

## [No, we're not going to build a large model of the financial markets](#)

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Written by [Tim Worstall](#) [2] | Sunday 1 January 2012

No, we're really not, whatever BIS says about it being a wonderful way to spray taxpayers' money at favoured parties.

[Felix Salmon](#) [3] tells us all about why the banks and the financiers won't pay for it. Largely because if it finds anything then they'll be more regulated. And you can read what BIS thinks about it [here](#) [4] in 40 or more pages.

We conclude with an argument that, in the specific case of the global financial markets, there is an urgent need to develop major national strategic modelling and predictive simulation capabilities, comparable to national-scale meteorological monitoring and modelling capabilities. The intent here is not to predict the price-movements of particular financial instruments or asset classes, but rather to provide test-rigs for principled evaluation of systemic risk, estimating probability density functions over spaces of possible outcomes, and thereby identifying potential 'black swan' failure modes in the simulations, before they occur in real life, by which time it is typically too late.

No, no and thrice no. Even, scream "Noooooo!" while fleeing the country that would do such a thing.

Allow me to introduce our two computing experts to an economist. A certain Mr. Hayek who taught for a number of years in our fair and pleasant land.

You cannot model the market because the only method we have of modelling the market is the market itself.

Too much knowledge is local, there is too much knowledge to attempt to capture it, it is simply not possible to model something as complex as the financial markets using anything other than the financial markets themselves as the model. If you like, you cannot map the territory it is only possible to use the territory itself as the map.

Now, if we were just a few programmers playing with a box or two, well, leave them to it perhaps. But quite apart from that not being what will happen (they are already calling for a programme the size of the weather prediction business, supercomputers and all) and thus much more money than that will be wasted, the programme itself will introduce horrible uncertainty into the system. For, you see, the regulators, the lawmakers, will think that having spent tens, hundreds, of millions to map the territory, model the markets, will think that they actually understand them. That there are no little grey areas, no bottomless pits of ignorance into which they can fall, no relationships or linkages unknown.

And yet we know that this is impossible. They simply cannot manage to create a model which does not have these lacunae: and there's nothing on the planet more dangerous than a politician who thinks that they really do understand something.

Well, there you go, hundreds of millions saved and financial calamity averted. Yes, I'll wait until the next

Honours List for my MBE, that's fine. And could I just add a little routine that I'd hope that the Government Office of Science might like to follow in future?

When you've got non-economists making suggestions about matters economic, would you like to just run their ideas past an economist before paying anyone anything? Would save both time and money you know.

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