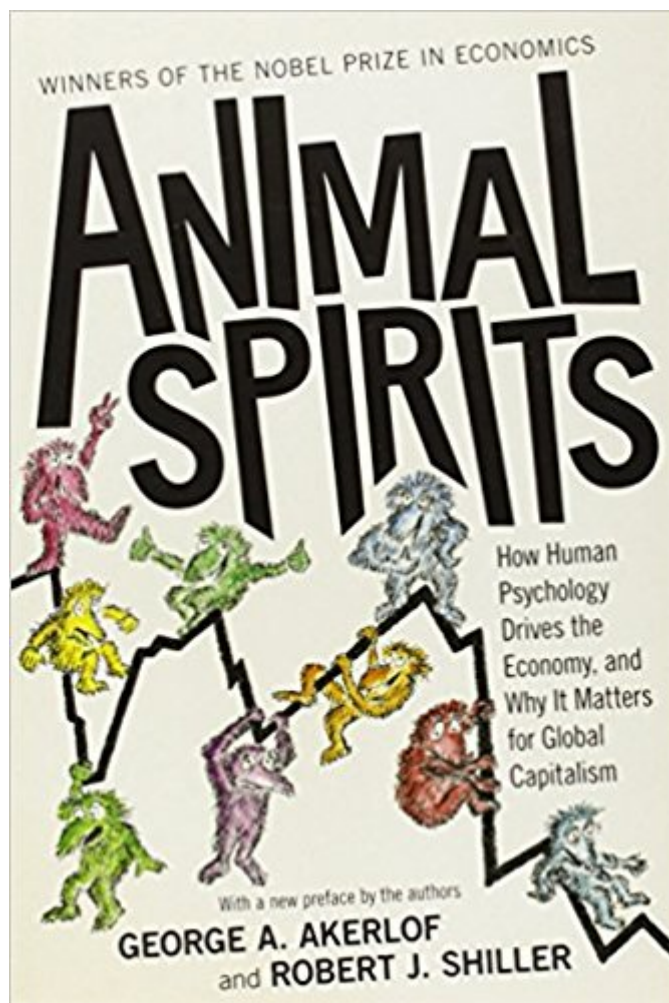


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Animal Spirits: How Human Psychology Drives The Economy, And Why It Matters For Global Capitalism



Synopsis

The global financial crisis has made it painfully clear that powerful psychological forces are imperiling the wealth of nations today. From blind faith in ever-rising housing prices to plummeting confidence in capital markets, "animal spirits" are driving financial events worldwide. In this book, acclaimed economists George Akerlof and Robert Shiller challenge the economic wisdom that got us into this mess, and put forward a bold new vision that will transform economics and restore prosperity. Akerlof and Shiller reassert the necessity of an active government role in economic policymaking by recovering the idea of animal spirits, a term John Maynard Keynes used to describe the gloom and despondence that led to the Great Depression and the changing psychology that accompanied recovery. Like Keynes, Akerlof and Shiller know that managing these animal spirits requires the steady hand of government--simply allowing markets to work won't do it. In rebuilding the case for a more robust, behaviorally informed Keynesianism, they detail the most pervasive effects of animal spirits in contemporary economic life--such as confidence, fear, bad faith, corruption, a concern for fairness, and the stories we tell ourselves about our economic fortunes--and show how Reaganomics, Thatcherism, and the rational expectations revolution failed to account for them. *Animal Spirits* offers a road map for reversing the financial misfortunes besetting us today. Read it and learn how leaders can channel animal spirits--the powerful forces of human psychology that are afoot in the world economy today. In a new preface, they describe why our economic troubles may linger for some time--unless we are prepared to take further, decisive action.

Book Information

Paperback: 264 pages

Publisher: Princeton University Press; With a New preface by the authors edition (February 21, 2010)

Language: English

ISBN-10: 069114592X

ISBN-13: 978-0691145921

Product Dimensions: 1 x 5.5 x 8.2 inches

Shipping Weight: 10.6 ounces (View shipping rates and policies)

Average Customer Review: 3.8 out of 5 stars 130 customer reviews

Best Sellers Rank: #31,285 in Books (See Top 100 in Books) #48 in [Books > Business & Money > International > Economics](#) #51 in [Books > Business & Money > Economics > Theory](#)

Customer Reviews

Robert J. Shiller, Co-Winner of the 2013 Nobel Prize in EconomicsGeorge A. Akerlof, Co-Winner of the 2001 Nobel Prize in Economics Winner of the 2009 International Book Award, getAbstract Co-Winner of the 2010 Silver Medal Book Award in Entrepreneurship, Axiom Business Co-Winner of the 2010 Robert Lane Award for the Best Book in Political Psychology, American Political Science Association Winner of the 2009 Paul A. Samuelson Award for Outstanding Scholarly Writing on Lifelong Financial Security, TIAA-CREF Winner of the 2009 Finance Book of the Year, CBN (China Business News) Financial Value Ranking Shortlisted for the 2009 Business Book of the Year Award, Financial Times and Goldman Sachs Featured on the Books of the Year list, Financial Times (FT.com)Listed on Bloomberg.com in a review by James Pressley as two of "our favorite financial-crisis books this year""Akerlof and Shiller are the first to try to rework economic theory for our times. The effort itself makes their book a milestone."--Louis Uchitelle, New York Times Book Review"There is barely a page of Animal Spirits without a fascinating fact or insight."--John Lanchester, New Yorker"Akerlof and Shiller succeed, too, in demonstrating that conventional macroeconomic analyses often fail because they omit not just readily observable facts like unemployment and institutions such as credit markets but also harder-to-document behavioral patterns that fall within the authors' notion of 'animal spirits.' Confidence plainly matters, and so does the absence of it. When the public mood swings from exuberance to anxiety, or even fear, the effect on asset prices as well as on economic activity outside the financial sector can be large."--Benjamin M. Friedman, New York Review of Books"Two of the most creative and respected economic thinkers currently at work, George Akerlof and Robert Shiller, . . . [have written] a fine book at exactly the right time."--Clive Crook, Financial Times"A truly innovative and bold work. . . . At a time when plummeting confidence is dragging down the market and the economy, the authors' focus on the psychological aspect of economics is incredibly important."--Michael Mandel, BusinessWeek"Animal Spirits [is] . . . the new must-read in Obamaworld."--Michael Grunwald, Time"[Animal Spirits] really applies to all the big areas where we need change."--Peter Orszag, Obama budget director (quoted from Time magazine article)"White House Budget Director Peter Orszag is a numbers guy, a propeller head as President Obama would say. But as David Von Drehle and I write in this week's print version of Time, Orszag has been spending his time recently reading not about spreadsheets, but about psychology. In particular, he has been reading a new

book by the economists George Akerlof and Robert Shiller called *Animal Spirits: How Human Psychology Drives The Economy, and Why It Matters For Global Capitalism*. . . . We are, it turns out, slaves to the Animal Spirits. They have brought us to our knees. And now they are the only things that can save us."--Michael Scherer, *Time.com's Swampland*"In their new book, two of the most creative and respected economic thinkers currently at work, George Akerlof and Robert Shiller, argue that the key is to recover Keynes's insight about 'animal spirits'--the attitudes and ideas that guide economic action. The orthodoxy needs to be rebuilt, and bringing these psychological factors into the core of economics is the way to do it. . . . The connections between their thinking on the limits to conventional economics and the issues thrown up by the breakdown are plain, even if they were unable to make every link explicit. Even more than Akerlof and Shiller could have hoped, therefore, it is a fine book at exactly the right time. . . . *Animal Spirits* carries its ambition lightly--but is ambitious nonetheless. Economists will see it as a kind of manifesto."--Clive Crook, *Financial Times*"An influential Democrat who was also one of the world's top-ten, highest-paid hedge fund managers last year thinks he knows which book is at the top of the White House reading list this spring: *Animal Spirits*, the powerful new blast of behavioural economics from Nobel prize-winner George Akerlof and Yale economist Robert Shiller."--*Financial Times*"Akerlof and Shiller remind us that emotional and intangible factors--such as confidence in institutions, illusions about the nature of money or a sense of being treated unfairly--can affect how people make decisions about borrowing, spending, saving and investing. *Animal Spirits* is an affectionate tribute to the man [John Maynard Keynes] whose ideas, unfashionable for the past 30 years, have resurged."--*Nature*"*Animal Spirits* is a welcome addition to our Hannitized national economic debate, in which anyone who advocates government spending risks being labeled a socialist. . . . *Animal Spirits* is most compelling when the authors summon all the key behavioral patterns to explain vast, complex phenomena such as the Great Depression. . . . *Animal Spirits* . . . [is] aimed squarely at the general reader, and rightly so: Macroeconomics is now everybody's business--the banks are playing with our money."--Andrew Rosenblum, *New York Observer*"[A] lively new financial crisis book."--James Pressley, *Bloomberg News*"The two superstars have produced a truly innovative and bold work that attempts to show how psychological factors explain the origins of the current mess and offer clues for possible solutions. At a time when plummeting confidence is dragging down the market and the economy, the authors' focus on the psychological aspect of economics is incredibly important."--Michael Mandel, *BusinessWeek*"What Sigmund Freud did for the study of the mind, George Akerlof and Robert Shiller are doing for economics. Freud, healer or fake--take your pick--built a career and a field of medicine on the idea that people are driven by

irrational forces. Akerlof, professor of economics at the University of California, Berkeley and winner of the 2001 Nobel Prize in economics, and Shiller, the Yale economist who is the eminence grise of the housing meltdown, argue that massive government market intervention programs are the only way to turn fear into enthusiasm for spending and investing--the 'animal spirits' that are an essential part of recovery. . . . Akerlof and Shiller pick up on the idea of the emotional impetus to investment. With elegant reasoning and lovely prose, they demonstrate that we'll all be wallowing in misery unless governments around world, especially the in the G7 nations, help to return markets to optimism. . . . Animal Spirits is a fine discussion of the last few decades of development of economic theory, especially monetary economics."--Andrew Allentuck, The Globe & Mail"[T]his book is rather more than the usual lament about the failings of economics. Its authors are two of the discipline's leading lights. . . . Most of the time, the unrealistic assumption of rationality serves economists fairly well. They should, however, be more prepared to depart from it, especially in times like these--even if that makes behaviour more difficult to describe in elegant equations. Messrs Akerlof and Shiller have therefore done their profession a service."--The Economist"With Animal Spirits we hone in on how incentives and narratives can be created to channel the human psychological factor into collectively healthy directions, and how to be aware of the fictions we tell ourselves about how we wish the world and greed and financial security worked. [Animal Spirits] sheds light on complex issues and leaves readers with a better grasp of undercurrents and--most importantly--a rediscovered belief in principles of common sense and caution."--Daily Kos"The new book from George Akerlof and Robert Shiller, Animal Spirits, has been getting a lot of press of late, and quite rightly: it's really good. It's not only very readable; it also offers a compelling vision of a very different type of macroeconomics--one where behavioral considerations are front and center, rather than simply providing what Clive Crook calls 'ad hoc modifications' to the standard, ridiculously oversimplified and unrealistic, model. . . . [I]f you read only one book on this subject, make it Animal Spirits."--Felix Salmon, Portfolio.com"As George Akerlof and Robert Shiller show in a new book Animal Spirits, this is no freak storm. It may mark the long-awaited encounter between psychology and economics. . . . Akerlof and Shiller's book is probably the first macroeconomic exploration of the subject that is accessible to those interested in the subject but who don't have the academic training to understand the detailed argument."--Mint"My book of the week is an easy one this time around: it's Animal Spirits, by Robert Shiller and George Akerlof. . . . Admittedly, I'm biased as a fan of both Shiller's and Akerlof's. Believe me, however, when I say the blessedly brief Animal Spirits is a thoughtful and well-written look at how economics discarded psychology and lost its way on the trip from Adam Smith, through Keynesianism, to laissez-faire. The book puts the current crisis in a

useful economic context, with consistent and practical selections from behavioral finance illuminating everything along the way. . . . Highly recommended."--Paul Kedrosky, SeekingAlpha

"Another contribution to the human-nature-ensures-economics-is-irrational school of thought. But, unlike many of the rants against people trying to make an honest profit, this is a measured examination of how the present crisis is explained in economic terms. And so it should be. George Akerlof is a Nobel prizewinner, Robert Shiller teaches at Yale and is the author of Irrational Exuberance, which should give you an idea of this one's approach. This fascinating work uses economics to explain real-life issues, such as real estate price cycles, to key policy problems, such as the relationship between inflation and employment."--Stephen Matchett, The Australian

"George Akerlof and Rober Shiller's Animal Spirits is a plea to start believing our lying eyes rather than the model. Rather than try to explain away the apparent irrationality in human behaviour, Akerlof and Shiller say we need to try to understand it and shape policies that take it into account. . . . The core message of Animal Spirits is that we should stop trying to cage the spirits and instead admit their central importance. Specifically, this means that world governments will need to intervene forcefully in the current economic crisis with both fiscal stimulus and direct measures to stimulate lending--to restore some of the confidence that the crash has sapped."--Matthew Yglesias, The National

"In saluting Keynes' quip, Akerlof and Shiller argue that much of the story is in the unreliability and incompleteness of supposedly rational behavior--the micro-foundation of the free-market model. They contend that modern economics, even self-described Keynesian economics, has given short shrift to this core behavioral insight. . . . Their best chapter is on the limited capacity of central banks to prevent or cure calamities."--Robert Kuttner, The American Prospect

"Akerlof and Shiller take psychological research seriously, and it's refreshing to see that they're not trying to reinvent the wheel. . . . The book is an interesting read and would probably be very useful for an undergrad class that needs an introduction to behavioral economics. A & S do a nice job of moving between the theoretical and the practical, the empirical and the implied. The writing is accessible and the topic is more than relevant to our current economic situation."--Orgtheory.net

"Animal Spirits is succinct, clear and lively."--Brad Willis, Edmonton Journal

"In an intriguing new book, Animal Spirits, US economists George Akerlof and Robert Shiller argue that psychology plays a far bigger role in determining economic outcomes than economists realize--and that, broadly speaking, people get what they expect. If we think good times are ahead, we act confidently in a way that creates them. And if we expect a downturn ahead, we act defensively and unwittingly ensure that's what we get."--Tim Colebatch, The Age

"The authors are right in pointing out the inadequacy of conventional economics in understanding, not to say

addressing, today's economic woes, because they fail to take into account these animal spirits."--Wan Lixin, Shanghai Daily"[Animal Spirits] is a short, thoughtful and sometimes simplistic book that calls for a different vision of economics. . . . Animal Spirits may well be a GPS system for a changing economic future."--Gene Rebeck, Delta Sky"Animal Spirits presents a rigorous case for the importance of 'confidence multipliers' and 'stories' in explaining recent market behaviour and of 'fairness' and 'money illusion' in preventing wages from falling in recessions to the market-clearing rate. Written in an accessible style, the book provides a very useful practical primer for policy-makers, practitioners and academics on many aspects of the current crisis. The authors also make a compelling theoretical case for macroeconomists taking more account of the role of non-economic motives and irrational responses."--Richard Bronk, The Business Economist"[T]he authors do a superb job of conveying the importance of behavioural economics to a non-specialist audience. They increase our understanding of recent economic events and they show that animal spirits affect how governments should manage the economy."--Natalie Gold, Times Higher Education"Animal Spirits offers a road map for reversing the financial misfortunes besetting us today. Read it and learn how leaders can channel animal spirits--the powerful forces of human psychology that are afoot in the world economy today."--Money Science"[T]his very book seems to be one of the 'must-reads' in the Obama administration."--Andreas Ernst, JASSS"Ideologists are likely to dismiss this volume. However, for other readers--whether their perspectives are quantitative or qualitative--Animal Spirits may fill a troubling gap in existing investigations of the causes of booms and busts."--Thomas H. Wilkins, Investment Professional"Akerlof and Shiller's book is an interesting and thought-provoking attempt to understand how underlying human psychology drives the economy. The questions they pose and the examples they provide should be read by any economist seeking to better understand the differences between what economics predict will occur, and how people actually behave as individuals and within larger groups."--Dmitri Leybman, Midway Review"Animal Spirits, which attempts to leverage the insights of behavioral economics to reanimate the vision of John Maynard Keynes, is perfectly timed for the present moment."--Nick Schulz, Wilson Quarterly"Animal Spirits is exceptional in showing how economics can be accessible and relevant in dealing with this awesome challenge."--Irish Times"George Akerlof and Robert Shiller have offered an attractive road map for a macroeconomics that might be inspired by the recent financial crisis."--Romar Correa, Economic & Political Weekly"I believe this book to be best suited for those individuals who come from different fields but have a keen interest in economics and finance."--Kristina Vasileva, Journal of General Management"It is perhaps the ultimate compliment to suggest that Russia's greatest writer would very much have agreed with Barany's

depiction of the Russian military--and that his approach is a superior one for understanding Russian military politics."--John P. Moran, *Perspectives on Politics*"More important than the timeliness of the book was the legacy that it leaves behind. This book helps us to understand as never before how macroeconomics really works."--Stan C. Weeber, *Journal of Global Analysis*"Akerlof and Shiller deserve at least two cheers--one for providing a more solid psychological foundation for our understanding of confidence and another for re-introducing such an important concept into mainstream macroeconomics."--Martin Rapetti, *Eastern Economic Journal*

"This book is a sorely needed corrective. *Animal Spirits* is an important--maybe even a decisive--contribution at a difficult juncture in macroeconomic theory."--Robert M. Solow, Nobel Prize-winning economist"This book is dynamite. It is a powerful, cogent, and convincing call for a fundamental reevaluation of basic economic principles. It presents a refreshingly new understanding of important economic phenomena that standard economic theory has been unable to explain convincingly. *Animal Spirits* should help set in motion an intellectual revolution that will change the way we think about economic depressions, unemployment, poverty, financial crises, real estate swings, and much more."--Dennis J. Snower, president of the Kiel Institute for the World Economy"Animal Spirits makes a very timely and significant contribution to the development of a new dominant paradigm for economics that acknowledges the imperfections of human decision making, a need which the panic in financial markets makes all too apparent. I am not aware of any other book like this one."--Diane Coyle, author of *The Soulful Science: What Economists Really Do and Why It Matters*"Akerlof and Shiller explore how animal spirits contribute to the performance of the macroeconomy. The range of issues they cover is broad, including the business cycle, inflation and unemployment, the swings in financial markets and real estate, the existence of poverty, and the way monetary policy works. This book is provocative and persuasive."--George L. Perry, Brookings Institution

This book provides an excellent insight in the various elements of human behaviour into the financial markets. It brings together elements of academic studies from both authors and they have proven their worth in the financial and real estate markets (any type of asset). The concepts have a clear pragmatic element and with this book Akerlof and Shiller succeed in popularising their models and academic research. Somehow the reader is left with a feeling that they tried to fit the different parts into one book leaving the reader a bit puzzled when moving from one chapter to another. The book has a bit of an awkward feeling but that does not take away the valuable lessons and insights.

By now the elements and details of financial crises of the last decade are fading into the past. The lessons, rightfully, should not and that is the true value of this book.

I love Shiller and am surprised I missed this book until now; and of course now I'm also a big Akerlof fan. A great, short read on how behavioral factors affect our classical economics theories. The work makes great foray into behavioral economics with quite a few good examples and creates a strong case to why this type of thinking should inform our actual economic policy. My only negative comment is that I think the chapter on the relationship between inflation and unemployment is a little dense. However, the chapter is very interesting and worth re-reading to get all the major points. All in all, I definitely recommend reading this book. Loved it.

must read

As many of us in the stock market and business world knows, understanding human psychology is very critical to being successful in any human endeavor. I believe economics is really a human endeavor at a larger scale. The book makes a great case for including psychology in economic planning and management. And with the increase use of social media I think the incorporation of animal spirits in economic decision making is more critical. The book is good food for thought and I would highly recommend it to others.

I gave this book a 5-star rating because it is a book with the tenets of behavioral economics (finance). The so called mainstream economics, even though is a well-exposed approach to economic phenomena, it is no longer endorsed as the unquestionable truth. I like the part of the five tenets they expose at the beginning of the book in order to answer some questions that afflict society. I think this book should be read by everyone interested in the advances of behavioral economics (finance), students who would like to research, researchers as well.

What Keynes means by 'animal spirits' is made a lot clear by the authors. They identified five types of human mental states that constitute animal spirits in humans. The notion of animal spirits is particularly useful in explaining the boom-burst cycles in capitalism and rampant corruption in autocratic states. However, for the sake of completeness, I think the authors should endeavour to embed the concept of animal spirits in human self-interest so that the discussion is more in line with mainstream economics.

First a word of cautions, "Animal Spirits" is not like some other recent popular books on economics (Suchs as *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* (P.S.)). "Animal Spirits" requires at least a basic understanding of macroeconomics (actually the more advanced your knowledge the better). There is a considerable amount of time given to what they feel is wrong with the legacy of Milton Friedman. So as a warning, if you do not know who Milton Friedman is.... this is probably not the book for you. "Animal Spirits" is a book that will make many economists uncomfortable. The premise is that Economics can not be fully explained fully by the use of econometric formulas and the premise that all consumers/investors only make rational decisions. This may not sound like much, but a partial debunking of "the rational decision" mantra chips at the entire foundation of classical economics. As you probably know the authors (Akerlof and Shiller) are two of the most respected in their fields.... powerhouses really. They exert influence in the entire profession so right-or-wrong their opinion matters. What are these Animal Spirits? 1 - Confidence and its multipliers 2- Fairness 3 - Corruption and Bad Faith 4- Money Illusion 5 - Stories

The authors go into detail and give convincing arguments on how each of these five animal spirits rational decision making. An example would be in "Stories" the supposed fact that real estate prices "only" go up. This "Story" became folk lore and caused investors to make ill-informed/irrational investment decisions. Ultimately, "Animal Sprits" serves as a reaffirmation of Keynesian policy and sings the praises of both monetary and fiscal policy. The authors state that government regulation is the most effective way to keep "Animal Spirits" at bay and help reduce the economy's tendency for violent swings. Personally, I have always been a believer in Keynesian policy, so my natural bias is to agree with a majority of what is in "Animal Spirits". However, there are areas that I would need much more information before I take "Animal Spirits" to be the gospel. The chapter of "Special Poverty" and the need for affirmative action does not pass the sniff test - while I agree that the premise of the argument (there is a sense of "Us" vs "Them") it is difficult to understand how affirmative action eliminates this.

Final Verdict - Yes, I feel that this book was a bit rushed. The writing isn't especially engaging and some of the examples weren't as well thought as I would have liked. However, it is difficult to argue with the underlying logic shown by the authors or to underestimate their credentials. The concept of "Animal Spirits" is not new, but a new debunking of the "consumers are completely rational" mantra is bound to create significant waves. 4 stars

The book is a good analysis of the irrational decisions in economics, and an excellent critique of the conventional theory.

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