

Discussion of
*Caplin: Engineering Data to Understand and Moderate
Market Volatility*

and

*Hommes et al: Simple Forecasting Heuristics that Make
us Smart: Evidence from Different Market Experiments*

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Rebuilding Macroeconomics Meeting

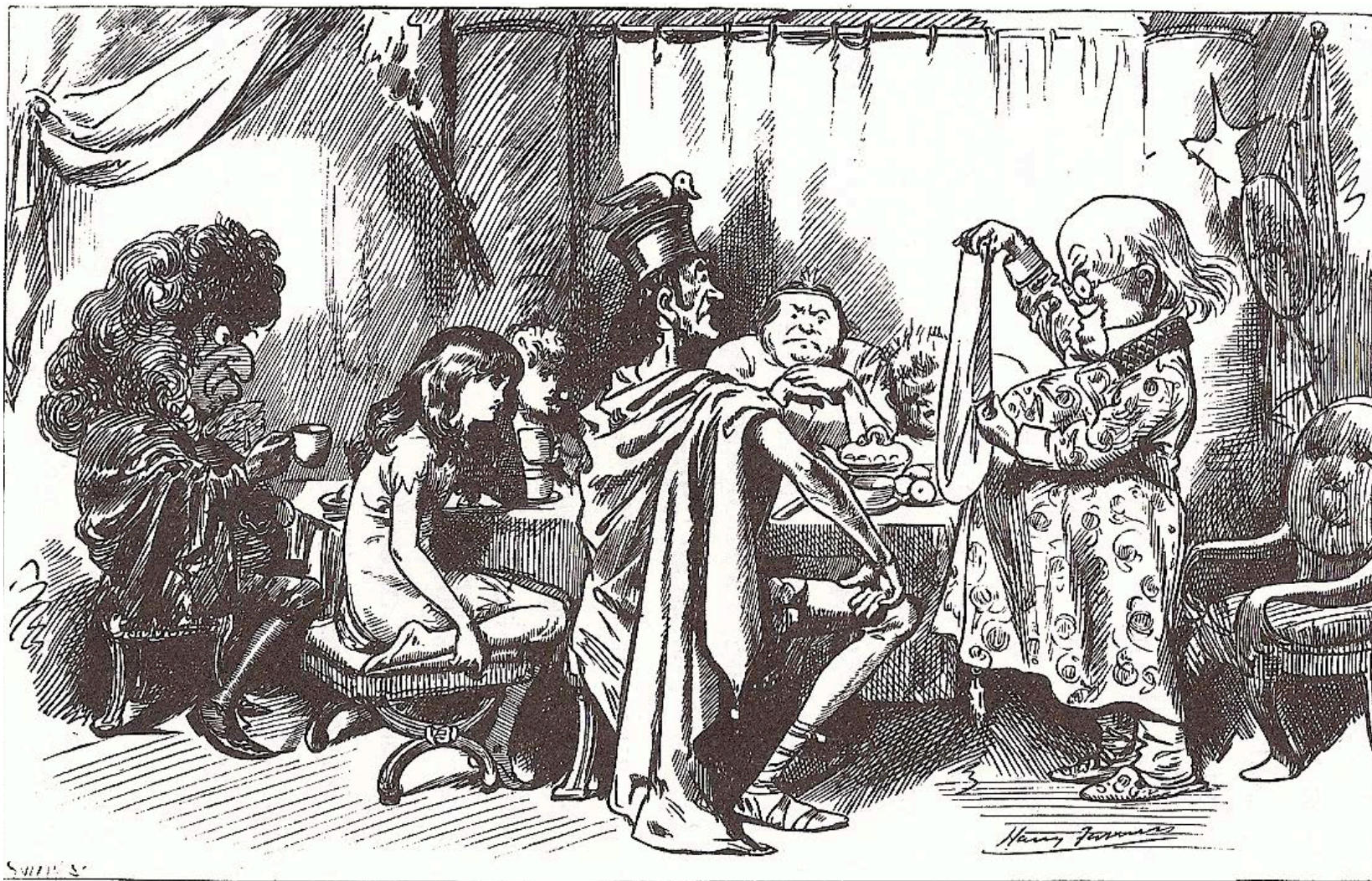
HM Treasury, October 2018

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Ecological Validity & Micro to Macro



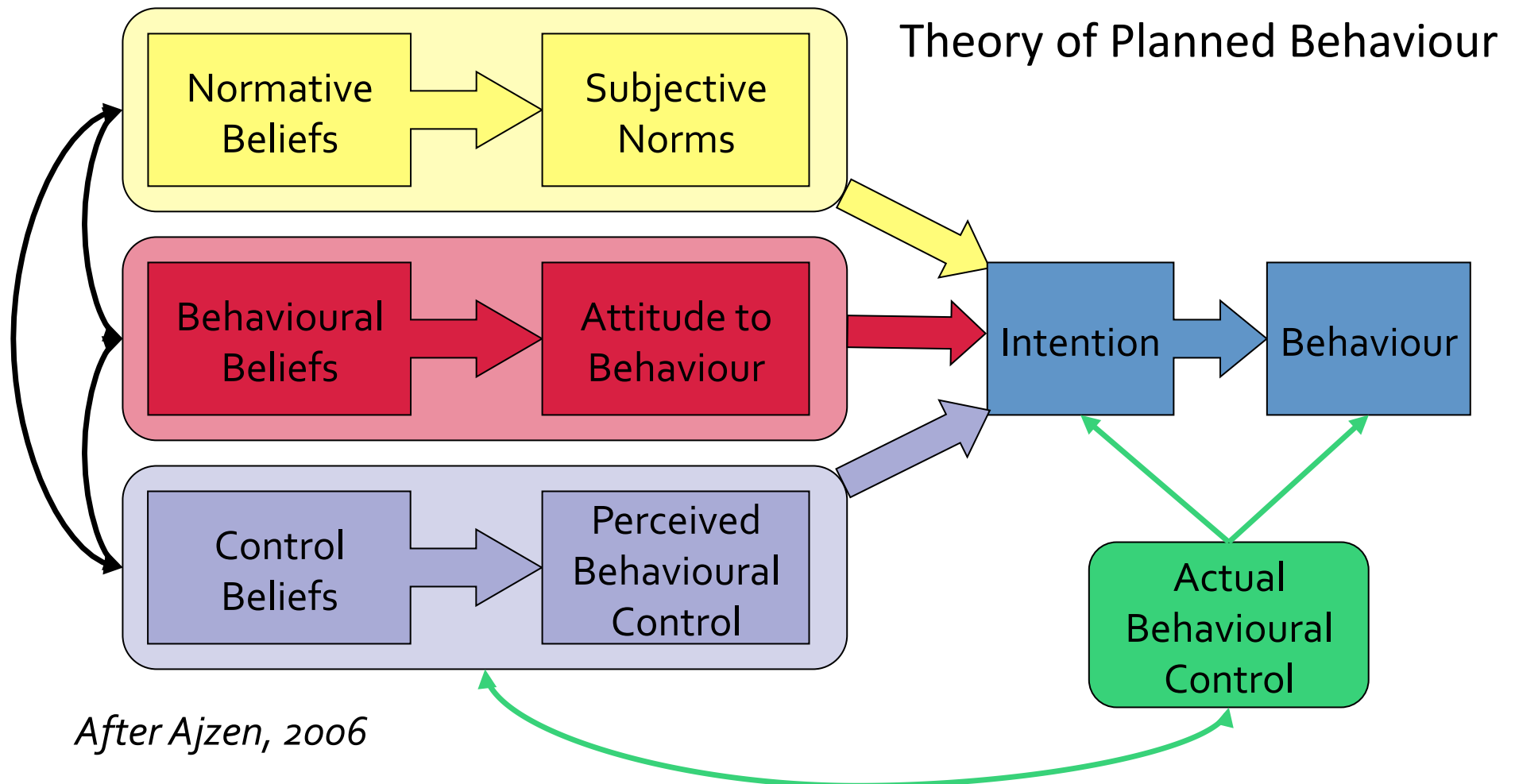
Sylvie & Bruno



Map making

- *"That's another thing we've learned from your Nation," said Mein Herr, "map-making. But we've carried it much further than you. What do you consider the largest map that would be really useful?"*
- *"About six inches to the mile."*
- *"Only six inches!" exclaimed Mein Herr. "We very soon got to six yards to the mile. Then we tried a hundred yards to the mile. And then came the grandest idea of all! We actually made a map of the country, on the scale of a mile to the mile!"*
- *"Have you used it much?" I enquired.*
- *"It has never been spread out, yet," said Mein Herr: "the farmers objected: they said it would cover the whole country, and shut out the sunlight! So we now use the country itself, as its own map, and I assure you it does nearly as well."*

Constitution of the Agent



Klee



Kandinsky



02/10/18

Rebuilding macro

5

Minimal Group Paradigm

- Klee, Kandinsky and Bristol schoolchildren
- Fairness and favouritism. Tajfel et al (1971)

In	7	8	9	10	11	12	13	14	15	16	17	18	19
Out	1	3	5	7	9	11	13	15	17	19	21	23	25
	mxj						eq						mxj mxi

In	18	17	16	15	14	13	12	11	10	9	8	7	6
Out	5	6	7	8	9	10	11	12	13	14	15	16	17
	mxj mxi						eq?	eq?					

When does foresight become hindsight?

- Evolution of intelligence, the chess model
 - Anticipation point
- Human relations, EEA for intelligence involved in managing uncertainty
 - Communicate ideas & emotions (S)
 - Display understanding (S) & Correct misunderstanding (S)
 - Speech acts which create commitments (S/L)
 - Establish identity & maintain face (L)
 - Forge relationships (L)
 - Weave narratives (L)

Talk About Talk

- Our actions now are reported, considered and described later
- Later accounts and conversational records increase reciprocity
- We cannot predict the context of interpretation
- But we can take steps to rule out certain interpretations (thoughtless or malintended) and thus seek to avoid blame
- Social norms as reference points become critical

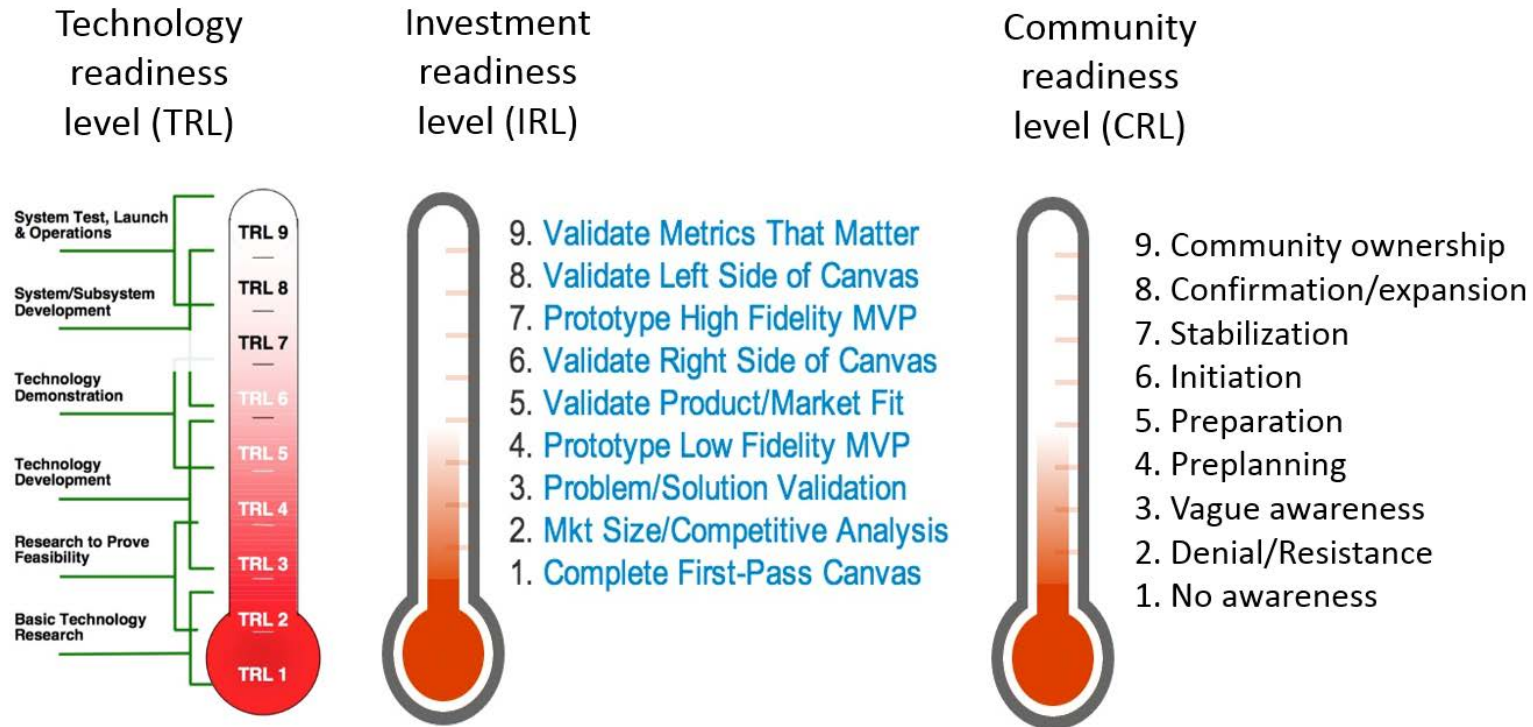
Neuroaccounting

- *A coherent theory of accounting principles rooted in the neuroscience of the primate brain..... culturally evolved accounting principles emerged & persisted because they are consilient with how the brain has evolved biologically to foster social exchange.*
 - Dickhaut, J et al., 2010 Acc. Horiz. 24, p248
- *Formal use of bookkeeping can fundamentally alter the nature of human relationships -- for example, human interaction and the language we use to communicate with one another may be altered by the presence of formal mechanisms for accountability.*
 - Dickhaut et al (2010) p250

Consequence & Curse of Consciousness

- Phenomenal awareness
- Reflective competence
 - Mistaken explanations of choice and action etc
- Problem of armchair psychology & armchair subjects
- There is an adaptive purpose for conscious thought in managing social interaction
 - Baumeister & Masicampo 2010, Psych. Rev. 945-71

Rebuilding for whom?



- How can we mobilise our findings and our ideas to provide a cognitive prosthetic for decision makers?
- Interdisciplinarity is hard.