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Review of MS 335 for *Economics* ejournal

The first fourteen pages of this paper make a possibly significant contribution to the discussion of economics and finance. This portion's main drawback is a series of unsupported claims, for example: "Observation [unspecified] suggests that this highly competitive situation interacts with the features noted above and their potentially adverse consequences, creating an ongoing and explosive potential for excessive risk-taking, agency problems and moral hazard." (p.10) Most of the theoretical statements are not supported by laboratory or other evidence. But these drawbacks may be excusable in the presentation of a new hypothesis.

In this case, the hypothesis begins with the idea that people can operate in either a "divided state of mind" or an "integrated state of mind," in the first case pursuing a "phantastic object," or positive-outcome fantasy, and in the second case pursuing a rationally balanced conclusion. In the first instance, minds focus on exciting potential rewards while quarantining anxiety-producing thoughts related to the consideration of risks. In the second instance, they consider risks and rewards together. According to the author, the first mindset among people attends, and explains, financial asset bubbles. Along the way, the author makes a number of wise observations about human behavior in the financial context. This portion of the paper stirs thought and presents ideas worthy of consideration and debate.

The final five pages of the paper present the author's antidote to asset bubbles, under the unchallenged presumption that asset bubbles and reversals are "disastrous" (p.18) for humanity. To prohibit such events, he proposes the formation of an agency to create "regulations framed by the industry with the authorities…functioning in an *integrated* state" [italic in the original] of mind; these people would have to act "on judgment rather than rigid rules" (p.17) given "the special subjective qualities of financial assets…." (p.19) In other words, this agency, though lacking a specified basis on which to judge, would nevertheless be responsible for setting asset prices by decree. Unfortunately, a contradiction arises in that the author has already argued, "Throughout life our thinking oscillates between divided and integrated states…both [of which] modes have survival value…." (p.7, 7fn.) Yet his solution requires that people impervious to thinking in a divided state choose authorities who are impervious to thinking in such a state, who in turn would have to have mechanisms in place—executed by yet more people impervious to thinking in a divided state—to impose their wills upon masses of people, who are prone to thinking in a divided state but somehow would be outmaneuvered and quashed in their pursuit of phantastic objects. The author's solution, therefore, seems nothing if not a phantastic object, in which the author assumes a positive outcome while failing to consider counter-information pointing to risks and failure for a proposed policy run by special humans and intended to counteract social episodes that have been part of the human experience for millennia. In other words, the solution appears to be the product of a divided mental state, not the integrated state that he says is the cure to the problem.

The author may wish to reconsider this portion of the paper.

To summarize, the paper is consistent in its theoretical statements, inconsistent in application and less than rigorous in supporting its theoretical statements with laboratory or other evidence. It fails as a policy paper. What remains, though noticeably light on research, is an interesting psychoanalytic idea applied to a type of social event. Conceding that research may be substantially unavailable to support a new hypothesis, I found the first fourteen pages stimulating and believe they would interest many readers.