

GEORGE AKERLOF

PHISHING FOR PHOOLS

UNION INVESTMENT

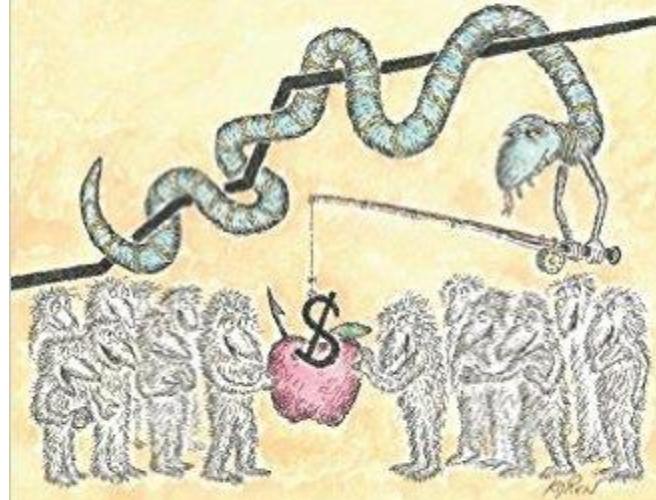
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7 NOVEMBER 2019

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PHISHING FOR PHOOLS

The ECONOMICS of
MANIPULATION & DECEPTION



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and
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Prefatory Notes

- **Robert Shiller.**
- **Too great a belief in free markets.**
- **Holes in economics.**

Danny's Observation

- **Psychology:**
Humans as fallible machines.
- **Economics:**
Equilibrium.
- **Supermarket equilibrium:**
Lines equalized in length.

Proposition

- Free markets provide only what we really want:
If human machines are making the right choices.
- Free markets provide wrong choices:
If there is a profit to be made.
- If we have some weakness or other, in the equilibrium, that weakness will be taken up as long as profit can be made.

Example 1: Cinnabon[®]

- **Example 1: Cinnabon[®]**
Life Needs Frosting[®].
Pheromones.



Example 2: Capuchin Monkeys



Thought Experiment

- **Opened the monkeys up to trading with humans.**
- **Fruit Roll Up Tacos with Marshmallow Fluff.**

Two types of tastes

- **What is good for them.**
- **What they choose.**
- **Monkeys on our shoulders.**

General Equilibrium

- Pareto optimality.
- Freedom to choose *and* freedom to phish.
- Equilibrium is optimal:
In terms of monkey-on-our-shoulder tastes.

Onus on Us

- **Four areas of:**

**NOBODY-COULD-POSSIBLY-
WANTS.**

The Four Areas

- **PERSONAL FINANCIAL INSECURITY.**
- **FINANCIAL AND MACROECONOMIC INSTABILITY.**
- **ILL HEALTH.**
- **BAD GOVERNMENT.**

Suze ("Susie") Orman



Suze Orman

- **Enthusiastic Audiences.**
- ***The 9 Steps to Financial Freedom: Practical and Spiritual Steps So You Can Stop Worrying.***
- **Financial advisees: do not follow rational budgeting.**
- **Test: expenditures do not add up.**
- **Real life: nothing left over for savings.**

Statistical Portrait

- **Could not raise \$2,000.**
- **Low financial assets.**
- **Purchases and payday.**
- **Bankruptcies.**

Story in Textbooks

- We are maximizing our utility subject to a budget constraint.
- Determination of demand for apples and for oranges.
- That's the story we are telling ourselves.

Think Through Stories

- **Phooled:**

Because we think through stories.

- **Core of sociology/cultural anthropology:**

**Ethnographies uncover stories
people tell themselves.**

- **Advertisers:**

Graft their story onto ours.

Ubiquity of Stories

- **City streets.**
- **Puppy in window.**

Second Verse

**I must take a trip to California,
And leave my poor sweetheart alone.
If he has a dog, he won't be lonesome,
And the doggie will have a good home.**

The Euro

- **Ashok Mody: *EuroTragedy*.**
- **Europeans' desire for unity.**
- **No fiscal transfers.**
- **Different languages.**

Bread and Bullets

- **Force-fed industrialization.**
- **Extreme cruelty.**
- **Elimination of opponents.**

Financial Derivatives

- **Optimality of competitive markets.**
- **Commodity Futures Modernization Act.**
- **Crash of 2008.**

Global Warming

- **Two inconvenient truths.**

Summary and Conclusion

- **Competitive free markets: Pareto optimality of monkey-on-the-shoulder tastes.**
- **Problems not just fundamental, physical problems.**
- **Also include the stories that people tell themselves.**
- **Those stories should be part of our economics.**