

# Learning

- I. Simon on Learning
- II. Artificial Neural Nets
- III. Genetic Algorithms and Genetic Programming
- IV. Models from Psychology: Reinforcement Learning, etc.

## **I. Herbert Simon on Learning**

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**“Armchair speculation about expectations, rational or other, is not a satisfactory substitute for factual knowledge as to how human beings go about anticipating the future, what factors they take into account, and how these factors, rather than others, come within the range of their attention.” — Simon (1982)**

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**Now: change occurs in the agent's parameters (simplest) or in the form of the agent model (more complex).**

**Several sorts of models of learning:**

- 1. Artificial Neural Nets (ANNs): from machine learning, from biological simplifications of the brain's operation,**
- 2. Evolutionary models, such as Genetic Algorithms (GAs) and Genetic Programming (GP), from natural evolution, and**
- 3. Models from psychology experiments, such as Reinforcement Learning (RL).**

## II. Artificial Neural Nets (ANNs)

**An anecdote.**

**Instead of the ~100 million neurons in our brain, we use up to 50 artificial neurons, in three or more layers:**

**Input, Hidden, and Output.**

**When presented with a stimulus, an ANN *learns* to output an appropriate signal.**

**Every unit (AN) in any layer is connected to every unit in the adjoining layer(s).**

**Every connection has a numerical weight.**

**One layer of units is the Input layer (by convention, on the left).**

**One layer of units is the Output layer (right, opposite).**

**In the middle are the Hidden layer or layers.**



## The crucial Hidden Layer ...

The Input layer gets stimulus from the environment; the Hidden layers take the signals received from the Input layer, process them, and pass them to the Output layer.

The strength of the Input layer's units are set by the environmental stimulus; the decoded strengths of the Output layer is the ANN's response.

Activation of the non-Input-layer units depends on:

- the strength of the inputs to the unit,
- the weights of each of its input connections,
- a mathematical function of these weights and inputs.

Rescale the weighted sum of inputs to unity by a non-linear *activation* function bounded between 0 and 1: usually a sigmoid function ( $y = \frac{1}{1+e^{-x}}$ ).

## So ...

**Need to encode any stimulus into numbers for the Input layer.**

**Need to train the ANN to give the correct output for a given input, usually by *back-propagation* of error: alter the weights to reduce the error (the difference between the output with random weights and the correct output response).**

**The amount of error adjustment of the weights depends on:**

- **the derivative of the activation function,**
- **the size of the error,**
- **the ANN's exogenous learning rate, and**
- **a momentum proportional to all previous error adjustments.**

## Applications of ANNs

### ANNs used to:

- recognise handwritten digits
- recognise human speech
- select good credit risks for bank loans
- track stock-market trends
- recognise objects in video images
- explore the development of a shared lexicon (= a language)
- dock Axelrod's (1987) evolution of cooperation with the IPD. (Marks & Schnabl 1999)

## Designing ANNs

More an art than a science.

“Good”: learn efficiently without needing too large a training set.

Design choices:

1. encoding of the environmental stimuli
2. number of Hidden layers
3. number of units in each layer
4. the specific activation (or squashing) function (usually sigmoid) (see Marks & Schnabl 1999)
5. the sizes of the learning rate and momentum constants (use the package defaults)
6. how the error is calculated.

## 1. Encoding of Stimuli

Stimuli can be:

1. **Continuous or large integer (a measure or count)**  
Scaled  $\in [0,1]$  and directly input, or categorised in bands.
2. **Categorical (e.g. male or female)**  
Assign one unit per category: 0 or 1 input.
3. **Qualitative (e.g. blue, heavy, with a sweet taste)**  
Code in binary, with a unit per binary position.

## **2. Number of Hidden Layers**

**Depends on the complexity of relationship between stimuli and responses.**

**Most phenomena only require a single Hidden layer (Masters 1992),**

**but with no Hidden layers, an ANN is crippled (see the discussion in Marks & Schnabl 1999, Introduction).**

### 3. Number of Units

**Input and Output layers:**

**Depends on the encoding: as many Input units as input categories.**

**e.g. An IPD with one period's memory?**

**with two week's memory?**

## **Numbers of Units in the Hidden layer(s):**

**ANNs have a degree of generalisation: they can recognise a variant never seen before.**

**But we need to retain some specificity (to avoid misinterpreting new inputs).**

**Permit a degree of generalisation, but not too much.**



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**As the number of Hidden layer units increases, the accuracy of input recognition increases, but generalisation ability falls — when the number of Hidden units = the number of distinct input examples, then there is 100% recognition, but no generalisation.**

## 6. Measuring Recognition Error

**Difference, or root square error.**

**But need to avoid local optima (local hills), by repeating the training on a new random set of initial connection weights.**

## How can ANNs be Agents?

### What are ANNs?

- **Hornik et al. (1989) have shown that econometrically ANNs are “universal approximators:”**
- **Can be used as agents when used in parallel, but don't *require* other ANNs.**
- **Used singly, don't lead to emergence, but can learn.**
- **Could use a population of ANNs, playing against each other, as agents.**

**See Beltratti et al. (1996) for early applications of ANNs to financial and economics models.**

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- RL, where the probability of choosing an action that was effective last round increases.
- A third sort: Anticipatory (inductive), Belief-Based Learning — the future?

## Evolutionary Computation

Based on evolution with natural selection.

Fitter individuals have more offspring to pass their genes to; less fit individuals have fewer offspring.

Genes occur in chromosomes; each gene codes for one (or more) functions.

The *genotype* = the structure of the individual's chromosomes.

The *phenotype* = the expressed characteristics (behaviours) of the individual, coded by the genotype.

Many phenotypes emerge from the individual genotypes: difficult to predict.



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1.

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- 3. While a species changes and adapts to its environment, the environment itself might change, because of the species' actions (example?) or because of other species' actions.**
- 4. Acquired skills die with the parent: only inherent characteristics are passed on.  
But: For *Homo sapiens*, language means culture, which can be passed on through deliberate learning.**



## **Holland's (1975) Genetic Algorithm mimics natural evolution.**

- 1. A population of “individuals,” each having a fitness, which is measured.**
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- 3. Return to 1. (Iterate)**

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**In breeding, the GA uses the processes of:**

- *Selection* of parents to breed new offspring,**
- *Crossover* of parents' chromosomes to pass on a mixture of their two genotypes, and**
- *Random mutation* of some genes.**

**Or: selection, exploitation or imitation (of fit phenotypes), and exploration (of the genotype space) which reduces the risk of local optima.**



## Four GA Design Choices:

1. *Measures of Fitness.*

Depends on what's being modelled.

e.g. utility, wealth, survival time, profit,

The average fitness of successive populations is always monotonically increasing: local optima.

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### 2. *Selection mechanisms.*

In choosing parents, need to retain some diversity in genotypes: don't only choose the fittest individuals to mate.

Tournament selection: choose pairs of individuals at random; take the fitter of the pair as a parent.

Typically, retain 40% of new population from the old, to protect better traits (embodied in the genotypes).

**3.**

### **3. *Genetic Operators: crossover & mutation.***

**Single-point crossover: take two chromosomes (one from each parent), cut at the same randomly chosen position, swap the cuts to create two offspring (use at least one). Possible to have more than one cut point, but not important.**

**Crossover preserves traits (from combinations of adjoining genes on the chromosome).**

**Mutation: probability that a gene changes.**

**Creates novelty at the genome level: diversity.**

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### **4. *Population size.***

**Should considerably exceed the number of genes in each chromosome.**

**If the population is too small, then increased risk of convergence to a local optimum.**

**But 20 to 50 has been used successfully.**

## **Docking of a GA Model**

**In G&T 2nd edition, they dock Axelrod's (1987) model of the IPD:**

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**Szpiro (1997) used a GA to demonstrate the emergence of risk aversion.**

## GA Developments

### Coding of the Genotype:

Nature uses the four nucleotide amino acids: G, A, T, C.

Holland's classical GA uses bits in a binary string.

But real numbers are possible: easier to deal with many real-valued problems.

Mutation: added a randomly chosen small number ( $N(0, \sigma)$ ) to a small proportion of genes.



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***Classifier Systems* (Holland et al. 1986): Production Sets which can alter their rules by learning from feedback after it has acted.**

## **Best Individual or Whole Population?**

**GA largely used as an optimiser: asking what is the best value (of fitness) in the population?**

**But focussing on the value of the best individual throws away the population's emerging characteristics as a population.**

**It ignores the aggregate level of emerging phenomena.**

**Axelrod (1987) not only sought the best-performing strategy in the IPD,**

**but also asked questions at the aggregate level of the population, such as its stability against invasion by a different strategy: e.g. Tit for Tat's stability against Always Defect. (See Marks 1989.)**

## How many populations in the GA?

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Social learning occurs at the genotypic level: sexual reproduction means that parents can communicate (share information) with their offspring via crossover:

∴ over generations, fitter genes or traits can spread through a single population covertly, by inheritance of genetic material.

How many parents, grandparents, great grandparents, ... do you have?

“Individual” learning occurs at the phenotypic level as each individual interacts with others, is scored for its fitness, and is ∴ selected (or not) as a parent for the next generation, depending on its fitness ranking.

## Multiple-population GA learning

**With one population per player: Individual learning occurs only through arm's-length competition, and the selection of fitter individuals as future parents, not through inheritance of genetic material. (Illegal communication?)**

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**When all members of a population are identical, then genetic inheritance is not a problem, since the aim is in general only to seek the fittest individual.**

## **GAs with Co-evolution: Many Populations**

**When the environment in which the GA operates changes, and when such change is due to the behaviour of the species' competitors — co-evolution — then sharing of genetic material blurs the distinction between species.**



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**Example: If the GA is being used to explore the behaviour of sellers in an oligopolistic market, genetic sharing can only model sub-rosa communication across brands.**

**This is illegal under most antitrust regimes, and therefore in general should not occur in the model, lest the results rely on it.**

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**Perhaps because each GA has an internal population of individuals, a tendency to think of the GA as modeling heterogenous players.**

***But a single population assumes homogeneity.***

## Individuals in the GA

Each string in a GA population could be:

- an individual brand (say), which I have argued above is unrealistic in general, or
- one possible decision, of a population that the agent could make — makes sense with a population per distinct player.

So each new generation could be:

- new individual decision makers (brands), or
- new ideas or heuristics belonging to long-lived players.

## **Disputes about GAs in Economics:**

**Chattoe (1998) argues (correctly) that there has been confusion over the role of the GA:**

- **an instrument to search a rugged solution space, or**
- **a model of firms' decision making and individual behaviour.**

**Dawid (1999) argues that the GA is good at modelling the learning of populations of agents.**

**Curzon Price (1997): the GA provides a stream of hypothetical actions or strategies, which may or may not be used.**

**Duffy (2006) concludes that empirical evidence exists that GAs are reasonable “models of adaptive learning by populations of heterogeneous agents.”**

## **Marks & Schnabl (1999) compare a GA and an ANN playing an IPD**

**The logical structure of this ANN is a kind of dual to the normal ANN: normally the net gets inputs from the environment of data and forecasts future behaviour, here it makes the data by creating behaviour of the actual move (i.e. Cooperate or Defect). The data input of the ANN then is the history of one's own and one's opponent's moves.**

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- The ANN did not really transform itself to a structure to best play the IPD.
- The ANN had to approximate 0 and 1 using real-valued functions.
- ∴ The ANN not as close to the IPD as is the GA: ANN seen to be less stable in solution.
- But with real-valued real-world variables, ANN might do better than a GA.
- GAs sometimes used to search for better weights in an ANN.



## IV. Explicit Agent-Based Learning

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**Arthur (1991, 1993) was the first economist to model explicit agent learning, and to calibrate his models using data from human-subject experiments.**

**In his Reinforcement Learning (RL) model, how an agent chooses to act later is a function of the outcomes it experienced as a result of earlier choices — the Thorndike effect.**

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**In his Reinforcement Learning (RL) model, how an agent chooses to act later is a function of the outcomes it experienced as a result of earlier choices — the Thorndike effect.**

**At first he calibrated individual learning, but with the artificial stock market (Arthur et al. 1997), he became interested in data at the aggregate level.**

## Arthur's RL Model, the earliest

His model: In round  $t$ , player  $i$  has a propensity  $q_{ij}(t)$  to choose pure strategy  $j$ , and  $q_{ij}$  is updated:

$$q_{ij}(t + 1) = q_{ij}(t) + (x - x_{\min}),$$

where  $x$  was the payoff for choosing strategy  $j$  previously, and  $x_{\min}$  is the lowest possible payoff.

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where  $x$  was the payoff for choosing strategy  $j$  previously, and  $x_{\min}$  is the lowest possible payoff.

$\therefore$  The propensity to choose a strategy  $j$  is *reinforced* if  $j$  has provided higher payoffs in the past, and vice versa.

$p_{ij}(t) = \frac{q_{ij}(t)}{\sum_{k=1}^N q_{ik}(t)}$  is the probability that agent  $i$  plays strategy  $j$  in period  $t$ , a function of all strategies' propensities.

## **Roth and Erev's generalisation**

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Initial propensities  $q_{ij}(1)$  are equal across all strategies.

$\sum_j q_{ij}(1) = S_i(1) = S(1)$ , an initial propensity parameter, equal across all players and strategies.

The rate of learning is proportional to  $S(1)$ .

Again,  $p_{ij}(t) = \frac{q_{ij}(t)}{\sum_{k=1}^N q_{ik}(t)}$  is the probability that agent  $i$  plays strategy  $j$  in period  $t$ .

## The Roth-Erev Model ...

Player  $i$  updates his propensity to play strategy  $j$  according to the rule:

$$q_{ij}(t+1) = (1 - \phi) q_{ij}(t) + E_k(j, R(x)),$$

$$\text{where } E_k(j, R(x)) = \begin{cases} (1 - \epsilon) R(x) & \text{if } j = k, \text{ or} \\ \frac{\epsilon}{N-1} R(x) & \text{otherwise,} \end{cases}$$

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When  $\phi = \epsilon = 0$ , Roth-Erev is Arthur.

## Five Types of RL Models

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3. multi-agent Q learning (Hu & Wellman 1998), and
4. Adaptive Play (Young 1998)
5. Another modification of RL: suppose that agents have certain “aspiration levels” in payoff terms that they are trying to achieve. This idea has a long history in economics dating back to Simon’s (1955) notion of *satisficing*.

Could use  $x_{asp}$  instead of  $x_{min}$  above.



## **Anticipatory, Belief-Based Learning — Inductive**

**RL and GA-based learning models are deductive: respond to past actions and payoffs.**

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**No attempt to anticipate and reason back, inductively.**

***Belief-based learning:* agents form beliefs about other players' likely actions, and so respond to their beliefs. Inductive.**

**Gjerstad & Dickhaut (1998): “heuristic belief learning”: agents use heuristics to update their beliefs about others' actions (expressed as probabilities) — they found good convergence to competitive equilibrium and good fit with aggregate behaviour.**

**Timing of bids is crucial.**

## **Selten's Directed Learning**

**Ex-post rationality determines adaptive behaviour.**

**Requires an ordering over the set of possible actions.**

**Players probabilistically move towards actions that would have been profitable had they been chosen earlier;  
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Hailu & Schilizzi (2004): use a mixed (i.e. probabilistic) strategy in a procurement (i.e. selling) tender:

- if bid  $X$  won last auction, then slightly raise the bid, using  $P(\frac{1}{2})X$  and  $P(\frac{1}{2}) X+10\%$  as next bid,
- if bid  $X$  was too high, then slightly lower the bid, using  $P(\frac{1}{2})X$  and  $P(\frac{1}{2}) X -10\%$  as next bid, both bounded.

## **Learning: How to optimise (LHTO), or how to predict (LHOP)?**

**LHTO: GA searches for actions or strategies that are best, lead to highest fitness (profits etc.)**

**LHTP: use the GA strings to encode how prices will change from period to period.**

**Used to calibrate GA output with human-subject experimental data.**

**For us humans, it seems that predicting prices is easier than predicting how to respond to changing prices.**

**Perhaps this suggests how markets help us solve difficult problems (see the *EJ* June 2005 feature discussed in Lecture 2).**

## References

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