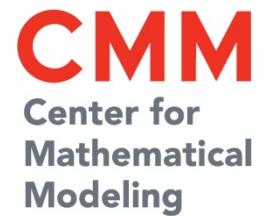




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## *Theoretical Questions Around the Economic Crisis* *Santiago, May 4-6, 2011.*

Workshop organized by Centro de Modelamiento Matemático, Universidad de Chile y Banco Central.

Co-chair: Roger Guesnerie (College de France) and Alejandro Jofré (CMM)

*Goals:* In spite of an intense academic activity over previous decades, the current crisis suggests that economic theory has failed to provide an appropriate global understanding of the recent events. Two key assumptions underlying most existing theories have been rightly questioned:

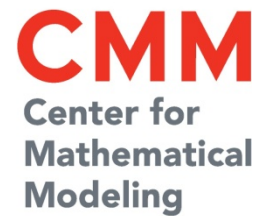
One group of critics has proposed that agents in financial markets are less rational than has been assumed in most economists' models. Departures from the standard paradigm of rationality constitute the substance of what has come to be known as *behavioral economics*. Integrating behavioral economics into finance is clearly a promising avenue for research.

A second group of critics questions the “*rationality of expectations*”. The Rational Expectations Hypothesis (REH) assumes that economic agents have an unbiased, statistically correct, view of the future. REH is not a consequence of the classic Rationality Hypothesis, nor is the standard Rationality Hypothesis a necessary ingredient of models fitting REH. (Non-expected utility maximizers may be given rational expectations.) Hence this second axis is conceptually distinct and broadly independent of the first one.

The present workshop focuses on the second direction, the *critique of REH*. Indeed, most theories in finance, as well as in macroeconomics, have tended to adopt REH axiomatically. Many have been argued that REH, in its standard version, has fuelled the excessive confidence in the self-regulating capabilities of the system, which may have been at the heart of its failures in the recent “crisis”. The purpose of the workshop is both ambitious and straightforward, that is, confronting our theorist's assessment of the rational expectations hypothesis, and discussing the most promising lines of research for renewing the economic reflection on the basic issue of expectational coordination.



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*Participation:* the participation in this workshop will be by invitation. We have invited so far a limited number of senior participants. The idea is to have presentations and discussions by these participants' s views and/ or research on the subject.

*Seniors participants:* Michael Woodford (Columbia U.), George Evans (U. Oregon), Stephen Morris (Princeton), Jess Benhabib (NYU), Roger Guesnerie (College de France) and Christophe Chamley (Boston U. and PSE).

*Chilean node/coordination:* Alejandro Jofre (U. Chile), Terry Rockafellar (U. Washington), Roger Wets (UC, Davis), Pedro Jara (U. Santiago), Rodrigo Harrison (U. Católica), Felipe Balmaceda (U. Chile), Juan Escobar (U. Chile), N. Figueroa (U. Chile).

## **Program:**

### ***Wednesday.Chairman. Alejandro Jofré***

12:00–12:10 Welcome words. José de Gregorio, Governor, Central Bank of Chile Auditorium.

12:10–13:00 Lunch. Sala Constitución.

13:00 – 14:30. J. Benhabib, “*The multiplicity of equilibria*”

14: 30 – 16:00. C. Chamley. “*Herd behavior and information*”

16.00 – 16:30. Coffee Break

16:30 – 18:00. S. Morris. “*Global Games, Coordination and Common Knowledge*”

### ***Thursday Morning. Chairman Michael Woodford***

9:00-10:30 G. Evans “*Adaptive(evolutive) learning*”

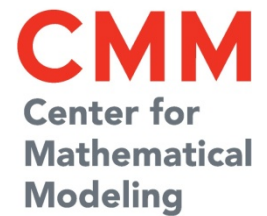
Coffee break 10:30-11:00

11:00-12: 30 R. Guesnerie, “*Eductive learning*”

Lunch 12:40 – 14:30



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***Thursday Afternoon. Chairman Stephen Morris.***

14:30-15:30: M. Woodford “*Inattention and Sticky Information*”

Coffee Break 15:30-16:00

16:00-17:00: M. Woodford “*Policy analysis without rational expectations*”

***Friday Morning. Chairman George Evans.***

9:00-10:30: Modeling financial markets (J. B, RG, SM,)

Coffee break 10:30-11:00

***Friday Morning. Chairman Jess Benhabib.***

11:00-12:30: Macroeconomic modeling. (G.E, C.C, M.W)

Lunch 12:40 – 14:30

***Friday Afternoon. Chairman Roger Guesnerie.***

14:30-15:30 Working group on the International Network on Expectational coordination.

Coffee Break 15:30-16:00

16:00-17:00 Conclusions