



Animal Spirits

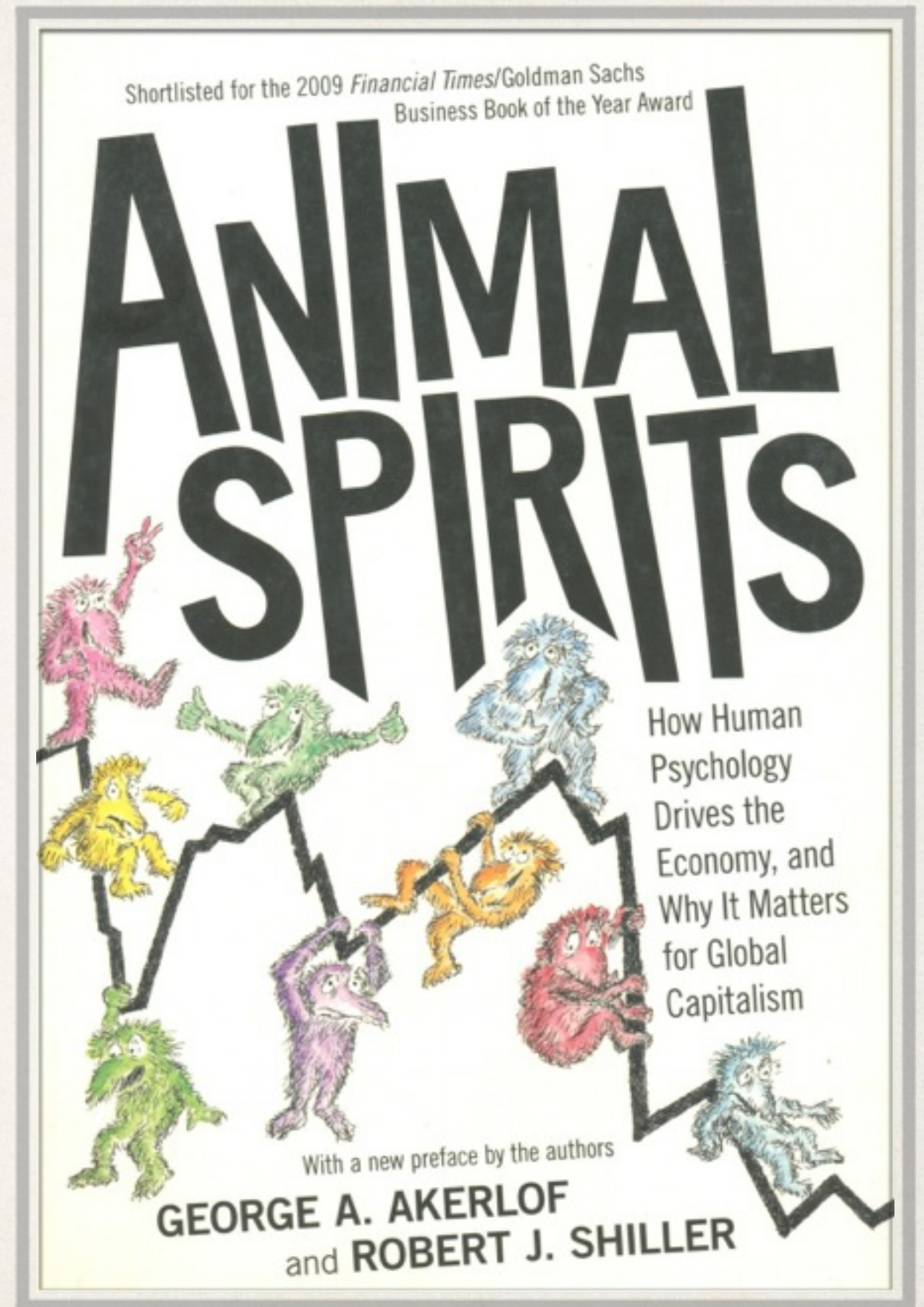
How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism

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The Book & its Authors

- ❖ George A. Akerlof (*1940)
- ❖ Robert J. Shiller (*1946)
- ❖ Prominent proponents of the "2008-2009 Keynesian resurgence"

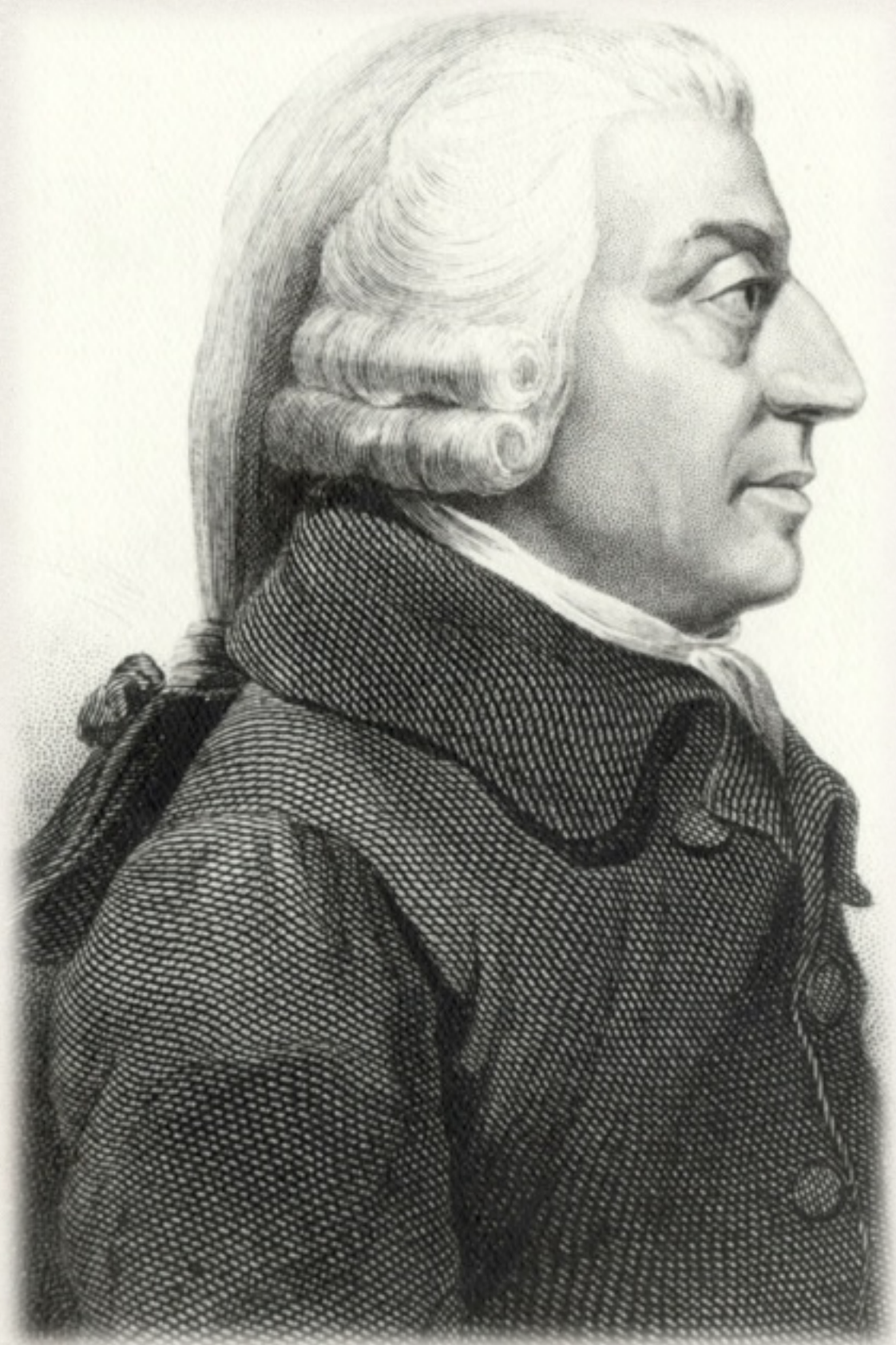






Why did nobody see this coming?

What have people been thinking?



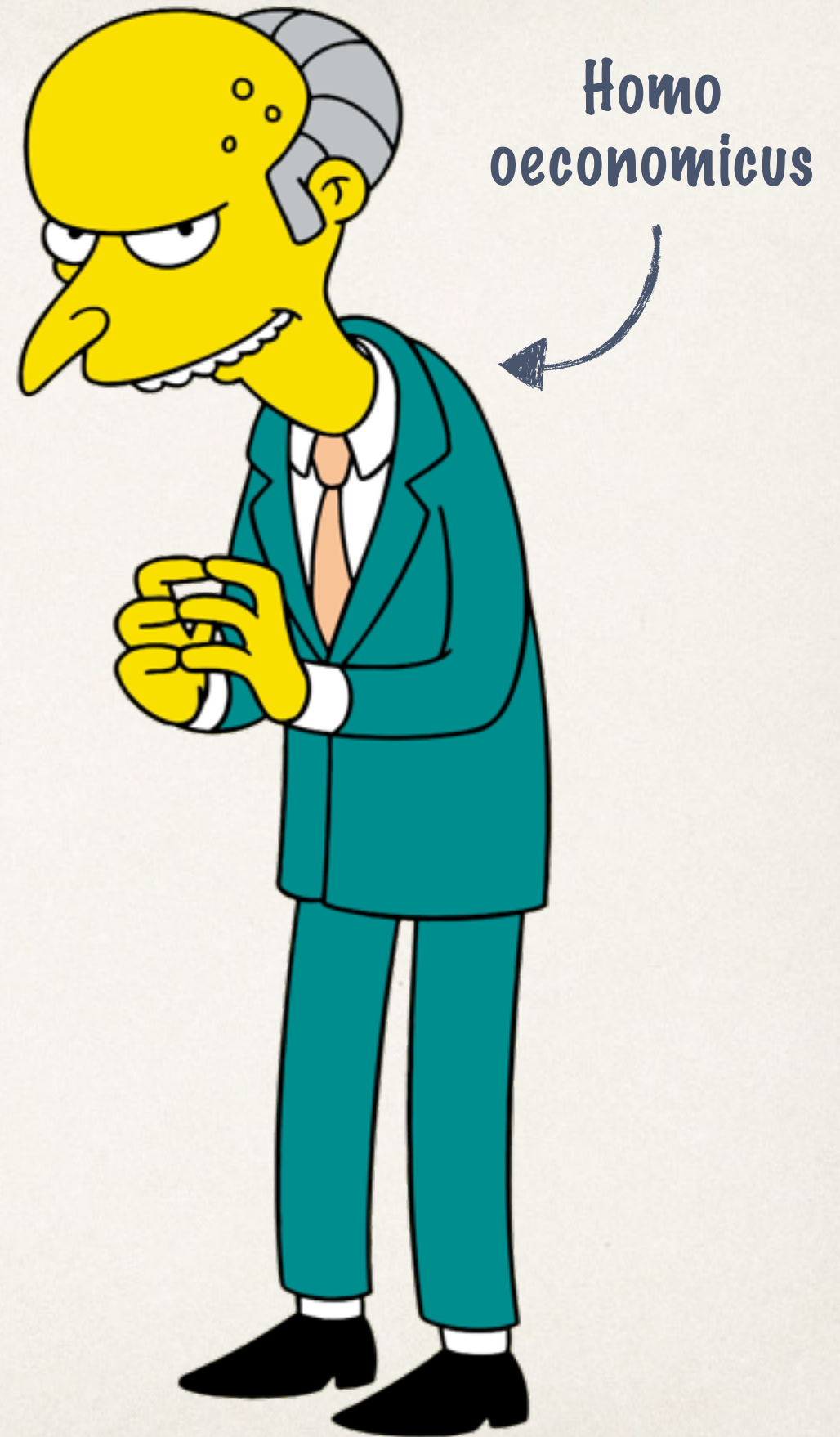
*“It is not from the
benevolence of the
butcher, the brewer, or the
baker that we expect our
dinner, but from their
regard to their own
interest.”*

- Smith 1986: 9

Neoclassical Theory

Assumptions:

- ❖ Rational individualism
- ❖ Subjectively defined interests
- ❖ Maximization of utility
- ❖ Complete knowledge
- ❖ Reaction to changes

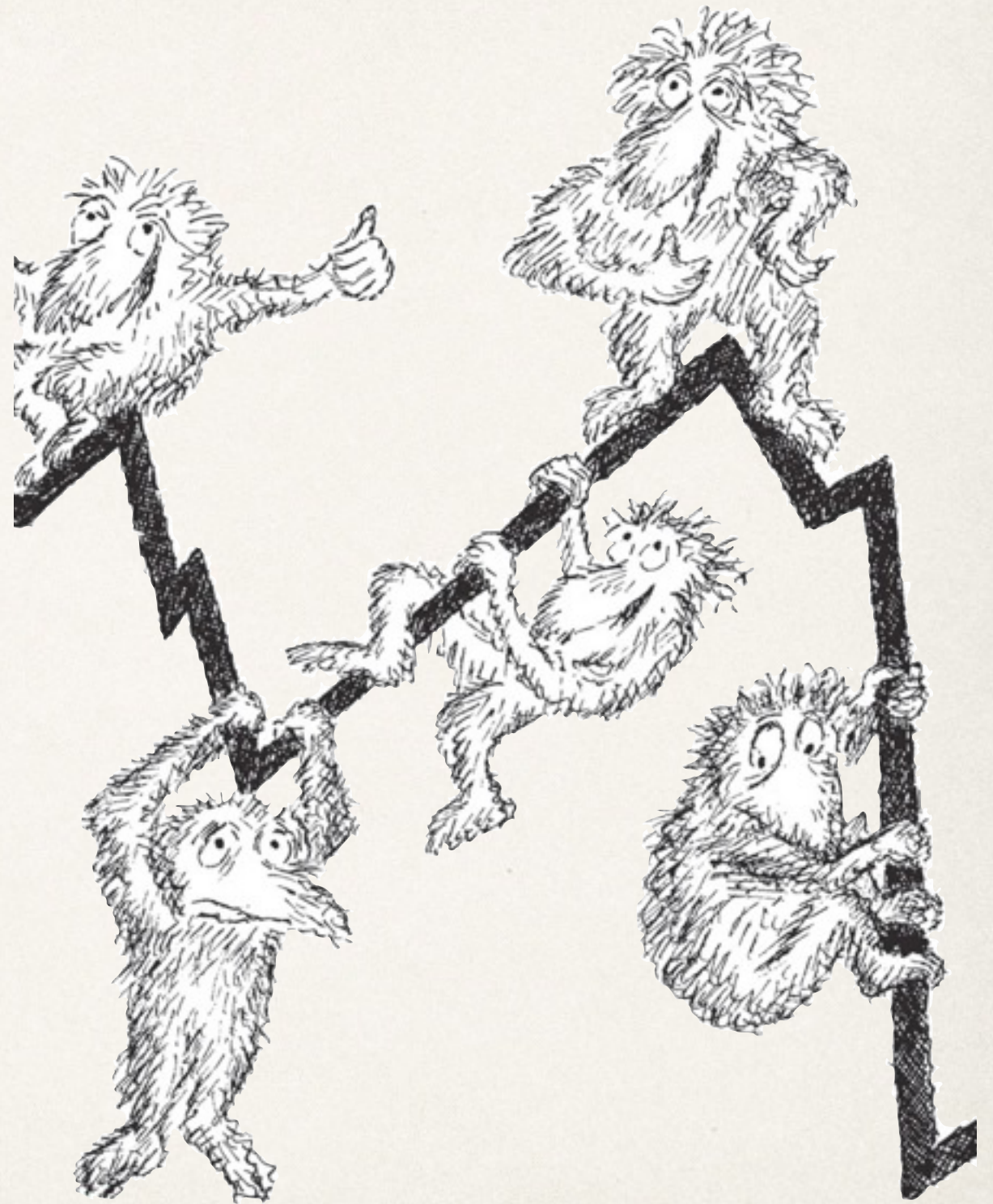


"To understand how economies work and how we can manage them, we must pay attention to the thought patterns that animate people's ideas and feelings, their animal spirits."

- Akerlof and Shiller 2009: 1

Animal Spirits

- ❖ Coined by John Maynard Keynes in *The General Theory of Employment, Interest and Money* (1936)
- ❖ **Irrational** actions (i.e. emotions, instincts etc.) that influence the economy
- ❖ “... a restless and inconsistent element in the economy. It refers to our peculiar relationship with ambiguity or uncertainty.” (p. 4)



"The proper role of the government, like the proper role of the advice-book parent, is to set the stage. The stage should give full rein to the creativity of capitalism. But it should also countervail the excesses that occur because of our animal spirits."

- Akerlof and Shiller 2009: xxiii-xxiv

Animal Spirits

1. Confidence and Its Multipliers
2. Fairness
3. Corruption and Bad Faith
4. Money Illusion
5. Stories



1. Confidence

- ❖ Decisions are not based on rational calculations, rather we make our decisions because they feel right.



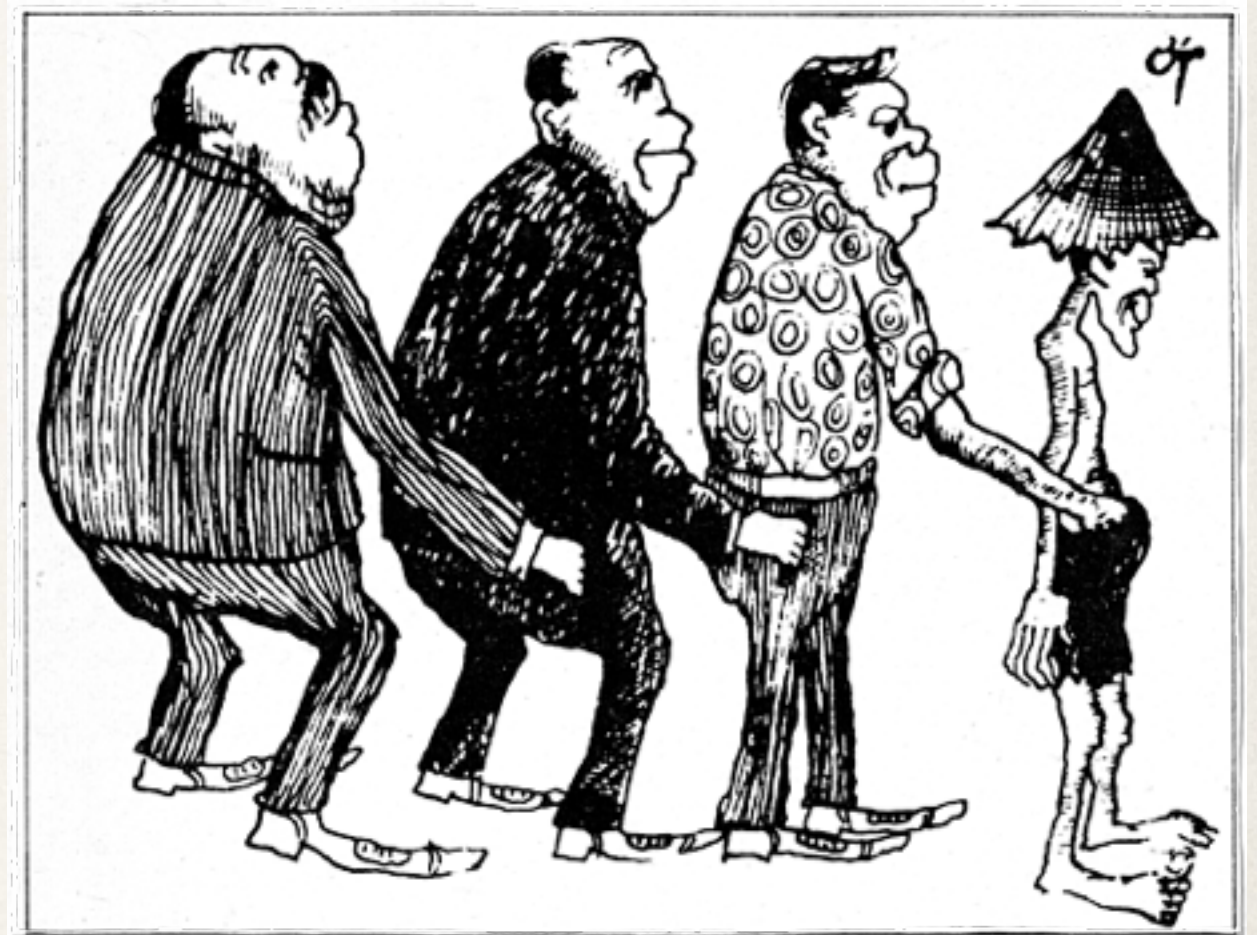
2. Fairness

- ❖ „Considerations of fairness are a major motivator in many economic decisions and are related to our sense of confidence and our ability to work effectively together.“ (p. 25)



3. Corruption and Bad Faith

- ❖ Corruption and bad faith have a double negative impact on the economy through the corruption itself and the rising mistrust of the people. The market will be harmed in both ways.



http://www.enigmamaterial.com/dateline/vn_1974/images/Ot_Corruption.png

4. Money Illusion

- ❖ People have the tendency to think of money in nominal (numerical value), instead of real terms (purchasing power).
- ❖ Examples:
 - ❖ Wage contracts
 - ❖ Price setting
 - ❖ Bond contracts
 - ❖ Accounting



5. Stories

- ❖ „The stories no longer merely explain the facts, they are the facts.“
(p. 54)



http://0.tqn.com/d/politicalhumor/1/0/X/_/4/Good-Economy.jpg

Sources

- ❖ **Akerlof, George A. and Shiller, Robert J. (2009):** *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. Princeton, New Jersey, USA: Princeton University Press.
- ❖ **Smith, Adam (1986):** *An inquiry into the nature and causes of the wealth of nations*. New York: Penguin Classics.