

Paper Assignment II: Econ 4389
Greed, Interpersonal Relationships, and Economic Collapse

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Fall, 2009

This assignment asks you to integrate the Schelling ideas into the finance we have been learning, and see to what extent they are related. The idea is to pick a theory out of Schelling, and relate it to the economic events leading to the Great Recession (or Lessor Depression according to Posner). Our study to date has been about the institutions. Schelling's focus is on the individuals.

This should be a five paragraph essay, with hopefully a graphical appendix.

1. Introduce your essay by briefly stating what idea from Schelling you will use to explain the motivation for how individual behavior depends on the behavior of others, how that individual behavior influenced an institution, and how that institutional behavior contributed to the recent economic problems that are coming to be known as the Great Recession.
2. Describe the theory out of the Schelling book that you will use. Most of them are in Chapters 2 and 3, but there are more if you have read more. In your description of how an individual's behavior is influenced by others, apply it to the economic problem on which you are focusing.
3. Describe an economic event that helped lead to the economic problems of last fall that you think might be at least partially explained by Schelling's theory. This third paragraph should review why the institutional behavior caused the economic problem.
4. Describe why you think this event occurred in part because of Schelling's theory. That is, how was the behavior of the individuals in the institution motivated by the behavior of other individuals, and how did the resulting institutional behavior lead to the bad economic outcome.

To do this, you need to think not only about how institutions behave, but about how individuals behave. Institutions, after all, are a collection of individuals. Schelling's theories are all about how individuals' behavior depends upon, or is caused by, the behavior of others. So your goal here is to describe an example where individuals' behavior was influenced in some way by others, and how this affected the behavior of an institution (company, government agency, general government).

5. Conclude your essay by discussing whether the policy responses to the problem have addressed the underlying individual behavior. That is, the reason to understand what you have described above is to try to prevent this type of problem from recurring. Are there any policies that have done so for your example? Describe whether those policies address the underlying individual causes, or whether they only address the overall institutional behavior. If the latter, describe why you believe the policy will (or will not) be effective based on the root individual behavioral cause.