

# Lecture II - Explore Vs. Exploit

## Programming: Everyday Decision-Making Algorithms

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### Explore Vs. Exploit

You have 45 minutes for lunch. Do you try the new restaurant or go to your reliable favorite?

...

🗳️ Quick Poll: Raise your hand, who would try the new restaurant?

...

This decision happens hundreds of times daily — and there's optimal math behind it!

Photo by Jillian Amatt on Unsplash

### Core Concepts

#### 🔍 Explore

- Definition: Gathering new information
- Risk: Unknown outcomes
- Example: Trying that new sushi place

#### 🎯 Exploit

- Definition: Using known information
- Risk: Missing better options
- Example: Your go-to pizza joint

#### ⚖️ The Fundamental Trade-off

These are mutually exclusive choices in any given moment. You can't have your cake and eat it (too).

Question: Do you have any examples of explore vs exploit in your life?

#### 🏥 Medical: Clinical Trials

Explore: Test experimental drug on new patients

- Risk: Unknown side effects, potential harm
- Reward: Breakthrough treatment discovery

Exploit: Use proven treatment

- Risk: Missing better cures
- Reward: Predictable, safe outcomes

### Tech: A/B Testing

Explore: Test new website design

- Cost: Development time, potential lost conversions
- Benefit: Higher conversion rates, better UX

Exploit: Keep current design

- Cost: Missed optimization opportunities
- Benefit: Stable, known performance

### Personal: Dating Apps

Explore: Meet someone new

- Risk: Bad dates, wasted time
- Reward: Finding “the one”

Exploit: Meet someone you already know

- Risk: Settling for “good enough”
- Reward: Comfortable, known connection

## The Daily Decision Dilemma

Explore Moments

- Try a new coffee shop
- Learn a new skill
- Watch a different genre
- Take a new route to work

Exploit Moments

- Order your usual drink
- Use familiar tools
- Rewatch favorite shows
- Take the fastest route

### The Million Dollar Question

What is the optimal balance? Science has been asking this for over 50 years!

## The problem with exploitation

Question: Any ideas what it might be?

- Exploitation is not always the best strategy.
- Especially when you have very limited information.

- When you stop exploring, you might miss better options.
- Imagine you are not able to gather new information and could only choose known alternatives.

## The problem with exploration

Question: Any ideas what it might be?

- Exploration is not always the best strategy.
- Especially when you are limited in using new information.
- When you constantly explore, you might never enjoy the fruits of your exploration.
- Imagine you could only eat each meal only once, hear each song only once, talk to each person only once...

## Multi-Armed Bandit Problem

### Decision Support

- To provide support, computer scientists formulated the explore-exploit trade-off.
- It is known as the multi-armed bandit problem.
- Question: What is a one-armed bandit?

### One Armed Bandit

Photo by Kabir M on Unsplash

### Multi-Armed Bandit Problem

Imagine: You walk into a casino with 3 slot machines

- Each machine has a different (unknown) win rate
- You have \$100 and 20 pulls total
- Goal: Maximize your winnings

How is this related to explore vs. exploit?

- Explore: Try different machines
- Exploit: Play the best-performing machine

### Multi-Armed Bandit Problem II

- By playing a slot machine, the gambler can gather information about the probability of winning.
- But each pull of a lever comes with a certain cost.
- It's the aim of the gambler to maximize his winnings.

The Core Question

How do you decide which machine to play next?

## Interactive Casino Challenge

Your Current Situation

You've been playing for a while. Here's what you know:

Machine	Pulls	Wins	Win Rate	Your Choice?
A 🎰	15	9	60%	
B 🎰	2	1	50%	
C 🎰	0	0	???	

💡 Class Vote: Raise your hand for your choice!

- Machine A (known performer)
- Machine B (limited data)
- Machine C (complete unknown)

## Casino Challenge Follow-up

### Your Current Situation

You've been playing for a while. Here's what you know:

Machine	Pulls	Wins	Win Rate	Your Choice?
A 🎰	15	9	60%	
B 🎰	2	1	50%	
C 🎰	0	0	???	

i Follow-up Questions

- What if you only had 2 pulls left?
- What if you had 100 pulls left?
- How does this change your strategy?

## Expected value for a decision

- The expected value of a slot machine is the average number of wins per pull.
- Expected value of machine A =  $E(A) = 9/15 = 0.6$
- Expected value of machine B =  $E(B) = 1/2 = 0.5$
- Machine A has the higher expected value.
- But 2 and even 15 pulls are not a large number (considering standard deviation).

## Multi-Armed Bandit III

- The multi-armed bandit problem represents a lot of different real-world decisions.
- It shows us, that there might be a difference between the optimal long-term average performance and the optimal immediate performance.
- Which lever to pull next depends completely on something we haven't discussed yet:

## Multi-Armed Bandit IV

- How long you plan to be in the casino?
- Question: Why is this important?
- Question: How does this influence our decision on taking machine A or machine B?

...

“I’m more likely to try a new restaurant when I move to a city than when I’m leaving it” (Chris Stucchio)

## The influence of the interval

- Let’s call the time you plan to be in the casino “the interval”.
- The longer the interval, the more (in general) you should explore, since you will have more opportunities to exploit the gathered information.
- The shorter the interval, the more you should exploit your current knowledge.
- The optimal strategy depends on the length of the interval.

## Interval and Exploration

Explore when you have the time to use the resulting knowledge.

“I moved to Pune, India, and I just [...] eat everywhere that didn’t look like it was gonna kill me” (Chris Stucchio)

## Exploration

Photo by Colin Maynard on Unsplash

## Interval and Exploitation

Exploit when you are ready to cash in.

“And as I was leaving the city I went back to all my old favorites, rather than trying out new stuff [...]. Even if I find a slightly better place, I’m only going to go there once or twice, so why take the risk?” (Chris Stucchio)

## Exploitation

Photo by Cristina Gottardi on Unsplash

## Hollywood’s Strategy

### Sequels in Top 10 Highest-Grossing Movies

Year	Number of Sequels
1981	2
1991	3
2001	5
2011	8

### Class Discussion

What do you think:

- What explains this trend?
- How does this relate to explore vs. exploit?
- What does this suggest about Hollywood's "time horizon"?

## Sequels...

...

The Insight: Studios are exploiting proven franchises because they think they're approaching the "end of their interval" (streaming disruption, changing audience preferences).

Photo by Universal Pictures on Wikipedia

## A Possible Explanation

- Making a brand new movie is risky but has the potential to create a new fan base. (explore)
- From a Studio's perspective, a sequel is a movie with a guaranteed fan base, a cash cow, a sure thing, an exploit.
- One possible explanation for the numbers is that the studios think they are approaching the end of their interval.
- They are pulling the arms of the best machines they've got before the casino turns them out.

## Multi-Armed Bandit VI

- While the so far provided anecdotes are helping us to understand the explore-exploit trade-off, they are far away from being a satisfying "optimal" solution.
- Actually, finding an algorithm that tells us exactly how to handle the trade-off is a very hard problem.
- On the way there were many interesting approaches...

## Win-Stay Lose-Shift

### Win-Stay Lose-Shift<sup>1</sup>

- Question: What do you think, what the win-stay lose-shift strategy does?
- The win-stay lose-shift strategy is a simple strategy that is often used in multi-armed bandit problems.
- Based on the idea that if you have won, you should stay. If you have lost, you should switch.
- This strategy is not always the best strategy, but it is simple and proven better than choose an arm at random.

### Win-Stay = No Brainer?

- Question: What do you think about win-stay?
- If you decide to pull an arm and you win, you should pull the same arm again.
- Nothing changes, except the attractiveness of the arm you just pulled is higher.

### Lose-Shift is another story

- Question: What do you think about lose-shift?
- Changing arms each time you lose might be a pretty rash move.
- Imagine you're eating at your favorite restaurant for the tenth time in a row.
- You have always been very satisfied (win), but today you are disappointed (lose).
- Should you turn your back on the restaurant?

### Like most of the time, easy answers comes with problems

- The win-stay lose-shift strategy penalizes losses too much.
- The strategy does not take into account the interval.
- But the strategy was good start to develop better approaches.

## The Bellman Approach

### The Bellman approach I

- Few years later, Richard Bellman, found an exact solution for all cases with finite and known intervals.
- Bellman found that under assumptions, exploit vs explore can be seen as an optimal stopping problem.
- The question is, when to stop exploring and start exploiting.
- The solution is based on dynamic programming and backward calculation starting from the final pull (analogous to the secretary problem with full information).

### The Bellman approach II

Bellman found that the following equation provides the optimal strategy (when the assumptions hold):

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<sup>1</sup>For more details see Robbins, H. (1952) 'Some aspects of the sequential design of experiments', Bulletin of the American Mathematical Society, 58.

$$\mathbb{E}[\cdot] = \frac{w + 1}{w + l + 2}$$

where  $w$  is the number of wins and  $l$  is the number of losses.

### Question time

$$\mathbb{E}[\cdot] = \frac{w + 1}{w + l + 2}$$

- Question: What is  $E[B]$ ?
- Question: What is  $E[A]$ ?
- Question: What machine shall we play according to the Bellman approach?

### The Bellman approach III

The following table shows the expected value for different win-lose scenarios.

Losses/Wins	1	2	3	4	5	6	7	8	9	10
1	0.50	0.60	0.67	0.71	0.75	0.78	0.80	0.82	0.83	0.85
2	0.40	0.50	0.57	0.63	0.67	0.70	0.73	0.75	0.77	0.79
3	0.33	0.43	0.50	0.56	0.60	0.64	0.67	0.69	0.71	0.73
4	0.29	0.38	0.44	0.50	0.55	0.58	0.62	0.64	0.67	0.69
5	0.25	0.33	0.40	0.45	0.50	0.54	0.57	0.60	0.63	0.65
6	0.22	0.30	0.36	0.42	0.46	0.50	0.53	0.56	0.59	0.61
7	0.20	0.27	0.33	0.38	0.43	0.47	0.50	0.53	0.56	0.58
8	0.18	0.25	0.31	0.36	0.40	0.44	0.47	0.50	0.53	0.55
9	0.17	0.23	0.29	0.33	0.38	0.41	0.44	0.47	0.50	0.52
10	0.15	0.21	0.27	0.31	0.35	0.39	0.42	0.45	0.48	0.50

### The Bellman approach IV

- The calculation of the optimal strategy is very extensive when there are many arms and a long interval.
- And yet the approach does not help us in many scenarios because we do not know the exact length of the interval (time in the casino).
- At this point, it looked like the multi-armed bandit problem would remain a problem without a solution.

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<sup>2</sup>For more details see Gittins, J. (1979) 'Bandit Processes and Dynamic Allocation Indices', Journal of the Royal Statistical Society. Series B (Methodological).



## The Gittins Index

### The Gittins Index I<sup>2</sup>

- In the 1970s Unilever asked a young mathematician, John Gittins, to help optimize their drug trials.
- Given different compounds, what is the quickest way to determine which is likely to be effective?
- Gittins found an optimal strategy and abstracted the problem to a general level.
- He found the solution to the multi-armed bandit problem.

### The Gittins Index II

- A major problem with the multi-armed banded problem is that previous solutions made very critical assumptions about the underlying interval.
- For example, that the length of the interval is known at the beginning of the analysis.
- In his approach, future wins (e.g., cash flows) are discounted so that any interval length (including infinity) can be considered.
- Geometric discounting assumption, but the approach can be extended to other discounting assumptions.

### What is Discounting?

- Future rewards are valued less than immediate rewards.
- Future rewards are weighted by a discount factor.
- Monetary context: Easy to justify discounting:
  - Interest rates: Money today can earn interest.
  - Opportunity costs: Immediate use of money has value.
- Non-monetary context: Discounting also makes sense:
  - Time: Immediate gratification often preferred.
  - Example: Tonight's dinner vs. the same dinner in a week's time.

### The Gittins Index III

- The Gittins index can be used for any problems of the form of the multi-armed bandit problem.
- That means it solves the explore-exploit trade-off.
- Let's consider our machine A and B example one last time.
  - Machine A: 15 pulls, 9 wins, 6 loses.
  - Machine B: 2 pulls, 1 win, 1 lose.

### The Gittins Index IV

Losses/Wins	0	1	2	3	4	5	6	7	8	9
0	.7029	.8001	.8452	.8723	.8905	.9039	.9141	.9221	.9287	.9342
1	.5001	.6346	.7072	.7539	.7869	.8115	.8307	.8461	.8588	.8695
2	.3796	.5163	.6010	.6579	.6996	.7318	.7573	.7782	.7956	.8103
3	.3021	.4342	.5184	.5809	.6276	.6642	.6940	.7187	.7396	.7573

Loses/Wins	0	1	2	3	4	5	6	7	8	9
4	.2488	.3720	.4561	.5179	.5676	.6071	.6395	.6666	.6899	.7101
5	.2103	.3245	.4058	.4677	.5168	.5581	.5923	.6212	.6461	.6677
6	.1815	.2871	.3647	.4257	.4748	.5156	.5510	.5811	.6071	.6300
7	.1591	.2569	.3308	.3900	.4387	.4795	.5144	.5454	.5723	.5960
8	.1413	.2323	.3025	.3595	.4073	.4479	.4828	.5134	.5409	.5652
9	.1269	.2116	.2784	.3332	.3799	.4200	.4548	.4853	.5125	.5373

## Question

Choose machine A or B according to the Gittins index?

- The index for machine B (0.6346) is higher than for machine A (0.6300).
- The index shows a clear win-stay pattern.
- There is a relaxed lose-shift pattern.
- At the (0,0) point we see the exploration bonus (premium).
- The index converges to 1/2 for a 50/50 chance game.

## Gittins Index: The Scary Math

🧐 The Complex Formula

$$G_i(s_i, f_i) := \sup_{\tau \geq 1} \frac{\mathbb{E} \left[ \sum_{t=0}^{\tau-1} \beta^t \cdot r_i^t \mid s_i, f_i \right]}{\mathbb{E} \left[ \sum_{t=0}^{\tau-1} \beta^t \right]}$$

- Extremely complex to calculate by hand
- Requires advanced mathematics (optimization theory)
- Calculation not practical for everyday decisions

! Important

You don't need to understand the math - just use the lookup table!

## What It Actually Means

- Core idea: "What's the best possible average reward from this option?"
- Higher Index = Better Choice
- Example: Machine A (9 wins, 6 losses): Index = 0.6300; Machine B (1 win, 1 loss): Index = 0.6346
- Machine B wins due to exploration bonus for less-tested options
- The Gittins Index automatically balances exploration and exploitation

## Explore vs Exploit: Summary

### Explore vs Exploit: Summary

- Consider an explore vs exploit decision situation.
- As you learned exploiting comes with a known (expected) outcome for example  $E(\text{exploit}) = X$
- Exploring comes with an unknown outcome  $E(\text{explore}) = ?$
- What should you do according to decision science?


### Explore vs Exploit: Anecdotally

- If you have a long interval, you should explore, choose B until you are sure about  $E(\text{explore})$ .
- If you have a short interval, you should exploit, choose A.

### Explore vs Exploit: Mathematically

- If  $E(\text{exploit})$  and  $E(\text{explore})$  are known, choose higher expected value.
- If  $E(\text{explore})$  is unknown, but you know the length of the interval, the Bellman-approach provides the optimal strategy.
- If  $E(\text{explore})$  is unknown, and you do not know the length of the interval, the Gittins index provides the optimal strategy.

## Your Personal Action Plan

 Rate yourself (1-10) on each:

- Career exploration: Trying new skills/roles vs. deepening current expertise
- Social exploration: Meeting new people vs. investing in current relationships
- Learning exploration: New subjects vs. mastering current interests
- Life exploration: New experiences vs. enjoying familiar pleasures

### Key Insights to Remember

1. Exploration has inherent value - it increases your chance of finding the best
2. Time horizon matters - more time left = more exploration optimal
3. Age affects strategy - younger people should explore more
4. Don't stop exploring completely - even experts need some exploration

## Takeaways

Your today's takeaway from the lecture should be: Be sensitive to how much time you have left in the casino and explore, explore, explore...

## Literature

### Interesting literature to start

- Christian, B., & Griffiths, T. (2016). Algorithms to live by: the computer science of human decisions. First international edition. New York, Henry Holt and Company.<sup>3</sup>
- Ferguson, T.S. (1989) 'Who solved the secretary problem?', Statistical Science, 4(3). doi:10.1214/ss/1177012493.

### Books on Programming

- Downey, A. B. (2024). Think Python: How to think like a computer scientist (Third edition). O'Reilly. [Here](#)
- Elter, S. (2021). Schrödinger programmiert Python: Das etwas andere Fachbuch (1. Auflage). Rheinwerk Verlag.

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#### Note

Think Python is a great book to start with. It's available online for free. Schrödinger Programmiert Python is a great alternative for German students, as it is a very playful introduction to programming with lots of examples.

### More Literature

For more interesting literature, take a look at the [literature list](#) of this course.

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<sup>3</sup>The main inspiration for this lecture. Nils and I have read it and discussed it in depth, always wanting to translate it into a course.