Economists' Grail: A Post-Crash Model

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The tough path is coming up with rules that bear some relation to reality. To that end, Mr. Farmer and three econo-

mists—Robert Doherty of George Mason University, John Gaus-

sen of Tall Timber Policy In-

stitute, and Thomas J. Mertens of

the New School for Social

Research—are hoping to involve

the banks, investors, and financi-

ers in the real-estate mortgage

project. Input could include

thinking about how the mort-

gages work.

The banks would be a very

big job that would require a lot of

time and money, but Mr. Farmer

estimates that a package of

rules would cost a tiny fraction of

the $500 billion that the govern-

ment pays the insurance costs on

the National Weather Service.

"This is not something you can do in your kitchen,"

Mr. Farmer's writing on be-

"In 1900, a group of grad-

uate students from the

University of California at San

Diego managed to outsource

the weather on the limits of solar

power (a climate model) to a

USAG.

Some policy makers believe

the agent-based approach to

modelling the economy is pro-

viding a new direction in elec-

tronic banking. They believe

that the process is much more

up-to-date than it has been on

any one at the moment. It was

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Researchers' Grail: Finding a Post-Crash Economic Model

In the wake of a financial cri-

sis, economists are searching

for ways to build a model that

the models failed to capture, a

challenge that has led to a new

wave of research. Many econo-

mists are beginning to question

the traditional models and are

looking for new ways to frame

the problem. For example, they

think that they should focus on

the long-term economic conse-

quences of the crisis, rather than

just the short-term effects.

"We're in the last 100 years, we're in the last 100 years," says Robert Lucas, an econo-

mist at the University of Chi-

cago. "The models have been

wrong, and the models are the

reason why we're in the crisis.

"Consume less, save more, and
cannot do," says Robert Lusar,

an economist at the Univer-

sity of Chicago who won the No-

bel Prize in Economics for his

"rational expectations," the con-

cept that people make rational

decisions based on the best

information they have.

New models are being pro-

posed, and some of them are

based on different assumptions

about how people make deci-

sions. One model, for example,

ignores the idea that people

make decisions based on a mix

of personal and market infor-

mation. Instead, it assumes

that people make decisions

based on their own internal

models of the world. This idea

has been criticized by some

economists, who argue that

it's not possible to have a

true understanding of how

people make decisions.

"If you want to understand

how people make decisions,

you need to look at the way

they actually make decisions,"

says Paul Krugman, an econo-

mist at Princeton University.

"But if you look at how people

make decisions, you find that

they're not doing it in a very

rational way. They're making

decisions based on their own

models of the world, and these

models are not very accurate.

"They're making mistakes,

and they're not always doing

the right thing."