

**Animal Spirits:**  
***Human Nature and the Economy***

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# Preface

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- Robert Shiller
- Brief history of economic thought
- Watered down General Theory
- Vulnerable to attack

# Introduction

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- Need for fundamental reorientation
- The Invisible Hand
- Does well by criterion of school boy

# Animal Spirits

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- Confidence
- Fairness
- Corruption
- Money Illusion
- Stories

# The Eight Questions

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- Why Do Economies Fall into Depression?
- Why Are there People who Cannot Find a Job?

## Eight Questions (Continued)

- Why Do Central Bankers Have Power over the Economy, If They Do?
- Why Is There a Tradeoff between Inflation and Unemployment in the Long Run?

## Eight Questions (Continued)

- Why Is Saving for the Future So Variable?
- Why Do Financial Markets Boom and Crash?

## Eight Questions (Continued)

- Why Do Real Estate Markets Go through Cycles?
- Why Does Poverty Persist among Disadvantaged Minorities?

# Confidence

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- Not just a prediction
- Also involves Trust
- Different from Standard Economic Theory of Decisions

# Usual Meaning of Confidence

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- Confidence:
  - Trust
  - Faith
- Different from Standard Economic Theory of Decisions

# Fairness

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- Important in wage and price determination

# Snake Oil

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- Capitalism does not:
  - Produce what people want:
    - (up to the constraints of Pareto optimality)

## Snake Oil (continued)

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- Capitalism produces what people *think they want*:
  - (up to the constraints of Pareto optimality)

# Money Illusion

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- Important determinant of working of the economy

# Stories

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- Business cycles and stories
- Dot.com Bubble

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- Mexico: Late 1970's - early 1980's
    - Lopez Portillo
    - Quetzalcoatl [Pronounced: ketsal-ko-a-tl]
    - Oil
    - Boom and bust

# Summary

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- Confidence
- Fairness
- Snake Oil
- Money Illusion
- Stories

# Why Do Economies Fall into Recessions?

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- Cycles in psychology
- Current crisis:
  - Confidence, Snake Oil and Stories

# Why Does Fed Have Effect: Insofar as It Does?

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- Open market Operations
- Discount window

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- Four Lines of Defense:
    - Regulation
    - Rediscounting
    - Deposit Guarantees
    - Bankruptcy Management
  - Shadow Banking:
    - No lines of Defense

# Current Crisis

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- Credit crunch
- Humpty Dumpty
- Target for full employment level of demand
- Target for full employment level of credit

# Why Do We Need Such Targets?

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- Needed for planning
- Needed for legitimacy

## Further Questions of Book

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- Why Are there People who Cannot Find a Job?
- Why Is there a Tradeoff between Inflation and Unemployment in the Long Run?
- Why Is Saving for the Future So Arbitrary?

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- Why Are Financial Prices and Corporate Investments So Volatile?
  - Why Do Real Estate Markets Go through Cycles?
  - Why Is There Special Poverty Among Minorities?

# Conclusion

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- How the Economy Works:
  - Role of animal spirits
- Good parent role of government:
  - The Happy Household