

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

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Preface

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

Introduction

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

Animal Spirits

- **Confidence.**
- **Fairness.**
- **Corruption.**
- **Money Illusion.**
- **Stories.**

The Eight Questions

- **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

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

Usual Meaning of Confidence

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

Fairness

- **Important in wage and price determination.**

Snake Oil

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

Snake Oil (continued)

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

Money Illusion

- **Important determinant of working of the economy.**

Stories

- **Business cycles and stories.**
- **Dot.com Bubble.**

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

Summary

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

Why Do Economies Fall into Recessions?

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

Why Does Fed Have Effect: Insofar as It Does?

- **Open market Operations.**
- **Discount window.**

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

Current Crisis

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

Why Do We Need Such Targets?

- Needed for planning.**
- Needed for legitimacy.**

Further Questions of Book

- **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?**

- **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

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