

SUMMARY

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This summer I worked with Prof. Shiller on two book projects. The first, “Subprime Solution”, was as the name indicates focused on the ongoing financial crisis. For this work my task was specifically to research background information and regulations on the complex (and sometimes obscure) financial instruments that have been accused of causing this crisis: Subprime Mortgages themselves, Mortgage-Backed Securities and Obligations, and Structured Investment Vehicles among others. I was also asked to look at the role of rating agencies in the crisis and find out what, if anything, Congress had actually implemented in response to the crisis so far.

I was able, mostly through online research, to find information on the structure and origin of various financial instruments, in particular SIVs. I was also able to find that although significant amounts of information could be found on mortgages at their initial issuance (and made it to the rating agencies), this information was in the end mostly inaccessible to the public. In addition, disclosed information, including information disclosed by the rating agencies, was generally too complex or technical to be graspable by a non-expert in that specific domain. There were many hearings but no official Congress proposal for a solution.

Although I spent the major part of my summer work on the second project, this initial piece of research was very interesting to me. I learned a substantial amount on the current crisis, but also got to discuss this information from a behavioral economists’ perspective with Prof. Shiller. I was also impressed by the amount of information I was able to obtain from the SEC and on Congressional hearings.

The second project I worked on with Prof. Shiller was the manuscript of a much larger (in all senses) book on behavioral economics. Prof. Shiller had been working on this project for five years with Prof. George Akerlof from the University of California - Berkeley. The book was thus in its final stages, with a goal to submit the final manuscript by the end of August. My main task in this project was to simply read through the manuscript and comment as much as I could on the content, the structure, and in general the theories presented in the book.

Although daunting at first, this second project turned out to be fascinating to me. The material was my first real introduction to a general theory of behavioral economics and in itself very interesting to me. I also sincerely felt privileged to discuss the theory first hand with Prof. Shiller, and have my comments seriously taken into account. Concretely, these comments consisted of anything from structural to word choice or even occasionally content suggestions. I repeated the process a couple of times, as the versions of the manuscript were updated. The experience was instructive both in building my understanding of behavioral economics, as well as in helping me understand the book-writing and publishing process, which I see as important parts of academia.