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SYMPOSIUM ON NASSIM TALEB, THE BLACK SWAN

COPING WITH THE BLACK SWAN: THE UNSETTLING WORLD OF NASSIM TALEB

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ABSTRACT

Nassim Taleb's theory of the Black Swan suggests that the world is full of unpredictable events that have a massive impact on the world. The abstract discusses how these events are all that is needed to increase the range of financial markets to fit the facts of the world. Further, these events become themselves a reality.

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Notes

1. Taleb has insisted that this is in fact a “gray swan”: Those involved should have seen it coming but were blind to it. I think this raises an interesting question. If agents are disinclined to see the information in front of them due to sociological factors (more on this below), then gray swans are functionally equivalent to Black Swans despite being knowable in principle. As Taleb puts it, “If you know that the stock market can crash ... then such an event is not a Black Swan.” Fair enough, but to me the interesting question is when and why people stop believing Black Swans are possible in the first place.

2. “Turing computable” means that there exists a definite algorithmic procedure to generate a definite result.

3. And also his Fooled by Randomness, particularly the endnotes on non-ergodic systems therein.

4. Personally I do not like the term “causal mechanisms,” since mechanisms presuppose a generator. However, since it’s become increasingly common to use this term to describe causal processes in the social sciences I use the term here.

5. To see that this is the case, consider the volatility of the price of oil in 2008 and the multiple interpretations of its causes, from “Chinese demand” to “reverse contangos.”

6. Consider the following example. In the recent financial crisis an oft-heard response to those who

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worlds, with three different generators, by assuming that Taleb’s type 3 world is an



extreme case of type his type 2. See Blyth [2006](#) for details.

8. Simple payoffs are yes/no type decisions. Complex payoffs are frequency of outcome multiplied by the impact of the outcome.

9. The quotations in the cells are Taleb's words.

10. As Taleb (149) puts it, "What matters is not how often you are right, but how large your cumulative errors are."

11. I thank Bob Jervis for this formulation of the problem.

12. Taleb's warnings about garch techniques and the VaR analysis that is based upon it are cases in point here (155 and 225).

13. Processes, such as electromagnetism, or events, such as death, exist of course independent of our inferences about them. But a death becomes a murder only under a theory of law, and resistance becomes $V=I/R$ only in terms of a theory of electromagnetism.

14. Actually, they are second-order indicators (survey responses) of something else that is held to be a fact: unemployment, which is itself a sociological category.

15. This is not stating a normative preference for a given policy outcome (low or high unemployment). Rather, the point is to show how two theories (Kennedy-era Keynesianism and Greenspan-era inflation aversion) can turn numbers of any value into data with definitively different meanings.

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