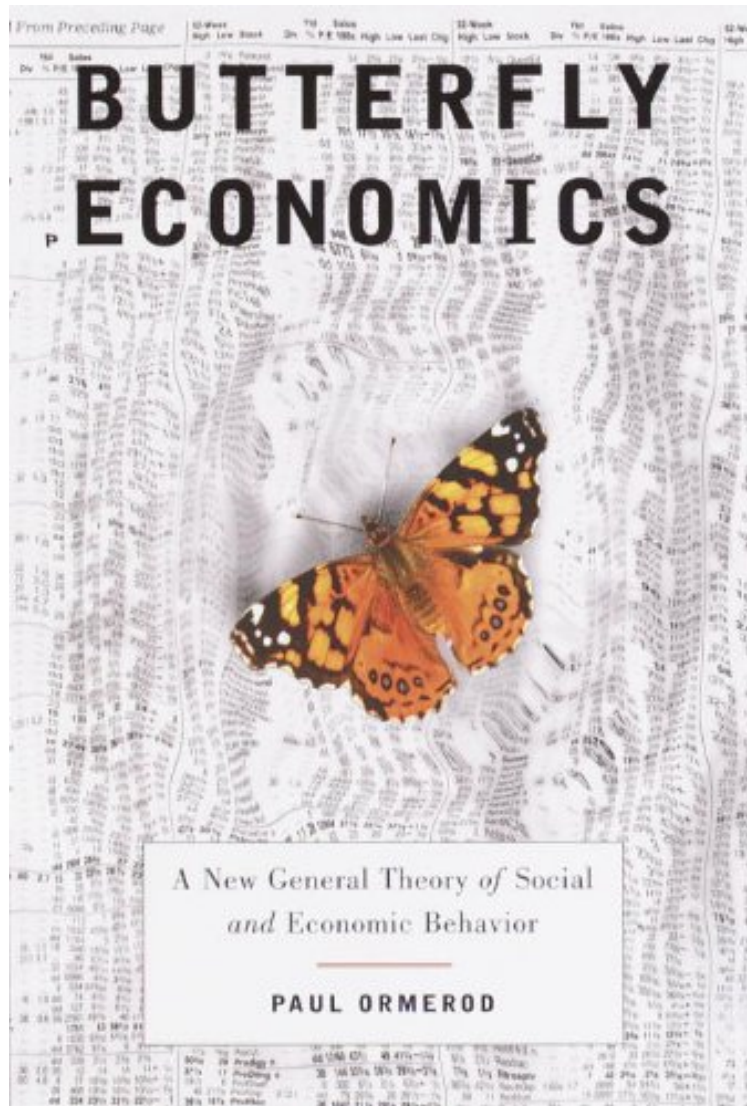


Butterfly Economics: A New General Theory of Social and Economic Behavior

Paul Ormerod

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Paul Ormerod : Butterfly Economics: A New General Theory of Social and Economic Behavior before purchasing it in order to gauge whether or not it would be worth my time, and all praised Butterfly Economics: A New General Theory of Social and Economic Behavior:

3 of 3 people found the following review helpful. We have an idea of what he is talking about, but he just doesn't bring it across very well. By Leib Gershon Mitchell But somehow, the author just does not bring the idea across very clearly. He seems to be trying to tell us (among other things): 1. That the mathematical modeling of Economics suffers from some flaws. 2. That the underlying assumptions are wrong. It would have been better if the book had been

arranged with making a single chapter out of each major flaw and then going forward to fill in some detailed examples. As it happens, if you are a skeptic about Economics as a discipline, then Nassim Nicholas Taleb makes observations that are much more readable. My recommendation for this book depends on the price. If it is about \$1, then I would recommend buying it. If it's \$2, then I would recommend letting it stay where it is. 0 of 0 people found the following review helpful. lucid and remarkably readable

By Robert Reid I bought into this book- which systematically tears down a series of theories on economic modeling- until the second to last chapter. At this point, Ormerod presents a fairly cursory overview of his own theory of interacting agents, and though his presentation isn't so heavy-handed as to come across as a sales pitch, I feel that I'm expected to view this as the culmination of economic theory. Just as in the models he discards, there seem to be some brash oversights and simplifications in his own thinking. For example, he repeatedly insists that it's sufficient to study just the U.S. economy because it is by far the most important economy in the world (that's changing already), and arrogantly dismisses Thomas Malthus' prediction that economic growth would ultimately be curbed by overpopulation (it already is in some parts of the world). He points to 170 years of evidence showing that continued growth is inevitable in a capitalist system, but bases this on assumptions that world pollution isn't getting worse (!) and that 170 years is sufficient duration of time for which to make conclusions (when just a few chapters earlier he cited an anecdote about 200 years being nothing on the geologic scale and the past can't always predict the future). These exceptions aside, I'm generally reverential towards this work, and Ormerod's ability to lucidly explain fundamental but often counterintuitive concepts in economics. For example, the book begins with a description of behavior in an ant population, and the tendency of ants to influence each others' behaviors in a way that makes the group population seem incomprehensible. He repeatedly recalls this example throughout the text to describe how interacting agents affect our economy and lead to unpredictable results (for example, the success of the inferior VHS format vs. Betamax). Surprisingly, he praises the effectiveness of business studies, despite their lack of theory and analytical rigor, for emphasizing an empirical understanding of how things actually work and pragmatic search for a good vs. perfect strategy. He offers some compelling recommendations on fiscal management- for example, that we should encourage speculation on foreign exchange so that exchange rates converge closer to an actual value vs. drift away to extreme under or overvaluation. I don't ever read economics texts, don't follow the stock market, but found this to be an utterly compelling book. I believe that it has not only influenced my understanding of social and economic behavior, and I expect to re-read this in a few years' time. 0 of 0 people found the following review helpful. a good analysis of the unpredictable

By Fab Starting from the simple example of ant behaviour, the author shows us where and why the most popular model of prediction fails and how unpredictable are phenomena like the economic cycle, the criminality spread, the inflation rate. If in the short term any prediction will fail, the author underlines how some specific structure can emerge with a different analysis. Less deterministic component and more statistical component can be a good direction for discovering the behaviour of the unpredictable

Why did VHS, an inferior video recording technology, succeed in the marketplace, driving the superior Betamax out of business? Why do big-budget, acclaimed movies sometimes flop at the box office, while low-budget, idiosyncratic films become huge hits? The answers to these questions, says Paul Omerod, remind us that economics is a science based on the workings of human society, as unpredictable an entity as there is. "Conventional economics is mistaken," claims Omerod, "when it views the economy as a machine, whose behavior, no matter how complicated, is ultimately predictable and controllable." In this cogently and elegantly argued analysis of why human beings persist in engaging in behavior that defies time-honored economic theory, Omerod also explains why governments and industries throughout the world must completely reconfigure their traditional methods of economic forecasting if they are to succeed and prosper in an increasingly global marketplace.

.com In Hollywood, William Goldman's famous dictum that nobody knows anything is accepted as gospel. Nobody can tell you how much a movie will gross before it's released, no matter how big the stars or advertising budget. Compare the box-office receipts of two summer-of-'99 horror movies, if you have any doubt about this law: The Blair Witch Project, with no stars and a small budget, earned far more money than the very expensive, star-driven The Haunting. Yet, in economics, it's assumed that everything boils down to an engineering calculation: Maintain girders A, B, and C, and the roof will never cave in. Paul Ormerod, author of *The Death of Economics* (1994), offers a different idea: "In the current state of scientific knowledge, it is simply not possible to carry out forecasts which are systematically accurate over a period of time." The title *Butterfly Economics* comes from the idea in chaos theory that a butterfly flapping its wings here could cause a hurricane on the other side of the world. It's not that chaos is guaranteed in economics; it's just that we never know when it'll occur, or what will cause it. "Small changes can have big consequences, and vice versa," Ormerod notes. His arguments range far afield. He talks about crime and family structure, biology, fashion, and many other topics seemingly unrelated to economics. But it comes down to this: No matter how you analyze it, human behavior is surprisingly random. And no economic model can account for all of it at any given time. *Butterfly Economics* will, of course, be of most use to those with professional interest in the titular topic (economics, that is, not butterflies). But anyone seeking a good read on the vagaries of life might want to give

this one a shot. Any author who can analyze the behavior of ants and Hollywood studio executives in successive breaths deserves a wide audience. --Lou Schuler
From Publishers Weekly
Combining sophisticated economic analysis with a gift for lucid explanation, Ormerod deepens and expands upon the points he made in 1994's *The Death of Economics*. He starts with an elegant critique of conventional economics, arguing that the prevailing thinking mistakenly ignores insights from other fields (notably biology, psychology and literature) and that practitioners of the dismal science pay too little attention to empirical verification and see the world through narrow theoretical blinders. Ormerod, head of the economic assessment unit at the Economist, then presents his alternative approach, *Butterfly Economics*, an interdisciplinary view that takes its cues from sources as diverse as ant behavior and the mathematics of chaos theory. The mathematics, relegated to three appendices, are simplified to a high-school algebra level. But Ormerod's argument is easy enough to follow without the numbers as he applies *Butterfly Economics* to explain why VHS beat out Betamax to become the VCR standard and why low-budget movies often outperform the most expensive Hollywood features. At the core of Ormerod's thinking is the observation that human behavior is not nearly as neatly predictable as prevailing economic models assume, that economic life is more like a living organism than like a machine. His book is amusingly written, and every page offers surprising facts or strikingly new ways of looking at well-known facts. Anyone who likes to think about people and how they act will find much of interest, and probably something to love or hate, in this book. Copyright 1999 Reed Business Information, Inc.
From Kirkus
Ormerod (*The Death of Economics*, 1995), British economic theorist for *The Economist*, seeks to perk up his famously dismal science with a broader view. His plausible argument is based on the activities of ants. It seems that if the little beggars are situated between two equidistant sources of food that are maintained equal in volume their trips to the comestibles may, at first, appear random. After a while, however, a pattern emerges, because the behavior of each insect is affected by that of the insect society. Extrapolating to a higher order, Ormerod finds analogies in voting patterns, and propensity to disease, crime, and marriage, and thence proceeds from matters uxorious to economic and econometric models used to devise national policy. Even if it may cause a tornado, as is sometimes reported, the flight of a butterfly on the other side of the world is the sort of microactivity that's difficult to quantify usefully. Look for the larger patterns and do not base policy on ephemera, Ormerod advises. Shifts in supply and demand, human tastes and preferences, are operative and not fixed, as conventional economic models predict. Classical economists like Ricardo and Keynes, without current analytical tools, were obliged to look at communities taken as a whole. Governments, says Ormerod, "should do very much less in terms of detailed, short-term intervention. Close inspection of the ants may not change their activities; but, a reader may ask, will the published observations of the econometricians invoke Heisenberg's Uncertainty Principle and alter human economic activity? Ormerod's writing, supplemented with mathematical examples, charts, and diagrams, is lucid, with touches of humor. The technical appendices and occasional footnote memorializing such things as "the ordered eigenvalues of the covariance matrix of a delay matrix" may be safely ignored. "Go to the ant, thou economist; consider her ways and be wise" is a new proverb that may be good advice to astute policy makers who study this skillful, worthwhile tract. -- Copyright copy;1999, Kirkus Associates, LP. All rights reserved.