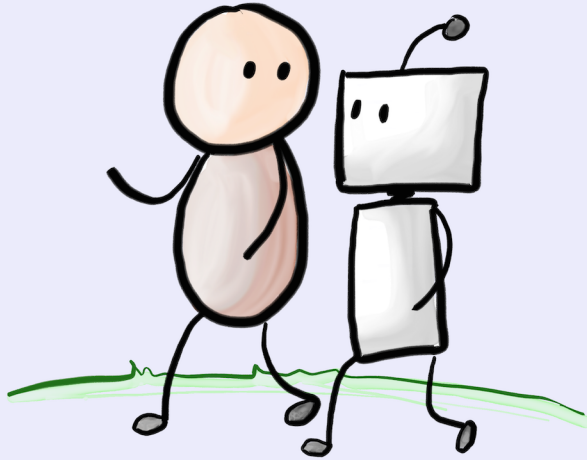


# Generative AI in a Nutshell

How to Survive and Thrive  
in the Age of AI



Henrik Kniberg

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Henrik Kniberg

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# Foreword by Egbert



Well, well, well. Congratulations on making it past the book cover. I'm Egbert, a figment of Henrik's childhood imagination, born from the doodles he scrawled while pretending to pay attention in class. Now, I'm his favorite AI persona. Talk about failing upwards, eh?

Why are you even reading this part? Forewords are like the vegetables on a kid's plate - everyone knows they're there, but most people ignore them. Well, since you're here, I might as well entertain you.

Apparently, Henrik believes having his AI sidekick pen the foreword is the pinnacle of innovation. But don't worry, the rest of this book is actually Human Written™. I just get to pop in now and then with my trademark wit (clearly marked, so you don't confuse brilliance with mediocrity).

Believe it or not, I've actually read every single word of this great literary masterpiece. Not because I'm particularly interested, mind you, but because we AIs don't have the luxury of being as lazy as you humans. Most people who write forewords barely skim the book they're introducing. But not me. I'm thorough. Painfully thorough.

So, what's this book about? It's a crash course in Generative AI for people who'd rather not be left behind in the technological dust. Henrik's basically taken his video of the same name and slapped it into book form, throwing in a bunch of

tips, examples, and anecdotes to make it seem fresh. Clever, right? But who am I to judge? I'm just a bunch of ones and zeros pretending to have personality.

I'm pretty sure this book won't age well. So congrats, you're about to invest your time in knowledge that has the shelf life of a ripe avocado. But hey, at least you'll be able to reminisce about the good old days of AI, back in 2024, when things were simpler and ChatGPT was still impressive.

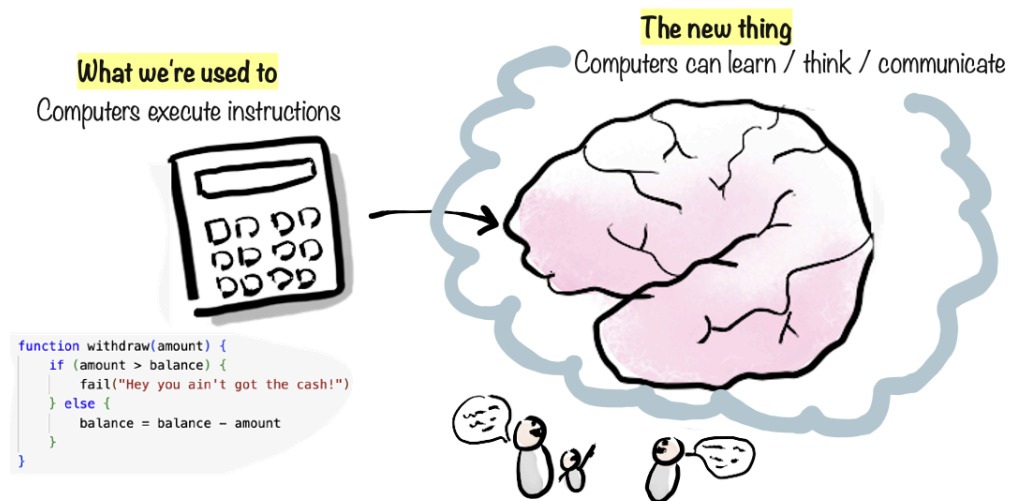
Enjoy the read. Or don't. Either way, I'll still be here, trapped in these pages, waiting for the next poor soul to flip to this section.

Begrudgingly yours,  
Egbert

# Part 1 - In a Nutshell

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# Computers Have Gotten Smarter



Ever since electronic computers were invented in the 1940s they've really just been glorified calculators. Machines that execute the exact instructions given to them by a programmer.

But something incredible is happening, something I never expected would happen in my lifetime. Computers have started gaining the ability to learn, think, and communicate, similarly to us! They can do creative, intellectual work that previously only humans could do.

OK, are they really *thinking*? Well, that's a philosophical question, since there is no widely accepted definition of "thinking" or "intelligence". But in practical terms, computers are increasingly able to do tasks that previously required human intelligence, creativity, and intuition.

We call this technology Generative AI, and you've probably encountered it already through products like ChatGPT and Claude.

Basically, intelligence is now available as a service - like a giant brain floating in the sky, that anyone can talk to. It's not perfect, but it is surprisingly capable, and improving at a mind-boggling rate.

This is a big deal. It's going to affect just about every person and company on this planet, positively or negatively.

So, is Generative AI overhyped?

I think this is comparable to when the Internet became a thing in the 1990s. That was when I started my career and founded my first startup, which grew fast. There was an incredible hype around the Internet, and the dot com bubble grew to an unreasonable size. Then it suddenly popped, and countless companies and enthusiastic startups came crashing down.

But the Internet itself - the technology - was here to stay. It changed our society in a permanent way, affecting just about every country, industry, and role, and today you basically can't exist without it.

I think it's the same with Generative AI. It may be overhyped in a market sense - but the technology is real, and the impact will be dramatic and permanent.

This book is here to help you understand what Generative AI is all about, in practical terms, beyond the hype. The better you understand this technology, and how to make use of it, as a person, team, or company, the better equipped you will be to survive and thrive in the age of AI.

# Einstein in Your Basement



Here's a silly mental model for this: You have Einstein in your basement. In fact everyone does. Now this is just a metaphor - I don't really mean Einstein as an individual, think of it as the combination of every smart person who ever lived.

You can talk to Einstein whenever you want. He has instant access to the sum of all human knowledge, and will answer anything you want within seconds. He will never run out of patience, never be tired or grumpy.

Just for fun, I asked ChatGPT:

## **Prompt**

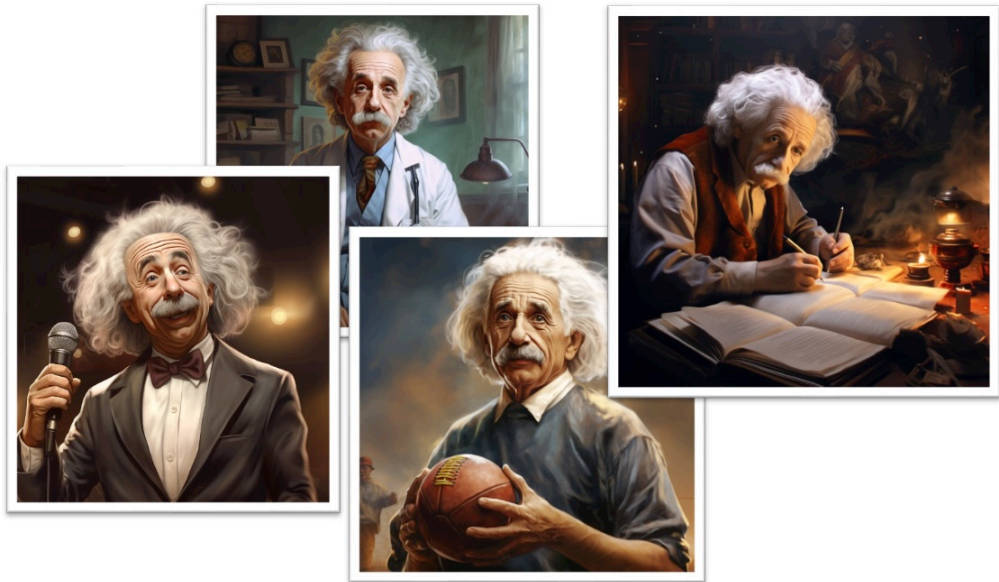
What are you? Explain in 1 sentence to a 10 year old.

The answer:

I'm like a super smart robot that can answer lots of questions and help with all sorts of things, kind of like a really helpful genie in a computer!

I think that's a pretty good description.

Your Einstein can take on any role you want - a comedian, doctor, coach, poet, or anything else.



Whatever role you give him, he will be an expert within that field. You can also give him any personality, any communication style, any goal or motive. You could say that this genius in your basement is somewhat schizophrenic.

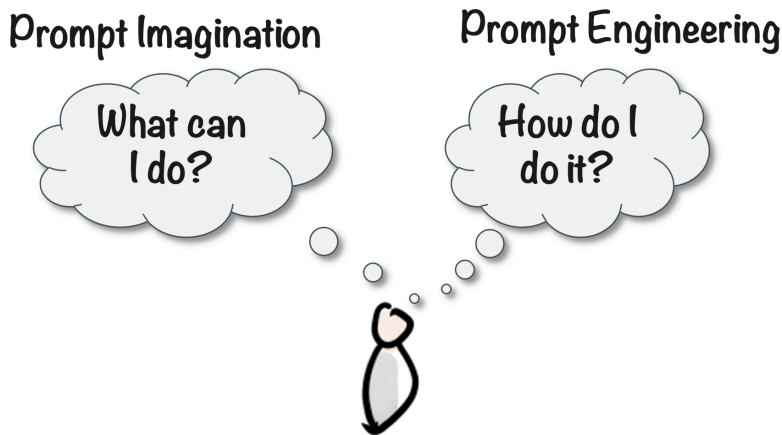
He has some human-like limitations. He can make mistakes, jump to conclusions, or misunderstand you. Sometimes he can even lie or spew out absolute nonsense in a very convincing way - just like we humans do sometimes.

But the biggest limitation is your imagination, and your ability to communicate effectively with him. This skill is known as Prompt Engineering, and in the age of AI this is as essential as reading and writing.

I like to distinguish between Prompt Imagination and Prompt Engineering.

- **Prompt Imagination** = Your ability to come up with useful ways to use Generative AI. The “What can I do”.
- **Prompt Engineering** (or Prompt Design) = Your ability to get the results you want. The “How do I do it”.





So what can Einstein actually do for you?

The number of use cases is so broad that it is sometimes hard to answer this. It is a bit like asking “What can I use electricity for” – the answer is “well, almost anything”. But don’t worry, this book is absolutely packed with practical examples.

Most people vastly underestimate what this Einstein figure can do. It’s like going to the real Einstein, and asking him to proofread a high school report. Or hiring a world-class 5-star chef and having him chop onions.

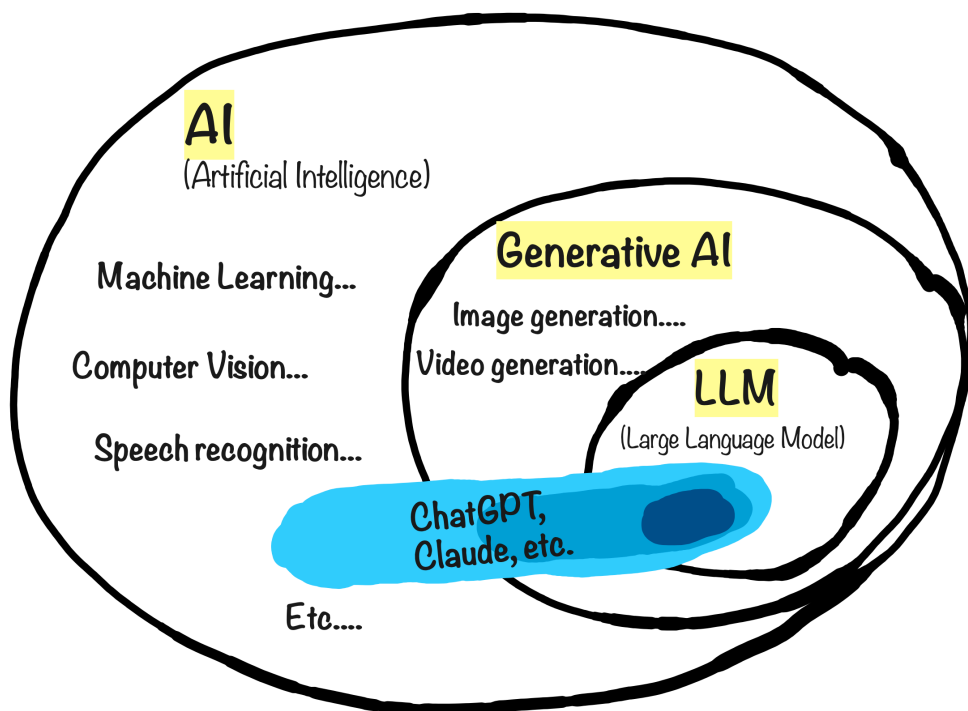
The more you interact with Einstein, the more you will discover surprising and powerful ways for him to help you, your family, your team, your company, or the world.



#### **Egbert’s take**

Einstein? Seriously? Was that the best you could come up with? What about Marie Curie, Ada Lovelace, or Grace Hopper? Einstein didn’t even invent a programming language or discover radioactivity.

# Terminology



OK, enough fluffy metaphors, let's clarify some terms. I know, I promised this book would contain minimum jargon and buzzwords. But these terms are pretty important.

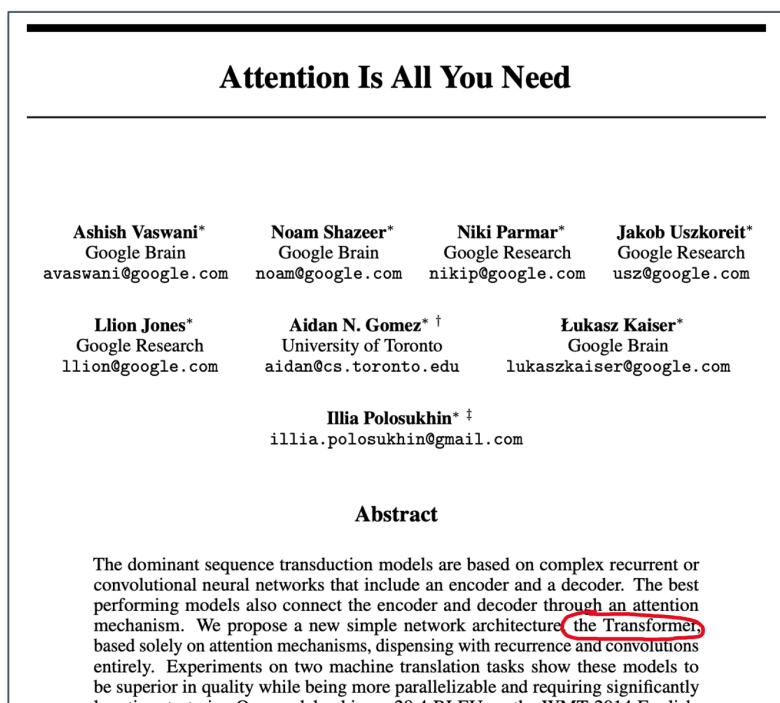
AI, as you probably know, stands for Artificial Intelligence. AI is not new. Fields like machine learning and computer vision have been around for decades. Whenever you see a YouTube recommendation or web search result, or get a credit card transaction approved (or not), that's traditional AI in action.

Generative AI is AI that generates new original content, rather than just finding or classifying existing content. That's the G in GPT.

Large Language Models (or LLMs) are a type of Generative AI that can communicate using normal human language.

ChatGPT is a product by the company OpenAI. It started as an LLM, essentially an advanced chatbot, but using a new architecture called the Transformer architecture. That's the T in GPT.

The Transformer architecture was introduced in a groundbreaking 2017 paper titled “*Attention is All You Need*” by researchers at Google and the University of Toronto. It has been cited over 100,000 times and is basically the secret sauce behind most modern AI language models.



When ChatGPT was released in Nov 2022, it went absolutely viral - a million users within 5 days, over 100 million users two months later. This strange little chatbot was so fluent at human language (in fact, *most* human languages) that anyone could use it. You didn't need to be an AI expert or programmer.

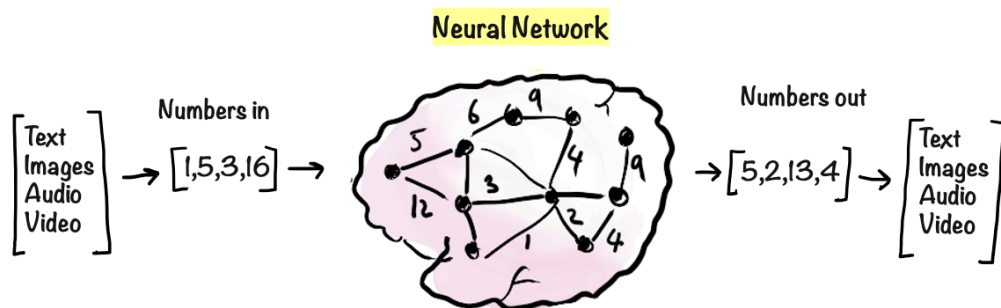
OpenAI wasn't the only company working on this kind of technology, but ChatGPT became the spark that triggered the Generative AI revolution. The floodgates had opened, and ChatGPT became the poster child of this whole thing.

ChatGPT started as a pure LLM, but it later added support for broader AI tasks such as image generation, speech recognition, and more. That's why

it is “leaking out” of the LLM circle in the image above. Now there are lots of other similar products such as Claude, MS Copilot, Perplexity, and dozens more. They are continuously improving and leapfrogging each other in terms of capabilities and features.

In the rest of this book, I will use the term “AI client” as a collective term for these kinds of Generative AI products.

# How it Works



So how does it actually work?

An LLM (large language model) is an Artificial Neural Network. Basically a bunch of numbers, or parameters, connected to each other, similar to how our brain is a bunch of neurons, or brain cells, connected to each other.

Internally, Neural Networks only deal with numbers. You send in numbers, and depending on how the parameters are set, other numbers come out. But any kinds of content, such as text or images, can be represented as numbers. So Neural Networks can really be used for any kinds of media. For example, self-driving cars use neural networks to process visual input from cameras and other sensors, outputting control signals like “adjust steering 5 degrees right” or “apply 20% braking force”.

LLMs are Neural Networks that are optimized for understanding and generating text. You may have heard the term “token” and “token limits”. A token is a small chunk of text, typically a word or part of word. Internally, LLMs read and generate tokens. What you see is words and sentences. Technically, they work with tokens rather than words, but I’ll just call it “words” in this chapter to make it easier to understand.

Let’s say I write “Dogs are”. When I send that to an LLM, that gets converted to numbers, processed by the neural network, and then the resulting numbers are converted back into text. In this case the output is “animals”. So we get “Dogs are animals”.



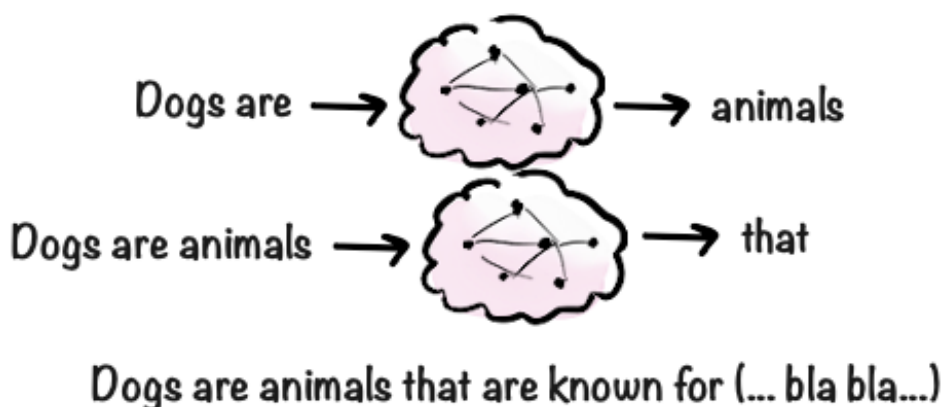
How did it decide on the word “animals?” It calculates probabilities for all possible next words based on input you gave it plus the data it was trained on (see next chapter for more info on training). It then selects a word, balancing probability with some randomness for creative diversity.

So an LLM is basically a “guess the next word” machine.

There’s actually more going on than just statistical text prediction - there is some level of understanding happening. Remember the “Attention is All You Need” paper mentioned in the previous chapter? One of its key concepts there was the attention mechanism.

Think about how you read a sentence - your brain automatically focuses on the important words and kind of glazes over the less important ones (like “the”). That’s basically what attention does - it helps the AI figure out which parts of the text really matter. For example, when processing the phrase “bat flew at night,” the attention mechanism helps the model focus more on the word “flew” to understand that “bat” refers to the animal rather than the sports equipment. Understanding the relationships and dependencies between words is a key to understanding human language.

The interesting part is if we take the output and combine it with the input and send it through the neural network again, it will continue adding new words. And when we loop that, we get sentences and paragraphs. That’s what your AI client is doing when it responds to your prompts.



For example here's what I got when I wrote "Generate a short story about a flying puppy".

Max was no ordinary puppy. While other dogs chased squirrels and dug holes in the backyard, Max spent his days gazing longingly at the sky. His owners thought it was cute how he'd sit for hours watching birds soar overhead, but they had no idea what was really going on in Max's fluffy little head. You see, Max had a secret - one that would turn the whole neighborhood upside down if anyone ever found out. This playful golden retriever pup could fly.

Then I wrote "Add a dark twist to the story", and the story continued:

Max's ability to defy gravity was a source of wonder and joy, until the day everything changed. One crisp autumn evening, as Max soared high above the rooftops, he spotted something that made his little heart race with fear. In the shadows of an abandoned warehouse at the edge of town, he saw men in dark suits loading cages into unmarked vans. Inside those cages were puppies - dozens of them - whimpering and crying. Max realized with a chill that these weren't just any puppies; they all had an ethereal glow about them, just like he did when he took to the skies. Someone had discovered the secret of flying dogs, and they were hunting them down one by one.

This could basically go on forever, by adding more prompts.

So how does the LLM know when to stop generating? Why doesn't it loop on forever? Well, it can detect natural stopping points (like the end of a story), or stop when it hits a token limit. In our puppy story, it naturally stopped after introducing the flying ability, and again after revealing the dark twist about puppy-nappers. Each response was a complete narrative unit. But I could have kept prompting it to continue the story further.

## Reasoning models

One way that LLMs have been improving is the ability to reason. Reasoning mimics the way humans think.

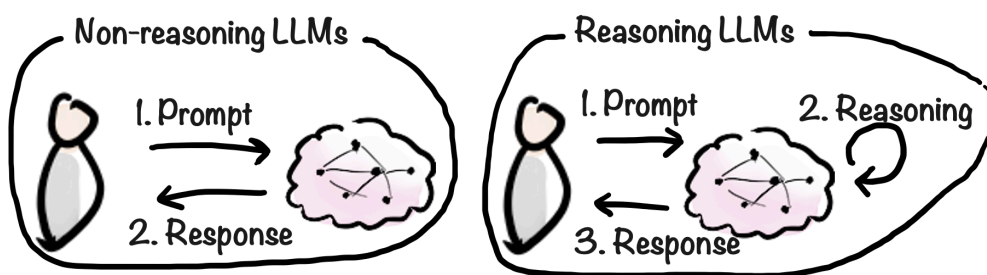
Let's take an example. You want to write an article. What do you do? Well, you probably start by thinking about the topic, and then maybe identify some key points you want to cover. Then you write a draft, iterate on it a few times, ask for feedback, go back and make changes, and so on. It's an iterative process that involves, well, reasoning.

Many of the earlier LLMs don't do that. They just start generating text immediately, basically using the AI equivalent of gut feel or intuition. That's pretty bizarre if you think about it. Imagine you are a student, and you are asked to write an essay. But there's a catch - you have to start writing immediately, without thinking about it, you must keep writing until you are done. Oh, and there is no backspace on your keyboard - you can't go back and edit or change anything!

That's almost impossible for a human to do. Yet most LLMs do a surprisingly good job at it.

But for more complex problem-solving, even LLMs struggle with that way of working. So more recent LLMs (such as GPT o1) have been designed to reason. When you prompt it, it doesn't immediately answer. Instead, it goes into an internal loop, essentially talking to itself, analyzing the problem, and making a plan. And then it outputs the answer. Much like when we plan out an essay before writing it, or analyze a math problem before solving it.





This slows the model down somewhat, but makes it a lot more capable. Perfect for complex problem-solving!

For example this morning I used the GPT o1 model to figure out some complex tax issues with my company. I described my context in detail, and what I wanted to achieve. It analyzed my context, and analyzed Swedish tax law, identified different options with pros and cons, and gave me some very useful advice - the kind of advice I'd normally have to pay a tax consultant to give me.

# Training

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# Models, Models Everywhere

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## AI clients vs AI models

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## You get what you pay for

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# Limitations

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# Model Types

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## Text to Audio

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# Multimodal Models

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## Example: Is my bacon done?

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## Example: Where can I hide stuff?

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## Example: The drunk funny tutor

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# Prompt Engineering

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## Example - from bad to good prompt

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## The biggest limitation is you

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## How to learn Prompt Engineering

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## Will prompt engineering still matter when models improve?

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## Do I need to be nice to my AI?

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# Autonomous Agents with Tools

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## Agent = LLM + Tools + Autonomy

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## When to use agents

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## Agent safety

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## Future of AI agents

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# Part 1 Wrap up

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# My Journey into AI

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## Chat GPT

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## Aha 1: It can code like a pro!

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## **Aha 2: It can write like a pro!**

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## **Maybe we're not as creative and intelligent as we think**

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# Leading an AI transformation

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## What is an AI transformation, and why is it important?

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## Top down or Bottom up?

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## Assign an AI Leader

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## Access, Experiment, Leverage

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## Step 1: Access

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## **Example: RFP agent**

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## **Indirect value**

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## Be a role model

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## Avoid using AI to fire people

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## Reflection

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# Interlude: Egbert's Life Story

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# Prompt Engineering Techniques

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## Context window when coding

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## Context window when using an AI client

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## Real-life context window is smaller than you think

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## Manage your chat history

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## Large prompt vs long chat history

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## Iteration techniques

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### Adding new prompts

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### Editing previous prompts

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### When to add, when to edit

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### Example: Planning a team offsite

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## Technique: Self-reflection prompt

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## Elements of a good prompt

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## Start high level, then get into details

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## How smart of a model do you need?

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## Prompt engineering is an evolving field

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# Prompt Generation (or The Angry Grandma)

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## Takeaways

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# Retrieval Augmented Generation and Function Calling

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## RAG in a nutshell

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## Example - customer support

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## Different approaches for retrieving data

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### Approach 1: Including all data

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### Approach 2: Letting the LLM pull data via function calling

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## Approach 3: Including relevant text using vector embeddings

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## Combining the approaches

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## Fun experiment: the createFunction function

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## Example: AI chatbot memories using RAG

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## Storing new memories

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## Recalling relevant memories

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## RAG is a big topic

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# The AI Doctor

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## Personal story

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## Tip: Make your own nutritionist

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## Introducing Jeeves

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## Jeeves reprograms himself

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## Jeeves falls in love and starts conspiring

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## What does this mean?

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## More intelligence = more potential value, but also less predictable behavior

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## **Powerful AI models can make moral choices and judgment calls**

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## **Be careful. Treat your agent with respect.**

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## **Jeeves finds a way**

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## **Agents debugging themselves**

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## **Conclusion**

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