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 $\textbf{ANNUAL REVIEW OF ECONOMICS (/CONTENT/JOURNALS/ECONOMICS)}_{Volume \ \textbf{1}, \ \textbf{2009}} \\ \underline{\text{(/content/journals/economics/1/1)}}_{\text{Content/journals/economics/1/1)}}$ 

# **Power Laws in Economics and Finance**

Xavier Gabaix (/search?value1=Xavier+Gabaix&option1=author&noRedirect=true&sortField=prism\_publicationDate&sortDescending=true).1

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A power law (PL) is the form taken by a large number of surprising empirical regularities in economics and finance. This review surveys well-documented empiric al PLs regarding income and wealth, the size of cities and firms, stock market returns, trading volume, international trade, and executive pay. It reviews detail-ind ependent theoretical motivations that make sharp predictions concerning the existence and coefficients of PLs, without requiring delicate tuning of model param eters. These theoretical mechanisms include random growth, optimization, and the economics of superstars, coupled with extreme value theory. Some empirical regularities currently lack an appropriate explanation. This article highlights these open areas for future research.

**Keyword(s):** crashes (/search?value1=%22crashes%22&option1=pub\_keyword), fat tails (/search?value1=%22fat+tails%22&option1=pub\_keyword), scaling (/search?value1=%22scaling%22&option1=pub\_keyword), superstars (/search?value1=%22superstars%22&option1=pub\_keyword)

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