Université PANTHÉON - ASSAS (PARIS II) **1° sem.**

Droit - Economie - Sciences Sociales **7040**

Assas

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Discipline : *Anglais économique et financier magistère Banque-Finance 1ère année*
(Structure 1° semestre)

Titulaire(s) du cours :
Mme Fanny DOMENEC

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1/3. Grammar / Vocabulary /15

1.1. Define/Explain the following words or concepts **/7.5**

- Present bias:
- The four main functions of the Bank of England:
- A living will:
- Derivatives:
- The Financial Choice Act:

1.2. Complete the following sentences using at least 5 words **/7.5**

- Although the Fed did not bail out Lehman Brothers, …
- Everybody would make rational decisions …
- Since Richard Thaler won the Nobel Prize, …
- If Donald Trump had been president in 2008, …
- Despite ……………., rational economics is still the major trend in economics.

2/3. Reading Comprehension /10

Read the text p. 2-3 and answer the following questions <u>in your own words.</u>

2.1. How did behavioral economics contribute to legitimate the whole field of economics?

2.2. Explain the following statement:

"The clash between the spirits of the 1970s and 1980s was Olympian in its stakes, the implications enormous for millions of people in this country and the globe over."

2.3. What aspect of Thaler's work can be seen as a revolution in the field of economics?

2.4. Why was the supply-side economics movement embarrassing to economics?

3/3. Essay. /20

Discuss <u>ONE</u> of the following statements (400 words, +/- 10%, double spaced)

3.1. There's no reason that economics has to be like physics. Physicists are always trying to unify their theories -- to show how what appear to be different forces and principles are actually the same. But human behavior might just not be like that.

(Bloomberg, Noah Smith, October 10 2017)

OR

3.2. Society should not vilify the regulation of markets, but instead seek to improve rules and restrictions (increasing some and decreasing others) to obtain the desired results.

(Economic Perspectives Blog, John Buck, May 14 2012)

Richard Thaler's Behavioral Economics Changed The Subject

Adapted from Forbes, Oct 17, 2017 @ 09:35 PM 2,373

Brian Domitrovic, CONTRIBUTOR (Opinions expressed by Forbes Contributors are their own).

After the 1970s, the stagflation decade, we learned something big about economics—very big. We learned that extended periods of economic sluggishness, under-employment, diminished opportunity, pessimism about the future, severe inequality, and major inflation are wholly unnecessary.

In the 1970s, we experienced all these things. The weird bad times lasted for so long (into the early 1980s) that the problem seemed intractable. Every three or four years, there was a double-dip recession that was worse than the last; 10%-plus inflation was so extreme you needed a 15% raise to keep up a living standard against a tax code un-indexed for inflation; stocks collapsed by 70% in real terms over 15 years; and venture capital dried up. In 1979, President Jimmy Carter announced his exasperation. He said the nation was caught in a "malaise."

Then suddenly, things switched. After the last and most severe of the inflation-racked, double-dip recessions over 1980-82, in which 10 million went unemployed, President Ronald Reagan's big tax-rate cut took effect, as the Federal Reserve looked to gold as a monetary-policy target. The eighteen years after 1982 made the long 1970s not the groundwork of a trend, but an anomaly. Beginning sharply in 1983, economic growth jumped to a long-term rate of nearly 4 percent, inflation collapsed by three-fourths, forty million new jobs materialized, the best and the brightest bolted the Fortune 500 for entrepreneurial startups, and retirement savings grew enormously, while a whole new world emerged through the technological revolution.

These developments were big, rather cosmic in scale. Stagflation, by virtue of both its severity and its length—a thirteen-year period of simultaneous unemployment, recessions, and inflation—had threatened to usurp the immense and relentless tradition of mass prosperity in America. Yet just as stagflation took on the aspect of permanence as the 1970s turned into the '80s, it was dispatched with unceremoniousness and never heard from again.

It was almost as if the gods above us were fighting it out over our future. One side had an Apollo slinging it in favor of uncomplicated prosperity, the other a Dionysus throwing in for disorder, confusion, and hangovers. The clash between the spirits of the 1970s and 1980s was Olympian in its stakes, the implications enormous for millions of people in this country and the globe over.

As for pettifogging[1], what was academic economics enthusiastic about while these epic developments were apace? Keynesianism was not quite packed off for its implication in stagflation, but rehabilitated as a "New Keynesianism" that stressed third ways. In economics parlance, the 1980s/1990s era was called the "Great Moderation," as if the defeat of stagflation was an achievement nicely within the realm of the run-of-the-mill.

One thing economics did get excited about in this era was behavioral economics—as pioneered by last week's economics Nobel Prizewinner, Richard Thaler. Thaler has given us a comprehensive account of his career in his intellectual autobiography *Misbehaving* (2015), a book that divulges that the disciplinary revolution he launched set in during the transition from the 1970s to the 1980s and surged into full strength over the next two decades.

[1] paying too much attention to unimportant details; concerned with unimportant things

Thaler's behavioral economics was almost ostentatiously small-scale. Thaler wrote papers on how college kids preferred various gewgaws from the bookstore in ways that did not reflect the junk's insignificant relative prices. He showed that penny-ante ski resorts in mid-New York could attract more customers with counterintuitive pass prices. And when he did speak of big things, such as the efficiency of markets, he offered proof that people respond to perverse incentives.

The idea that Thaler's circa 1975-circa 2005 economics was a very big thing in the profession—as the Nobel Prize implies—is quite a comment on that profession. Enormous things having to do with long-term prospects for mass prosperity happened in that period. And behavioral economics was *non sequitur*[2] to these things.

The rise of behavioral economics may well have been, in the main, a daring, unstated exercise in disciplinary survival. By rights, economics should have called it quits in the 1980s. The movement that vanquished stagflation —supply-side economics[3]—had gathered outside of the main precincts of the profession and conveyed wisdom to the sanctums of power as no movement before or since. This development was embarrassing to economics; a strategy had to be devised, perhaps even unconsciously, to deal with it.

In stepped behavioral economics with its irrelevant talk of the funny things human beings do with their money and their economic preferences. That's a hopeless response to getting scooped by supply-side economics at the stagflation-Reagan boom inflection point, you might say. But it worked. In the 1980s and 1990s, economics kept ginning up the claims of the smartness, cleverness, and intelligence of the various petty behavioral insights from Thaler and his followers, such that by the new millennium, the discipline could brag that it had developed a whole new literature on how people make decisions.

The main function of behavioral economics over its thirty-some year career has been, by virtue of its quasi-intellectual artfulness and affected interestedness, to lend an aura of profundity—which is to say legitimacy—to economics during the period when it could have suffered extinction on account of its poor performance. It would have been simpler, as über-mainstream economist Robert Lucas said in 1990, to concede that supply-side economics had prevailed in one of the most epic contests of modern memory, given that in the heat of the contest regular economics stood aloof and puzzled on the sidelines.

But that would have been humble and dignified, and evolution rarely works by such means. Through some sort of deep process of the will-to-survive, economics alighted on behaviorism as the vehicle that would get it fully clear of the time of embarrassment. With the Great Recession marking *finis* to the long Reagan-era boom in the 2000s, the deep strategy paid off. Supply-siders are recalled as cranks[4], while savants of junk [...] walk off with the top honors. When Robert Mundell, the co-founder of supply-side economics who took the Nobel in 1999, turns eighty-five next week, he can have the satisfaction of saying with a high degree of objectivity and realism, *veni, vidi, vici.*

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[2] a statement that does not seem to follow what has just been said in any natural or logical way

[3] Supply-side economics is better known to some as "Reaganomics," or the "trickle-down" policy espoused by 40th U.S. President Ronald Reagan. He popularized the controversial idea that greater tax cuts for investors and entrepreneurs provide incentives to save and invest, and produce economic benefits that trickle down into the overall economy.

[4] (disapproving) a person with ideas that other people find strange