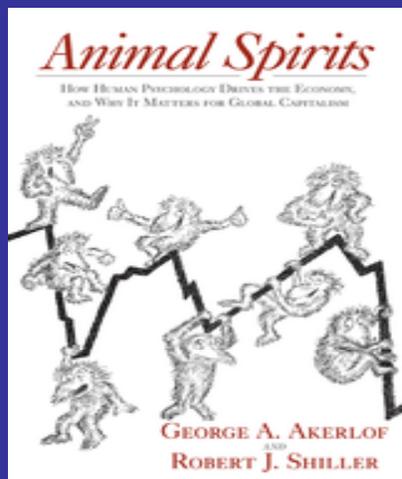


Animal Spirits and the Economy

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Brief History of Economic Thought

- Keynes.
- Modern Economics.

Animal Spirits

- Confidence.
- Snake oil.
- Stories.

Confidence

- Not *just* a prediction.
- Also involves *Trust*.

Snake Oil

- Capitalism does *not*:
 - Just produce what people *want*:
(as long as firms make profits).

Snake Oil (continued)

–Capitalism produces what people *think they want*:
(as long as firms make profits).

Stories

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

Summary

- **Confidence.**
- **Snake Oil.**
- **Stories.**

Why Do Economies Fall into Recessions?

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

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

- **Playpen Problem.**
- **Bankruptcy Laws.**