

**PROCESSING UNCERTAINTY: EVOLVING BELIEFS,
FALLIBLE THEORIES, RATIONALIZATIONS
AND THE ORIGINS OF MACROECONOMIC CRISES**

PABLO SCHIAFFINO

Universidad Torcuato di Tella

RICARDO F. CRESPO*

IAE Universidad Austral and CONICET

DANIEL HEYMANN

IIEP Universidad de Buenos Aires and Universidad de San Andrés

Submitted August 2016; accepted May 2017

The macroeconomic crisis of the last decade reopened questions about how economic agents define plans and expectations. The crisis triggered widespread, yet ongoing revisions of the beliefs entertained by agents and economists. The decision errors that result in crises do not necessarily derive from behavioral biases: often, those choices were rationalized with reference to established conventional wisdom, backed by economic theories influential at the respective times. Thus, understanding such socially relevant events requires addressing concretely how people build decision scenarios in changing environments, and how those interact with the evolution of prevalent economic analysis. A revision of Keynes' work on uncertainty, especially his notion of "weight of evidence", can help in this respect. In this paper we analyze some central informational elements of macro crises, discuss weaknesses of the standard analyses which try to accommodate critical phenomena into the rational expectations framework, and comment on ways to move ahead.

JEL classification codes: A11, B31, D8, G01

Key words: uncertainty, weight of evidence, financial crises, rationalizations

* Ricardo F. Crespo (corresponding author): IAE Universidad Austral and CONICET; Guido 1724, CAAF1016 Buenos Aires, rcrespo@iae.edu.ar. Pablo Schiaffino: Universidad Torcuato di Tella; Av Pres. Figueroa Alcorta 7350, C1428BCW Buenos Aires, plschiaffino@gmail.com. Daniel Heymann: Universidad de Buenos Aires, IIEP BAIRES (UBA-CONICET); and Universidad de San Andrés; Av. Córdoba 2122, C1120AAQ, Buenos Aires, dheymann@econ.uba.ar. We are indebted to the participants of presentations of previous versions of this paper at the Universidad de Buenos Aires and Universidad del CEMA, especially Jorge Streb and Mariana Conte Grand. Jochen Runde and two anonymous referees provided very useful comments for an early version of the paper. The usual caveat applies.

I. Introduction

In macroeconomic crises, agents face large-scale destructions in perceived wealth. The wide shifts in the prevailing evaluations of the sustainable levels and growth prospects of the economies in question point to the deep uncertainty surrounding historical, irreversible, system-wide processes such as those that determine the pace and configuration of economic development. Such episodes bring vividly to mind Keynes's arguments (1936, especially Chapter 12) on the highly fallible and potentially variable nature of economic forecasts. The analysis of crises must consider how agents deal in practice with the evolution of their environments in order to form their anticipations and plan their actions, and what makes these develop in a way that ends in a deeply undesirable state. An economist studying macro crises must act in some way as an "applied epistemologist" (or an historian of practical economic thought), who analyses the nature of the working models that agents use to carry out their economic activities, their implications for actual behaviors, and the evolution of beliefs as a response to the performance that the agents themselves generate collectively.

A segment of the macroeconomic literature has recognized the pertinence of modeling uncertainty and learning effects (see, for example, Sargent 1993, 2001, Evans and Honkapohja 2001, Hansen and Sargent 2001, Cho and Kasa 2015). But, even if it is an ambiguous concept (as discussed below), the Rational Expectations (RE) notion has continued to rule the field for several decades; in whatever guise, "it makes agents' expectations disappear as objects to be specified by the model builder or to be estimated by the econometrician". Instead, "they are equilibrium outcomes" (Sargent 2008). However, as an observed fact, macroeconomic crises trigger intense activities of searching for lessons to be drawn from the experience, both on the part of analysts and economic agents. Thus, in practice, those events challenge previously held views about the functioning of the economies. Macroeconomic crises and RE are incompatible, despite the effort that has been put in trying to reconcile them.

The analysis of phenomena that involve centrally the breakdown of economic promises requires dealing with the ways agents form in practice their plans about the future, and how these turn out to be frustrated. Keynes insisted strongly on the precarious nature of long-term expectations: "about these matters there is no scientific basis to form any calculable probability whatever. We simply do not know" (Keynes 1937: 214; see also 1936: Chapter 12, IV). Thus, the matter of analytical interest is not only how people evaluate the chances of different outcomes, but also how solid they perceive that evaluation to be. Actual decision-makers and analysts alike may be more

Download English Version:

<https://daneshyari.com/en/article/7356094>

Download Persian Version:

<https://daneshyari.com/article/7356094>

[Daneshyari.com](https://daneshyari.com)