Exploring the Impact of Artificial Intelligence: Prediction versus Judgment

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Moore’s Law and Computers

Cost of Arithmetic
Improvements in AI

What does this make more valuable?

Cost of Prediction
With probability \( e \), machine can determine state with certainty.

\[
\pi^m = e \left( \frac{1}{2} R + \frac{1}{2} S \right) + (1 - e)S \\
= e \frac{1}{2} R + \left( 1 - e \frac{1}{2} \right) S
\]
$R$ boosted by $D$ (hidden opportunity) with probability $r/2$

$R$ reduced by $D$ (hidden cost) with probability $r/2$

Assume that:

$$\frac{1}{2}(R + \Delta) + \frac{1}{2}r > S \quad R - \Delta < S$$

$\lambda_g$  Prob. learn hidden opportunity; ‘good news’

$\lambda_b$  Prob. learn hidden cost; ‘bad news’
Machine Prediction + Human Judgment

Risky is default (from machine) so switch to safe only if judgment identifies hidden cost.

$$\pi^h = e \left( \frac{1}{2} \lambda_b \left( \frac{1}{2} \rho S + \frac{1}{2} \rho (R + \Delta) + (1 - \rho) R \right) + (1 - \lambda_b) R + \frac{1}{2} S \right)$$

$$+ (1 - e) \left( \lambda_g \frac{1}{2} \rho \left( \frac{1}{2} (R + \Delta) + \frac{1}{2} r \right) + \left( 1 - \lambda_g \frac{1}{2} \rho \right) S \right)$$

Safe is default (without machine) so switch to risky only if judgment identifies hidden opportunity.
Complements or Substitutes?

Better prediction is a substitute with judgment over hidden opportunities but a complement over hidden costs.

More prediction → More likely to choose risky action → Increased value to judgment to identify hidden costs

‘Bad news principle’ from real option analysis
Unreliable Prediction

Suppose prediction is wrong with probability $1 - a$.

Suppose there exists prediction technologies that trade-off $e$ and $a$

If $R - r < D$, then as $l_b$ increases, the optimal choice of $e$ increases while the optimal value of $a$ decreases.

More prediction $\rightarrow$ High cost of unreliability $\rightarrow$ Increased value to judgment to identify hidden costs
“We should stop training radiologists now.”
Radiology

Safe action: invasive procedure to identify mass

Risky action: wait and see if more symptoms develop

Radiology uses a non-invasive method to allow doctors to take the risky action

Better radiological prediction leads to fewer invasive exams.

As radiological prediction improves, valuable judgment is in identifying hidden costs to use invasive procedure earlier.

Judgment will be more valuable where there is a high chance of false negatives (i.e., situations where an invasive procedure is recommended by prediction but human judgment chooses to wait)
Inattention and Real Machine Authority

Human judgment requires monitoring over many environments (indexed by $D$). What if judgment becomes worse the greater their scan of control?

Application of Athey, Gans, Schaefer and Stern (1994)
Inattention and Real Machine Authority

Reduction in machine prediction cost ....

Application of Athey, Gans, Schaefer and Stern (1994)
Inattention and Real Machine Authority

Shift in frequency to more complex (high D) states ...

Application of Athey, Gans, Schaefer and Stern (1994)