Contents

Preface *page* xiii

I Intuitive Definitions **1**

1 Motivating Examples 3

2 Free Will and Determinism 5
- 2.1 Can Free Choice Be Predicted? 5
- 2.2 Is the World Deterministic? 6
- 2.3 Is Free Will Observable? 6
- 2.4 The Problem of Free Will 7
- 2.5 A Rational Illusion 10
- 2.6 Free Will and the Decision Matrix 12

3 The Principle of Indifference 14
- 3.1 Will a Canonical Space Help? 14
  - 3.1.1 The Canonical State Space 14
  - 3.1.2 Difficulties with a Uniform Prior on [0, 1] 15
  - 3.1.3 Conclusion 16
- 3.2 What's Special about the Coin? 17
  - 3.2.1 Symmetry 17
  - 3.2.2 Smooth Beliefs 18

4 Relative Frequencies 20
- 4.1 The Law of Large Numbers 20
- 4.2 The Problem of Induction 21
  - 4.2.1 Hume's Critique 21
  - 4.2.2 Goodman's Grue-Bleen Paradox 22
  - 4.2.3 Kolmogorov Complexity and Its Dependence of Language 23
  - 4.2.4 Grue-Bleen Again 26
  - 4.2.5 Evolutionary Explanations 31
- 4.3 Problems with the Frequentist Approach 34

5 Subjective Probabilities 37
5.1 Linda the Bank Teller 37
5.2 Pascal's Wager 38
5.3 Classical versus Bayesian Statistics 40
5.3.1 Basic Definitions 40
5.3.2 The Gambler Fallacy 41
5.3.3 Exchangeability 42
5.3.4 Confidence Is Not Probability 44
5.3.5 Classical Statistics Can Be Ridiculous 45
5.3.6 Different Methods for Different Goals 46

II Behavioral Definitions 49

6 A Case Study 51
6.1 A Characterization Theorem for Maximization of Utility 51
6.2 Proof 53
6.3 Interpretations 55
6.3.1 A Few Definitions 56
6.3.2 A Meta-Scientific Interpretation 59
6.3.3 A Normative Interpretation 62
6.3.4 A Descriptive Interpretation 63
6.4 Limitations 64
6.4.1 Semiorders 65
6.4.2 Other Ways to Measure Utility 71

7 The Role of Theories 72
7.1 Theories Are Always Wrong 72
7.2 Theories and Conceptual Frameworks 74
7.3 Logical Positivism as a Metaphor 76

8 Von Neumann–Morgenstern's Theorem 78
8.1 Background 78
8.2 The Theorem 79
8.3 Proofs 83
8.3.1 The Algebraic Approach 83
8.3.2 A Geometric Approach 84
8.3.3 A Separation Argument 85
8.4 The Three Interpretations 86

9 De Finetti's Theorem 89
9.1 Motivation 89
9.2 The Theorem 90
9.3 A Proof 91
9.4 The Three Interpretations 92

10 Savage's Theorem 94
10.1 Background 94
10.2 States, Outcomes, and Acts 96
10.3 Axioms 97
10.3.1 P1 97
10.3.2 P2 97
10.3.3 Notation 99
10.3.4 Null Events 99
10.3.5 P3 100
10.3.6 P4 102
10.3.7 P5 102
10.3.8 P6 103
10.3.9 P7 104
10.4 The Result for a Finite Outcome Set 105
10.4.1 Finitely Additive Measures 105
10.4.2 Nonatomic Measures 107
10.4.3 The Theorem 108
10.5 The Case of a General Outcome Set 108
10.6 Interpretations 109
10.7 The Proof and Qualitative Probabilities 110

11 The Definition of States 113
11.1 Causality 113
11.1.1 Newcomb's Paradox 113
11.1.2 States as Functions from Acts to Outcomes 114
11.1.3 A Problem 115
11.2 Hempel's Paradox of Confirmation 116
11.2.1 Are All Ravens Black? 116
11.2.2 A State-Space Formulation 117
11.2.3 What Is a Confirmation? 117
11.2.4 A Resolution 118
11.2.5 Good's Variation 118
11.2.6 What Do We Learn from This? 119
11.3 Monty Hall Three-Door Game 120

12 A Critique of Savage 123
12.1 Criticizing Critiques 123
12.1.1 An Example 123
12.1.2 The General Lesson 124
12.2 Critique of P3 and P4 125
12.2.1 Example 125
12.2.2 Defense 126
12.2.3 State-Dependent Utility 127
12.2.4 The Definition of Subjective Probability 128
12.2.5 When Is State Dependence Necessary? 129

12.3 Critique of P1 and P2 130
12.3.1 The Basic Problem 130
12.3.2 Reasoned Choice versus Raw Preferences 131
12.3.3 Schmeidler's Critique and Ellsberg's Paradox 132
12.3.4 Observability of States 136
12.3.5 Problems of Complexity 137

13 Objectivity and Rationality 138
13.1 Subjectivity and Objectivity 138
13.2 Objective and Subjective Rationality 139

14 Anscombe–Aumann's Theorem 142

III Alternative Behavioral Theories 145

15 Choquet Expected Utility 147
15.1 Schmeidler's Intuition 147
15.2 Choquet Integral 149
15.3 Comonotonicity 150
15.4 Axioms and Result 151

16 Prospect Theory 154
16.1 Background 154
16.2 Gain–Loss Asymmetry 154
16.3 Distortion of Probabilities 156
16.4 Rank-Dependent Probabilities and Choquet Integration 158

17 Maxmin Expected Utility 160
17.1 Convex Games 160
17.2 A Cognitive Interpretation of CEU 161
17.3 Axioms and Result 163
17.4 Interpretation of MMEU 163
17.5 Generalizations and Variations 165
17.6 Bewley's Alternative Approach 165
17.7 Combining Objective and Subjective Rationality 166
17.8 Applications 168

IV Cognitive Origins 171

18 Case-Based Qualitative Beliefs 173
18.1 Axioms and Result 173
18.2 Four Known Techniques 175
18.3 The Combination Axiom in General Analogical Reasoning 177
18.4 Violations of the Combination Axiom 179

19 Frequentism Revisited 180
19.1 Similarity-Weighted Empirical Frequencies 180
19.2 Intuition 181
19.3 Axiomatization 182
19.4 Empirical Similarity and Objective Probabilities 184

20 Future Research 188

References 191
Index 199