



BEHAVIORAL FINANCE

A World of Chance: Betting on Religion, Games, Wall Street

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When people do not know how to solve some problems, when they do not know how to calculate risks yet they must decide on a course of action, they have to “manage” that risk. But how do we manage when facing such uncertainty, when there are no probability distributions to guide us but we must still claim legitimacy for the decision and have the authority to act?

Throughout history, people invented a maze of institutions to answer this question and ways to bestow legitimacy on such decisions, although there was nothing we would call scientific to underlie them. Institutions and traditions created perceptions as if there were no uncertainty or the uncertainty were mitigated, backed occasionally by what contemporaries claimed was scientific.

Financial markets often try to distance themselves from gambling, but the two have far more in common than is usually thought. When there were no financial institutions such as banks, people disposed of expensive items and governments raised money quickly through lotteries. Gambling tables fulfilled the roles that venture capital and banking do today.

Gamblers created clearinghouses and sustained liquidity. When gamblers created prices in futures markets, they were redefined as speculators. Today they are hedge fund managers or bankers.

Although the names have changed, the actions undertaken by these parties have essentially stayed the same. This book discusses chance, risk, gambling, insurance, and speculation to illuminate where societies stood, where society is today and where we may be heading.

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