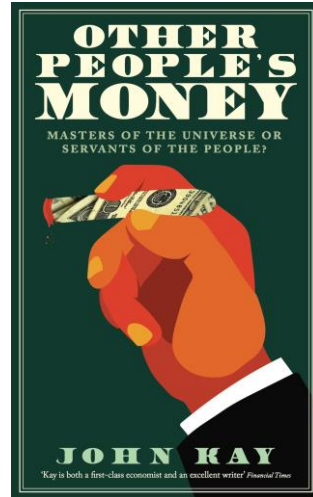


Other People's Money

Masters of the Universe or
Servants of the People?

John Kay

Institute of Actuaries, Liverpool
October 23rd 2015







I had some input into the creation of this product (which by the way is a product of pure intellectual masturbation, the type of thing which you invent telling yourself ‘Well, what if we created a “thing”, which has no purpose, which is absolutely conceptual and highly theoretical and which nobody knows how to price?’).

Fab Tourré quoted in W.D. Cohan,
*Money and Power: How Goldman
Sachs Came to Rule the World*,
New York, Random House, 2011. p.
515.



The 1920s stand-off

Risk

Probabilities

Bayes/SEU

Portfolio theory

Ramsey, then Savage and
Markowitz

Uncertainty

Likelihoods

Degrees of belief

Narratives

Keynes, Knight

Keynesian/Knightian uncertainty

“By uncertain knowledge I do not mean merely to distinguish what is known for certain from what is only probability. The sense in which I am using the term is that in which the prospect in which a European war is uncertain, or the price of copper, or the rate of interest in twenty years hence or the obsolescence of invention or the position of private wealth owners in the social system in 1970. About these matters there is no scientific basis to form any calculable probability whatever. We simply do not know.”

J M Keynes, *Treatise on Probability*, p.149-150

Meet Linda



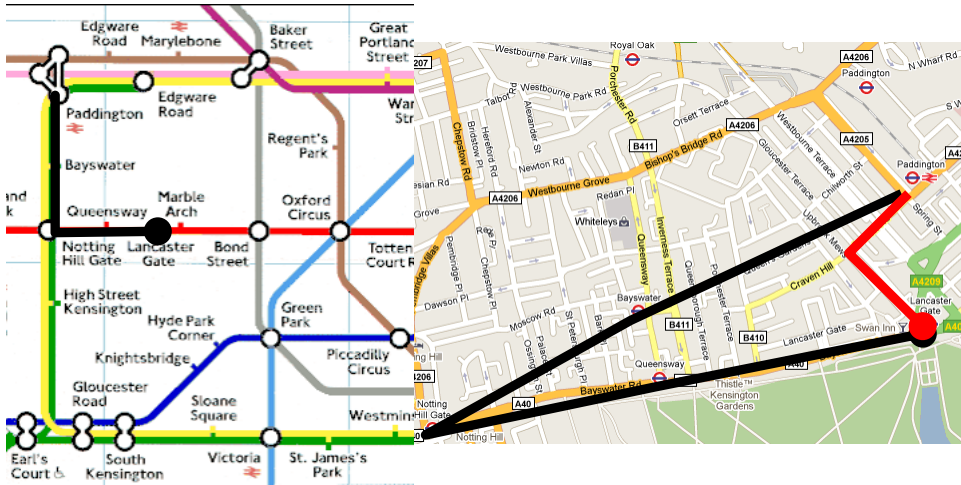
Linda lives alone, read social history at Anglia Polytechnic University. She was active in organising demonstrations against Shell over the Brent Spar Affair.

Which of the following do you think is more likely?

Linda is a bank manager

Linda is spokesperson for the Animal Liberation Front

Linda is a bank manager who is active in the feminist movement



‘We were seeing things that were 25 standard deviation moves, several days in a row’.

David Viniar, CFO Goldman Sachs
Financial Times, 13 August 2007



Sen. C. Levin (D, Michigan): When you heard that your employees in these emails and looking at these deals said ‘God, what a shitty deal’, ‘God, what a piece of crap’, when you hear your own employees or read about these in emails, do you feel anything?

Mr D.A. Viniar (CFO, Goldman Sachs): I think that is very unfortunate to have on email.

US Senate, permanent subcommittee on investigations,
27 April 2010