

INET Institute for **New Economic Thinking**

FOR IMMEDIATE RELEASE

December 16, 2021

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New Book Explores Stock Market Instability Under Radical Uncertainty

Cambridge University Press in collaboration with the Institute for New Economic Thinking publishes *How Novelty and Narratives Drive the Stock Market: Black Swans, Animal Spirits and Scapegoats* by Nicholas Mangee

NEW YORK—Today the Institute for New Economic Thinking (INET) and Cambridge University Press announce the release of the latest title in their collaborative book series, Studies in New Economic Thinking, titled, [*How Novelty and Narratives Drive the Stock Market: Black Swans, Animal Spirits and Scapegoats*](#), by Georgia Southern University Professor Nicholas Mangee.

“Nicholas Mangee's *How Novelty and Narratives Drive the Stock Market: Black Swans, Animal Spirits and Scapegoats* is an important book. It gives a theory of uncertainty that completes a project begun by Keynes long before *The General Theory* and overthrows the standard approach to uncertainty in economics. Its study of narratives, multiple equilibria, and use of machine learning to extract the contents of narratives from financial reporting is certain to be of wide interest and is a real contribution to economics.”

—George Akerlof, Nobel Laureate in Economics; co-author of *Animal Spirits*, *Phishing for Fools*, and *Identity Economics*

Radical (or “Knightian”) uncertainty famously creates problems for analyzing movements of the stock market. Classical approaches to probability that depend on repeating patterns simply do not work very well.

Nicholas Mangee’s book sets out a new approach to dealing with this type of uncertainty, the Novelty-Narrative Hypothesis (NNH). “Historically novel events cause the processes driving stock market returns to change in unforeseeable ways,” says Mangee. “This kind of

instability famously eludes representation in terms of standard probability theory, which relies on past data. To deal with so-called ‘radical’ or ‘Knightian’ uncertainty, market participants rely on narrative dynamics to help give shape and contextual meaning to novel events as relationships change in real-time.”

This new approach enables researchers, policymakers, and investors alike to better understand stock market outcomes and confront unforeseeable change and the Knightian uncertainty it engenders with real-world observations and scientific scrutiny. Standard economics relies on probabilistic rules that presume that the future is an exact replica of the past and, as such, is unable to deal with “true” uncertainty. NNH offers a way forward.

The book offers the first comprehensive analysis of the role that stories play when novel events cause instability in the stock market.

“Stories are visceral, contagious, and ever-evolving. Stories share a living symbiotic relationship with the people and communities that tell them,” says Mangee. “Stories reflect a society’s culture, values, institutions, experiences, diversity, and politics. Stories are the consequence of uncertainty, but also serve as a source of uncertainty themselves. Stories are the currency of uncertainty. People tell stories that others have told them, and major events are often the catalysts for many of the most popular story threads coursing through our minds, discussions, news reports, business communications, and social media feeds.”

The book relies on a novel dataset based on millions of identified unscheduled corporate events across the universe of Dow Jones, Wall Street Journal, MarketWatch, and Barron’s financial news reports over the last two decades. Mangee assesses the intensity of narrative dynamics through big data analysis of event novelty, inertia, sentiment, and relevance. These metrics are then interacted to show how narrative intensity aligns with formal structural breaks in posited relationships driving returns, volatility, and fund flows.

INET Director of Research Thomas Ferguson, who is the editor of the Cambridge INET book series, comments that, “The glowing endorsements of this book by many economists of different persuasions highlight its importance and interest. If you are an economist, you won’t want to miss it. And if you are in the market, you may not be able to afford to.”

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About the Institute for New Economic Thinking

The [Institute For New Economic Thinking](#) (INET) is a nonpartisan, nonprofit organization devoted to developing and sharing the ideas that can repair our broken economy and create a more equal, prosperous, and just society. We conduct and commission research, convene forums for exchanging ideas, develop curricula, and nurture a global community of young scholars to meet current and future challenges.

The INET series with Cambridge University Press

The 2008 financial crisis pointed to problems in economic theory that require more than just big data to solve. INET's series in New Economic Thinking exists to ensure that

innovative work that advances economics and better integrates it with other social sciences and the study of history and institutions can reach a broad audience in a timely way.

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[By Lance Taylor](#)

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