



Uncertainty, Expectations, and Financial Instability: Reviving Allais's Lost Theory of Psychological Time

By Eric Barthalon

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Uncertainty, Expectations, and Financial Instability: Reviving Allais's Lost Theory of Psychological Time By Eric Barthalon

Eric Barthalon applies the neglected theory of psychological time and memory decay of Nobel Prize-winning economist Maurice Allais (1911–2010) to model investors' psychology in the present context of recurrent financial crises. Shaped by the behavior of the demand for money during episodes of hyperinflation, Allais's theory suggests economic agents perceive the flow of clocks' time and forget the past at a context-dependent pace: rapidly in the presence of persistent and accelerating inflation and slowly in the event of the opposite situation. Barthalon recasts Allais's work as a general theory of "expectations" under uncertainty, narrowing the gap between economic theory and investors' behavior.

Barthalon extends Allais's theory to the field of financial instability, demonstrating its relevance to nominal interest rates in a variety of empirical scenarios and the positive nonlinear feedback that exists between asset price inflation and the demand for risky assets. Reviewing the works of the leading protagonists in the expectations controversy, Barthalon exposes the limitations of adaptive and rational expectations models and, by means of the perceived risk of loss, calls attention to the speculative bubbles that lacked the positive displacement discussed in Kindleberger's model of financial crises. He ultimately extrapolates Allaisian theory into a pragmatic approach to investor behavior and the natural instability of financial markets. He concludes with the policy implications for governments and regulators. Balanced and coherent, this book will be invaluable to researchers working in macroeconomics, financial economics, behavioral finance, decision theory, and the history of economic thought.

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Editorial Review

Review

The jury of the 2015 Maurice Allais prize in economic science has nominated a seasoned investment professional, Eric Barthalon, for his book, *Uncertainty, Expectations, and Financial Instability*. Maurice Allais has constantly sought to bring economic theory as close as possible to empirical observations; fostering communication between practitioners and theorists has therefore been one of his long standing priorities. In this respect, the work submitted by Eric Barthalon to the Maurice Allais foundation is a model, while at the same time it is of rare scientific quality in such a context. In the first part of his book, Eric Barthalon expounds Allais's monetary theory with a command and puts it in a perspective, which no other book offers. As indicated by the subtitle, he advocates reinstating Allais's lost theory of psychological time in core economic theory. Emphasized is the fact that investors' expectations are not as rational as neoclassical economic theory claims them to be and that investors' memory is context-dependent, long in stable environment, shorter and shorter during bubbles, a proposition which is at the heart of Maurice Allais's monetary theory. In the second part of his book, Eric Barthalon investigates the issue of financial instability by means of Allais's theory of psychological time. His unearthing of a hitherto unseen empirical relationship between long-term nominal interest rates and the rate of nominal growth subjectively perceived by market participants adds a new chapter to Allais's monetary theory. In the last chapters, Eric Barthalon starts building original and promising bridges with the modeling of financial behavior. He also touches upon some important policy issues, like fractional reserve banking, which – as Allais and other economists before him – he holds for a key source of financial instability.

(2015 Maurice Allais Prize in Economic Science citation)

An intellectual stretch for most charterholders, but the few who take the time to work through its complexities will be rewarded by seeing something that is considered old and tired as actually fresh and insightful.

(*Financial Analysts Journal*)

Review

Eric Barthalon does an outstanding job explaining Maurice Allais's contributions and showing how his work has been under-represented in economic theory.

(Wesley Pech, Department of Economics, Wofford College)

Building on the lost research work of Maurice Allais, this thoughtful, articulate, and comprehensive reexamination of expectations has been long in gestation yet well worth the intellectual investment. Theorists, experimentalists, practitioners, and historians of economic ideas will find much here of interest and value.

(Vernon Smith, Nobel Laureate in Economics)

About the Author

Eric Barthalon is the global head of capital markets and tactical asset allocation at Allianz Investment Management in Munich, Germany. Throughout more than three decades of exposure to capital markets in global financial institutions (at Paribas and Allianz), in which he has focused constantly on asset management, Barthalon has sought to blend operational and research responsibilities, action with theoretical reflection. He received a Masters in Management from ESCP–Europe.

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Do you certainly one of people who can't read pleasurable if the sentence chained inside straightway, hold on guys this particular aren't like that. This *Uncertainty, Expectations, and Financial Instability: Reviving Allais's Lost Theory of Psychological Time* book is readable through you who hate those perfect word style. You will find the details here are arrange for enjoyable studying experience without leaving perhaps decrease the knowledge that want to provide to you. The writer of *Uncertainty, Expectations, and Financial Instability: Reviving Allais's Lost Theory of Psychological Time* content conveys the thought easily to understand by lots of people. The printed and e-book are not different in the content material but it just different as it. So , do you nonetheless thinking *Uncertainty, Expectations, and Financial Instability: Reviving Allais's Lost Theory of Psychological Time* is not loveable to be your top listing reading book?

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Dawn Williams:

The book untitled *Uncertainty, Expectations, and Financial Instability: Reviving Allais's Lost Theory of Psychological Time* contain a lot of information on the item. The writer explains your ex idea with easy approach. The language is very simple to implement all the people, so do not necessarily worry, you can easy to read the item. The book was authored by famous author. The author will take you in the new period of literary works. You can actually read this book because you can read on your smart phone, or gadget, so you can read the book in anywhere and anytime. In a situation you wish to purchase the e-book, you can open their official web-site in addition to order it. Have a nice go through.

Mary Fox:

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