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# The big, bad wolf and the rational market: portfolio insurance, the 1987 crash and the performativity of economics

Donald MacKenzie

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## Abstract

This article distinguishes two meanings of the performativity of economics, a thesis advanced by Michel Callon: 'generic' performativity, according to which markets and other economic relations are not to be taken as given, but as performed by economic practices; and 'Austinian' performativity, in which economics brings into being the relationships it describes. The two versions of performativity are explored by means of an examination of the history of portfolio insurance (a financial-market technique based on the economics of option pricing), of the 1987 stock market crash, and of subsequent efforts to diagnose the causes of the crash and to redesign the market to avoid future catastrophe. The article emphasizes the extent to which the financial markets of high modernity are designed entities, and argues that the question of their design is always a political question, even if it is seldom recognized as such.

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