SINS OF OMISSION

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MISCONCEPTION

Misconception of the field.

"Scientific Method":

Simple models

Statistical analysis.

MULTI-TASKING PROBLEM

Such exclusionary definition:

Dangerous multi-tasking problem.

***Incentivizes* attention:**

To problems *Easy to pursue*.

De*-incentives* attention:

Against problems *Difficult to pursue*.

SUMMARY

Full domain of economic research:

Simple-modeling, statistical analysis.

Important economic and social problems:

Not covered by economists' research.

MOTIVATION

Standard motivations: Maximize utility, profits.

Broader view: People motivated by the STORIES they are telling themselves at the time they are making their decisions.

Much richer range than economists' *a priori* assumptions.

CORE OF SOCIOLGY

Core of sociology: Ethnography.

Ethnographies uncover:

Stories.

Social networking that generates those stories.

Economists' restricted range of stories:

Major example of sins of omission.

Second Example: Sins of Omission

Financial Crisis of 2008.

Rajan: Finance, real estate and macroeconomics.

Caballero: Macro models—"Core" and "Periphery."

Core: DSGE (Dynamic Stochastic General Equilibrium) model.

Simple *a priori* assumptions at many nodes of choice.

There is: considerable Peripheral macro and finance literature.

Deviations from Core: Only one at a time.

THEORY: COULD NOT WORK

Caballero: “The Periphery is about isolating specific mechanisms. [Therefore] it surrounds the sources of these mechanisms with assumptions designed to kill unwanted effects that would pollute the message.”

Financial Crisis: Interactions beyond one-at-a-time deviations.

STATISTICAL APPROACH: WOULD NOT WORK

SIFI’s: Financial intermediaries of size/position so that adverse shock may lead to fire-sale crash.

Danger zones due to tail risks:

Taken on to artificially increase current profits;

Taken on to gamble for resurrection;

Due to Miscalculation;

Due to Over-optimism.

Statistical Analysis: Limited

Data rare: Only involves tail-risk SIFIs.

Rarer still: Risk-taking managers hide vulnerabilities.

Need for more forensic view of evidence.

Economists: Limited incentives to predict financial crash.

MORE GENERAL THEORY

Brock and Durlauf: Convergence of belief due to desire to conform.

Myself and Michaillat: Biases in publication/ promotion-to tenure.

Research methodology:

Converges to “Do-What-I-Do.”

CONCLUSION

Everyone here: Your own examples.

INET: HUGE role.

Expanding domain of economic research.

THANK YOU!!!