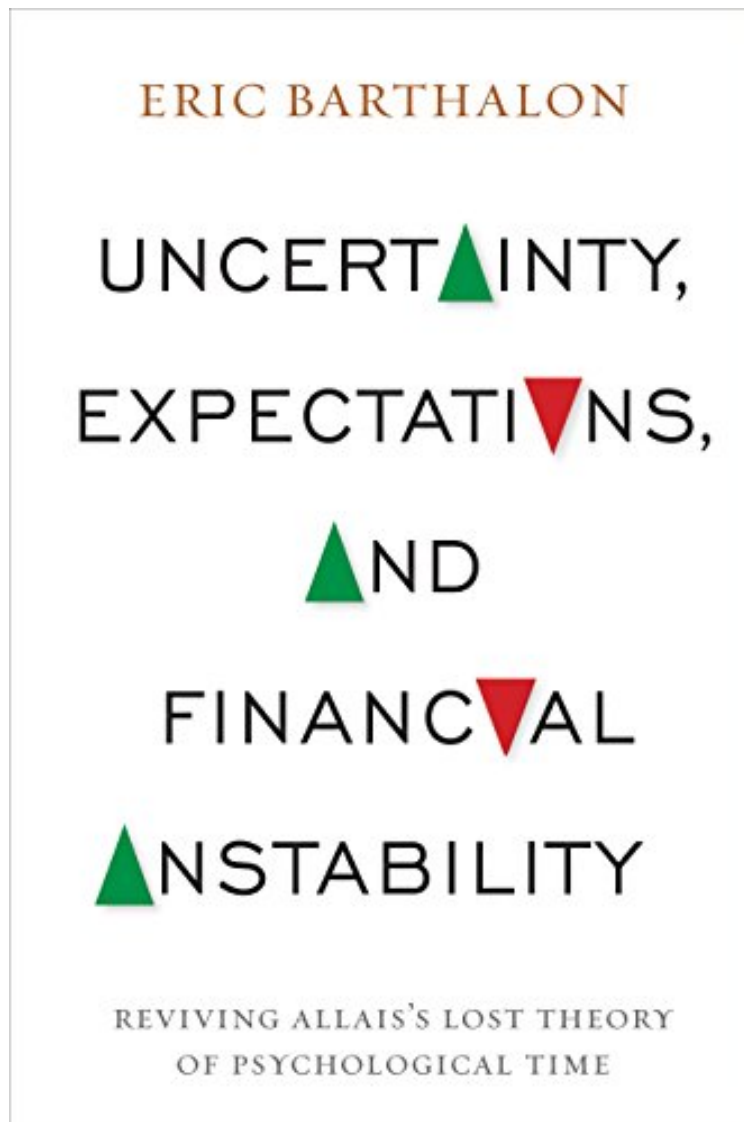


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## Uncertainty, Expectations, and Financial Instability: Reviving Allais's Lost Theory of Psychological Time

*Eric Barthalon*

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

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 ndash; as Allais and other economists before him ndash; 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)About the AuthorEric 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 ESCPndash;Europe.