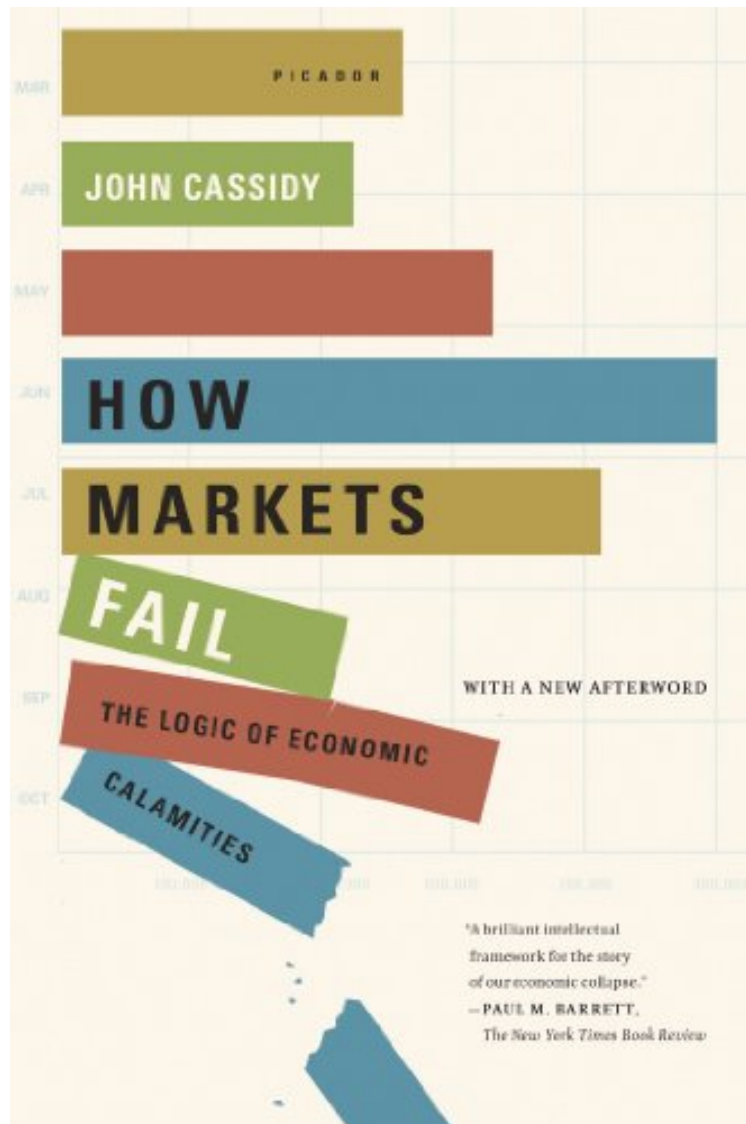


# How Markets Fail: The Logic of Economic Calamities

John Cassidy

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**John Cassidy : How Markets Fail: The Logic of Economic Calamities** before purchasing it in order to gage whether or not it would be worth my time, and all praised How Markets Fail: The Logic of Economic Calamities:

1 of 1 people found the following review helpful. Financial Wake-Up Call By Gideon M This was a thoroughly engaging read that clearly explained the many factors that led to the financial collapse. While I would recommend reading with easy access to the internet to look up unfamiliar terms, for the most part the book explains how things like Credit Default Swaps and Collateralized Mortgage Securities work without going into the byzantine details of exactly how these products are created and marketed, since only general concepts of how they work are required for understanding. However, if you are curious are all the acronyms that are tossed around when dealing with the financial

collapse, this is a good place to start. Book is split up into three parts: a brief overview of the historical underpinnings of free market economics, an academic critique of some of the assumptions about markets, and a detailed set up of how the financial collapse was in part caused by the prevailing view of the market which ignored earlier academic critiques. 3 of 3 people found the following review helpful. Would Recommend, but Just So You Know... By Customer This author is very liberal, the entire premise of the book is a call for an increase in government intervention in U.S. economy. It is a very interesting book, I had to read it for a college course and I would highly recommend it for other interested readers, but just be aware that this author is writing with a persuasive bias. 2 of 2 people found the following review helpful. The Invisible Hand Made Visible By Paul John Cassidy's book is a detailed look at how markets work their magic to produce goods and services in an efficient and non-coercive manner, and how about once per generation they go, in the words of investor William Bernstein, "barking mad." The book is organized into three main sections. Part One deals with classic economic theory and the giants who influenced it: Adam Smith, Friedrich Hayek, Vilfredo Pareto, Milton Friedman, Robert Lucas, Cecil Pigou, Alfred Marshall, and John Maynard Keynes, to name just a few. He described enough about their lives to make them interesting as people, and enough about their theories to give you more than a superficial understanding of what they did. Ever wonder what Pareto efficiency is and why it's important? You'll find it in this section. Part Two deals with the real world, as opposed to the ideal world described in Part One. This is the heart of the book, and explains how some of the simplifying assumptions of classic economics often are not met in the real world. A fascinating part of this section is The Prisoner's Dilemma. This paradox occurs when, in certain situations, individuals seemingly act in their own best interest, but the collective result is a disaster. He also has a nice chapter in this section on the relatively new field of behavioral finance, developed by Kahneman and Tversky. Humans brains have evolved in layers and at the center is our ancient lizard brain. This is the center of "fear and greed" and in any contest between this and the outer cerebral cortex, the smart money bets on Mr. Lizard. Part Three deals with the sub-prime fiasco and the current economic crises. This is his application of Part Two to the current mess. Cassidy explains in detail the flow of debt from home buyer to mortgage lender to wall street to conduits and sivs and finally to investors and insurance firms. His analysis of this complex flow of debt and capital is really well done. At this point Cassidy loses his objectivity and begins editorializing about why things fell apart and who is responsible. (There is certainly no love lost between Cassidy and Allan Greenspan.) To make a long story short, he thinks markets sometimes behave like the Prisoner's Dilemma Paradox. If individual market participants act in what they see as their best interest it can sometimes lead to a collective disaster that can only be prevented by government regulation. He explains convincingly how markets sometimes fail, but his arguments that government can always do better is not quite so convincing. A nice book to read after this would be "Too Big to Fail" by Andrew Ross Sorkin. Cassidy gives a structural macro view of the economic crises, while Sorkin gives a personal micro view of what went on in the actual board rooms of Wall Street Firms like Lehman Brothers during the meltdown.

Behind the alarming headlines about job losses, bank bailouts, and corporate greed is a little-known story of bad ideas. For fifty years or more, economists have been busy developing elegant theories of how markets work; how they facilitate innovation, wealth creation, and an efficient allocation of society's resources. But what about when markets don't work? What about when they lead to stock market bubbles, glaring inequality, polluted rivers, real estate crashes, and credit crunches? In *How Markets Fail*, John Cassidy describes the rising influence of what he calls utopian economics; thinking that is blind to how real people act and that denies the many ways an unregulated free market can produce disastrous unintended consequences. He then looks to the leading edge of economic theory, including behavioral economics, to offer a new understanding of the economy; one that casts aside the old assumption that people and firms make decisions purely on the basis of rational self-interest. Taking the global financial crisis and current recession as his starting point, Cassidy explores a world in which everybody is connected and social contagion is the norm. In such an environment, he shows, individual behavioral biases and kinks; overconfidence, envy, copycat behavior, and myopia; often give rise to troubling macroeconomic phenomena, such as oil price spikes, CEO greed cycles, and boom-and-bust waves in the housing market. These are the inevitable outcomes of what Cassidy refers to as "rational irrationality"; self-serving behavior in a modern market setting. Combining on-the-ground reporting, clear explanations of esoteric economic theories, and even a little crystal-ball gazing, Cassidy warns that in today's economic crisis, conforming to antiquated orthodoxies isn't just misguided; it's downright dangerous. *How Markets Fail* offers a new, enlightening way to understand the force of the irrational in our volatile global economy.