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

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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 ... ontangos.”

6. Consider the response to those who predicted based on ten years of data alone that more banks would fail in a series of ... n 10, but This ... nts in ... comparable ... data itself. I ... thank Da

7. In my ... ssible 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). Keynesian economics is not a theory of value. It is a theory of value into data with

16. Gullible non-normal distributions in

17. We are past sampling (error term) of the zygote from past analyzing lies, but no proclivities the splitting knowable

18. Remake the banking

19. This goes beyond being an information-theory problem (how much signal can you get down the cable) to being a social problem (what does the signal actually say).
20. Ergodicity means that sample paths converge over time to a mean. Or, to put it another way, the relevant statistical properties can be known from an adequate sample of the process. We saw above why that may not be the case.
21. Which was of course Popper's claim in *The Poverty of Historicism*. I thank Jeffrey Friedman for this reminder.
22. The irony is that many proponents of CDSs and other such derivative instruments argued that their propagation would make the system more stable rather than less. Some authors contend that CDSs did not in fact cause the crisis (Wallison [2009](#)), which may be the case. But they may have contributed significantly to the crisis by inspiring the fear that they would detonate latent systemic risk. The perception of risk was as important as the "fact" of risk (or, as Peter Wallison contends, non-risk) from these instruments.
23. Which is what Taleb's work on fractals and power-law distributions also admits.
24. See http://en.wikipedia.org/wiki/Kolmogorov_forward_equation and http://en.wikipedia.org/wiki/Kolmogorov_backward_equation.
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