

# Rethinking Risk

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June 30<sup>th</sup> 2014

\*UCL CSDU wishes to acknowledge the generous support of the Institute of New Economic Thinking

- Rational Choice/Rational Expectations Theories severely limited in real decision-making environments.
  - Unrealistic behavioural axioms.
    - Issue not whether or not people want to maximise utility but how to do so.
  - Exclusion of Deep Uncertainty.
    - Treatment of the economy as a simple rather than dynamic complex system.
    - No probability determined distribution of outcomes.
  - Exclusion of the Social
    - Social (narrative) construction of reality.
    - Networks and copying
    - Groupfeel and Homogenous narratives.
  - Misconception of role of Emotion
  - Misconception of Rationality
    - Rationality depends on your subjective context.
    - Confusion of *ex ante* and *ex post* (no experience of time)
  - Misconception of nature of liquidity.
    - Liquidity is a narrative about being able to sell.

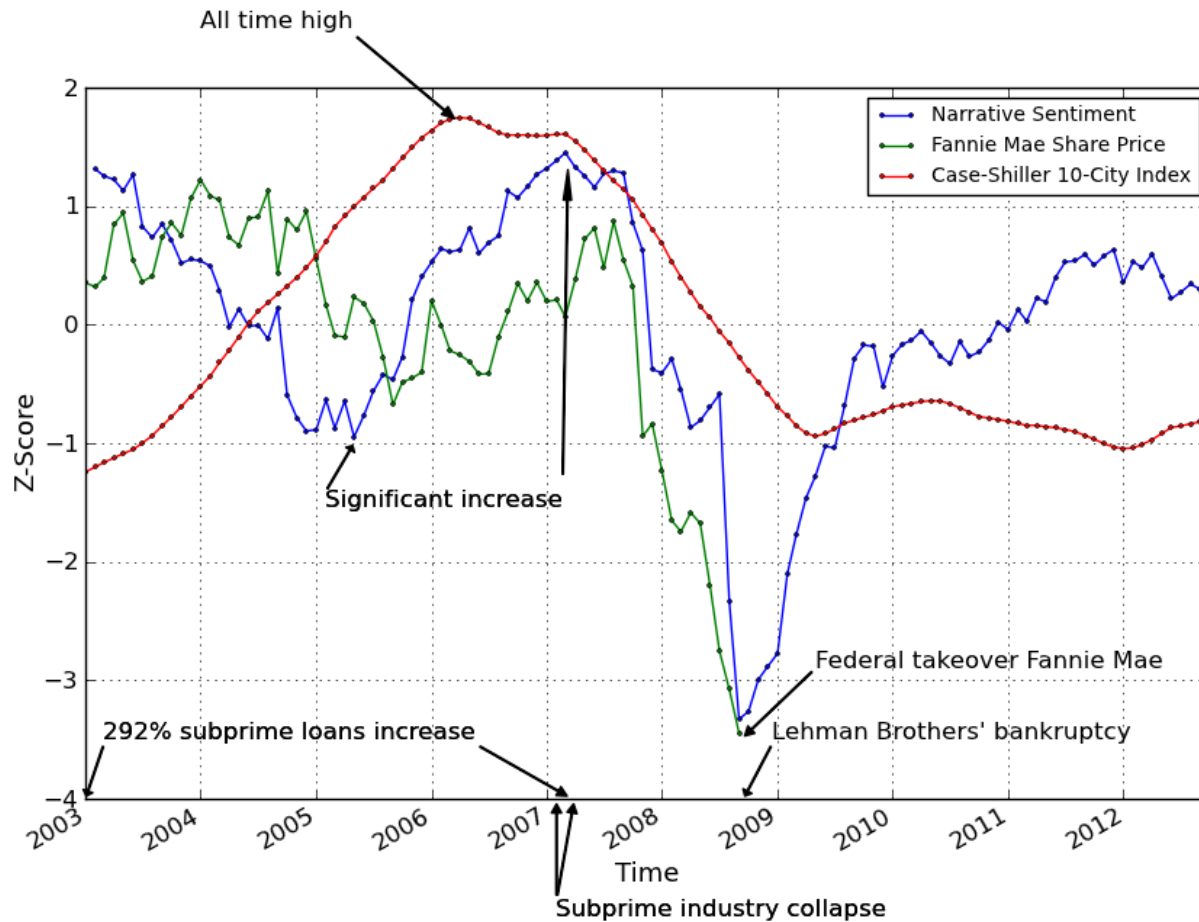
## Conviction Narrative Theory (CNT)

- A cross disciplinary *theory of economic action* focused on how decisions are actually made.
  - Action is a bridge between today and the future tomorrow.
  - Action is possible because actors create narratives of the future in which, **in their context**, they feel confident (i.e. attracts more than repels)
- Draws on human capacity to experience and solve the problem of action using situationally based imagination, **emotion**, narrative and simulation (beyond the mechanistic).
  - Embodied narratives

## Directed Algorithmic Text Analysis (DATA)

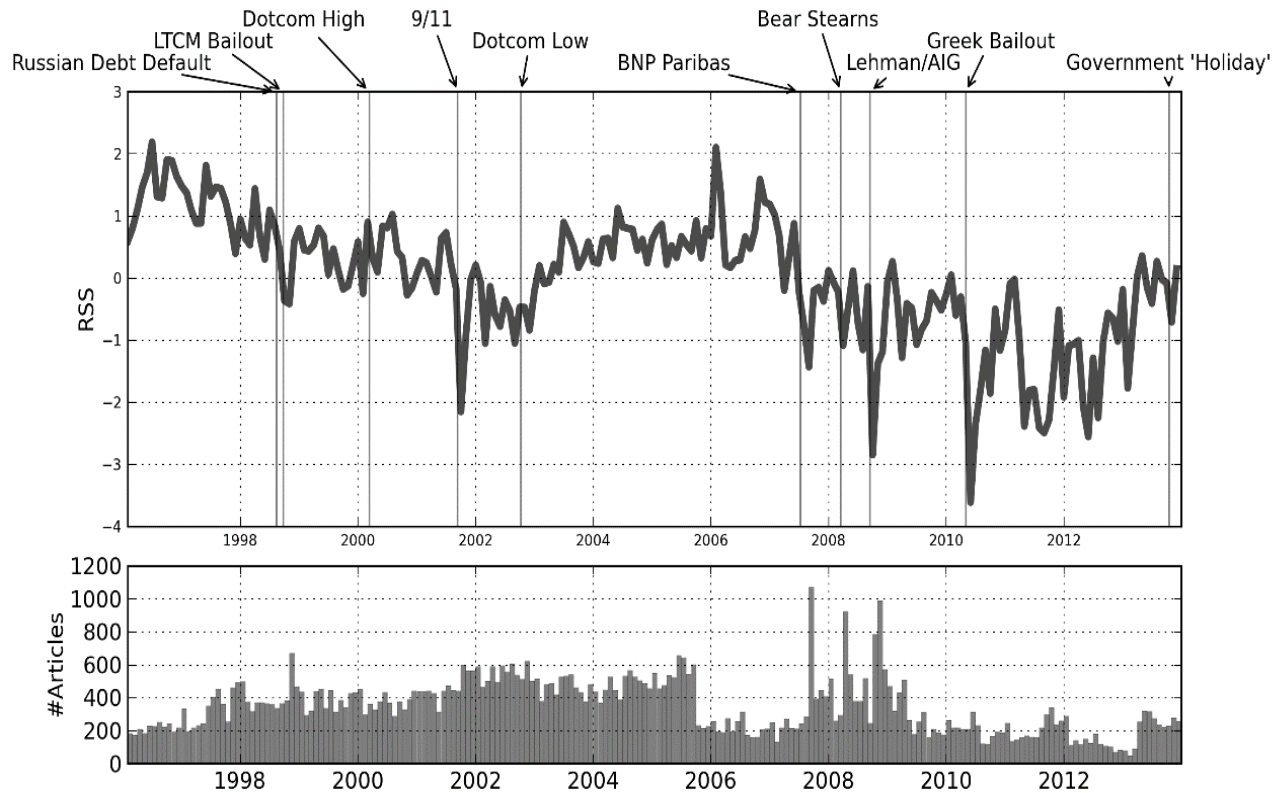
- Measurement of risk or efforts at economic forecasting currently outside a adequate theory of action
- CNT predicts that shifts in the relationship between attracting and repelling emotions will predict levels of
- DATA uses robust machine learning algorithms to extract Relative Sentiment Shift (RSS) time series from any unstructured text database.
- Used with the Reuters News Archive, Broker reports and Bank of England internal market commentary memoranda it Granger causes US and UK GDP, various (atheoretically developed) uncertainty indices and also appears to provide understanding and early warning of key economic events – the financial crisis, the great recession and the subsequent slow of recovery.

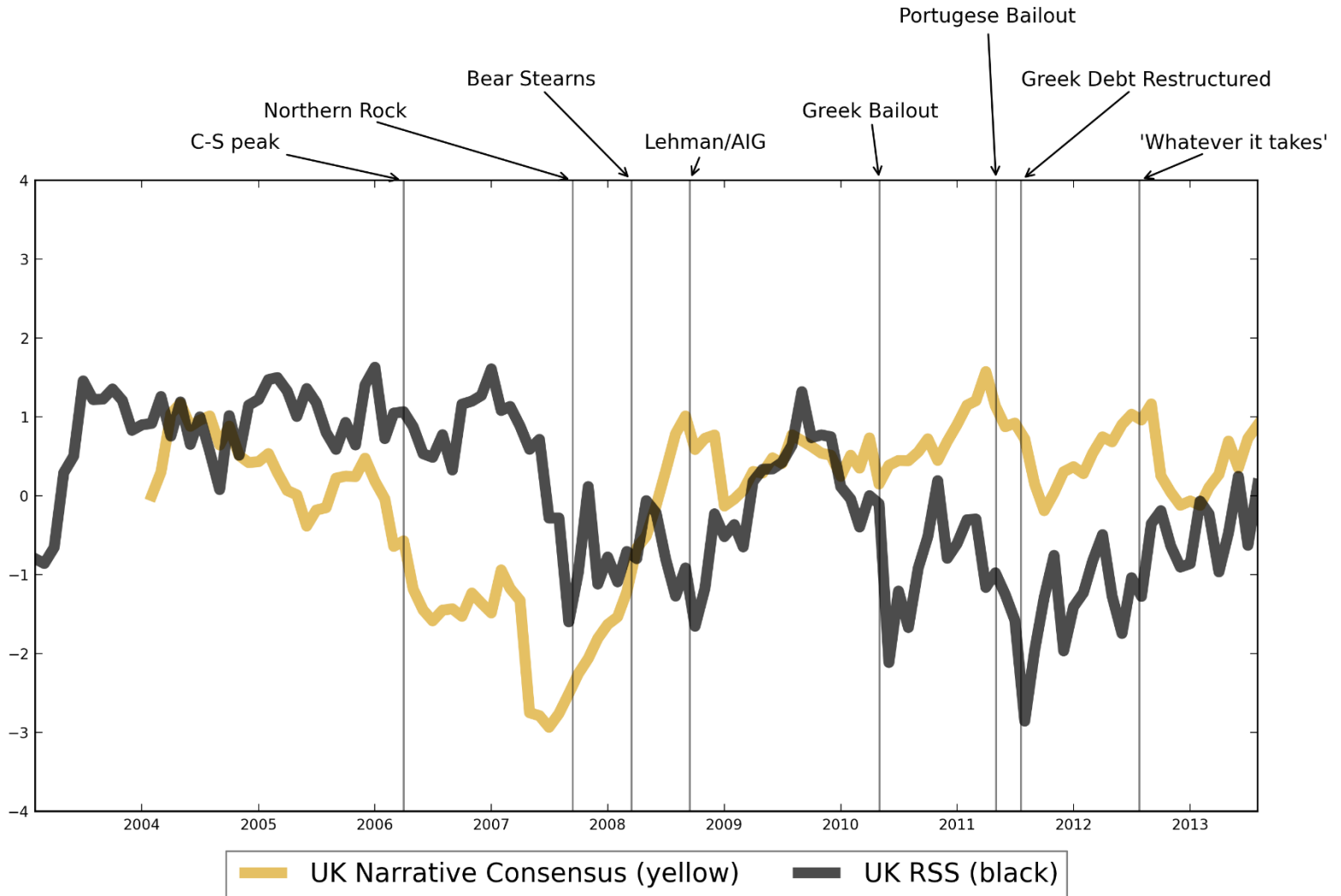
## Fannie Mae Sentiment Shifts 2003-2013



*Text Source –  
Reuters  
News Archive*

# Relative Sentiment Shifts – Reuter’s News Articles mentioning “Liquidity”





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## Centre for the Study of Decision-Making Uncertainty

The UCL Centre for the Study of Decision-Making Uncertainty (CSDU) is hosted in the Faculty of Brain Sciences. It is part of the [UCL Grand Challenges](#) initiative to use UCL's vast range of experts to address the world's key problems. We bring together cross-disciplinary teams from among UCL's world class academic staff in all faculties. They undertake fundamental research and teaching focused on human responses to uncertainty – which we see as at the core of many of the complex intellectual and policy challenges which have become widely apparent since the Global Financial Crisis of 2007-9. Together we aim to develop new theories of decision-making starting from the position that although economic actors are regularly required to make long-term commitments to action they can only guess the long-term consequences of their actions in advance. It is the world's first academic centre to focus across many relevant disciplines on why and how individuals and groups act the way they do when faced with immeasurable uncertainty and seeks to work closely with practitioners in finance, financial regulation, business and government.

The Centre is the latest development in UCL's outstanding tradition of challenging conventional thinking and generating research that is relevant to the changing needs of society. It draws on international expertise in economics, psychology, psychoanalysis, brain sciences, anthropology, computer science, language sciences, political science, and statistics.

Although modern science is increasingly cross disciplinary, problem focused, data driven and team based economic questions have not often been explored in that way. By treating economic outcomes as the product of complex emergent processes set in motion by interacting and sentient human beings operating in institutional environments we aim to improve understanding. A desirable result will be a new type of human science, one able to account for the mechanisms and impacts of human decision-making in a complex world.

### NEWS



Professor David Tuckett and Colleagues have been awarded \$250,000 by the Institute for New Economic Thinking to set up a Centre for the Study of Decision-Making Uncertainty. [For more news >>>](#)

### LEARNING AT THE CENTRE

CSDU hosts a MPhil/PhD programme open to a wide range of scholars interested in studying uncertainty and its human consequences for decision-makers.

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