Subjectivity in Inductive Inference
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Abstract

This paper examines circumstances under which subjectivity enhances the effectiveness of inductive reasoning. We consider a game in which Fate chooses a data generating process and agents are characterized by inference rules that may be purely objective (or data-based) or may incorporate subjective considerations. The basic intuition is that agents who invoke no subjective considerations are doomed to “over-fit” the data and therefore engage in ineffective learning. The analysis places no computational or memory limitations on the agents—the role for subjectivity emerges in the presence of unlimited reasoning powers.

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1 Introduction

Inductive inference is the art of selecting theories based on observations. It is at the heart of scientific and statistical research, as well as of everyday reasoning. The economist who engages in model selection to explain data, the investor who seeks trends in the behavior of financial markets, and the executive who plans her next marketing campaign all share the same question: Given what I’ve seen, which general rule (or “theory” or “model”) should be used to predict future observations?

A first fundamental principle is that one should only consider theories that have not been refuted by the data. As stated, this principle may appear to be an objective guideline that is almost too obvious to mention. In practice, however, it is neither objective nor obvious. There is often considerable room for interpretation of data and of theories, so that people may disagree about how well a given theory fits the data. In addition, psychological studies suggest that people may have confirmatory biases, clinging to theories that should in fact be deemed falsified. We assume these issues away in this paper, considering a simple world in which a theory’s ability to fit the data is an easily observable and quantifiable magnitude.

This paper focusses on the following question: How should people choose among the theories that match the data? Our point of departure is the observation that people tend to choose theories that are simple or elegant, or that seem to them a priori reasonable or intuitive. People may also have biases for the known and the familiar, resulting in a theoretical status quo bias. All of these are subjective criteria. The notion of simplicity depends on one’s culture and education, as well as on other determinants of personal taste. Elegance and aesthetics are notoriously personal, while the status quo surely cannot have a claim to objectivity beyond a specific culture and a given period.

Why does such subjective reasoning persist? Would it not be better to base model selection on objective criteria alone? We claim that the answer is negative. Should inductive inference rely on objective criteria alone, it is doomed to fail. By contrast, relying on subjective criteria alongside objective ones results in successful learning. Clearly, the subjective criteria cannot entirely replace the objective ones, and the subjective criteria must exhibit a
certain degree of consistency to be effective. Specifically, we show that if one’s subjective \textit{a priori} preference over theories satisfies mild assumptions, and if it is used to select among (objectively) unrefuted theories, then effective inductive inference is ensured in a wide range of situations.

While there are many sources of subjective biases that distinguish among theories, our prime example is the preference for simplicity. This is among the most universal criteria for theory selection—people tend to prefer simpler explanations and simpler theories to more complex ones. This preference for simplicity has been championed on normative grounds (most famously by William of Occam (see Russell [14])) and has long been offered as a descriptive model of human reasoning (e.g., Wittgenstein [23]). Moreover, in many situations there seems to be a large degree of agreement among people about simplicity judgments.\footnote{Footnote 12 explains that in a computable model there is a well-defined sense in which simplicity judgments are asymptotically objective.} For concreteness, we refer throughout this paper to the subjective notions that color people’s inferences as a concern for simplicity. We stress, however, that simplicity is but one of many subjective criteria that suffice for effective inductive inference.

Is there any reason to expect the world to be simple? Is the preference for simplicity a by-product of cognitive limitations of the human mind? This paper suggests that both answers may be negative. Because the preference for simplicity can render induction effective, such a preference will be adaptive even if the world does not happen to be simple, and could emerge without any cognitive limitations. In other words, an evolutionary process would favor reasoners who prefer simpler theories, perhaps with the notion of simplicity and the practice of induction evolving together as part of our shared cultural heritage.\footnote{Ely [4] examines a model in which seemingly suboptimal decision-making procedures evolve via a series of “kludges.” Decision-making is costly in his model, with a resource constraint that imposes a trade-off between more effective decision making and more effective exploitation of the resulting decisions.} More generally, one can view our analysis as explaining the evolutionary benefits of subjective biases that make people prefer some theories to others.

1.1 Examples

A pair of examples will illustrate our argument.

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2Ely [4] examines a model in which seemingly suboptimal decision-making procedures evolve via a series of “kludges.” Decision-making is costly in his model, with a resource constraint that imposes a trade-off between more effective decision making and more effective exploitation of the resulting decisions.
Example 1: Lisa and Sally, adjusting their commuting habits to a new job, check whether the bus runs between their home and the office in consecutive 12-hour periods, observing the pattern

\[0 \ 1 \ 0 \ 1 \ 0 \ 1\]

where a 1 denotes that the bus runs. They are now asked their prediction for the seventh and subsequent periods. To make this prediction, they must choose between the many theories consistent with the data they have observed. Lisa proceeds without the help of any criterion that might help her choose among the various theories that fit the data, viewing any one as being as good as any other. She selects the theory “\(f(n)\) is the \(n\)th digit in the binary expansion of \(\frac{43}{128}\)” and predicts that the next six observations will be 100000. Sally, in contrast, believes that the data are more likely to be explained by a simple pattern than a more complicated one, and believes that the simplest pattern consistent with these data is is “\(f(n) = 1\) iff \(n\) is even.” Her prediction is that the following six observations will be 010101. Who is more likely to be disappointed the next evening, when Sally drives to work while Lisa waits at the bus stop?

Without some method for sorting between theories, Lisa is doomed to helplessly puzzle which, amongst the inevitable multitude of theories that fit the data, should be used for prediction. The theory we have ascribed to her is quite arbitrary. Lisa could as well have taken the expansion of \(\frac{42}{128}\) as her theory, predicting the bus would never run again, or \(\frac{87}{256}\), predicting it would run the next two periods, or ... . Indeed, the point is that an unguided choice from this multitude of possibilities is essentially an arbitrary choice, ensuring that Lisa learns nothing from her observations. We have, of course, heightened the contrast (perhaps even rigged the example) by endowing Sally with what appears to be a particularly fortuitous belief about what is simple in this context. Importantly, our finding is that it suffices for Sally to have any such belief, as long as she has some belief with which to escape Lisa’s arbitrary foundering, and applies this belief relentlessly.

Example 2: Lloyd and Sam take a test in which they are asked to extend the sequence

\[1 \ 2 \ 4 \ 8 \ \ldots\]

Lloyd (like Lisa) has no way of sorting through the various theories consistent with the data, and chooses the value 7. In doing so, Lloyd may be well aware
that the sequence is consistent with the function
\[ f(n) = 2^{n-1}, \]  
(1)
yielding the continuation 16. However, there is an endless list of other functions consistent with the data, and Lloyd has happened to select
\[ f(n) = -\frac{1}{3}n^4 + \frac{7}{2}n^3 - \frac{73}{6}n^2 + 18n - 8, \]
(whose next value is \( f(5) = 7 \)), which (at least to Lloyd) seems just as good a theory by which to predict the next value as does any other, including (1). Sam (like Sally), in contrast, tends to look for the simplest theory consistent with the data, taking (1) to be this theory and offering 16 as his prediction for the next value. Once again, we have made what looks like a suspiciously fortuitous choice for Sam’s simplicity relation. However, the important point will again turn out to be not that Sam happens to be right (or at least we suspect he is), but rather that he consistently applies some systematic way of sorting theories consistent with the data.

An alternative account might suggest that what Sally exhibits is a taste for \textit{plausibility} rather than simplicity. She chose her theory, that the bus runs during the day but not at night, not for its mathematical simplicity but because it matches her understanding of how the world works. Similarly, Sam understands that there is a method to the way exams are made, and that when questions like this are encountered, the answer is likely to be the result of an obvious pattern. We do not contest this point of view. Our claim is that some \textit{a priori} preference order over theories is an essential part of effective induction, with the choice of a theory then reflecting this \textit{a priori} preference as well as its goodness of fit. Our primary interpretation of this order is that of simplicity, but such an \textit{a priori} order over theories may result from other considerations, including a Bayesian prior over theories, aesthetic considerations, notions of plausibility, social norms, computational costs, and so on.\footnote{The key features of the relation are that it is a weak order and that every theory has only finitely many theories that are preferred to it. Any such order can serve as the “simplicity” order for our purposes.} Our point is that effective learning requires \textit{some} such information—it cannot be based on evidence alone. Induction is doomed to failure unless coupled with some exogenous prejudice, whatever its origin or interpretation.
There is a vast body of literature in statistics and machine learning that deals with statistical learning. In particular, the Vapnik-Chervonenkis [18, 19] theory, recently applied to decision theory by Al-Najjar [2], deals with the rate at which one can learn the probabilities of several events simultaneously. In contrast to this literature, we are interested in optimal learning without assuming that there is an underlying probability law from which the learner can sample in an independent-and-identically-distributed manner. Rather, our main concern is the learning of a pattern that has been selected once and for all at the beginning of time. For example, while statistical learning might be concerned with the prediction of the weather on a given day, assuming that it follows an i.i.d. distribution, our main concern would be in determining whether global warming is underway.\footnote{There are many economic problems that are appropriately modeled as classical statistical learning. However, there are also many problems that do not have sufficiently many repetitions to make the i.i.d. sampling a reasonable assumption. For example, one might reasonably describe candidates for admission to a graduate school as a long sequence of i.i.d. (conditional on observable characteristics) repetitions. By contrast, when deciding whether to get married, one has a limited database about oneself and one’s prospective spouse. Similarly, predicting whether a particular customer will make a purchase falls under the classical theory of statistical learning, but predicting a stock market crash or a war likely do not.} We are thus interested in a learning problem that is non-trivial even for deterministic processes.

1.2 Results
We begin in Section 3 with a simple deterministic model that conveys the basic point. For an infinitely patient reasoner, a preference for simplicity weakly dominates indifference to simplicity, provided that the environment is not a “simplicity trap,” i.e., provided that the actual data generating process is not malevolent enough to outsmart a simplicity-preferring reasoner (Section 3.1).\footnote{When the reasoner is not infinitely patient, similar results hold with the appropriate order of quantifiers: for every distribution over data generating processes, sufficiently patient reasoners will be better off preferring simpler theories to more complex ones (Section 5.3). However, given a degree of patience, there could be sufficiently complex environments that the preference for simplicity can be detrimental.}

Our result rests on a simple enumeration argument: a simplicity-liking reasoner will eliminate incorrect theories until she gets to the correct one, thereafter predicting the environment with precision (assuming that the envi-
ronment is not infinitely complex). An agent who relentlessly chases goodness of fit may well never settle on the correct theory, being ultimately doomed to predict no better than chance.

The agents in our examples had to choose among theories that fitted the data perfectly, so that simplicity had no cost. More generally, there will be a trade-off between simplicity and likelihood (or goodness of fit). Section 4 extends the results to more realistic settings in which the world about which the agent reasons is random rather than deterministic. Our result that the agent cannot simply rely on goodness-of-fit comparisons is strengthened in this environment. It is an optimal strategy for the agent to regularly reject theories that provide superior fits in favor of less successful but simpler ones, for much the same reasons that statisticians prefer simpler models and scientists prefer more parsimonious theories in order to avoid the dangers of overfitting their data. To ensure this preference for simplicity is successful, however, it must be coupled with a preference for stability. The agent will thus embrace a theory promising enhanced explanatory power only if it is sufficiently simple and has provided sufficiently good fit for sufficiently long time.

Section 5 discusses our analysis. What if the environment is a simplicity trap? Expanding our model to allow such possibilities, we show that a “cautious” preference for simplicity provides protection against simplicity traps and weakly dominates theory selection criteria that do not take simplicity into account (Section 5.1). Is our reasoner’s enumeration task computable? If not, is it reasonable to assume that the reasoner performs it? In response, Section 5.2 provides a computable version of the basic result, requiring both theories and the reasoner’s strategy to be implementable by Turing machines. The result invokes a simplicity notion based on a combination of program complexity and computational complexity, and again relies on caution against simplicity traps.

1.3 Implications

We view this exercise as making the case that inference cannot effectively be based on likelihood arguments alone. Simply observing that one theory fits the data better than another is not sufficient to prefer the former over the latter. Instead, one must also argue that the candidate theory fares well in terms of subjective auxiliary criteria.

Subjective evaluations of potential theories may have many origins. In
particular, cognitive limitations may give rise to effectively subjective considerations by simply excluding some theories from consideration. In the process, these limitations may allow one to reason more effectively than an agent free from such constraints, if the latter exploits the resulting capacity to envision all possible theories by basing choice on likelihood considerations alone.\textsuperscript{6} The literature on bounded rationality may thus benefit from a distinction between bounds on rationality that are typically detrimental and those that may be useful. Economic models of idealized rational agents may wish to ignore limitations of the first type, but perhaps not of the second type. The study of the reasoning and behavior of intelligent agents may therefore be enriched by evolutionary psychology and a closer study of the origins of various limitations of the human mind.

2 The Model

2.1 The Environment

We consider a repeated prediction game. In each period, an agent has to predict an observation from the set \{0, 1\}. His stage payoff is 1 for a correct prediction and 0 for an incorrect one.

The agent has a history-dependent preference relation over theories in a set \(T\), and at each stage he makes a prediction according to a theory that is a maximizer of this relation for the given history. Each theory is a function from all conceivable histories to predictions.

Before the repeated prediction game begins, two other players are called upon to make their choices in a one-shot meta-game. \textit{Fate} chooses the data generating process the agent will face. Formally, data generating processes, like the agent’s theories, are functions from histories to observations or, more generally, to probabilities over observations. The data generating process does not depend on the agent’s predictions.

The second player in the meta-game is \textit{Evolution}, who chooses the preference relation of the agent over theories. In the meta-game, Evolution’s payoff will be the long-run average payoff of the agent, to be defined shortly.\textsuperscript{7}

\textsuperscript{6}To paraphrase Voltaire, if computational costs did not exist, it would be necessary to invent them.

\textsuperscript{7}Fate’s payoff is immaterial as Fate is non-strategic. Fate thus plays a role analogous to “nature” in the conventional description of a decision problem as a game “against nature.”
Two views of the problem we study are available. We can view Evolution as a process by which the agent is programmed with a preference relation over theories. More precisely, we would imagine an evolutionary process in which mutations regularly give rise to agents with various preference relations over theories, with a process of natural selection leading to outcomes in which those preference relations giving rise to relatively high payoffs survive while other preference relations disappear from the population. Alternatively, we can take a normative approach, viewing the agent’s preference relation over theories as the result of a decision problem under uncertainty. The states of the world correspond to the various data generating processes that might be chosen by Fate, while Evolution in this case is simply a decision maker charged with choosing a preference relation over theories. In either interpretation, the relevant payoff is a long-run average of the agent’s probability of success in predicting the observations of the data generating process.\footnote{Since Evolution can also be thought of as Mother Nature, we avoid the term “nature.”}

**Observations.** At the beginning of each period \( n \geq 0 \), the agent observes a profile of variables \( x_n = (x_1^n, ..., x_m^n) \in \{0, 1\}^m \equiv X \). The agent then predicts the value of another variable, \( y_n \in \{0, 1\} \), to be revealed at the end of period \( n \). We assume the \( x_n \) are pre-determined. That is, we fix a sequence \( \{x_n\}_{n \geq 0} \) and conduct the discussion relative to this sequence, without specifying the process that generated it.\footnote{Our initial assumption that agents are infinitely patient is relaxed in Section 5.3.} Indeed, one could simplify the notation be eliminating the \( x_n \) from the model altogether, though we find them helpful for interpretations.

A history of length \( n \geq 0 \) is a sequence \( h_n = ((x_0, y_0), ..., (x_{n-1}, y_{n-1}), x_n) \). The set of all histories of length \( n \) is denoted by \( H_n = (X \times \{0, 1\})^n \times X \). The set of all histories is \( H = \bigcup_{n \geq 0} H_n \).

**Fate.** A data generating process is a function \( d : H \to [0, 1] \), with \( d(h_n) \) being the probability that \( y_n = 1 \) given history \( h_n \). The set of all data generating processes is thus \( [0, 1]^H \). We will typically be interested in problems in which Fate is constrained to choose a data generating process from a certain

\footnote{None of our results depends on the characteristics of this data generating process or on realizations of the data having particular properties. In a more general model, some of these variables might be determined by the agent, who might decide to perform experiments and test various theories. Our focus at this point is on learning without experimentation.}
subset $D \subset [0,1]^H$. For example, $D_0 = \{d \in [0,1]^H \mid d(h) \in \{0,1\} \ \forall h \in H\}$ denotes the set of all deterministic data generating processes.

**The Agent.** In each period $n \geq 0$, the agent chooses a theory, denoted by $t_n$, from a set $T$. We assume that $T$ is itself a set of data generating processes and typically also assume that $D \subset T$, so that the agent does not face the impossible task of trying to learn a data generating process of which he cannot conceive. We then typically further simplify the agent’s learning process by assuming that $D = T$.

The agent uses the theory $t_n$ to predict the period-$n$ value $y_n$ given history $h_n$. If $t_n(h_n) > 0.5$, then the agent predicts $y_n = 1$ with probability 1. He predicts $y_n = 0$ if $t_n(h_n) < 0.5$, and predicts 0 and 1 with equal probability if $t_n(h_n) = 0.5$. Given the agent’s payoff (cf. (2) below), this behavior is optimal—the agent can only lose by (say) reporting the probability $t_h(h_n)$.

**Evolution.** Evolution endows the agent with a relation that the agent uses to choose the theory $t_n$. In particular, for every history $h \in H$, the agent applies a relation $\succsim_h \subset T \times T$ to the set $T$ of theories. We assume that, for every $h$, $\succsim_h$ is complete and transitive, and that it has maximal elements. We define $$B_{\succsim_h} = \{ t \in T \mid t \succsim_h t' \ \forall t' \in T \}$$
to be the set of “best” theories in the eyes of the agent faced with history $h$ and characterized by $\succsim_h$. The agent’s choice following history $h$ is unambiguous if $B_{\succsim_h}$ is a singleton, but this may often fail to be the case. What does the agent do if there are a number of theories in $B_{\succsim_h}$? The answer here is irrelevant for many of our results, but when needed, our basic assumption is that the agent in this situation treats the various best theories symmetrically, in the sense that he makes a choice that wherever possible exhibits no bias for theories that predict 0 versus theories that predict 1 in the next observation.

**Assumption 1** The agent chooses from $B_{\succsim_h}$ according to a measure $\mu_{B_{\succsim_h}}$ on $B_{\succsim_h}$ satisfying

$$\mu_{B_{\succsim_h}} \left( \{ t \in B_{\succsim_h} \mid t(h) < 0.5 \} \right) = \mu_{B_{\succsim_h}} \left( \{ t \in B_{\succsim_h} \mid t(h) > 0.5 \} \right)$$

whenever

$$\{ t \in B_{\succsim_h} \mid t(h) < 0.5 \}, \{ t \in B_{\succsim_h} \mid t(h) > 0.5 \} \neq \emptyset.$$
Assumption 1 is invoked only in the presence of Assumption 2 (or its generalization, Assumption 4), and only for the likelihood relation \( \succsim^L \) (defined in Section 2.2.1, or its generalization, \( \succsim^{L,\gamma} \)). We explain in Section 3.1 why Assumption 1 is especially natural in these settings.

One might protest that if an agent has observed a relentless stream of 0s, perhaps many thousands long, then it surely makes no sense to view a 0 and a 1 as equally likely as the next observation. We agree: this is precisely the reasoning behind the idea that subjectivity may be a valuable aid to making decisions. However, we view the relation \( \succsim \) (rather than the choice from \( B_{\succsim} \)) as capturing this type of reasoning. After observing a history \( h \) consisting entirely of 0s, for example, the relation \( \succsim_h \) is likely to give pride of place to theories predicting a zero on the next round. Assumption 1 applies only when the agent has exhausted all concerns about goodness of fit, simplicity, plausibility, and so on, and still entertains theories predicting a 0 and theories predicting a 1 in the next period. Only then does Assumption 1 require symmetric treatment of such theories.

**Payoffs.** Let \( d(h_n) \in [0,1] \) and \( \hat{t}_n(h_n) \in \{0,1\} \) be the outcome of the data generating process \( d \) and the agent's prediction, respectively, given history \( h_n \). The payoff to the agent in period \( n \) is defined by the probability of guessing \( y_n \) correctly, that is,

\[
p(d, \hat{t}_n, h_n) = d(h_n)\hat{t}_n(h_n) + (1 - d(h_n)) (1 - \hat{t}_n(h)).
\]

Intuitively, we would like to take the long-term payoff to the agent to be the expected value of

\[
\lim_{T \to \infty} \frac{1}{T} \sum_{n=0}^{T-1} p(d, \hat{t}_n, h_n),
\]

where the expectation captures the potential randomness in the outcomes produced by the data generating process, the agent's choice of theories, and the resulting predictions. However, this limit need not exist. We let

\[
\Lambda(\{p(d, \hat{t}_n, h_n)\}_{n=0}^\infty)
\]

be a Banach limit defined on the set of sequences \( \{p(d, \hat{t}_n, h_n)\}_{n=0}^\infty \), and let the agent's payoff \( P(d, \succsim) \), when facing data generating process \( d \) and using relation \( \succsim = \{\succsim_h\}_{h \in H} \) to choose theories, be given by the expected value of
The key property of Banach limits we need is that
\[
\liminf_{T \to \infty} \frac{1}{T} \sum_{n=0}^{T-1} p(d, \hat{t}, h_n) \leq \Lambda \left( \{p(d, \hat{t}, h_n)\}_{n=0}^{\infty} \right) \leq \limsup_{T \to \infty} \frac{1}{T} \sum_{n=0}^{T-1} p(d, \hat{t}, h_n).
\]

2.2 Choosing Theories

Our main interest is in the agent’s relation \(\succsim\) for choosing theories. This problem has one obvious solution: \(\succsim\) will work very well if it has a unique maximal element, corresponding to the choice \(d \in D\) made by Fate. This ensures the agent a payoff of 1.

Why doesn’t Evolution simply give the agent this preference relation—essentially, explain the world to the agent—and be done with it? The only means evolution has for choosing the right data generating process is trial-and-error. Our view is that the data generating process \(d\) is chosen from too large a set for Evolution to reliably stumble upon it via trial-and-error.\(^{10}\) Alternatively, from a normative or statistical interpretation, the question simply does not arise: finding the right theory is precisely the problem of inductive inference.

We accordingly introduce our two primary contenders for the relation \(\succsim\).

2.2.1 The Likelihood Relation

We can view Lisa and Lloyd in our introductory examples as employing the likelihood relation. The likelihood relation chooses theories based solely on the evidence, selecting theories that fit the data best. Formally, for \(h_n \in H_n\), let
\[
L(t, h_n) = \Pi_{j=0}^{n-1}[t(h_j)y_j + (1 - t(h_j))(1 - y_j)].
\]
This is the likelihood of theory \(t\) given history \(h_n\). The likelihood relation \(\succsim^L\) ranks theories after any history \(h\) by their likelihood:
\[
\forall h \in H, \quad t \succsim^L_h t' \iff L(t, h) \geq L(t', h).
\]
The likelihood relation thus calls for agents to base their inferences on their data, and on no other criterion.

\(^{10}\)It may well be that the data generating process has been fixed since the start of human history, and yet Evolution had time to go through so little of the set \(T\) as to have no hope of hitting the true data generating process.
In the simple case where \( T = D_0 \), i.e., when only deterministic theories are considered, \( \succsim_h \) boils down to two equivalence classes. All theories that perfectly fit the data are equivalent, having \( L(t, h) = 1 \), and they are all preferred to all theories that have been refuted by the data, where the latter are also equivalent to each other and satisfy \( L(t, h) = 0 \).

### 2.2.2 The Simplicity Relation

We can view Sally and Sam in our examples have a taste for simplicity. The simplicity relation takes complexity into account, though only as a secondary criterion. To define this theory-selection procedure, we first order \( T \) according to the simplicity of its elements. This takes the form of an order \( \succ S \subset T \times T \) that is defined \textit{a priori}, independently of history (in contrast to \( \succsim_h \) which is a function of \( h \in H \)).\footnote{In an effort to keep things straight, we use \( \succsim_h \) to denote a relation by which the agent chooses theories, and \( \succ S \) to denote a simplicity order over theories. We similarly associate the label “relation” with the former and “order” with the latter (though they have the same properties, i.e., each is complete and transitive).} In particular, an order \( \succ S \subset T \times T \) is a \textit{simplicity order} if:

\[
\succ S \text{ is a weak order (i.e., complete and transitive)} \tag{3}
\]

and

\[
T' \subset T \text{ countable } \implies \# \{ t' \in T' \mid t' \succ S t \} < \infty \quad \forall t \in T'. \tag{4}
\]

To see why (4) is necessary, let us return to the likelihood relation \( \succsim_h \). The problem with this relation is that it will often leave the agent with too many indifferences, in the sense that the agent will be stuck choosing between too many theories that fit the data. The simplicity order will help select between such indifferent theories, but will be effective only if it does a good enough job of breaking indifferences. In the absence of condition (4), for example, the definition of a simplicity order would be consistent with the trivial order \( \succ S = T \times T \), according to which no theory is strictly simpler than another, giving the agent absolutely no help in choosing between theories. More generally, we would like to rule out the case that the simplicity order is permissive enough to allow for infinitely many strategies to be equally simple. Condition (4) ensures that if \( \succ S \) is a simplicity order on \( T \) and \( T' \subset T \) is countable, then there exist \( \succ S \)-maximal elements in \( T' \).
Condition (4) will hold if theories are ranked according to the length of their shortest algorithmic description in a given language (with shorter being simpler), but will likely fail if those expressed in some language \( A \) are regarded as simpler than those that can only be expressed in terms of language \( B \), which are in turn simpler than those that require language \( C \), and so on. Fortunately, we emphasize again that there is nothing about simplicity per se that is important our analysis, despite our penchant for interpreting the results in terms of simplicity. If the agent has available some ordering satisfying (3)–(4), then that order is a good candidate for making the agent’s induction more effective. For example, Section 3.2.1 shows that (3)–(4) will be hold if the agent’s simplicity relation is the result of Bayesian updating.

If the set of data generating processes is countable, one way to ensure that (3) and (4) hold is to enumerate \( T \) and set \( t_i \succ_S t_{i+1} \) for every \( i \geq 1 \), so that \( T = \{t_1, t_2, \ldots\} \) is ordered according to increasing complexity. Our definition is less demanding, and allows for non-singleton equivalence classes of the order \( \sim_S \), but not for infinite ones. Nonetheless, under the assumption that \( T \) is countable, simplicity orders are closely related to enumerations of \( T \). Specifically, for every simplicity order \( \succ^S \) there exists an enumeration \( T = \{t_1, t_2, \ldots\} \) such that \( t_i \succ^S t_{i+1} \), with strict preference \( \succ^S \) occurring for infinitely many \( i \)'s. Alternatively, \( \succ^S \) is a simplicity order if and only if it can be represented by a complexity function \( C : T \to \mathbb{N} \) such that\(^{12}\)

\[
t \succ^S t' \iff C(t) \leq C(t')
\]

and

\[
|C^{-1}(k)| < \infty \quad \forall k \in \mathbb{N}.
\]

Given a simplicity order \( \succ^S \), we define the associated simplicity relation \( \succ^{LS} \) for choosing theories as follows:

\[
\forall h \in H, \quad t \succ^L_h t' \iff \left\{ \begin{array}{l}
\{t \succ^L_h t'\} \\
\text{or} \quad \{t \sim^L_h t' \text{ and } t \succ^S t'\}
\end{array} \right.
\]

The relation \( \succ^{LS} \) thus uses the simplicity order \( \succ^S \) to choose among those theories with the highest likelihood. The likelihood and simplicity relations

\(^{12}\)While there are obviously many different enumerations of \( T \), and hence many complexity functions \( C \) with their induced simplicity orders \( \succ^S \), they cannot be too different in the following sense. Let \( C_1 \) and \( C_2 \) be two complexity functions. Then, for every \( k \) there exists \( l = l(k) \) such that \( C_1(t) > l \) implies \( C_2(t) > k \). That is, a theory that is sufficiently complex with respect to \( C_1 \) will also be complex with respect to \( C_2 \).
\(\succsim^L\) and \(\succsim^{LS}\) agree in that they only choose theories with maximal likelihoods, with the likelihood relation being indifferent over such theories and the simplicity relation choosing the simplest one.

3 Subjectivity in Inductive Inference

This section uses an elementary deterministic model to show that subjective criteria, interpreted for concreteness as a preference for simplicity, can be useful in inductive inference. The key simplification in the model is contained in the following assumption, which puts some structure on the data generating processes. Its first two parts require the set of data generating processes to be simple enough to be learned, and the final part requires it be rich enough to describe any possible finite sequence of observations. The latter is intended to rule out trivial cases in which a finite set of observations suffices to single out a unique theory, i.e., cases where the problem of induction does not arise.

Assumption 2

\[\begin{align*}
&[2.1] \quad D \subset D_0, \\
&[2.2] \quad D = T \text{ is countable.} \\
&[2.3] \quad \text{For every history } h \in H \text{ there exists } d \in D \text{ such that } L(d, h) = 1.
\end{align*}\]

Given Assumption 2.1, the remaining requirements are satisfied if \(D = T\) is the set \(D_0^H\) of all Turing machines generating functions \(d \in D_0\) (i.e. Turing machines that accept elements of the set \(H\) as inputs, halt, and produce outputs from the set \(\{0, 1\}\)). The countability restriction will be discussed and relaxed in Section 5.1 below. We view the restriction to deterministic data generating processes as the substantive assumption here. One natural simplicity relation \(\succsim^S\) on computable processes is induced by Kolmogorov’s complexity measure, namely, the minimal description length of a program that generates the process in a given computer language.

The set \(D_0^H\) of all Turing machines generating functions \(d \in D_0\) has the property that for any history of observations \(h\), and for every data generating process \(d\) in \(D_0^H\) consistent with \(h\), there is another data generating process in \(D_0^H\) that is also consistent with \(h\) but whose subsequent datum will be precisely the opposite of \(d\), generating a 0 whenever \(d\) produces a 1 and vice versa. As a result, the sets \(\{t \in B_{\succsim^h} \mid t(h) = 0\}\) and \(\{t \in B_{\succsim^h} \mid t(h) = 1\}\)
\(D\) Set of data generating processes \((\subset [0, 1]^H)\).

\(D_0\) Set of deterministic data generating processes (i.e., with outputs \(\{0, 1\}\)).

\(D_T^0\) Set of Turing machines with inputs \(H\) and outputs \(\{0, 1\}\).

\(D_H^0\) Set of Turing machines in \(D_T^0\) that halt for all \(h \in H\).

\(D_B^0\) Set of Turing machines in \(D_T^0\) with bounded halting time.

\(D_\varepsilon\) Set of data generating processes with outputs \(\{\varepsilon, 1 - \varepsilon\}\).

Figure 1: Data Generating Processes. In each case, “Set of Turing machines....” should be read “set of data generating process that can be implemented by a Turing machine....”

will not only be non-empty but will be symmetric in their treatment of the next observation. Assumption 1, requiring that an unbiased choice be made from these sets under the likelihood relation, is then quite natural.

In the course of our discussion, we will consider several possibilities for the set \(D\). It is useful for future reference to collect the notation for these various sets in Figure 1.

3.1 Comparison of Payoffs

Recall that \(P(d, \succsim)\) is the payoff function defined by a Banach limit corresponding to (2), given that Fate has chosen data generating process \(d\) and Evolution has endowed the agent with relation \(\succsim\).

Proposition 1 Let Assumption 2 hold.

[1.1] For every simplicity order \(\succsim^S\) and every \(d \in D\), \(P(d, \succsim^{LS}) = 1\).

[1.2] If Assumption 1 also holds, then \(P(d, \succsim^L) = .5\), and hence for every simplicity order \(\succsim^S\), \(\succsim^{LS}\) strictly dominates \(\succsim^L\).

Proposition 1.2 holds for much the same reason that statisticians and machine learning theorists are concerned with “overfitting,” even though there are no statistical errors in our simple model and hence the term overfitting does not quite apply.\(^{\text{13}}\) The agent has to choose among theories that have been refuted and theories that match the data perfectly. Realizing that one

\(^{\text{13}}\)The preference for simplicity among theories that match the data equally well may be viewed as a tendency not to “overkill,” rather than not to overfit. Overfitting refers to a willingness to complicate the theory for relatively small improvement in the goodness of fit, while overkilling might be thought of as the willingness to complicate the theory for no improvement in the goodness of fit whatsoever. Section 4 presents a more general
can always find many theories that match the data perfectly, with a variety of differing predictions, standard statistics leads us to prefer theories that are simpler than the data that they fit. The proof of Proposition 1.2 similarly relies on the fact that, in the absence of preference for simplicity, one is at a loss in selecting a theory. Many theories match the data perfectly, but their predictions vary. There is nothing to ensure that we ever prefer the correct theory to other theories, and our prediction ends up being completely random.

It is important to observe again that our preference for simplicity is an interpretation of an abstract subjective order $\succeq^S$. In many cases, this order will correspond to an intuitive sense of simplicity. However, Proposition 1 does not assume any particular structure on the subjective order and no particular measure of simplicity can be singled out as the right one. Any consideration that allows one to rank theories by an order satisfying (3)–(4) would result in a simplicity relation $\succsim^L$ that dominates $\succsim^L$.

### 3.2 Other Contenders

The likelihood relation and the simplicity relation by no means exhaust all strategies one can imagine for choosing theories. We devote this section to the discussion of alternatives that help us understand the driving force behind the success of simplicity.

#### 3.2.1 Bayesian

Suppose that the agent views the data generating process $d$ as having been chosen by Fate according to a probability measure $\lambda$ on (for simplicity) the set $D_0$ of deterministic data generating processes. Then the agent’s payoff is maximized by a strategy that predicts 1 in period $n$ after history $h_n$ if and only if

$$\lambda\{d : L(d, h_n) = 1, d(n) = 1\} > \lambda\{d : L(d, h_n) = 1, d(n) = 0\},$$

that is, there is no way to do better than to make the agent Bayesian. Why doesn’t our inquiry end with this observation?

model, in which statistical errors are allowed, to introduce a non-trivial trade-off between the simplicity of a theory and its accuracy. The finding that preference for simplicity is evolutionarily selected is then more closely related to the dangers of overfitting in the standard statistical sense.
Our approach is compatible with Bayesianism. Specifically, if the set of conceivable theories $T$ is countable (cf. Assumption 2) and the agent has a Bayesian prior over $T$, then the relation “has at least as high a prior as” can be viewed as a simplicity relation—it is a weak order that is monotonically decreasing along an enumeration of the theories, with finite equivalence classes. In other words, a Bayesian prior defines a simplicity relation. Conversely, one may use a simplicity relation to define a Bayesian prior: simpler theories are considered more likely.

There are a continuum of priors that are consistent with a given simplicity relation. These priors are all equivalent in our model, because we suggest that the agent choose a most-likely theory to generate the next prediction—a practice we dub “simplicism.” By contrast, the Bayesian approach constructs an expected prediction, using all possible theories. However, after a long enough time, the Bayesian will have a posterior probability close to 1 for the correct theory, and (assuming its prediction is deterministic) will also converge to making predictions as if he used simplicism.

Simplicism and Bayesianism are thus similar both in their eventual selection of the “best” theory and in the predictions they eventually generate. Yet, simplicism is computationally and cognitively simpler than Bayesianism in several important ways. First, in order to implement simplicism, one need not conceive of all possible theories. For example, a scientist who finds the simplest theory that explains the data may go on generating predictions even if he has not even imagined alternative explanations. Second, in order to generate predictions, simplicism requires only an ordering over the theories, rather than a quantification thereof. It is an easier task to ask which theory is simpler than to assign a numerical value to the \textit{a priori} likelihood of a theory. Relatedly, a Bayesian approach requires that an “at least as likely as” relation be defined for every two subsets of theories, and not just for every pair of theories. Therefore, even if we restrict attention to qualitative comparisons, a Bayesian needs to rank all elements in $2^T$, rather than elements in $T$ itself.

In summary, our justification of a preference for simplicity is compatible

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14 Clearly, simplicism is a more faithful model of how scientists actually think. For example, relativity theory did not wait to be discovered by Einstein (or Poincare) because until his time its posterior probability was too low to be prominent. It was simply not conceived of by his predecessors. Indeed, if scientists were Bayesian, and were only updating prior to posterior probabilities based on data, there would be little point in hiring theoretical scientists in the first place.
with a justification of a Bayesian approach. Both approaches use subjective notions—the preference for simplicity or the prior—that need not be “correct” to be useful in the inductive inference task. We continue to discuss “simplicity” as our preferred interpretation of the a priori preference between theories, thinking that bounded rationality would tip the scales in this direction (see Section 5.4), but would not object to others adopting a Bayesian interpretation.

3.2.2 Inertial

The simplicity relation has two components. It ensures that the agent will not abandon a theory that fits the data perfectly well. In addition, it essentially enumerates the theories, ensuring that an agent will eventually “try” all of them, if needed. One might suspect that it would be sufficient to impose the first requirement by assuming that agents do not abandon a theory until receiving evidence of its falsity. In particular, the proof of Proposition 1 shows that an agent guided by the likelihood relation falters because every period there is a multitude of theories with perfect likelihood scores, including the truth and a host of imposters. The agent’s arbitrary choice from this set implies that even if he hits upon the truth, he soon abandons it in favor of another seemingly equivalent theory. Will it not suffice to assume that the agent sticks to something that has worked in the past?

The phenomenon of inertia, or a preference for a status quo, is familiar from casual observations as well as from psychological studies. Kuhn [12] argued that scientists tend to cling to old theories rather than adopt those theories that fit the data best.

To see if inertia suffices for effective learning, we define the inertial relation as that selecting the theory chosen in the previous period if the latter maximizes the likelihood function, and otherwise choosing as does the likelihood relation. Formally, define \(\succ_L\) as follows for all \(n > 1\),

\[
\forall h \in H, \quad t \succ^L_t t' \iff \begin{cases} 
\{L(t, h) > L(t', h)\} \\
\{L(t, h) = L(t', h) \text{ and } t = t_{n-1}\}
\end{cases},
\]

with \(t \sim^L_{t_0} t'\) for all \(t, t'\), so that in the absence of any evidence, all theories are equally likely.

The following example shows that inertia alone does not suffice to ensure effective learning.
**Example 3:** Let (for this example only) $D = T$ consist of the following set of deterministic theories:

$$\{ y \in \{0, 1\}^N \mid \exists n \geq 0, \ y(k) = 0 \ \forall k \geq n \}.$$  

The possible data generating processes are thus all those that generate only 0 from some point on. For example, the theories may be describing the availability of a random resource, which is known to be depletable, but whose date of ultimate exhaustion is uncertain.

For every $h_n$, let the selection rule over the infinite set $B_{\sim h_n} \bowtie LI$ be given by

$$\mu_{B_{\sim h_n}}(t^{n+k}) = \frac{1}{2k+1} \quad k = 0, \ldots,$$

where, for all histories and all $k$,

$$t^{n+k}(h_{n+k}) = 1; \quad t^{n+k}(h_l) = 0 \ \forall l \neq n + k.$$  

Hence, given any history $h_n$, the agent attaches positive probability only to continuations that feature a single observation of 1 (and otherwise all 0’s), with probability $1/(2k+1)$ attached to the theory that generates its observation of a 1 in precisely $k$ periods.

Under this selection rule, theories predicting a 0 on the next step are equally likely as theories predicting a 1, in accordance with (1). Assume Fate has chosen the data generating process according to which $y_n = 0$ for all $n$. Consider $\sim h_n \bowtie LI$ for a history $h_n$ consisting of $n$ 0s. Then given (6)–(7), $\sim h_n \bowtie LI$ will choose a theory whose first 1 appears according to a geometric distribution with parameter 0.5. The expected number of periods for which this theory will match the observations is

$$\sum_{i=0}^{\infty} \frac{i}{2^{i+1}} = 1.$$  

It is then a straightforward calculation that $P(y_0, \sim h_n \bowtie LI) = 0.5$.

The difficulty in this example is that the selection rule over the various sets $B_{\sim h_n} \bowtie LI$ routinely ignores the correct theory. This suggests that inertial relations will ensure effective learning only if they are coupled with a selection rule that is sufficiently likely to select the correct theory. Proposition (2) shows that inertia can then have evolutionary value, in effect serving as a safeguard against the excessive fickleness of random choice.
Assumption 3 There exists a strictly positive measure \( \lambda \) on the countable set \( D \) such that for any \( h \in H \), \( \mu_{B_{\succ h}} \) equals \( \lambda \) conditioned on \( B_{\succ h} \).

Proposition 2 Under Assumptions 2 and 3, for all \( d \in D \), \( P(d, \succ_{LI} h) = 1 \).

Behind this result lies the observation that a sufficiently stationary theory selection process is guaranteed to select the correct theory, \( d \), at least once. Once \( d \) has been chosen, inertia ensures that it will not be abandoned, and hence the optimal payoff is obtained.

3.2.3 Exploitation and Exploration

The simplicity relation and the inertial relation can both be viewed as special cases of the principle of “exploitation and exploration.” The agent exploits theories that have worked by sticking with them, while effectively exploring new theories when necessary. In the case of simplicity, the stability of a given simplicity ordering ensures that a theory that fits the data is not abandoned, while the simplicity enumeration allows the agent to “try out” all theories (as long as a perfect fit has not been found). The likelihood relation’s lack of the first characteristic dooms its adherents to randomness. The inertial relation matches the performance of the simplicity relation in terms of exploitation, but requires an additional assumption on the strategy selection process to provide effective exploration.

4 A Random World

The assumption that the data generating process is deterministic (i.e., that \( d(h) \in \{0, 1\} \) for all \( h \)) is unrealistic. Worse still, it beclouds the interesting trade-off between likelihood and simplicity in the choice of theories. So far, the choice of simple or random theories was made among the theories that fit the data perfectly—the preference for simplicity involved no cost. A more interesting problem arises when random data generating processes are introduced. In this case, simplicity is no longer a free good, but has a likelihood price tag attached to it. Should the agent be willing to give up a better fit for a simpler theory, and if so, to what extent?
4.1 Uniform Errors

To get some insight into this problem, we begin with a minimal modification of our benchmark model. Define, for $\varepsilon \in (0, 1/2)$,

$$D_{\varepsilon} = \{ d \in [0, 1]^H | d(h) \in \{\varepsilon, 1 - \varepsilon\} \forall h \in H\}.$$ 

Thus, $D_{\varepsilon}$ can be thought of as the deterministic data generating processes, $D_0$, with an error probability of $\varepsilon$ added to the output.

The likelihood function, for a theory $t \in D_{\varepsilon}$ and a history $h \in H_n$, is

$$L(t, h_n) = \prod_{j=0}^{n-1} [t(h_j)y_j + (1 - t(h_j))(1 - y_j)].$$

In the presence of randomness, the likelihood function will inevitably converge to zero for any theory—its largest possible value in period $n$ is $(1 - \varepsilon)^n$, since the best any theory can do is attach probability $1 - \varepsilon$ in each period to the outcome that happens to be realized in that period. This convergence makes the likelihood an awkward standard for comparing theories. It is more convenient to consider the average of the logarithm of the likelihood function,

$$l(t, h_n) = \frac{1}{n} \log(L(t, h_n)) = \frac{1}{n} \sum_{j=0}^{n-1} \log [t(h_j)y_j + (1 - t(h_j))(1 - y_j)], \quad (8)$$

which does not converge to zero. We hereafter use “likelihood” to denote the average log likelihood, given by (8).

Let us say that a theory is “correct” in period $t$ if it predicts a 1 with probability $1 - \varepsilon$ and a 1 occurs, or if it predicts a 0 with probability $1 - \varepsilon$ and a 0 occurs. It is helpful to define the function

$$\theta(p) = p \log(1 - \varepsilon) + (1 - p) \log \varepsilon.$$ 

Then $\theta(p)$ is the (average log) likelihood of a theory that has been correct proportion $p$ of the time.

A theory that is correct in every period would give likelihood $\theta(1)$. This is the highest possible likelihood. The theory that corresponds to the data generating process gives a limiting likelihood of $\theta(1 - \varepsilon)$, and an agent who always uses the data generating process to predict would achieve payoff $1 -$
\[
\begin{align*}
\log(1 - \varepsilon) &= \theta(1) \quad \text{Maximum possible limiting value.} \\
(1 - \varepsilon) \log(1 - \varepsilon) + \varepsilon \log \varepsilon &= \theta(1 - \varepsilon) \quad \text{Value achieved by the data generating process.} \\
\frac{1}{2} \log(1 - \varepsilon) + \frac{1}{2} \log \varepsilon &= \theta \left( \frac{1}{2} \right) \quad \text{Value achieved by random choice.}
\end{align*}
\]

Figure 2: Key values of the limiting average-log-likelihood function (8).

\(\varepsilon\). Predicting randomly would give likelihood \(\theta \left( \frac{1}{2} \right)\) and payoff \(\frac{1}{2}\). Figure 2 summarizes these observations.

The counterpart of Assumption 2 is now:

**Assumption 4**

1. \(D \subset D_\varepsilon\).
2. \(D = T\) is countable.
3. For every history \(h \in H\) there exists \(d \in D\) such that \(l(d, h) = \theta(1)\).

Assumption 4.3 indicates that for any finite stream of data, there is a theory that would have been correct in every period. Ex post, one can rationalize anything.

### 4.2 Tolerance in Learning

The agent could once again adopt a relation over theories that first restricts attention to likelihood-maximizing theories, such as the likelihood relation \(\preceq^L\) of Section 2.2.1 or the simplicity relation \(\preceq^{LS}\) of Section 2.2.2. In the random environment, this ensures that the agent will eventually exclude the data generating process as a possible theory. In each period, the realization may differ from the true theory’s prediction with probability \(\varepsilon\). Hence, the true theory will eventually almost surely have a likelihood value lower than \(\theta(1)\), whereas there will always be other theories with a likelihood value of \(\theta(1)\). That is, insisting on maximum-likelihood theories will lead to constant theory hopping.

This suggests that the agent’s learning might be more effective if it incorporates some tolerance for inaccuracy. For any \(\gamma \in [0, 1]\), we say that a theory \(t\) is a “\(\gamma\)-best fit” to the data after history \(h\) if

\[
l(t, h) \geq \theta(\gamma).
\]

\(^{15}\) For large \(n\), the likelihood will be approximately \((1 - \varepsilon)^{(1-\varepsilon)n} \varepsilon^n\) and the average log likelihood \(l(d, h)\) will converge to \(\theta(1 - \varepsilon)\).
The counterpart of the likelihood relation is then
\[ \forall h \in H, \quad t \gtrsim_h^{L, \gamma} t' \iff L^\gamma(t, h) \geq L^\gamma(t', h) \]
where
\[ L^\gamma(t, h) = \min \{ L(t, h), \theta(\gamma) \} \).

When working with \( D_0 \), the likelihood relation \( \gtrsim^L \) separated theories into two classes, those that predicted perfectly and those that did not. Here we again divide theories into two classes, those achieving a likelihood of at least \( \theta(\gamma) \) and those that fall short of this goal.

What would be a good value of \( \gamma \)? One suspects that we should set \( \gamma < 1 - \varepsilon \), since any value \( \gamma > 1 - \varepsilon \) will eventually surely exclude the true data generating process. However, simply relaxing the likelihood threshold to \( \gamma < 1 - \varepsilon \) does not suffice if one insists on using the likelihood criterion alone to choose theories. The true theory (if such exists) will not be ruled out, but there is no guarantee that it be selected. An argument analogous to that establishing Proposition 1.2 immediately provides the (omitted) proof of:

**Proposition 3** Let Assumptions 1 and 4 hold. Then \( P(d, \gtrsim^{L, \gamma}) = \frac{1}{2} \).

Intuitively, whatever the value of \( \gamma \), the agent has a wealth of theories with likelihoods exceeding \( \theta(\gamma) \) from which to choose. In the absence of another selection criterion, the agent is doomed to random prediction.

Once the agent is willing to pay the price of less than maximum likelihood, he can afford to use the additional criterion of simplicity in a meaningful way. Define
\[ \forall h \in H, \quad t \gtrsim_h^{L, S, \gamma} t' \iff \begin{cases} \{ t \gtrsim_h^{L, \gamma} t' \} \\ or \{ t \sim_h^{L, \gamma} t' \ and \ t \gtrsim^S t' \} \end{cases} \]
The agent thus chooses the simplest among the \( \gamma \)-best fits.

Under the simplicity relation, setting \( \gamma > 1 - \varepsilon \) again implies that the agent will discard the data generating process as a possible theory and subsequently hop between imposters. The implications of this switching between strategies are now not obvious. The agent chooses the simplest theories among those that provide \( \gamma \)-best fit. While the correct theory is not among them, it is not clear how well their predictions are correlated with the true data generating process. The following assumption adapts Assumption 4.3 to a tolerance for inaccuracy, and it allows us to compute the limit payoff for such values of \( \gamma \).
Assumption 5 For simplicity order $\succeq^{LS,\gamma}_{h}$ with $\gamma > 1 - \varepsilon$ and sufficiently large $n$, \( \{ t \in B_{\succeq^{LS,\gamma}_{h}} \mid t(h) = 1 - \varepsilon \} \) and \( \{ t \in B_{\succeq^{LS,\gamma}_{h}} \mid t(h_n) = \varepsilon \} \) are nonempty.

Thus, we assume that the simplest theories are rich enough to contain theories that predict 0 and theories that predict 1. It is not obvious that the simplicity relation should have this property. If, for example, we observe the pattern 00000, it is not obvious that one of the simplest theories next will predict 1. However, when $n$ is large, the actual data generating process has surely been discarded by order $\succeq^{LS,\gamma}_{h}$ and any theory amassing a likelihood above $\gamma$ is surely a fluke. As a result, it is not obvious what a priori information, if any, should be brought to bear. One might then view this assumption as describing a potentially plausible worst-case scenario for the agent. The (omitted) proof of the following is then immediate:

**Proposition 4** Let Assumptions 1, 4.1–4.2 and 5 hold. Then $P(d, \succeq^{LS,\gamma}_{h}) = \frac{1}{2}$.

Less drastic requirements than Assumption 5 will give similar but weaker results, with the key point being that setting $\gamma > 1 - \varepsilon$ forces the agent to abandon any theory that sufficiently often predicts as does the true theory, in the process placing constraints on the payoff of which the agent can be assured.

4.3 Stability in Learning

One virtue of a simplicity order in a deterministic environment is that it prevents the agent from abandoning perfectly good theories. Setting $\gamma < 1 - \varepsilon$ ensures that the agent will eventually retain the data generating process among the $\gamma$-best fits. This alone, however, does not ensure effective learning. Selecting the simplest $\gamma$-best fit leaves open the possibility that the agent may switch back and forth between theories that are simpler than the true one, where, at each period, one of the theories provides a $\gamma$-best fit, but fails to predict correctly. This is possible if the simple theories tend to be wrong precisely when they are used for prediction, but “catch up” in terms of the likelihood during periods in which they are not used for prediction. To see that this learner’s nightmare might come true, consider the following.
Example 4  Fix $\gamma < (1 - \varepsilon)$ and let $d$ be the data generating process. To simplify the presentation, but without losing any generality, assume that $d$ predicts 1 in each period (with probability $1 - \varepsilon$).

We construct $k$ theories, denoted by $t_1, \ldots, t_k$, which will be assumed the simplest: $t_1 \succ^S t_2 \succ^S \ldots \succ^S t_k$ and $t_k \succ^S t'$ for all $t' \notin \{t_1, \ldots, t_k\}$.

For concreteness, we describe the theories by an algorithm. For $n = 0$, $t_i(h_0) = 1$ for all $i \leq k$. For $n > 0$, given history $h_n$, every $t_i$ ($i \leq k$) computes the predictions of all $t_j$ ($j \leq k$, $j = i$ included) for all sub-histories $h_m$ of $h_n$ (for all $m < n$). By induction, this is a computable task. Next, each $t_i$ computes $l(t_j, h_n)$ for all $j \leq k$. If none of them has a likelihood $l(t_j, h_n) \geq \gamma$, $t_i$ predicts 1. Otherwise, $t_i$ finds the simplest of the theories in $\{t_1, \ldots, t_k\}$ with $l(t_j, h_n) \geq \gamma$. If it is itself, it predicts 0; otherwise, it predicts 1.

Observe that each theory $\{t_1, \ldots, t_k\}$ basically performs the same algorithm, which simulates the calculations of all previous periods, and halts by induction. The difference between the predictions of the different theories in $\{t_1, \ldots, t_k\}$ arises only out of the very last step of the algorithm, in case some of them obtain a likelihood value above the threshold.

Observe also that in each period, at least $k - 1$ of the theories ($t_1, \ldots, t_k$) will produce a prediction matching that of $d$, and—if and only if some reach the appropriate likelihood threshold—one of these theories will dissent. Let $\varepsilon_n$ be the proportion of realized 0’s up to time $n$. The collective number of correct predictions among the $k$ theories ($t_1, \ldots, t_k$) in history $h_n$ will thus be at least

$$[(1 - \varepsilon_n)(k - 1)]n,$$

where $\varepsilon_n$ gets arbitrarily close to $\varepsilon$ with arbitrarily large probability as $n$ gets large. Hence, a lower bound on the number of correct predictions, among the $k$ theories ($t_1, \ldots, t_k$) over periods $0, \ldots, n - 1$ is given by

$$[(1 - \varepsilon - \delta)(k - 1)]n$$

for some $\delta > 0$. We can choose $n^*$ sufficiently large that

$$\delta < \frac{(1 - \varepsilon) - \gamma}{2}$$

and then $k$ sufficiently large that, for all $n > n^*$,

$$\left[(1 - \varepsilon - \frac{(1 - \varepsilon) - \gamma}{2})(k - 1)\right] n > k\gamma n,$$  \hfill (9)
or

\[
\frac{k - 1}{k} \left( \frac{1 - \varepsilon + \gamma}{2} \right) > \gamma.
\]

(Since \(1 - \varepsilon > \gamma\), such a \(k\) exists.) From (9), we see that the theories \((t_1, \ldots, t_k)\) must have collectively amassed at least \(k \gamma n\) correct predictions for any \(n > n^*\), ensuring that at least one of them must have at least \(\gamma n\) correct predictions, and hence a likelihood of at least \(\theta(\gamma)\). As a result, one of these theories will be used for prediction in every period \(n > n^*\), and by definition predicts that outcome which appears with probability \(\varepsilon\) under the data generating process \(d\). Hence, the agent’s payoff converges to \(\varepsilon\).

It may appear as if the theories \((t_1, \ldots, t_k)\) in Example 4 are hopelessly special, tied closely to the structure of the true data generating process, and hence that the example is simply a curiosity. While we make no claims for the realism of the example, it is important to note that the simplicity order may include as relatively simple a multitude of collections \((t_1, \ldots, t_k)\), corresponding to different data generating processes, with the likelihoods of those that do not match the actual data generating process falling until they are irrelevant, and then the calculations of the example becoming relevant. While still delicate, the phenomenon in the example is thus not as special as it may first appear. If we are to achieve a general result, we must have some additional structure.

There are likely to be many ways of addressing this problem. Our intuition provides one alternative: suppose you have several experts to choose from. It would appear natural to rely on an expert who has been consistently successful at explaining the data, rather than on one who boasts a great likelihood only at the present moment.

Formally, let there be given \(\gamma \leq 1 - \varepsilon\) and \(k \geq 1\). For a theory \(t\) and history \(h \in H_n, n \geq k\), define

\[
\Gamma_{\gamma,k}(t) = \sum_{j=k}^{n} \delta_j,
\]

where

\[
\delta_j = \begin{cases} 
1 & \text{if } l(t, h_j) \geq \theta(\gamma) \\
0 & \text{if } l(t, h_j) < \theta(\gamma)
\end{cases}
\]

(where \(h_j\) is the \(j\)-th prefix of \(h\)). Next, define the relations \(\succ_{h}^{LS,\gamma k}\) for \(h \in H\).
as follows.

\[ t \gtrsim_{h}^{LS,\gamma k} t' \iff \left\{ \begin{array}{l}
\left[ \Gamma_{\gamma,k}(t) > \Gamma_{\gamma,k}(t') \right] \\
\text{or} \\
\left[ \Gamma_{\gamma,k}(t) = \Gamma_{\gamma,k}(t') \text{ and } t \gtrsim S t' \right].
\end{array} \right. \]

Thus, a maximizer of \( \gtrsim_{h}^{LS,\gamma k} \) has to be a theory that has obtained an average log-likelihood of at least \( \theta(\gamma) \) as often as possible over the past consecutive \((n - k + 1)\) periods. If there are several theories that obtained this likelihood threshold for the entire period, the maximizer has to be (one of) the simplest among them. If no theory has done as well as \( \theta(\gamma) \) for \((n - k + 1)\) periods (perhaps because \( k > n \)), \( \gtrsim_{h}^{LS,\gamma k} \) selects the simplest among those that have achieved at least \( \theta(\gamma) \) for at least \((n - k)\) periods out of the past \((n - k + 1)\) periods, and so forth.

Clearly, the choice of the parameters \( \gamma \) and \( k \) allows a wide range of relations \( \gtrsim_{h}^{LS,\gamma k} \). What should be the values of \( \gamma \) and \( k \) and how are they determined?\(^{16}\)

We discuss two possibilities for determining \( \gamma \) and \( k \). First, we assume that Evolution “programs” the tolerance for inaccuracy (\( \gamma \)) and the preference for stability (captured by \( k \)) into the reasoner’s preferences, and, second, we endogenize this optimization process to be the result of a dynamic selection by the agent himself.

### 4.4 Evolutionarily Determined Tolerance

How much inaccuracy should the reasoner be willing to tolerate? The critical value \( 1 - \varepsilon \) builds sufficient tolerance for inaccuracy into the agent’s choices as to ensure effective learning:

**Proposition 5** Under Assumption 4, for every simplicity relation \( \gtrsim^{S} \) and for every \( d \in D \), \( P(d, \gtrsim_{h}^{LS,\gamma k}) \to (1 - \varepsilon) \) as \( \gamma \nearrow 1 - \varepsilon \) and \( k \to \infty \).

We thus find that, in the presence of randomness, augmenting the preference for simplicity with a preference for stability enhances the agent’s payoff. Indeed, we tend to trust experts who have *always* provided good explanations more than experts who have *sometimes* provided good explanations.

\(^{16}\)Notice that it makes no sense to insist on stability if one sets \( \gamma > 1 - \varepsilon \), since we know that no theory can long sustain a likelihood above \( 1 - \varepsilon \).
Even if two experts, or theories, reach the same level of goodness of fit at present, a better history may well be a reason to prefer one over the other.

Observe that one cannot do away with the preferences for simplicity and rely on stability alone. In the absence of a preference for simplicity, for every history \( h_n \) there exists a theory \( t_n \) such that \( l(t_n, h_j) = \theta(1) \) for every \( j \leq n \). Such a theory would maximize the likelihood function for each prefix of the history \( h_n \), and would therefore be chosen for prediction. Thus the preference for stability alone does not provide a safeguard against overfitting the data by choosing a theory post-hoc.

### 4.5 Reasoned Tolerance

Section 4.4 assumed that Evolution looks for an optimal tolerance level \( \gamma \) and stability parameter \( k \) to equip the reasoner with the “right” preferences that can asymptotically select the correct theory. We can alternatively endow the agent with preferences that perform the same job.

**Proposition 6** Let Assumption 4 hold. For every simplicity order \( \succ^S \) there exists a relation \( \succ^{S*} \), independent of \( \varepsilon \), such that

(i) for every \( d \in D \), we have \( P(d, \succ^{S*}) = 1 - \varepsilon \)

and

(ii) for every \( t, t' \in T \), for large enough \( n \), if \( \Gamma_{\gamma,k}(t) = \Gamma_{\gamma,k}(t') \), then

\[
    t \succ^{S*} t' \iff t \succ^S t'.
\]

The agent who implements \( \succ^{S*} \) engages not only in learning but also in meta-learning. This agent selects theories that provide a \( \gamma \)-best fit and that are simple, but at the same time, he observes his own learning process and learns from this process itself. Specifically, the agent looks at the choices he would have made for various levels of \( \gamma \) and asks, “What can I learn from the fact that for some levels of \( \gamma \) my learning process would have continued indefinitely, whereas for others I would have settled on a specific theory?”

The fact that certain levels of \( \gamma \) do not let the agent converge on a given theory is taken to be an indication that this level is too high.

The parameter \( \gamma \) may be viewed as the agent’s aspiration level for the degree of accuracy of the theory (in the sense of Simon [16]). We can imagine the agent setting a large value of \( \gamma \) in the hope of finding a theory that is
quite close to the maximal likelihood one. However, if he finds that the search for such a theory does not result in a stable choice, and that he keeps bouncing around among theories no matter how large $n$ is, then the agent may reduce his aspiration level $\gamma$. When $\gamma$ is low enough, the agent will find a theory that has a higher degree of inaccuracy, but that can be chosen over and over again. This search for the optimal $\gamma$ can be viewed as the search for the optimal aspiration level.

**Remark 1** The arguments behind Propositions 5 and 6 make it clear that nothing depends on the fixed error rate $\varepsilon$. Let $D_*$ be the set of data generating processes with the property that, for every outcome $h$, there exists a pair $(\rho, \bar{\rho} \in [0, 1/2) \times (1/2, 1]$), such that

$$
\lim_{T \to \infty} \frac{1}{T} \sum_{n=1}^{T-1} d_+(h_n) = \bar{\rho}
$$

$$
\lim_{T \to \infty} \frac{1}{T} \sum_{n=1}^{T-1} d_-(h_n) = \rho,
$$

where $d_+(h_n)$ equals $d(h_n)$ if the latter exceeds $1/2$ and is zero otherwise, $d_-(h_n)$ is analogous for values of $d(h_n)$ less than $1/2$, $T_+(h(n))$ is the number of times theory $d$ has produced a prediction exceeding $1/2$ on the history $h_n$, and $T_-(h(n))$ is analogous for predictions less than $1/2$. We are thus assuming that the average error rate in the data generating process, when predicting either 1 or 0, converges (though not necessarily to the same limits). If this is not the case, there is no hope for the agent to identify the appropriate error rates for effective learning. Then arguments analogous to those giving Proposition 6 allow us to establish that for every simplicity order $\preceq S^*$, there exists a strategy $\succsim^{S^*}$ such that the agent’s limiting payoff in periods in which a 1 is predicted approaches $\bar{\rho}$ and the agent’s limiting payoff in periods in which a 0 is predicted approaches $\rho$.

### 4.6 Smooth Trade-Offs

Our central result is that effective learning couples concerns about a theory’s likelihood with an auxiliary criterion we have interpreted as simplicity. Studies of model selection in statistics and in machine learning often similarly
suggest a trade-off between likelihood and simplicity that, unlike our lexico-graphic criterion, is reflected in a smooth objective function. For example, the Akaike Information Criterion (Akaike [1]) is given by

$$\log(L(t)) - 2k,$$

where \(L(t)\) is the likelihood function of theory \(t\) and \(k\) is the number of parameters used in model \(t\). Related to Kolmogorov’s complexity measure (Kolmogorov [10, 11], Solomonoff [17], Chaitin [3]), the Minimal Message Length criterion (Wallace and Boulton [21], Rissanen [13]) suggests

$$\log(L(t)) - MDL(t),$$

where the \(MDL(t)\) is the minimum description length of the theory \(t\). (See also Wallace and Dowe [22] and Wallace [20].)

The general form of these measures is

$$\log L(t) - \alpha C(t), \quad (10)$$

where \(C(t)\) is a complexity function (cf. (5)) and \(\alpha\) a constant determining the relative weights placed on the likelihood and on the complexity of the theory. Gilboa and Schmeidler [6] offer an axiomatization of this criterion. In their model the reasoner has an order over theories given data, akin to \(\succsim_h\) in our case. Certain axioms on the way theories are ranked by this relation for different histories \(h\) imply an additive trade-off between the log-likelihood and a parameter of the theory that may be interpreted as its measure of complexity.

We cannot apply (10), designed to evaluate theories given a fixed set of data, directly to our setting. As we have noted, the likelihood \(L(t)\) inevitably declines to zero and hence its log decreases without bound as observations accumulate. This ensures that complexity considerations will eventually play no role in the analysis. We accordingly examine

$$l(t, h) - \alpha C(t), \quad (11)$$

ensuring that likelihood and complexity considerations remain on a common footing.\(^{17}\)

\(^{17}\)In so doing, we move close to criteria such as the Schwarz Information Criterion (also known as the Bayesian Information Criterion (Schwarz [15])), which retains the additive trade-off but uses a complexity measure that depends on the number of observations.
We can draw a connection between smooth measures such as (11) and our lexicographic criterion. Fix a complexity function \( C(t) \) and parameter \( \alpha \), and let \( \succsim^\alpha \) be the resulting order over theories induced by (11). How does \( \succsim^\alpha \) compare to \( \succsim^{LS} \)?

To simplify the discussion, let us restrict attention to a set of data generating processes \( D^C_\varepsilon \subset D_\varepsilon \) with the property that for any \( d, d' \in D^C_\varepsilon \), the average log likelihood ratio \( l(d', h_n) \) converges with probability one, when the data generating process is \( d \). If we did not do this, \( \succsim^\alpha \) could fall prey to instability of the type presented in Example 4, and would have to be supplemented by the type of stability criterion presented in Section 4.3 to be effective. Doing so would be straightforward, but would clutter the argument.

**Proposition 7** Let \( D = T \subset D^C_\varepsilon \) be countable. Then

\[
\lim_{\alpha \to 0} P(d, \succsim^\alpha) = 1 - \varepsilon.
\]

For a fixed \( \alpha \), the criterion \( L(t) - \alpha C(t) \) restricts attention to a finite subset of \( D^C_\varepsilon \) as possible maximizers of \( L(t) - \alpha C(t) \), since a theory that is too complex can never amass a likelihood value large enough to exceed the value \( L(t) - \alpha C(t) \) attained by the simplest theory. Among this finite set, no theory can consistently achieve a likelihood above \( 1 - \varepsilon \). If \( \alpha \) is too large, this finite set will exclude the data generating process itself, and all of the eligible theories may well fall short of likelihood \( 1 - \varepsilon \). Smaller values of \( \alpha \) will not exclude the data generating process \textit{a priori}, but may still lead to the selection of a simpler theory and an attendant likelihood loss. As \( \alpha \) gets arbitrarily small, we can be assured that the data generating process is encompassed in the set of eligible theories and that very little likelihood is sacrificed in the interests of simplicity, leading to a payoff approaching \( 1 - \varepsilon \).

Notice, however, that \( P(d, \succsim^0) = P(d, \succsim^L) \), and hence \( P(d, \succsim^0) \) equals 1/2 (given Assumptions 1 and 4.3). In addition, we cannot say \textit{a priori} how small \( \alpha \) must be in order to ensure that \( P(d, \succsim^\alpha) \) is close to \( 1 - \varepsilon \). We thus need to make \( \alpha \) arbitrarily close to zero, without actually equalling zero. This is just what our lexicographic criterion does. We can accordingly view the lexicographic criterion as the limiting case of the smooth criteria that have been offered in the literature.
5 Discussion

This section explores several aspects of our model and results. To keep the discussion simple, we present formal results in Sections 5.1–5.3 for the case of a deterministic data generating process.

5.1 Countability

We have assumed that $D = T$ is countable. The countability of $T$ may seem quite restrictive. Indeed, most statistical models allow continuous parameters, and thereby seemingly refer to uncountable families of processes. However, our inclination is to be persuaded by Church’s thesis—if the agent can make a particular set of predictions, then there must be a Turing machine generating these predictions (Hopcraft and Ullman [8, Chapter 7]), and hence the set $T$ can reasonably be taken to be countable.\footnote{Alternatively, one may arrive at countability via a more lenient model, in which a Turing machine (or, equivalently, a PASCAL program) can also perform algebraic operations on arbitrary real-valued variables, where the actual computations of these operations are performed by an “oracle” that is not part of the machine’s computation. A stricter interpretation of computability, which does not resort to “oracles,” would restrict attention to statistical models in which all parameters are computable numbers. A number $x \in \mathbb{R}$ is \textit{computable} if there exists a Turing machine $M$ that, given the description of any rational $\varepsilon > 0$, performs a computation that halts, and writes a number $M(\varepsilon) \in \mathbb{Q}$ such that $|M(\varepsilon) - x| < \varepsilon$. All rational numbers are computable, but so is any irrational number that can be described by a well-defined algorithm, including algebraic irrational numbers (such as $\sqrt{2}$), $e$, and $\pi$.}

But this limitation on the agent’s cognitive abilities need not be shared by Fate. We may well have a set $D$ that is an uncountable superset of $T$. How will a simplicity seeking agent fare then? Worse still, what if Fate is malevolent, using a (noncomputable) strategy that predicts the agent’s (computable) predictions in order to then generate unpredicted observations? To investigate this possibility, we retain the assumption that $T \subset D_0$ is countable, but allow $D \subset D_0$ to be a superset of $T$.

The standard way for the agent to protect himself against a malevolent Fate is to randomize. Specifically, for a simplicity order $\succsim^S$ and for $\varepsilon > 0$, let the relation $\succsim^{LS, \varepsilon}$ be defined by augmenting $\succsim^{LS}$ with a “safety net.” If the average payoff at history $h_n$ is lower than $0.5 - \varepsilon / \log n$, then $\succsim^{LS, \varepsilon}_{h_n} = T \times T$. Otherwise, $\succsim^{LS, \varepsilon}_{h_n} = \succsim^{LS}_{h_n}$.
Proposition 8 Let $T \subset D_0$ be countable. Under Assumptions 1, 2.1 and 2.3 (but allowing $D \subset D_0$ to be a superset of $T$), $\succeq^{LS,\varepsilon}$ weakly dominates $\succeq^L$ for every simplicity relation $\succeq^S$, with $\succeq^{LS,\varepsilon}$ performing strictly better for data generating processes $d \in T$.

Proposition 8 can be interpreted as saying that a preference for simplicity could be evolutionarily favored even when a cruel Fate ensnares the agent to believe the world is simple, only to prove her wrong.

5.2 Computability

We have justified the assumption that $T$ is countable by appealing to computability arguments, in the form of an assumption that the agent can only implement predictions generated by a Turing machine. Continuing in this spirit, we now take computability issues more seriously. Let us first restrict Fate to the set $D^H_0$ of deterministic data generating processes implementable by Turing machines that halt after every input $h \in H$.

In contrast, we now allow the agent to consider the set $D^T_0$ of all Turing machines, even those that do not always halt. It is a relatively easy task for the agent to enumerate all Turing machines, but it is not an easy task to check which of them do indeed define a data generating process.\textsuperscript{19} A model that respects the agents’ computability constraints must then allow the set $T$ to include pseudo-theories: all machines that can be written in a certain language (and therefore appear to define a data generating process), even if they may not halt for all histories. Clearly, this additional freedom cannot help the agent: if, at a given history $h$, the agent chooses a machine that does not halt for that history, he will never be able to make a prediction (in which case we take his payoff to be 0). However, “helping” the agent by assuming that $T \subset D^H_0$ would be unreasonable, as it would be tantamount to magically endowing the agent with the ability to solve the celebrated halting problem.\textsuperscript{20}

\textsuperscript{19}One could simulate the computation of any given machine given input $h$, but there is no way to distinguish between computations that take a long time and computations that never end.

\textsuperscript{20}Formally speaking, the objects of choice for the agent are not theories but descriptions thereof. A rigorous treatment of this problem would call for the definition of a formal language and of a means of describing programs in that language. Some descriptions give rise to well-defined theories (i.e., that halt for every history), whereas others would not.
We also restrict the agent to relations $\succeq$ that are computable, in the sense that for every $h \in H$, the choice made by the relation $\succeq_h$ from the set $B_{\succeq_h} \subset D^T_0$ could itself be implemented by a Turing machine that inevitably halts. This restriction is a binding constraint for some data generating processes:

**Proposition 9** For every computable relation $\succeq \subset D^T_0 \times D^T_0$, there exists a data generating process $d \in D^H_0$ such that $P(d, \succeq) \leq 0.5$.

Proposition 9 imposes a bound on what can be guaranteed by a computable strategy, in the sense that any such strategy must fare no better than chance against some data generating processes. The proof consists of observing that if the agent’s strategy is computable, then one may always construct a malevolent strategy $d$ that mimics the agent’s computation and chooses an observation that refutes it.

The malevolent strategy $d$ used to prove Proposition 9 is quite far from most statistical models. Fate might be quite complex, but it is hard to imagine that Fate spitefully lures the agent into believing in a simple environment, only to refute this belief period after period. Will a more neutral model of Fate allow a possibility result? One way to obtain a more realistic set of data generating processes is to limit their computation time. Specifically, let $D^B_0$ be the set of data generating processes that are implementable by Turing machines that halt within a bounded number of steps. That is, for $d \in D^B_0$ there exists a Turing machine $M(d)$ and an integer $K(d)$ such that, for every history $h_n$ and attendant prediction $y_n$, the computation of $M(d)$ on $h_n$ halts within $K(d)$ steps, producing $y_n$.

The agent is restricted to have a simplicity order that is represented by a computable function $C : D^T_0 \rightarrow \mathbb{N}$, so that

$$C(t) \leq C(t') \iff t \succeq^S t'.$$

Thus, because $C$ is computable, the agent can compute $\succeq^S$.

The following result adapts simplicity-based rankings to the computable set-up.

**Proposition 10** For every computable simplicity order $\succeq^S \subset D^T_0 \times D^T_0$, there exists a computable relation $\succeq$ with each $\succeq_h \subset D^T_0 \times D^T_0$ such that

In such a model, every theory would have infinitely many equivalent descriptions. Thus, the function that maps descriptions to theories is not defined for all descriptions and is not one-to-one.
\[(10.1) \ P(\succ, d) = 1 \text{ for every } d \in D_0^B; \]
\[(10.2) \text{ for every } d, d' \in D_0^B \text{ there exists } N \text{ such that, for every } n \geq N \text{ and every } h \in H_n \text{ for which } L(d, h) = L(d', h), \]
\[d \succ_h d' \Rightarrow d \succ h d'. \]

Proposition 10 ensures the existence of a computable strategy yielding optimal payoffs, as well as its asymptotic agreement with the (strict part of) the given simplicity ordering \(\succ^{LS} \) over \(D_T^F\). The relation \(\succ\) cannot follow \(\succ^{LS}\) precisely, but it does so for long enough histories. In other words, it is possible that for a short history the relation \(\succ\) will not reflect the simplicity ranking \(\succ^{LS}\), but in the long run, any two theories that are equally accurate but not equally simple will be ranked according to \(\succ^{LS}\).

Observe that most deterministic statistical models encountered in the social sciences are in \(D_B^0\). The deterministic version of models such as linear regression, non-linear regression, as well as many models in machine learning, can be described by an algorithmic rule whose computation time does not depend on the input. A notable exception are time series in economics, where the model describes the dependence of \(y_n\) on \(\{y_i\}_{i<n}\), and thus the length of the computation increases with the length of history, \(n\).

5.3 Impatient Agent

Suppose that the agent has a discounted payoff criterion,
\[P^\delta(d, \succ) = (1 - \delta) \sum_{n=0}^{\infty} \delta^n p(d, \hat{t}_n, h_n). \quad (12)\]

We assume that Fate chooses a data generating process (as usual, independently across agents) according to a probability measure \(\lambda\) on \(D\).

Simplicity has an advantage provided that the agent is sufficiently patient. In particular, the (omitted) proof of the following is a straightforward modification of the arguments used to prove Proposition 1.2:

\(21\) It would be natural to think of \(d\) as simpler than \(d'\) if the Kolmogorov complexity of \(d\) is lower than that of \(d'\), i.e., if \(d\) has a shorter minimal description length than \(d'\). This still leaves some freedom in defining \(\succ^{LS}\). For instance, one may choose a description in a given programming language, such as PASCAL, as opposed to Turing machines, and one may take the description of constant values into account in the measurement of the description length, or decide to ignore them, and so on.
Proposition 11 Let Assumptions 1 and 2 hold and let payoffs be given by (12).

[11.1] For every \( d \in D \), there is a discount factor \( \delta^* \) such that for all \( \delta \geq \delta^* \),
\[
P^\delta(d, \succeq^{LS}) > P^\delta(d, \succeq^{L}).
\]

[11.2] If the data generating process is chosen according to density \( \lambda \) on \( D \), then there is \( \delta^* \) such that for all \( \delta > \delta^* \),
\[
\int_D P^\delta(d, \succeq^{LS}) d\lambda > \int_D P^\delta(d, \succeq^{L}) d\lambda.
\]

5.4 Bayesianism

We have observed that the Bayesian approach bears some similarity to “simplicism”, i.e., to the simplicity-preferring approach. How do we compare the two?

The Bayesian approach requires computational capabilities that are much more demanding than the simplicistic one. The Bayesian approach requires a quantification of beliefs, and a comparison between the likelihood of every two sets of theories, not only of particular ones. This is particularly demanding in case there are infinitely many theories. Another complication arises out of the fact that a theory typically has many possible representations. For example, consider the theory \( t \), “predict always 0” and the addition of the theory \( t' \), “At odd periods predict 0, and at even ones predict 0”. A Bayesian reasoner would need to observe that the two are equivalent, and to assign both of them the same probability that he would have assigned \( t \) if it were the only one listed. That is, when contemplating a series of possible theories, say, described as Turing machines, a Bayesian reasoner is implicitly assumed to know which are observationally equivalent. In the case of computable theories, the task of verifying their equivalence is not computable itself.

By contrast, a simplicistic agent has no such concerns. Since he uses only one theory for prediction, he need not conceive of all possible theories, let alone to verify their independence. Should the simplest theory happen to be equivalent to another, less simple theory, the predictions generated by a simplicity-liking reasoner would not change. Similarly, if a theory is “split” into several theories (say, seemingly more specific ones), all theories might still be considered in the set of candidate theories, and the reasoner need not subject this set to any pre-processing to guarantee their non-equivalence.
5.5 Stability and Simplicity

We found that, in the presence of uncertainty, stability needs to be added to likelihood and simplicity as a theory selection criterion. We could reduce the preference for stability to a preference for simplicity if we adopt a broader conceptualization of a “theory”. Suppose the agent must not only choose a theory at each period, but also an explanation for the way the period-by-period choice is made. An agent who sticks to a particular theory $t$ from some period onwards will have a simpler pattern of choice than another who continually switches among theories. Hence, if we ask the agent to select a simple meta-theory, which explains why specific theories are selected at different periods, a stable selection will have a lower complexity than an unstable one.

5.6 Simplicity and Language

The measurement of simplicity depends on language. This fundamental insight was made all too clear by Goodman’s [7] famous “grue-bleen” paradox. In this paper we did not delve into this issue because our results do not depend on the particular measure of complexity one uses. Specifically, any enumeration of theories is sufficient to define a collection (due to equivalences) of simplicity relations. Moreover, taking a computational point of view, the differences between the simplicity rankings of different theories can be bounded (cf. Solomonoff [17]).

\[|MDL_1(t) - MDL_2(t)| < c\]

for all $t$. Hence, if theory $t$ has a sufficiently shorter MDL in $L_1$ than does theory $t'$, this ranking will have to be preserved in language $L_2$. 

---

\[22\text{Consider two languages, } L_1 \text{ and } L_2. \text{ If the languages are computationally equivalent, there are compilers that can translate a program from } L_1 \text{ to } L_2 \text{ and vice versa. It is certainly possible that in } L_1 \text{ the minimal description length (MDL) of a theory } t, \text{MDL}_1(t), \text{ is shorter than that of } t', \text{MDL}_1(t'), \text{ while the converse is true in language } L_2. \text{ But the MDL of each theory in language } L_1 \text{ cannot exceed its MDL in language } L_2 \text{ plus the length of the compiler translating from } L_1 \text{ to } L_2. \text{ The converse is also true, and this means that there is a bound on the difference between the MDL of a theory in the two languages. That is, there exists } c \text{ such that} \]

\[|MDL_1(t) - MDL_2(t)| < c\]
5.7 Statistics and Evolutionary Psychology

Statistics and evolutionary psychology are not typically seen as closely related disciplines. Researchers in statistics and in machine learning tend to seek optimal inference and learning techniques. Evolutionary psychologists seek to explain psychological phenomena as solutions to realistic constrained optimization problems faced by an organism. Both fields seek optimal solutions, but they assume different constraints. Nonetheless, similar types of reasoning have been independently developed in both domains. The preference for simplicity can be viewed as a case in which the natural preference of people in reasoning coincides with the normative considerations of statisticians.

Similar concurrences can be found in other examples. Techniques of nearest-neighbor classifications are similar to categorization by examples. The same is true of kernel-based probabilities and “exemplar learning.” Moreover, Gayer [5] points out that the bias of kernel methods familiar in the statistical literature can also serve as an explanation of the “distortion” of probabilities in Prospect Theory (Kahneman and Tversky [9]). Thus, both the successes and the failures of certain statistical techniques can also be found in the human mind. We find it encouraging that evolution has endowed the human mind with some of the patterns of reasoning developed in statistics and in machine learning.

6 Appendix: Proofs

Proof of Proposition 1.1. Fix \( d \in D = T \). There are finitely many theories in \( S(d) \equiv \{ t \in T \mid t \succeq^S d \} \), i.e., that are as simple as or simpler than \( d \). Choose some \( t \in S(d) \) and suppose that \( t \) and \( d \) are not observationally equivalent, meaning that they do not generate identical outcomes \( ((x_0, y_0), \ldots, (x_n, y_n), \ldots) \). Then at some period \( n \) theory \( t \) will be refuted, i.e., the data generating process will produce a history \( h_n = ((x_0, y_0), \ldots, (x_{n-1}, y_{n-1}), x_n) \) for which \( L(t, h_n) = 0 \) and hence \( d \succ_h^LS t \). Applying this argument to the finitely many theories in \( S(d) \), there must exist a finite time \( n' \) by which either theory \( d \) is chosen by \( \succeq_{h_{n'}}^LS \) or some element \( t \in S(d) \) is chosen by \( \succeq_{h_{n'}}^LS \) that is observationally equivalent to \( d \). Thereafter, \( p(d, t_n, h_n) = 1 \) holds. This yields \( P(d, \succeq^LS) = 1 \) \qed
Proof of Proposition 1.2. Assumption 2.3 ensures that, for every history \( h_n \) there are theories \( t \in D \) consistent with \( h_n \), that is, \( L(t, h_n) = 1 \). Consider

\[
B_{\sim h} = \{ d \mid L(d, h) = 1 \}.
\]

For any finite continuation of \( h_n \) there is a theory \( t \in B_{\sim h} \) that is consistent with this continuation. In particular, this is true for the history \( h_{n+1} \) generated from \( h_n \) and \( y_n = 0 \) (coupled with \( x_{n+1} \)) as well as for the history \( h'_{n+1} \) generated from \( h_n \) and \( y_n = 1 \) (coupled with \( x_{n+1} \)). Assumption 1 then ensures that the order \( \succ^L \) is equally likely to select a theory predicting \( y_n = 0 \) as it is to select a theory \( y_n = 1 \). Thus, the probability of making a correct prediction is \( 1/2 \), and hence \( p(d, h_n, t_n) = 0.5 \), regardless of the true process \( d \). This establishes

\[
P(d, \succ^L_h) = 0.5.
\]

We conclude that, for every simplicity relation \( \succ^S \), and for every data generating process \( d \), the limit payoff under \( \succ^{LS} \) is 1, while it is only 0.5 under \( \succ^L \). Hence, \( \succ^{LS} \) strictly dominates \( \succ^L \).

Proof of Proposition 2. Consider an agent characterized by \( \succ^{LI} \) and suppose Fate has chosen theory \( d \). If \( P(d, \succ^{LI}) < 1 \), it must be that infinitely often, \( p(d, t_j, h_j) = 0 \). Hence, the agent infinitely often chooses a new theory but never chooses \( d \). By Assumption 3, the probability that the agent chooses a new theory \( n \) times without choosing \( d \) is at most \( (1 - \lambda(d))^n \). Since \( \lim_{n \to \infty} (1 - \lambda(d))^n = 0 \), the probability that \( P(d, \succ^{LI}) < 1 \) is zero, and hence the expected value of \( P(d, \succ^{LI}) \) is unity.

Proof of Proposition 8. The relation \( T \times T \) guarantees a random choice (by Assumption 2.3), and hence this relation ensures an expected payoff of 0.5 at each period in which it is played. Thus, if \( \succ^{LS, \varepsilon} = T \times T \) for a long enough period, the average payoff converges to 0.5 with probability 1. Moreover, it does so at a rate proportional to \( n^{-1/2} \). It follows that, with probability 1, the sustained application of relation \( T \times T \) leads to a period \( n \) at which the average payoff surpasses the threshold \( 0.5 - \varepsilon / \log n \), at which point \( \succ^{LS, \varepsilon} \) switches to \( \succ^{LS} \).

Suppose that Fate chooses \( d \in T \). Since \( \succ^{LS, \varepsilon} = \succ^{LS} \) infinitely often, \( \succ^{LS, \varepsilon} \) will eventually select \( d \) or a theory equivalent to \( d \). Predictions will subsequently be perfect, ensuring that \( \succ^{LS, \varepsilon} \) will not revert to \( T \times T \) and that \( P(d, \succ^{LS, \varepsilon}) = 1 \).
If Fate chooses $d \notin T$, the lowest the average payoff at history $h_n$ can drop without ensuring $\succsim^{LS,\varepsilon} = T \times T$ is $0.5 - \varepsilon / \log n - 1/n$ (obtained by coupling a history of length $n - 1$ in which the payoff is precisely $0.5 - \varepsilon / \log(n - 1)$ with one more incorrect observation). Hence $P(d, \succsim^{LS,\varepsilon}) \geq 0.5$. Combining the two, we thus find that $P(d, \succsim^{LS,\varepsilon}) \geq P(d, \succsim^{L})$ for all $d \in D$, with strict equality for every $d \in T$.

**Proof of Proposition 9.** Let $\succsim$ be computable. Then there is a Turing machine $\tau$ that implements $\succsim$ by, for any history $h$, computing a maximizer of $\succsim$ from the set $D^H$. Let $d$ simulate the machine $\tau$, for any history $h$, finding the maximizer $t_h$ that the agent will use for prediction, and then generating prediction 1 if $t_h(h) \leq 0.5$ and 0 if $t_h(h) > 0.5$. A deterministic $t$ will result in a payoff of 0. The maximal payoff for the agent at each period is 0.5, obtained by the random prediction $t_h(h) = 0.5$.

**Proof of Proposition 10.** The basic idea is to construct the relation $\succsim$ by combining the underlying simplicity order $\succsim$ with the time complexity of the machine.

Let $D^T = \{t_1, t_2, \ldots\}$ be the class of all Turing machines, including those that always halt and those that do not halt for certain inputs $h \in H$. There is no difficulty in writing a machine that generates $D^T$, or, equivalently, that can accept $i \geq 1$ as an input and, after a finite number of steps, provide the description of $t_i$.

Assume we are given a history $h$ and we wish to select a theory that has high likelihood and that halts for $h$. When considering a machine $t$, we thus need to determine whether it fits the data, namely whether $L(t, h_n) = 1$ (taking $L(t, h_n) = 0$ if the machine fails to halt for any prefix of $h_n$), and we need to compute its prediction for $y_n$, or $t(h_n)$, taking into account the possibility that it may not halt when making this prediction. That is, we need to know the result of $n + 1$ computations of $t_i$ (one to verify that the theory fits the observation generated in each of the preceding $n$ periods, and one to generate the current prediction), each of which may not halt.

Let $C : D \rightarrow \mathbb{N}$ be a computable complexity function for the underlying simplicity order $\succsim^S$, so that

$$C(t) \leq C(t') \iff t \succsim^S t'.$$

Define $c : D \times H \rightarrow \mathbb{N} \cup \{\infty\}$ to be the length of computation, that is, $c(t, h) \in \{1, 2, \ldots, \infty\}$ is the number of steps that $t$ takes to compute where
$h$ is its input. Next define a function $C^* : D \times H \to \mathbb{R}_+ \cup \{\infty\}$ by

$$C^*(t, h) = C(t) + \frac{1}{n^2} \sum_{j=0}^{n} c(t, h_j)$$

where $t \in D$, $h \in H_n$ and $h_j$ is the $j$-th prefix of $h$. Using this function, we define our candidate relation over theories:

$$t' \succsim_h t \iff \begin{cases} L(t', h) > L(t, h) \\
or [L(t', h) = L(t, h) \text{ and } C^*(t', h) \leq C^*(t, h)]
\end{cases}.$$

We argue that it is a computable task to find a maximizer of $\succsim_h$ from among those machines that halt on history $h$, and that this maximizer will have likelihood one. First observe that for every $h$ there exists a machine $t$ such that $L(t, h_n) = 1$ and $C^*(t, h_n) < \infty$. To see this, it suffices to consider a machine $t$ that generates history $h_n$ irrespective of the data. For any history longer than $n$, the machine can generate 0. This takes a computation time $c(t, h) = O(n)$. By construction, $t \in D_0^B$. Since this machine appears somewhere in the enumeration corresponding to $\succsim^S$, we have $C(t) < \infty$ and hence $C^*(t, h) < \infty$.

Given $C^*(t, h)$, there are finitely many machines $t'$ with $C(t') \leq C^*(t, h)$, and therefore only finitely many machines that can beat $t$ according to $\succsim$. Each of these has to be simulated only a bounded number of steps, $C^*(t, h)$, to see if, indeed, it gives $L(t', h_n) = 1$ and a lower value for $C^*(t', h)$.

Note that for all $d \in D_0^B$, $c(t, h_n) \leq K(d)$ and

$$\frac{1}{n^2} \sum_{j=0}^{n} c(t, h_j) \leq \frac{1}{n^2} nK(d) \to 0$$

hence,

$$C^*(t, h) \to C(t).$$

Now consider $d, d' \in D_0^B$ with $d \succsim^S d'$ and hence $C(d) \leq C(d')$. Then for all sufficiently large $n$, $C^*(d, h_n) < C^*(d', h_n)$, and hence $L(d, h_n) = L(d', h_n) \Rightarrow d \succsim h d'$. This establishes (10.2).

We now turn to (10.1), namely that $P(\succsim^*, d) = 1$ for every $d \in D_0^B$. For $t' \succsim_h d$ to hold, we must have $L(t', h) = 1$ and $C(t') \leq C(d)$. An argument analogous to that of the proof of Proposition 1 ensures that at some point, $d$ or a theory equivalent to it is found, and from that point on only such theories (predicting $d(h)$ for every $h$) can be maximizers of $\succsim$. Hence the agent makes perfect predictions and obtains $P(\succsim^*, d) = 1$. 

\[\Box\]
Proof of Proposition 5. Fix a data generating process $d$. Assume that $\gamma$ satisfies $\theta(\gamma) = \theta(1 - \varepsilon) - \delta$ for $\delta > 0$. For any $\eta > 0$, there exists $k$ such that, with probability $1 - \eta$ at least, for all $n \geq k$,

$$l(d, h_n) > [(1 - \varepsilon) \log(1 - \varepsilon) + \varepsilon \log \varepsilon] - \delta = \theta(1 - \varepsilon) - \delta = \theta(\gamma).$$

Thus, from period $k$ on, it is likely that the correct theory $d$ is among the $\gamma$-maximizers of $l(\cdot, h_n)$. If $d$ is the maximizer of $\succeq^{LS, \gamma k}$ used for prediction, a payoff of $(1 - \varepsilon)$ is guaranteed. We wish to show that, if another theory is used for prediction, it cannot be much worse than $d$ itself.

Let us condition on the probability $1 - \eta$ event that for every $n > k$, $l(d, h_n) > \theta(\gamma)$. If a theory $t \neq d$ is used for prediction at period $n \geq k$, then it must be the case that (i) $t$ is a $\gamma$-best fit for all periods $j = k, ..., n$; and (ii) $t \succeq^S d$. Hence, for each period $n > k$, there are only a finite number of theories satisfying conditions (i) and (ii), of which the simplest will be chosen. Moreover, the set of such theories is decreasing in $n$ (since a theory whose likelihood ratio drops below $\gamma$ is subsequently disqualified). Eventually, a period $n'$ will be reached such that some theory $t$ (possibly $d$) satisfying (i) and (ii) will be used in all subsequent periods. Let $n > n'$, and let $\alpha$ be the proportion of times, up to $n$, that $t$ made the correct prediction. Then, since $t$ is a $\gamma$-best fit at $n$, we have

$$l(t, h) = \alpha \log(1 - \varepsilon) + (1 - \alpha) \log \varepsilon$$

$$= \alpha [\log(1 - \varepsilon) - \log \varepsilon] + \log \varepsilon$$

$$= \alpha \log \frac{1 - \varepsilon}{\varepsilon} + \log \varepsilon$$

$$\geq \theta(\gamma)$$

$$= \theta(1 - \varepsilon) - \delta$$

$$= (1 - \varepsilon) \log(1 - \varepsilon) + \varepsilon \log \varepsilon - \delta$$

$$= (1 - \varepsilon) [\log(1 - \varepsilon) - \log \varepsilon] + \log \varepsilon - \delta$$

$$= (1 - \varepsilon) \log \frac{1 - \varepsilon}{\varepsilon} + \log \varepsilon - \delta.$$

This gives

$$\alpha \log \frac{1 - \varepsilon}{\varepsilon} + \log \varepsilon \geq (1 - \varepsilon) \log \frac{1 - \varepsilon}{\varepsilon} + \log \varepsilon - \delta$$

or

$$[\alpha - (1 - \varepsilon)] \log \frac{1 - \varepsilon}{\varepsilon} \geq -\delta$$

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that is,
\[ \alpha \geq (1 - \varepsilon) - \frac{\delta}{\log \frac{1-\varepsilon}{\varepsilon}}. \]

Intuitively, the payoff obtained by predicting according to \( t \) cannot be much lower than \( (1 - \varepsilon) \). Taking into account the probability of convergence by time \( k \) we get
\[ P(d, \succsim_{LS,\gamma k}) \geq (1 - \eta) \left[ (1 - \varepsilon) - \frac{\delta}{\log \frac{1-\varepsilon}{\varepsilon}} \right], \]
which converges to \((1 - \eta)(1 - \varepsilon)\) as \( \delta \searrow 0 \). Finally, increasing \( k \) results in decreasing \( \eta \) to any desired degree, and the result follows.

**Proof of Proposition 6.** The basic idea is have the agent simulate the choices of theories that would have corresponded to \( \succsim_{LS,\gamma k} \) for different values of \( \gamma \) and of \( k \). For values of \( \gamma \) larger than \( 1 - \varepsilon \), the agent will find that the maximizers of \( \succsim_{LS,\gamma k} \) keep changing, indicating that \( \gamma \) is too high. For values of \( \gamma \) that are lower than \( 1 - \varepsilon \), the agent will find theories that get selected asymptotically, an indication that \( \gamma \) might be too low. By refining the search for \( \gamma \), while simultaneously gathering more observations, the reasoner will approach \( 1 - \varepsilon \) and make predictions according to the correct theory.

We make these ideas precise in the form of a reasoning algorithm that is simple, but makes no claims to efficiency. At stage \( n \) the reasoner considers as possibilities for \( \gamma \) all values in
\[ \Gamma_n = \left\{ \frac{r}{2^n} \mid r = 0, 1, \ldots, 2^n \right\}. \]

Given \( n \), define \( k = \lfloor n/2 \rfloor \). For each \( \gamma \in \Gamma_n \), and for each \( m = k, \ldots, n \), the reasoner finds all the maximizers of \( \succsim_{h_m} \) (to make this an algorithm, we need to assume that an oracle can perform this task). Denote the set of maximizers for each \( \gamma \) by \( M(m, k, \gamma) \). This is a finite set, due to the agent’s preference for simplicity. Then, for each \( \gamma \), define
\[ M^*(n, \gamma) = \cap_{k \leq m \leq n} M(m, k, \gamma). \]

Thus, \( M^*(n, \gamma) \) contains precisely those theories that have been among the “\( \gamma \)-best” theories for the past \( n/2 \) periods.
If $M^*(n, \gamma) = \emptyset$ for all $\gamma \in \Gamma_n$, define $\succsim_{h_n}^{S^*} = D \times D$. In this case all theories are equivalent in terms of $\succsim_{h_n}^{S^*}$, and the reasoner’s choice will be arbitrary.

If, however, $M^*(n, \gamma) \neq \emptyset$ for some $\gamma \in \Gamma_n$, let $\gamma_n$ be the maximal such value in $\Gamma_n$, and define

$$t \succsim_{h_n}^{S^*} t' \iff \begin{cases} t \in M^*(n, \gamma_n) \text{ and } t' \notin M^*(n, \gamma_n) \\ \text{or } t, t' \in M^*(n, \gamma_n) \text{ and } t \succsim t' \\ \text{or } t, t' \notin M^*(n, \gamma_n). \end{cases}$$

That is, the $\succsim^S$-simplest theories in $M^*(n, \gamma_n)$ are considered to be the “best” theories and one of them will be used for prediction.

To see that the definition of $\succsim_{h_n}^{S^*}$ satisfies the desired properties, observe that, by the proof of Proposition 5, if $\gamma > 1 - \varepsilon$, $M^*(n, \gamma)$ is empty for large $n$. For $\gamma < 1 - \varepsilon$, $d \in M^*(n, \gamma)$ for large $n$. As $n \to \infty$, the minimal $\gamma$ for which $M^*(n, \gamma) \neq \emptyset$ converges to $1 - \varepsilon$, and $d$ is among the maximizers of $\succsim_{h_n}^{S^*}$. We then repeat the argument of Proposition 5, by which any theory $t \neq d$ such that $t \in M^*(n, \gamma)$ obtains a payoff that converges to $(1 - \varepsilon)$ as $\gamma \nearrow 1 - \varepsilon$.

**Proof of Proposition 7.** Fix a complexity function $C(t)$, a value $\alpha > 0$, and a data generating process $d^*$. Let $\hat{d} \in \arg \min_{d \in D^C} C(d)$. Then no theory $d$ for which $\theta(1) - \alpha C(d) < \theta(\varepsilon) - \alpha C(\hat{d})$ will ever be chosen by the relation $\succsim^\alpha$, no matter what the history. The agent’s choice of theory in each period will thus be drawn from the finite set $D^C(\alpha) \equiv \{d \in D^C : \theta(1) - \alpha C(d) < \theta(\varepsilon) - \alpha C(\hat{d})\}$.

For sufficiently small $\alpha$, the data generating process $d^*$ is contained in $D^C(\alpha)$. In addition, with probability 1, the limit $\lim_{n \to \infty} l(d, h_n)$ exists for all $d \in D^C(\alpha)$. Since this set is finite, with probability 1, the agent’s choice of theory becomes constant across periods, being the maximizer over $D^C(\alpha)$ of

$$\lim_{n \to \infty} l(d, h_n) - \alpha C(d).$$

But since $d^* \in D^C(\alpha)$ for small $\alpha$, the agent’s payoff is bounded below by

$$\lim_{n \to \infty} l(d, h_n) - \alpha C(d) = \theta(1 - \varepsilon) - \alpha C(d^*).$$

Taking $\alpha$ to zero then gives the result. \qed
References


