Agent-based Financial Economics
Lesson 10: Leverage

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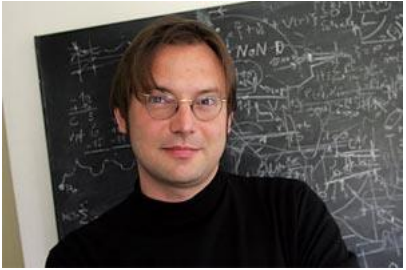
"What I cannot create, I do not understand."

- Richard Feynman

Today
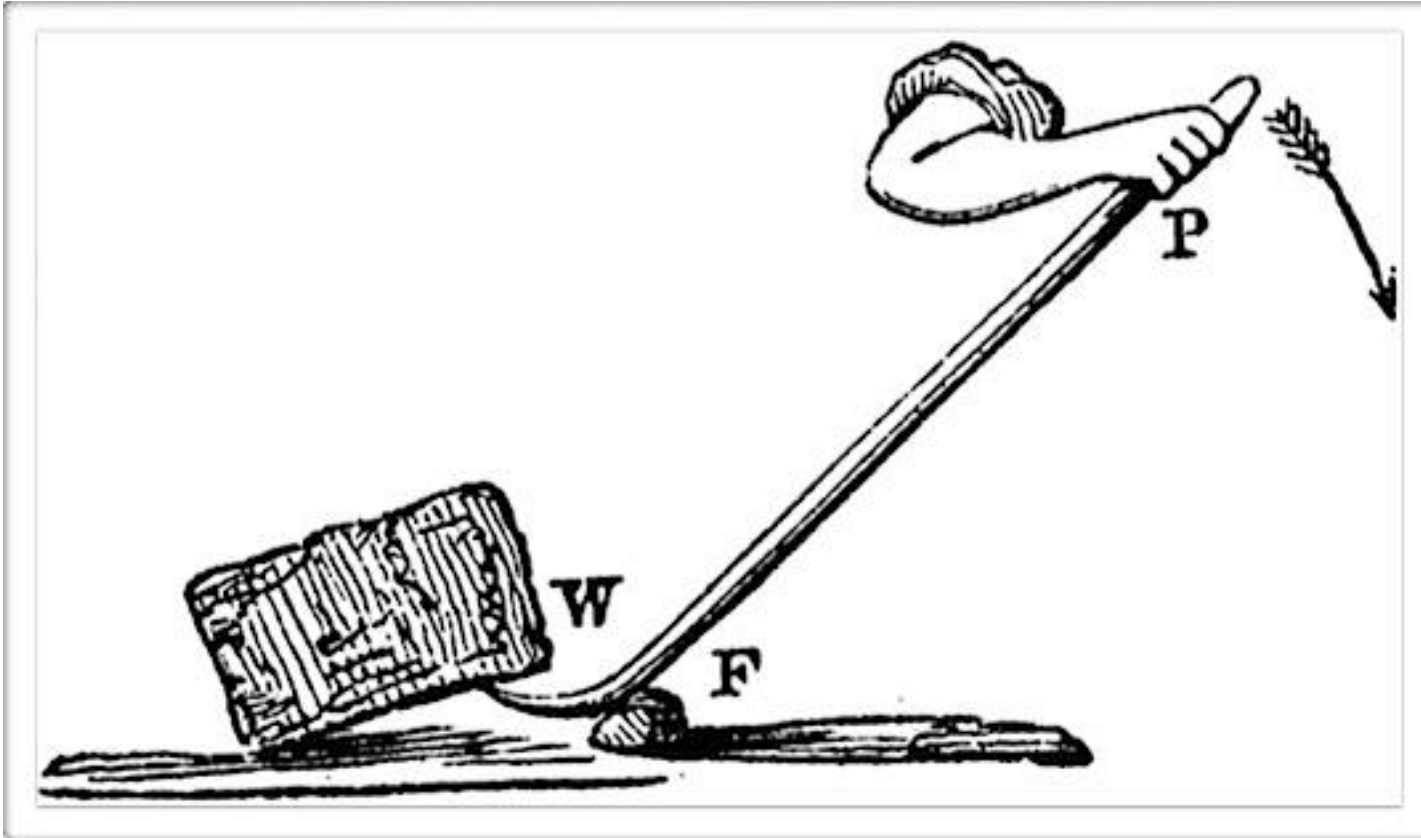
- Discussion of leverage paper by Farmer et al.

- Diving into the code, discussing ideas for your agents
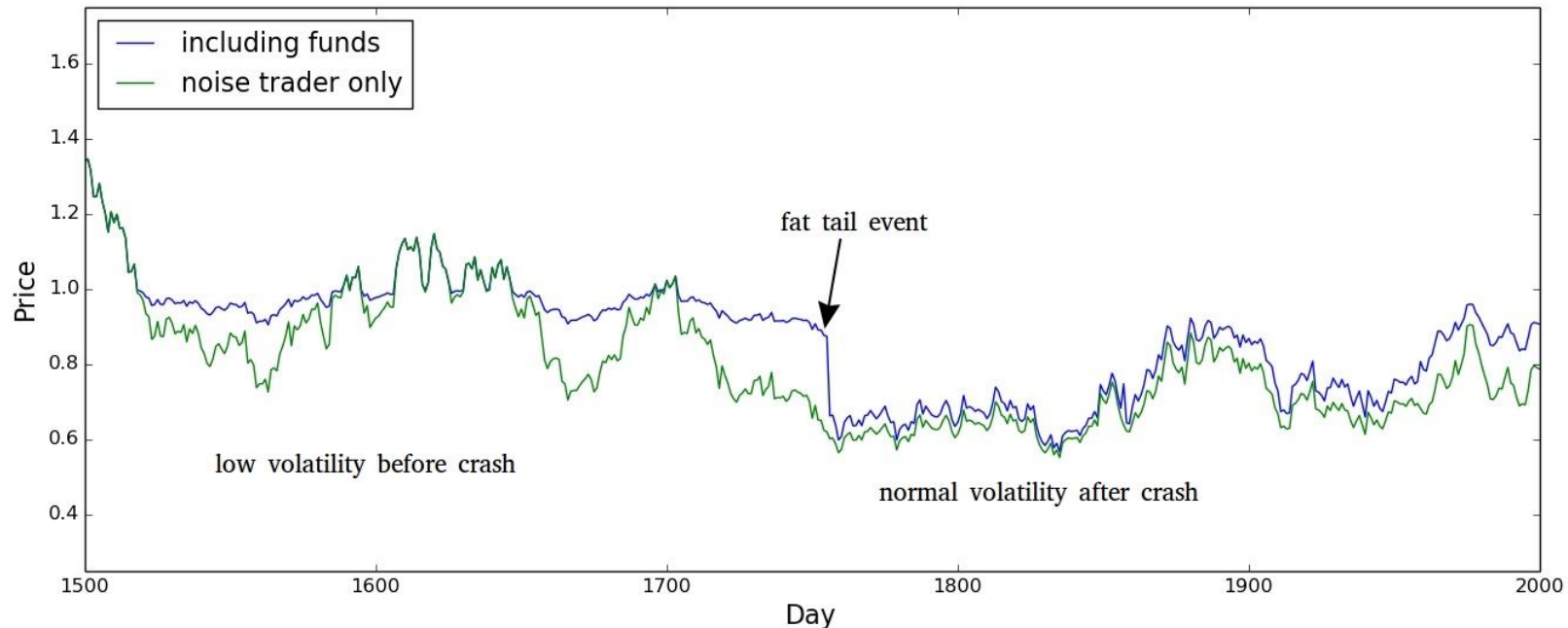
Leverage: single slide overview

Stefan Thurner

Doyne Farmer

John Geanakoplos

"The market can stay irrational longer than you can stay solvent." - Keynes
- Leverage can cause fat tail events through cascade of margin calls.
- Two active types of investors:
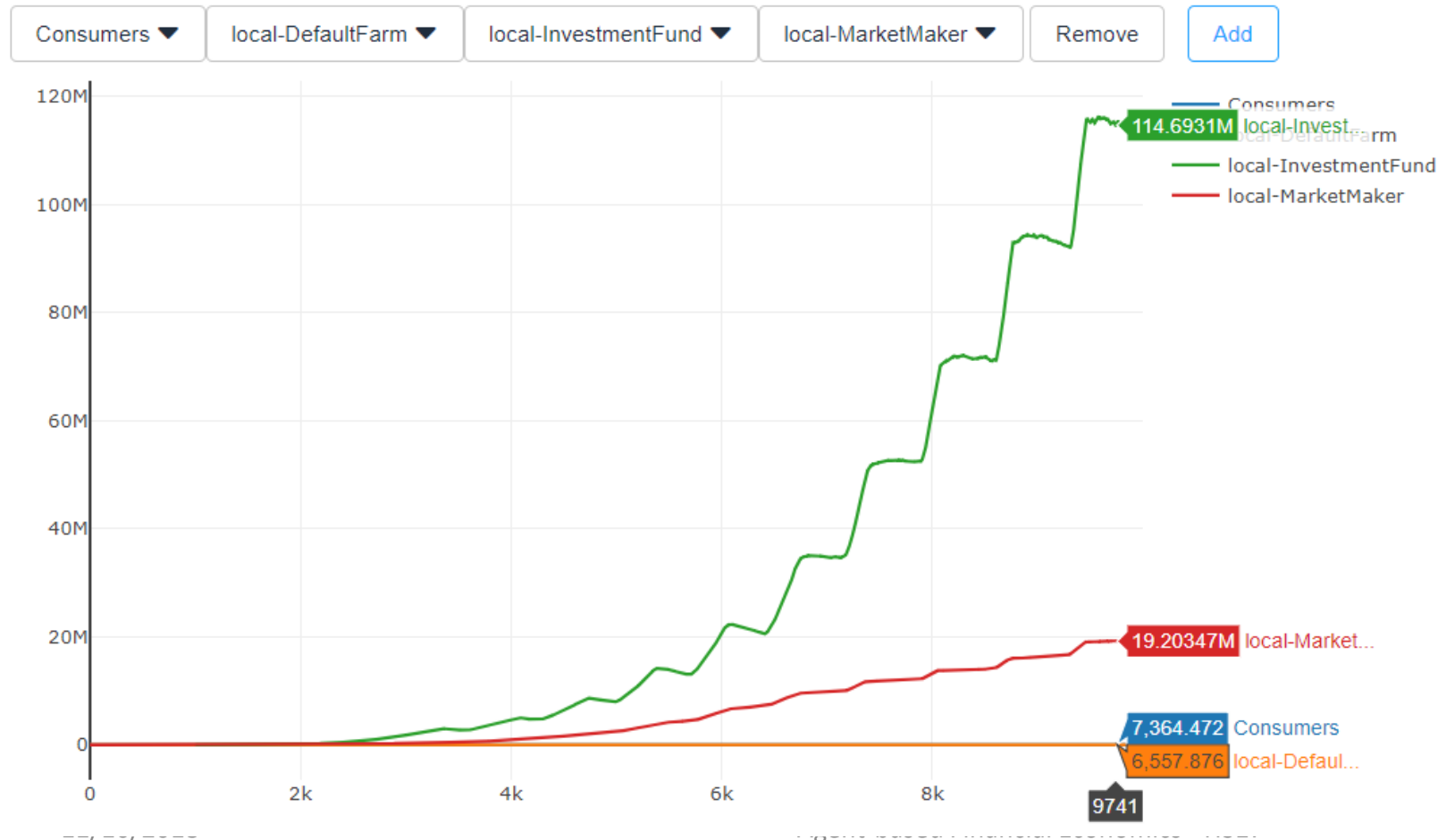   - Noise traders
    - Leveraged, fundamentalist funds

See separate presenation for further information.

Simulation: inflated prices

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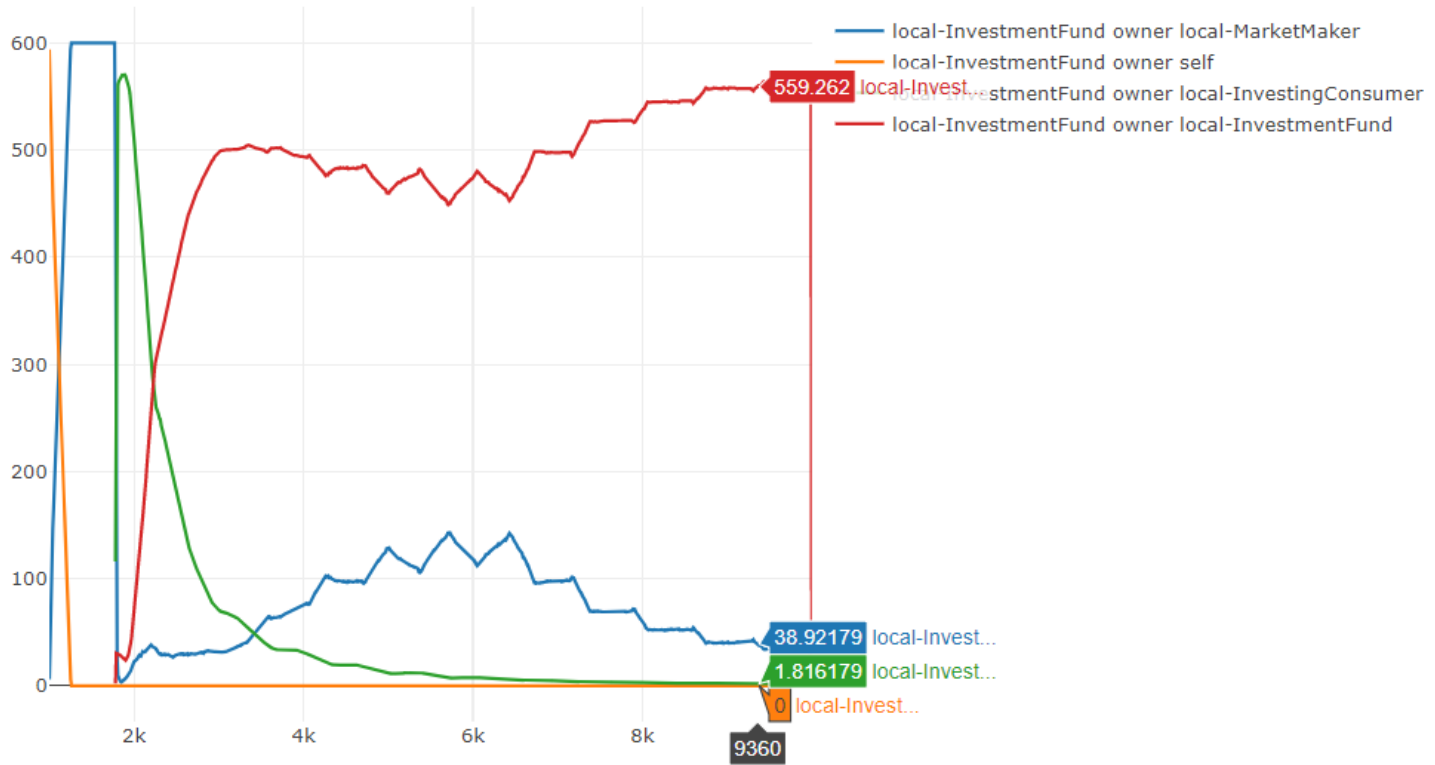
Funds seem very successful but basically just own each other at inflated valuations...

Code dive…