


Economic Analysis and Policy Regret



Lori S Bennear
IRGC Conference
Paris, France
14 October 2014

“Regulators failed to address risks in oil rig fail-safe device”



—New York Times, June 20, 2010

Policy Regret



“Fukushima Nuclear Disaster—A failure of regulation, not operation”

—PBS NewsHour, June 7, 2011



“S.E.C. concedes oversight flaws fueled collapse” —New York Times, September 26, 2008

Characterized by limited public pressure for policy reform prior to an extreme event, followed by significant calls for reform following an event.

Economic Analysis



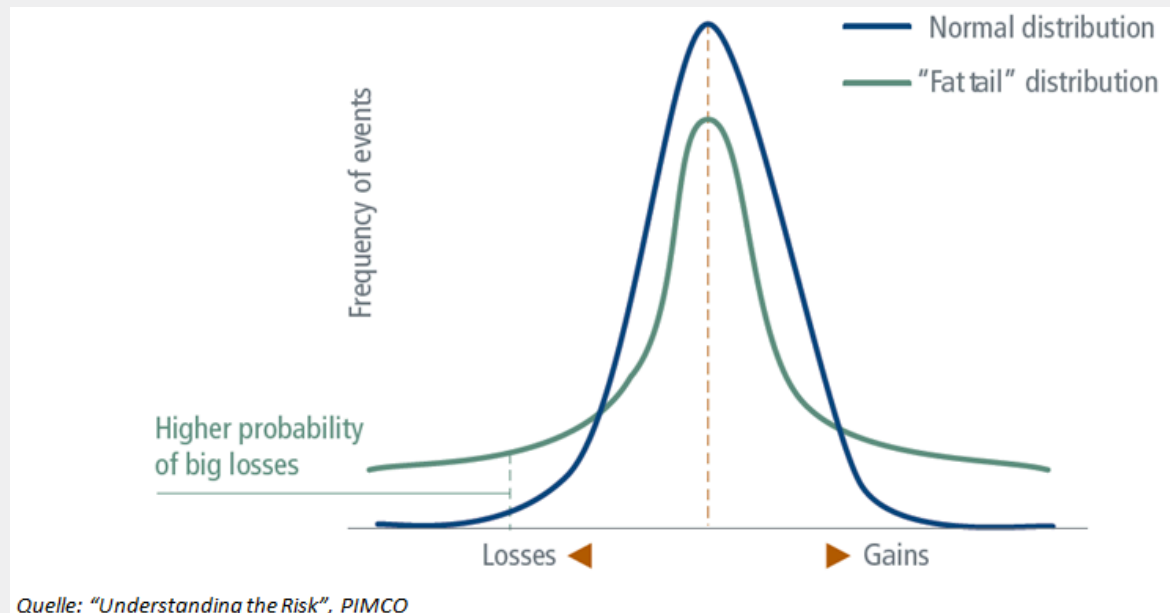
Economic analyses of major risk regulations have been required in U.S. since the Nixon administration.

- Risk parameters are modeled and distributions are simulated using Monte Carlo analysis.
- Parameter estimates sought through expert elicitation when unknown

Systematic Problems



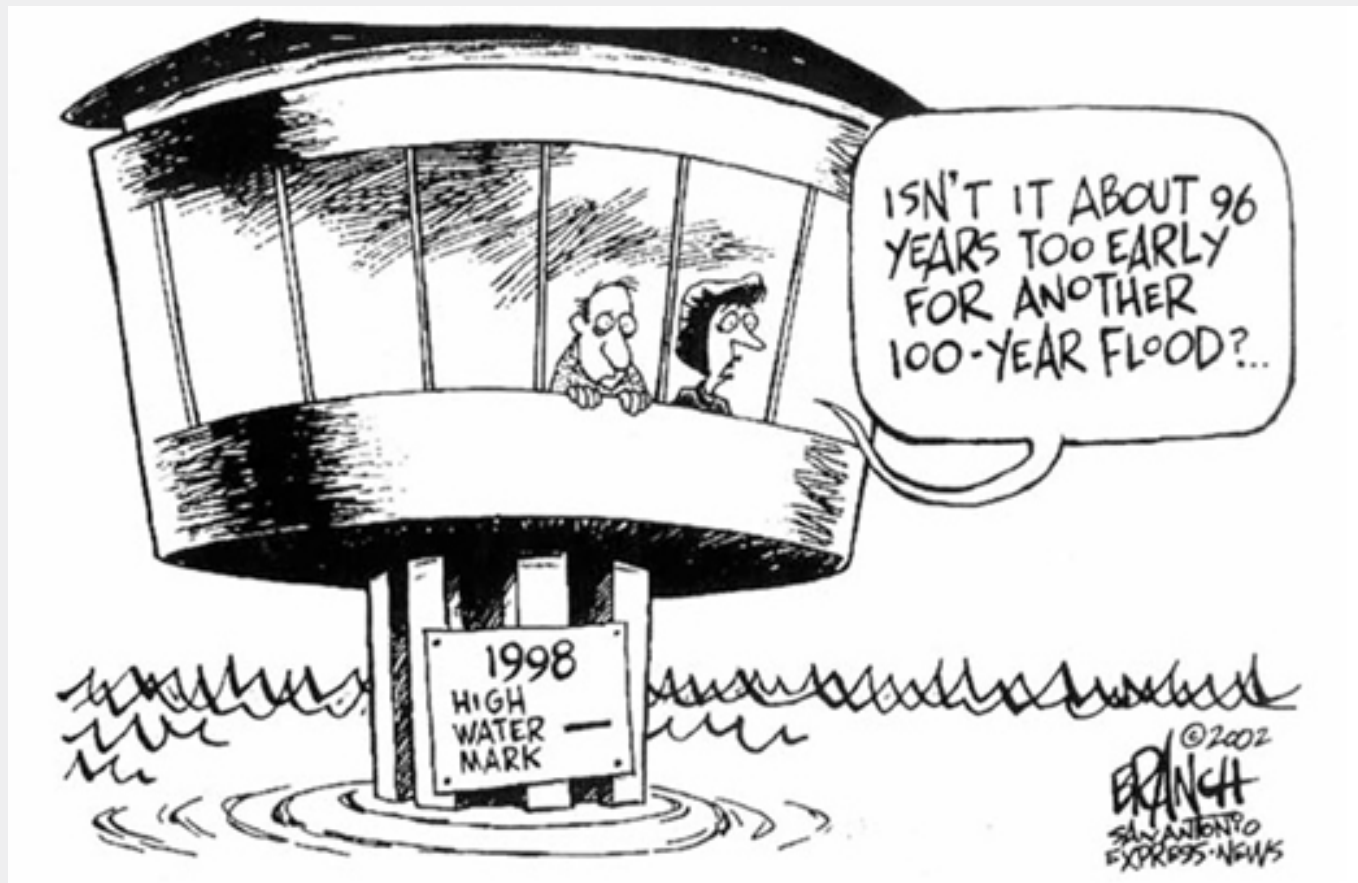
- Everything is not normal!
 - Fat Tails
 - Correlated Tails



Quelle: "Understanding the Risk", PIMCO

See More Crazy Pictures & Videos on Owned.com

Interpreting Crisis Event



Bad Draw?

New World?

Can take time to discern.

Deflect and Reflect

- Significant political pressures for action.
- If interpretation of event is unclear may want to:

Deflect—reduce pressure by taking actions that are purely political OR things you would have done anyway. Don't lock in reactive policies that may be inappropriate.

Reflect—begin data collection and analysis that would help you learn and be ready for next event.