

Re: Electric cars

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- *From:* Martin Brown <|||newspam|||@nezumi.demon.co.uk>
 - *Date:* Thu, 29 Jan 2009 10:22:17 +0000
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John Larkin wrote:

On Wed, 28 Jan 2009 20:31:39 GMT, James Arthur
<bogusabdsqy@xxxxxxxxxxxx> wrote:

John Larkin wrote:

On Tue, 27 Jan 2009 15:32:28 -0800, "Bob Eld"
<nsmontassoc@xxxxxxxxxx>
wrote:

"John Larkin"
<jjlarkin@xx>
wrote in message
<news:5qtun4dgc6l3e4idf5ik238tptk9g6pju@xxxxxxxxxx>

Except that it was Clinton
who pushed, and signed, the
dereg bills
that led to this mess.

John

Yes, Clinton was partly responsible for the
mess but the main Character was
Reagan who began the rush to deregulation.
Bush and the various congresses
didn't help much either.

Laissez-Faire Capitalism is inherently
unstable with built in positive
feedback mechanisms and delays and
operates much like a chaotic oscillator.

Re: Electric cars

Yes, which is why it's disappointing that nobody seems to be discussing damping mechanisms, or anything else that will improve the markets or the economy in the long term.

John

Good point. The main damping mechanism ensuring stability against upward mania is fear: fear of losing your investment.

That mechanism is currently being nulled out on an historic scale, with a rush for more. That's bad. Long-term and short.

James Arthur

The problem is that greed has a slower time constant than fear, and nobody has sufficient long-term memory. So, every generation, more or less, we get a slow greed-driven ramp up to unrealistic valuations, and an inevitable fast ramp down when the smart money figures they've got all they can, or some other event trips the crash. It's a relaxation oscillator.

This is one cause of boom and bust cycles. UK Labour government declared boom bust to be a Tory thing that they had eliminated. How wrong they were.

The other big one is a chain of highly improbable events that have been misestimated by otherwise very clever people.

Famous examples include:

Betting that a hole in one will occur at a given top class golf match (which for a long time was given 10x longer odds than the actuality).

The Irish Lottery where a syndicate betting on a large range of numbers could never lose money and might win the jackpot. The smallest prizes were slightly too large and far too numerous.

LTCM – their pockets were not deep enough to keep playing the game.

Controlling the UK economic computer model is surprisingly difficult. There may even be one of the simpler ones online. You don't get to see the effects of interest rate changes for nearly 12 months so depending what hand you are dealt it is very easy for things to go pear shaped.

It is generally when greed and stupidity are combined in roughly equal measure that you get exceptionally bad things happening. Telecoms companies are still recovering from their irrational exuberance in the Sept 1997 buying 3G UK bandwidth at beyond top dollar in a very cunningly designed auction. There is also a lot of game theory involved – see what happened in the Turkish telecom licence. A paper about it is still online:

<http://www.nuff.ox.ac.uk/users/klemperer/biggestsept.pdf>

Re: Electric cars

Tax policy could help here. Or control theory, even. Find me a politician who understands control theory.

Margaret Thatcher did. And to be fair most economists *do* understand control theory and statistical decision making. As for name a politician I don't have to look very far. A constituency Labour MP 30 miles away has an MSc in Control Theory and a PhD in Fluid Dynamics and worked industrially for British Steel for a while too.

<http://www.ashokkumar.org.uk/biography>

What cannot be modelled accurately is the herd instinct of traders and market sentiment. Rumours can be very destructive. You don't really believe the recent share price movements of UK banks represents anything real about their business do you? It is just spivs and speculators whacking the position up and down by shorting. Finally the bank made a reassuring statement and the price went back to something plausible.

<http://finance.google.co.uk/finance?client=ob&q=LON:BARC>

There is huge hysteresis in the market valuation of the same position depending on whether market sentiment is bullish, bearish or as it is now in total panic. When trust is destroyed the markets are wildly unpredictable since no-one knows who has what skeletons in their cupboard.

Even so the really smart guys with deep pockets can still make money by selling large blocks or shorting on already weakened prey to drive the share price of otherwise sound institutions into the ground with catastrophic consequences for volatility and jobs. UK govt is permitting shorting of financial institutions again – I cannot for the life of me see why. The effect is obvious so I guess they want to nationalise the banks by stealth.

Same sort of thing happened with the rising oil price in the summer speculators piled in to drive it through the roof. They make money but everyone else loses big time (notably the suckers who pile in at the top).

Regards,
Martin Brown

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