

# Lecture 3: Technology and Invention in Finance

Economics 252, Spring 2008

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# Key Points

- Pooling risks around the world
- Backus Kehoe and Kydland
- Rapid change in financial technology
- Long-run risks still not managed well
- Role of invention
- Role of psychological framing
- Role of information technology
- John Harsanyi, John Rawls, theory of justice

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# Key Points, Continued

- Tax system as a risk management device
- Framing and the history of taxes
- Loss aversion, Daniel Kahneman and Amos Tversky
- Insurance as an invention
- Patent law
- Corporation and limited liability

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# Key Points, Continued

- Inflation indexed debt
- Real estate risk management
- Subprime crisis

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