computing

# Decision Analysis

CS4246/CS5446

AI Planning and Decision Making

This Lecture Will Be Recorded!

Please join:
pollev.com/anarayan

# Recap: Types of Decision Theory

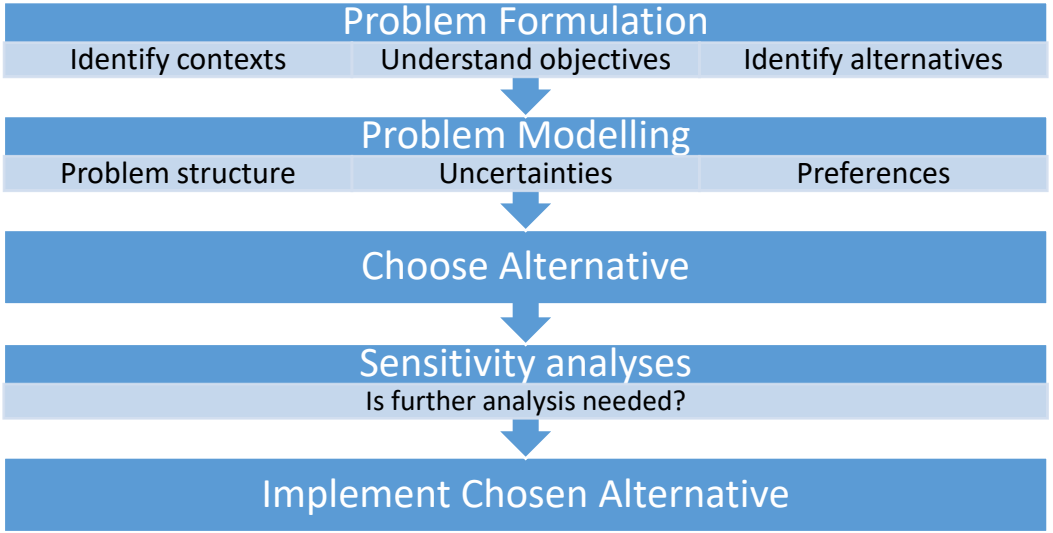
- Normative decision theory
  - Describes how ideal, rational agents should behave
- Descriptive decision theory
  - Describes how actual agents (humans) really behave
- Prescriptive decision theory
  - Prescribes guidelines for agents to behave rationally

Quiz

Quiz answer

# Recap: Prescriptive Decision Theory

- DA Process
- DA modeling
  - Decision networks
  - Decision trees
- Modeling preferences
  - Fundamental objectives
- Solving decision models
  - Chance values expectation
  - Decision value maximization
- Sensitivity analysis



Quiz

Quiz answer

# Topics

- The decision analysis framework
  - Formulating decision models
    - Decision networks: Influence diagrams (15.5)
    - Decision trees
  - Analyzing decision networks
    - Sensitivity analysis and robust decision models (15.6.6)
- Information value theory (15.6)
  - Expected value of perfect information (15.6.1-15.6.3)
  - Implementing an information gathering agent (15.6.4)

# Value of Information

# Information and Decision Making

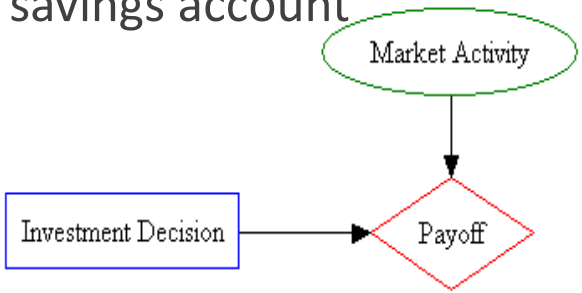
- Information is gathered to reduce uncertainty in decision making
  - Consult experts
  - Conduct surveys
  - Perform mathematical or statistical analyses
  - Do research
  - Read books, journals, newspapers
  - Learn from past data
- Relevant questions:
  - How to evaluate or measure the “value” or usefulness of the information?
  - What does it mean for a knowledge source to provide perfect information?
  - Shall we invest effort or pay $X for additional information to help problem solving?

# Value of Information

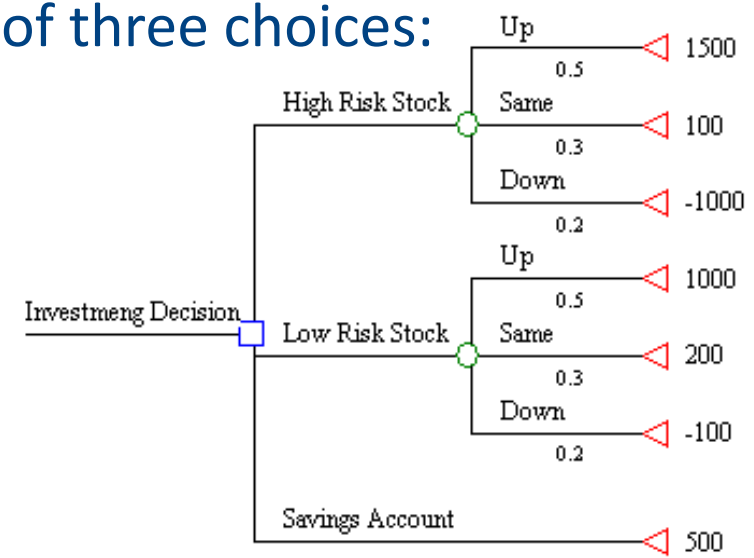
- Costly information gathered to reduce uncertainty
  - How to place value on information in a problem?
  - How to decide whether or not to gather more information?
- Main ideas:
  - Information has value to the extent that it is likely to cause a change of plan and to the extent that the new plan is significantly better than the old one
  - Use conditional probabilities and Bayes' Theorem to model the expected value of information

# Example: Stock Investment

- An investor may invest in one of three choices:
  - A high-risk stock
  - A low-risk stock
  - A savings account




**Influence diagram**




**Decision tree**

# Expected Value of Information

- Expected value of information (EVI)
  - Indicates if information is worth gathering
  - Lower bound: zero expected value
  - Upper bound: expected value of perfect information
- Information has:
  - no value or zero expected value if the same choice will be made before and after obtaining information
  - positive expected value if it leads to a different choice
  - maximum expected value if information is perfect
- EVI is defined in terms of the decision context
  - Different people in different situations may place different values on the same information

# Stock Investment Example (cont.)

**Should investor consult an expert?**

- If the expert always provides perfect information:
  - P(Exp says "Up" | Market Up) = 1
  - P(Exp says "Down" | Market Up) = 0
  - P(Exp says "Up" | Market Down) = 0
- To show there is no uncertainty after hearing the expert, apply Bayes' theorem:

P(Market Up | Exp says "Up")

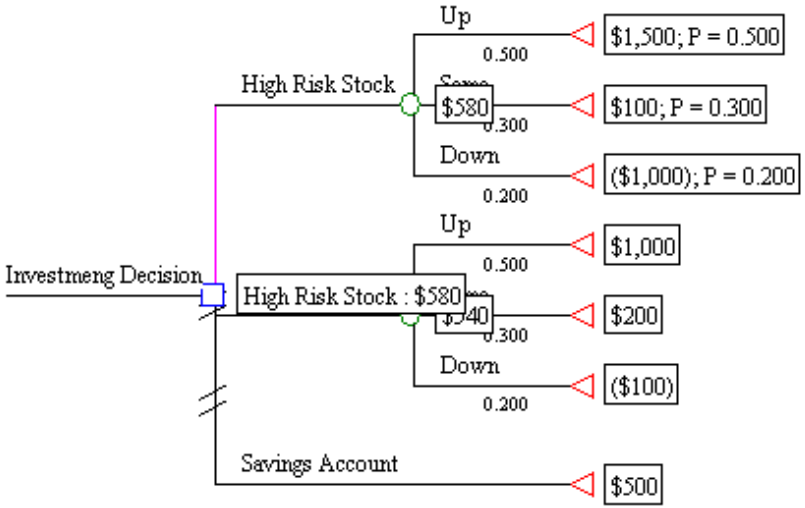
$$= \frac{P(\text{Exp says "Up"} \mid \text{Market Up})\, P(\text{Market Up})}{[P(\text{Exp says "Up"} \mid \text{Market Up})P(\text{Market Up}) + P(\text{Exp says "Up"} \mid \text{Market Down})P(\text{Market Down})]}$$

$= 1$

- Note:
  - The posterior probability is equal to 1 regardless of the prior probability
  - How do real problems differ from the above situation?

# Stock Investment Example (cont.)

- The optimal choice is the high-risk stock with EMV $580
- Assumption: optimistic about market (Up, 0.5 prob)
- How much would the investor be willing to pay for information about the market activity?

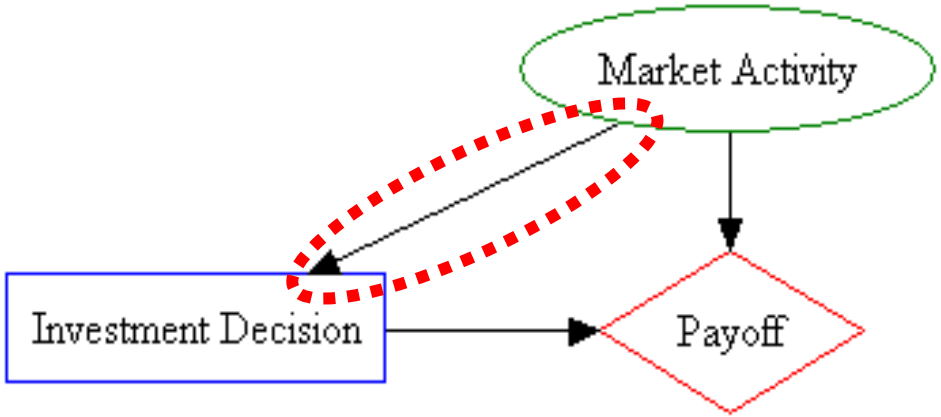


# Expected Value of Perfect Information

- Max amount that the decision maker is willing to pay for perfect information
- To find expected value of perfect information (EVPI):
  - Modify the decision model to indicate perfect information
  - Solve the model and find the EMV ($1000)
  - EVPI = EMV (with perfect information) - EMV(original)
    = $1000 - $580 = $420

# Modifying Influence Diagram for EVPI

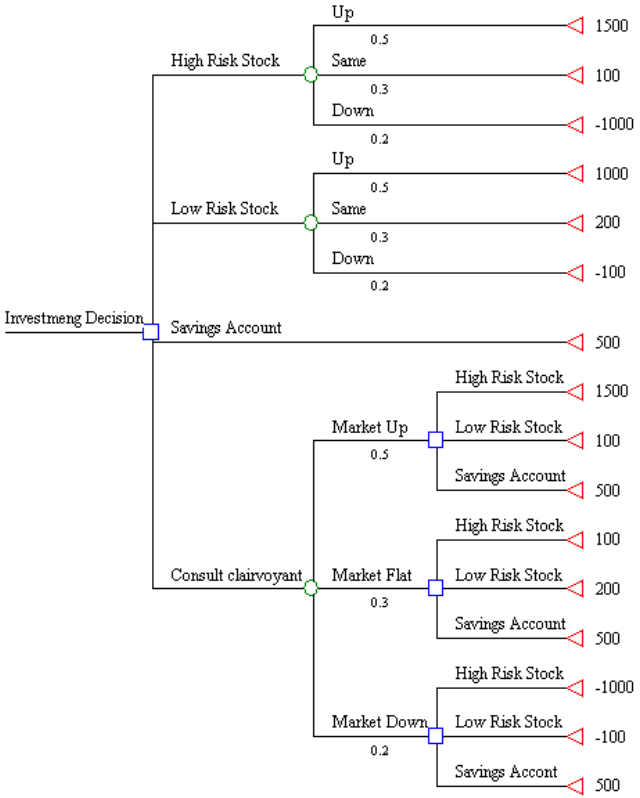
- Impose order on the decision and uncertain event nodes
- The uncertainty nodes for which perfect information is available comes before the decision node



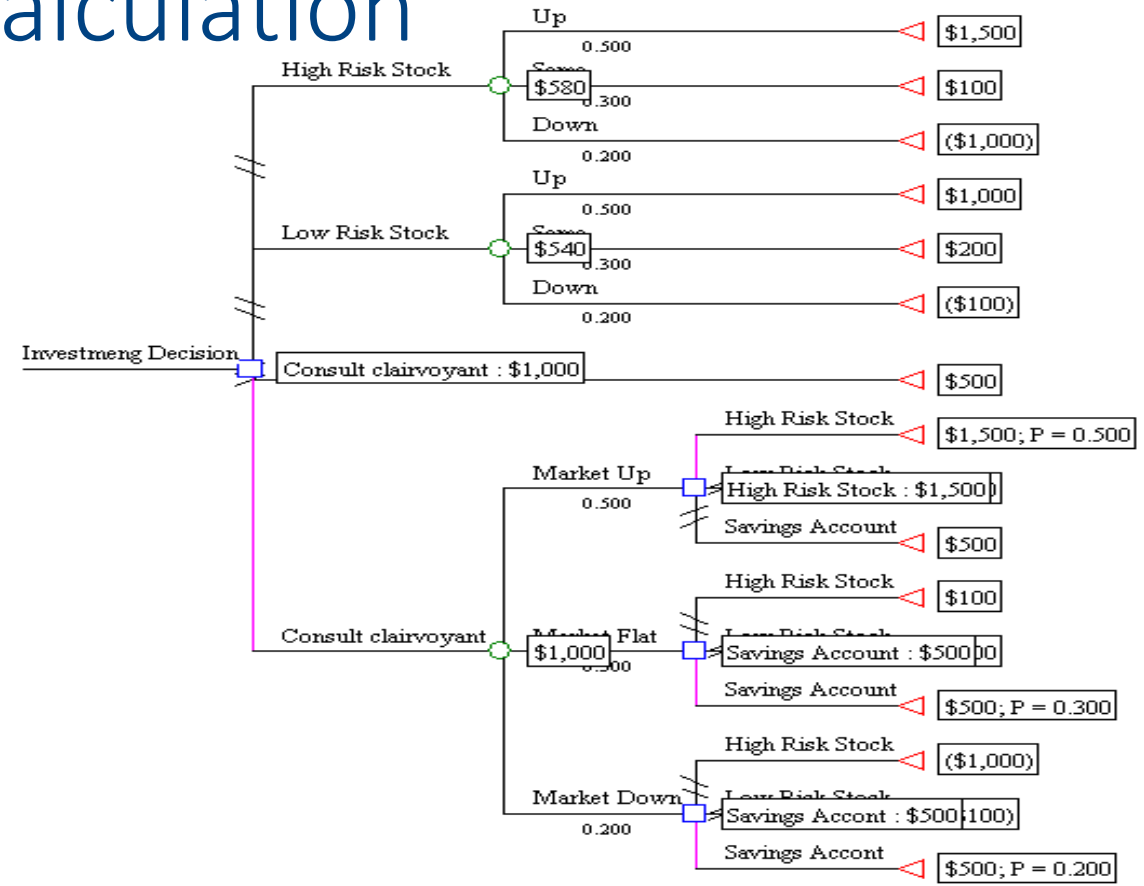

**Influence diagram with perfect information**

# Modifying Decision Tree for EVPI

- Reorder the decision and the uncertain event nodes
- The uncertainty nodes for which perfect information is available comes before the decision node



# EVPI Calculation



# (Expected) Value of Perfect Information

Assume exact evidence about variable $E_j$; compute value of perfect information (VPI)

- Given expected utility with current best action $\alpha$:

$$EU(\alpha) = \max_a \sum_{s'} P(Result(a) = s')U(s')$$

- Value of the best new action after $E_j = e_j$ is obtained

$$EU\left(\alpha_{e_j} \middle| e_j\right) = \max_a \sum_{s'} P\left(Result(a) = s' \middle| e_j\right)U(s')$$

- Variable $E_j$ can take multiple values $e_j$, so on averaging:

$$VPI(E_j) = \sum_{e_j} P(E_j = e_j)EU\left(\alpha_{e_j} \middle| E_j = e_j\right) - EU(\alpha)$$

# Properties of Value of information

- Expected value of information is always non-negative

$$\forall j \;\; VPI(E_j) \geq 0$$

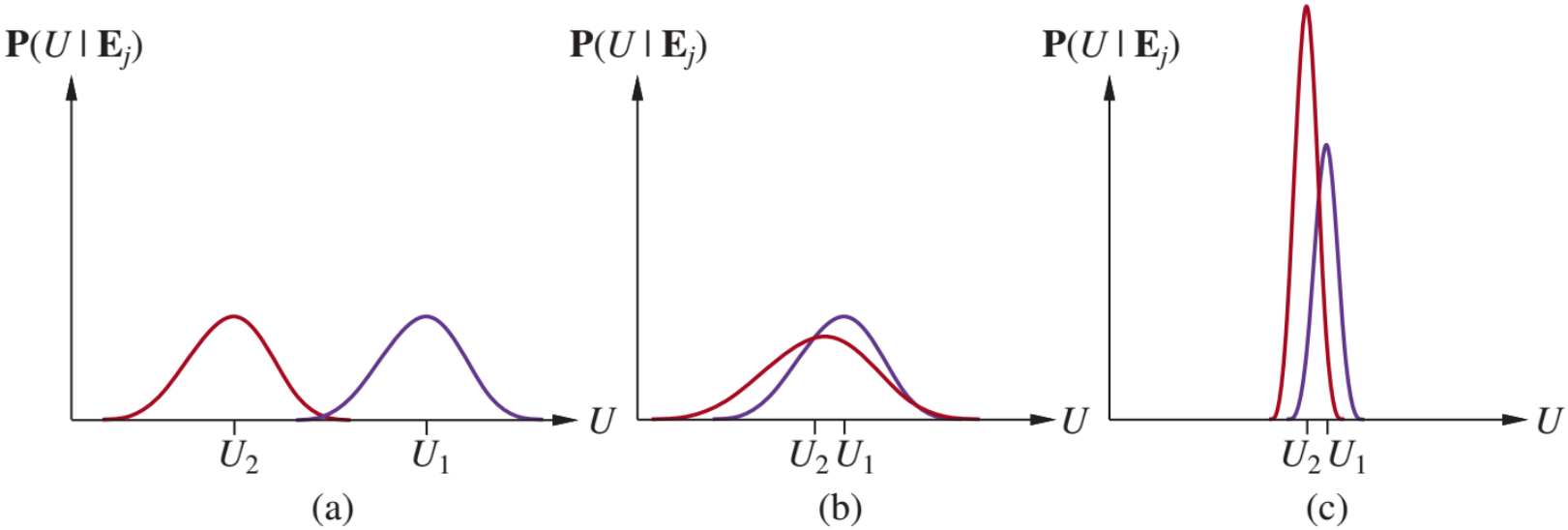
- VPI is not additive

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

- VPI is order independent

$$VPI(E_j, E_k) = VPI(E_j) + VPI(E_k|E_j) = VPI(E_k) + VPI(E_j|E_k) \quad = VPI(E_k, E_j)$$

# When to Gather More Information?




Source: RN Figure 15.8

# Information Gathering, Decision-Theoretic Agent

- Agent should gather information before taking actions, if possible
  - Cost associated with getting the information, so how to choose which variable to get more information about?

**function** INFORMATION-GATHERING-AGENT(*percept*) **returns** an *action*
  **persistent**: $D$, a decision network

  integrate *percept* into $D$
  $j \leftarrow$ the value that maximizes $VPI(E_j) \,/\, C(E_j)$
  **if** $VPI(E_j) > C(E_j)$
    **then return** $Request(E_j)$
  **else return** the best action from $D$

Unit gain per unit cost
OR
Information value

Source: RN Figure 15.9

# Summary

- Decision analysis
  - A prescriptive framework for guiding systematic, rational decision making
  - Involve formulation of explainable decision models and solutions
  - Extensive applications in practice
  - Theoretical foundations and methodological bases for AI decision systems – decision-theoretic AI
- Challenges and opportunities for AI
  - Human-machine collaboration in decision making
  - Uncertainty modeling with expert judgment and observational data
  - Preference modeling in complex, changing and uncertain conditions
  - Responsible AI – ethical, governance, and regulatory conditions

# Homework

- Readings:
  - RN: 15.6.1-15.6.4 (Value of information)
  - *Optional:*
    - Howard, R.A., Decision Analysis: Practice and Promise. Management Science, 1988. 34(6): p. 679-695. [Accessible through NUS Library e-Resources]
- Reviews:
  - RN: 13.2-13.5; 14.2-14.4 (Conditional probability and Bayesian networks)
  - Charniak, E., Bayesian networks without tears: making Bayesian networks more accessible to the probabilistically unsophisticated. AI Mag., 1991. 12(4): p. 50–63.

# References


- Decision analysis: (Journal articles publicly available online or through NUS Library e-Resources)
  - Howard, Ronald, A. (1966). "Decision Analysis: Applied Decision Theory" (PDF). Proceedings of the Fourth International Conference on Operational Research, Wiley-Interscience.
  - Howard, R.A., Decision Analysis: Practice and Promise. Management Science, 1988. 34(6): p. 679-695.
- Decision analysis: (Reference books and e-books)
  - Clemen, R.T. and T. Reilly, *Making Hard Decisions with DecisionTools*. 2013: Cengage Learning.
    - "Theoretical probability models," Chapter 9
    - "Using data," Chapter 10
    - "Value of information," Chapter 12
  - Howard, R.A. and A.E. Abbas, Foundations of Decision Analysis. 2016: Pearson.
  - Abbas, A.E., Foundations of Multiattribute Utility. 2018, Cambridge: Cambridge University Press.
  - Fenton, N. and M. Neil, Risk Assessment and Decision Analysis with Bayesian Networks. 2nd ed. 2019: CRC Press, Inc.
- Website:
  - Decision Analysis Section of the Institute For Operations Research and Management Science (INFORMS):
    - http://decision-analysis.society.informs.org/index.html

# Computing Tools

- Commercial Products – mostly derived from academic research work
  - DPL – Decision Programming Language
  - Palisade PrecisionTree
  - Treeage Pro
  - Netica
  - Hugin Expert
  - Supertree
  - …
- Commercial Products With FREE academic version
  - Bayesfusion: GeNIe and SMILE
  - …
- Also check out survey at:
  - INFORMS Decision Analysis Software Survey (2020)
  - https://pubsonline.informs.org/do/10.1287/orms.2020.06.04/full/
  - https://pubsonline.informs.org/magazine/orms-today/2020-decision-analysis-software-survey