

## Mercers' School Memorial Professor of Commerce Michael Mainelli

"New Learning"

## Beyond Price Trust Me, I'm Commercial



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#### **Outline**

- Trust is not a good
- Trust in theory, and diagrams
- Trust in games
- Trust in volatility
- Trust in money
- Trust me, I'm human



"Get a detailed grip on the big picture."

Chao Kli Ning



## **Bond, Commercial Bond**



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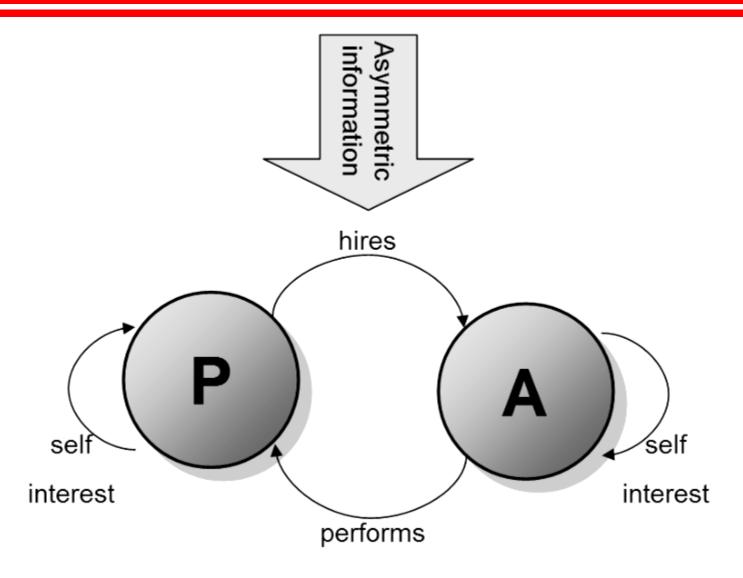
## **Motherly Trust**



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## **Agency Theory**



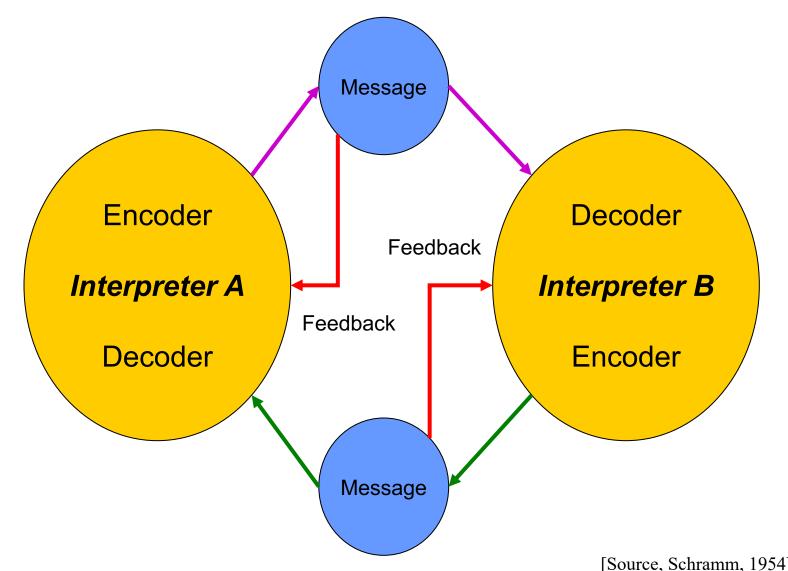
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[Source: http://en.wikipedia.org/wiki/Principal-agent\_problem]



### **Information Theory**



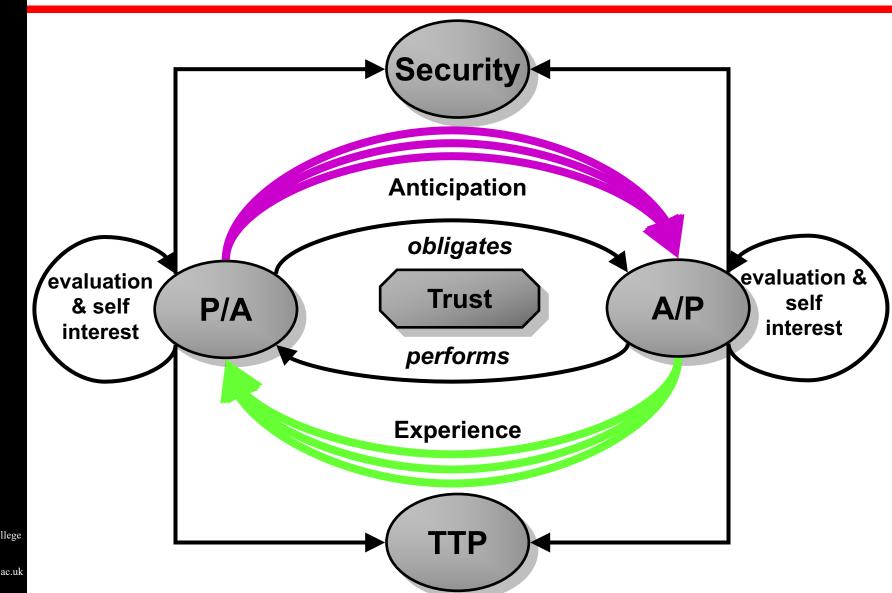
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[Source, Schramm, 1954]



#### **Trust Theory**



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#### Nobody Loves Me Like I Love Me



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[Source: http://www.ketnapatel.com/artworks/sketches/sketches.html]



#### **Trust Equation**

Reputation =  $\Sigma$  (Experiences – Anticipations)



### **Trust In A Game**



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#### **Mexican Standoff**



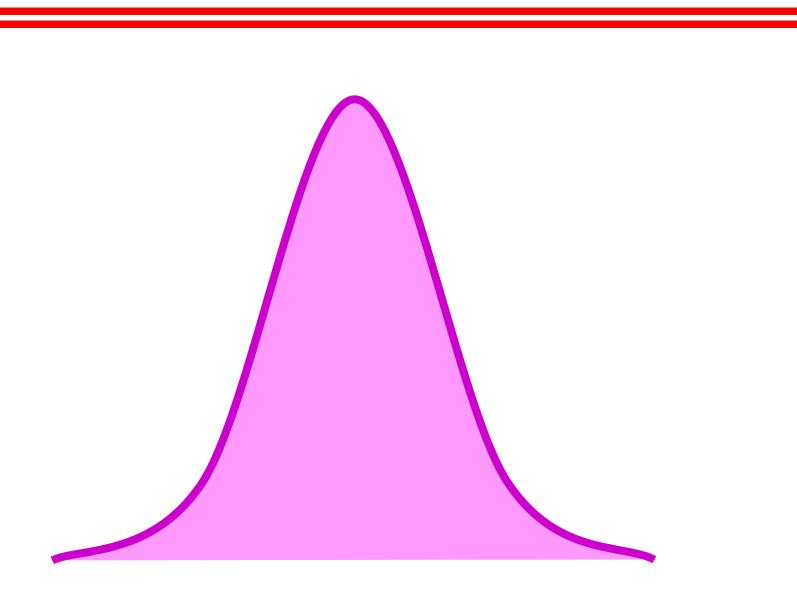
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[Cat-eyed tree-snake, deadlocked with a Morelet's treefrog -



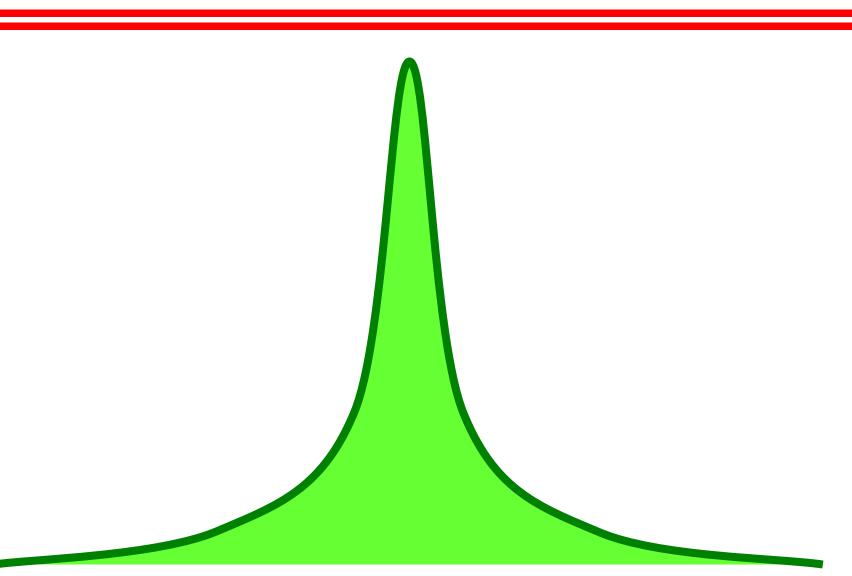
## **Experiences**



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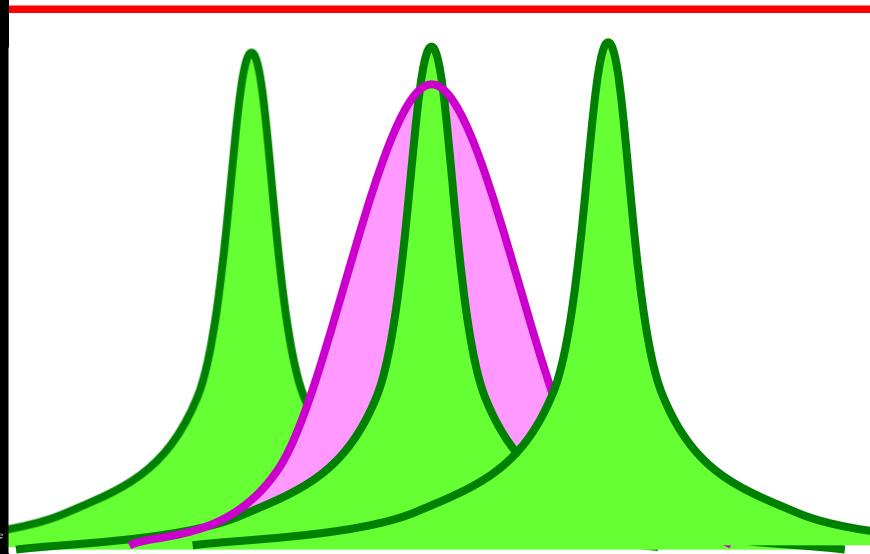
## **Anticipations**



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## **Green Shoots Of Anticipations**

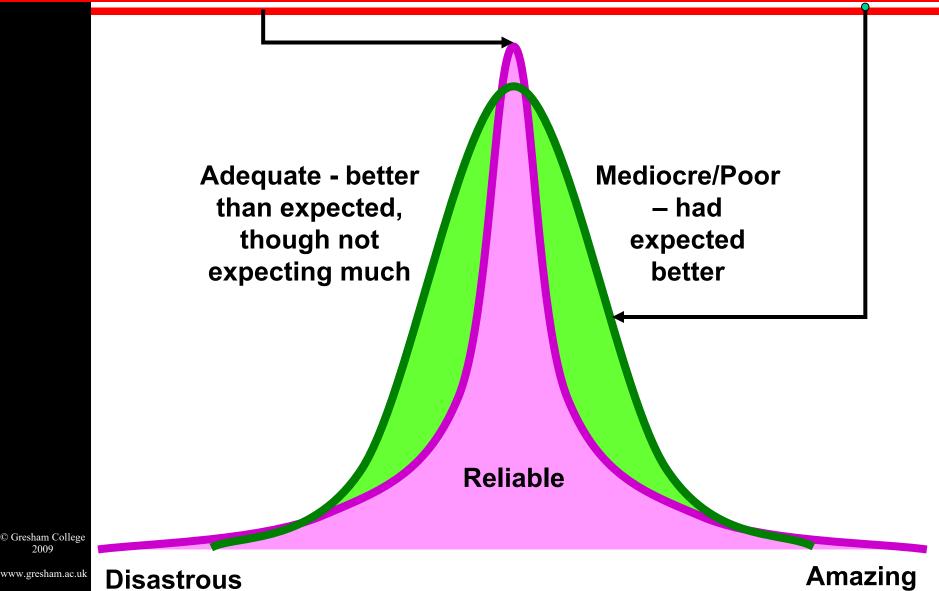


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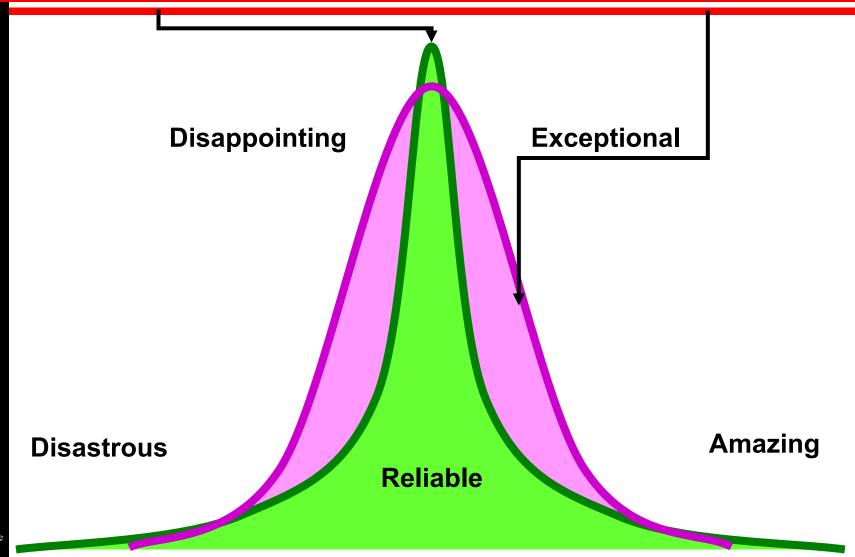
2009

#### **Experiences Tighter Than Anticipations**





#### **Anticipations Tighter Than Experiences**



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#### **Accumulated Differences**

Positive difference

**Anticipation** 

Negative difference

Information

Adequate	Amazing
Reliable ——	
Poor	Disastrous

Small difference

Large difference

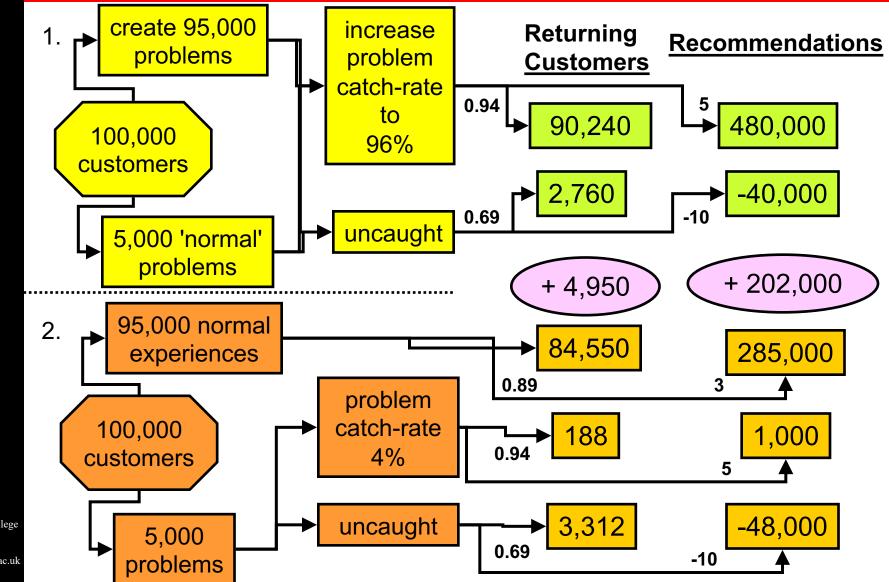
**Experience** 

Disinformation

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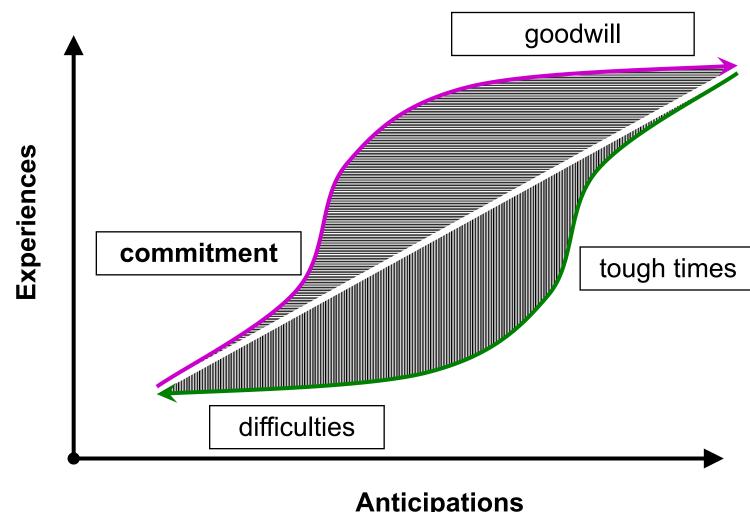
# A Problem Created ... Is A Margin Improved



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## **Building Trust – Slow Path**



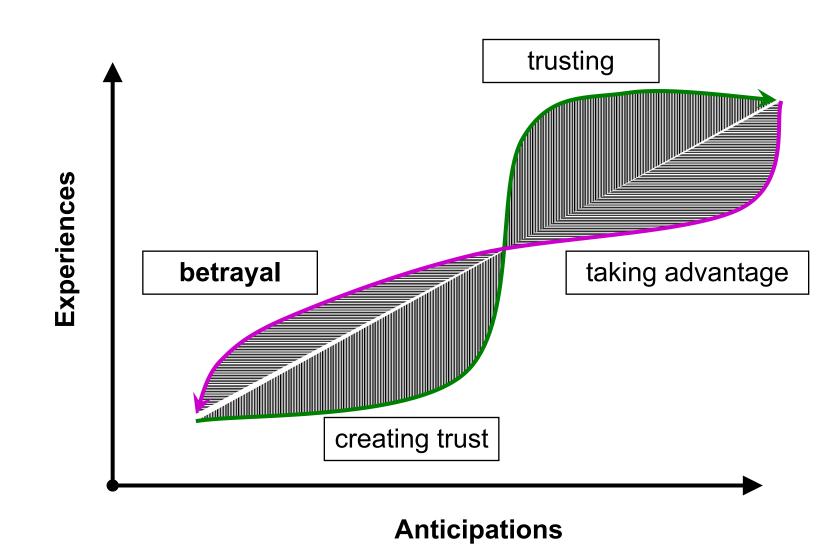
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**Anticipations** 



## **Sowing Betrayal – Fast Crossover**



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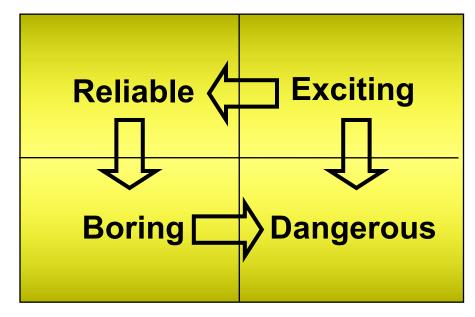


#### **Volatility Makes Friends**

High volatility

**Anticipation** 

Low volatilty



Low volatility

High volatility

**Experience** 

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#### **Trusting Souls**

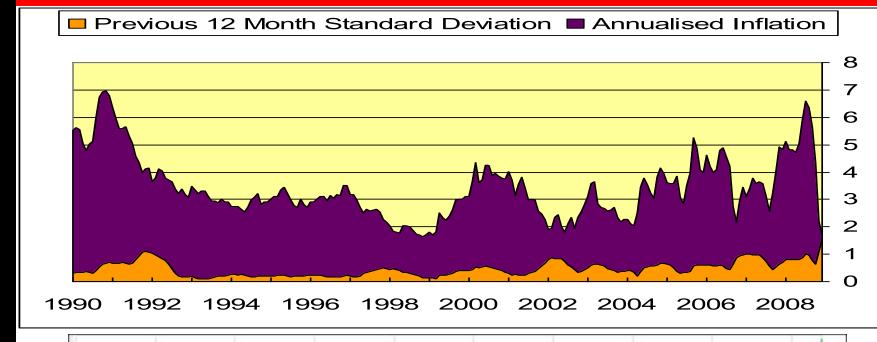


"What's our policy on trust?"

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#### **VIX TO RealitY**



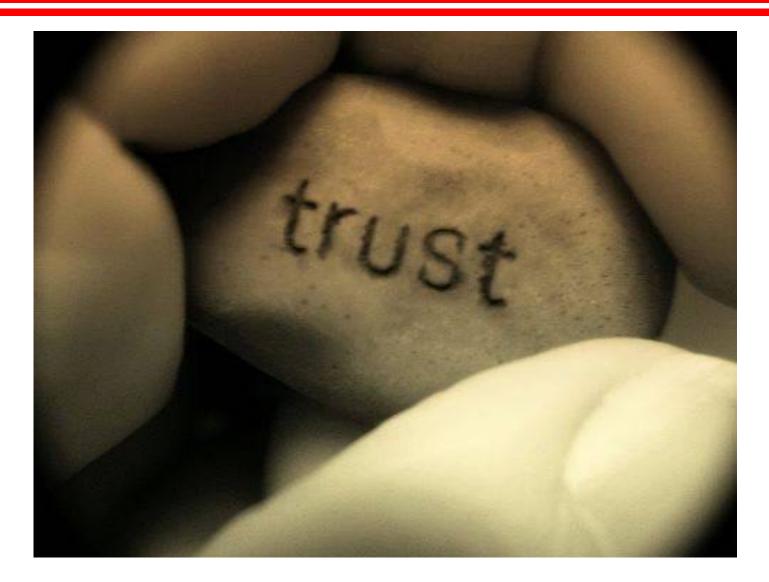


[Source: Bureau of Labor Statistics (inflation), Wikipedia (historical VIX)]

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## Trust Me, I'm Human



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[Source: http://khushi.files.wordpress.com/2007/12/]



#### **Discussion**

- How can we know when we're too suspicious the opposite of "too trusting"?
- 2. Can we ultimately automate trust?





#### Beyond Price Trust Me, I'm Commercial

Thank you!



"Get a big picture grip on the details." Chao Kli Ning