METHODOLOGY SEMINAR

Narratives in Economics: From Rhetoric to Causal Models

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Outline

1. Why narratives?
2. What is a narrative?
3. Narratives in science
4. Narratives and political decision-making
5. Narratives and rationality

A concept that is everywhere in the social sciences — and, more recently, in economics. What is a **narrative**, and what does it bring to the researcher?

1

Why narratives?

A word that has spread across the humanities, the media and the social sciences — and now reaches economics.

The rise of a word

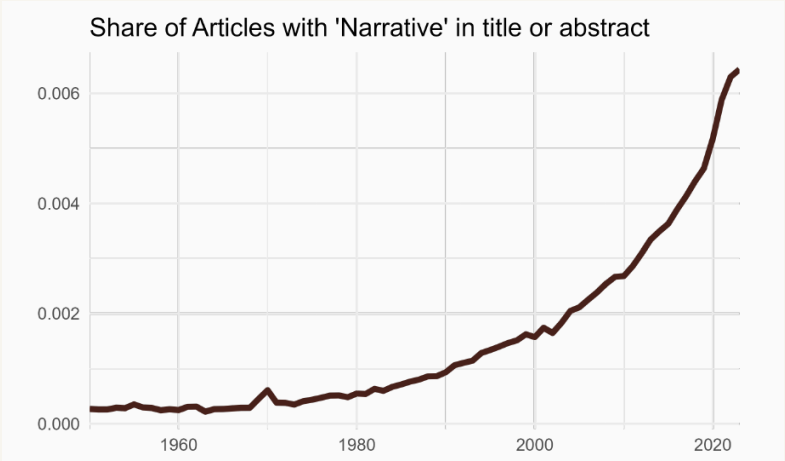


Figure 1: Popularity of the word *narrative*: share of articles with “narrative” in their title or abstract (OpenAlex).

Why narratives?

New disciplines and new currents

- Hermeneutics (Heidegger, Gadamer, Ricoeur, . . .)
- Analytic aesthetics
- Narratology, semiotics
- Psychoanalysis
- Marketing, modern management, self-help

Political, economic and social context

- “Death of God”, “end of history”, end of ideologies — and the need for new narratives
- Diffusion, multiplication and growing complexity of the media that carry fiction
- Democratization of the media; conspiracy theories

Example: the 1990s and cinema



Aims of the session

1. An **overview** of how the concept is used in the social sciences, and in economics in particular.
2. How should we **define** the concept? What does it bring to the social scientist?
3. A presentation of some **applications**, and a critical look at them in the light of the different possible definitions of the concept.

Popularity of the word *narrative* by discipline

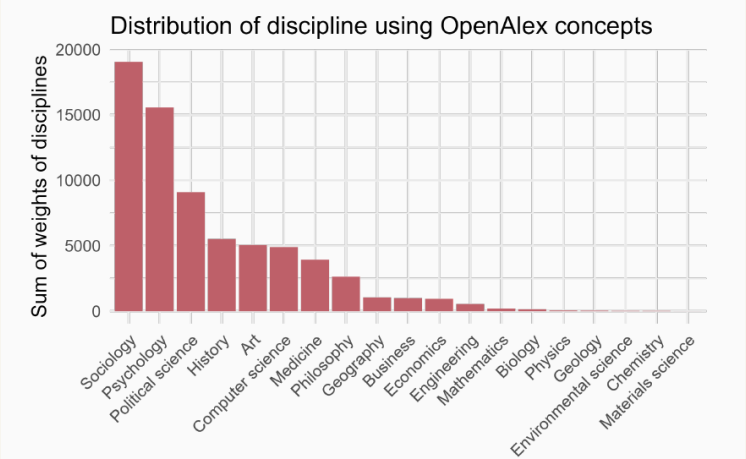
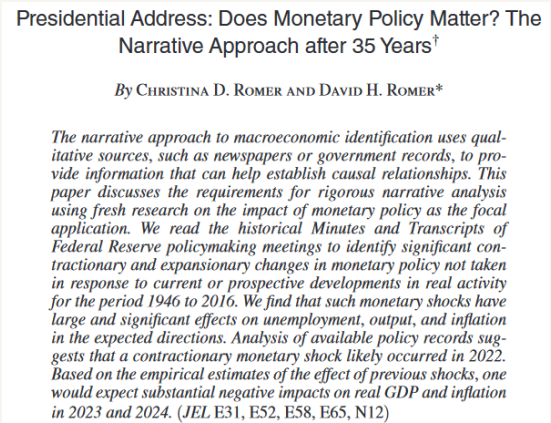


Figure 2: Distribution of disciplines among articles using the word, based on OpenAlex concepts (sum of discipline weights).

The concept of narrative in economics

An old practice: the "narrative approach"

- Friedman and Schwartz (1963)
- Romer and Romer (1989)
- The "analytic narratives approach"



Presidential Address: Does Monetary Policy Matter? The Narrative Approach after 35 Years†

By Christina D. Romer and David H. Romer*

The narrative approach to macroeconomic identification uses qualitative sources, such as newspapers or government records, to provide information that can help establish causal relationships. This paper discusses the requirements for rigorous narrative analysis using fresh research on the impact of monetary policy as the focal application. We read the historical Minutes and Transcripts of Federal Reserve policymaking meetings to identify significant contractionary and expansionary changes in monetary policy not taken in response to current or prospective developments in real activity for the period 1946 to 2016. We find that such monetary shocks have large and significant effects on unemployment, output, and inflation in the expected directions. Analysis of available policy records suggests that a contractionary monetary shock likely occurred in 2022. Based on the empirical estimates of the effect of previous shocks, one would expect substantial negative impacts on real GDP and inflation in 2023 and 2024. (*JEL* E31, E52, E58, E65, N12)

Romer and Romer, "Does Monetary Policy Matter? The Narrative Approach after 35 Years" (presidential address, abstract)

A recent revival?

A contemporary literature

Shiller (2017, 2019), Bénabou et al. (2018), Akerlof and Snower (2016), Rodrik et al. (2021)

Varied fields of application

- finance
- macroeconomics
- decision theory
- experimental economics

Plan of the session

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2

What is a narrative?

Chronicle, story, narrative: a narrative selects and connects events so as to answer a question.

Narrative, chronicle and story

Three notions

- A **chronicle** is a sequence of events.
- A **story** is a sequence of events that are logically connected to one another.
- A **narrative** is an arrangement of events that answers a question, or a plot.

Narrative, chronicle and story

Three notions

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Example

- **Chronicle:** “Louis XVI ascends the throne in 1774. He is deposed in 1792.”
- **Story:** “Louis XVI ascends the throne in 1774; the Revolution of 1789 leads to his execution in 1793.”
- **Narrative:** “The French Revolution results from a tangle of systemic crises, including economic imbalances and social injustices reinforced by the ideals of the Enlightenment, which together created an insurrectionary climate leading to the fall of Louis XVI.”

Putting events into narrative

Characteristics of a narrative

A narrative designates a set of **selected** events and characters . . .
. . . **logically connected** to one another . . .
. . . whose synthesis brings an **original answer** to a problem.

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The same factual observation can be put into narrative in different ways:

Two narratives, one set of facts

- **Narrative 1:** “The French Revolution was inevitable, which led to the deposition of Louis XVI.”
- **Narrative 2:** “Louis XVI failed to contain the French Revolution, which led to his deposition.”

3

Narratives in science

Models, persuasion and explanation: McCloskey's rhetoric and Morgan's narrative science.

A payoff matrix

	B_1	B_2
A_1	$-1, -1$	$-3, 0$
A_2	$0, -3$	$-2, -2$

The same matrix, told as a story

	Prisoner B cooperates	**Prisoner B betrays**
Prisoner A cooperates	Both prisoners cooperate and each receives a reduced sentence $(-1, -1)$.	Prisoner A cooperates but is betrayed by B, thus receiving the maximum sentence (-3), while B is released (0).
Prisoner A betrays	Prisoner B cooperates but is betrayed by A, suffering the maximum sentence (-3), while A is released (0).	The two prisoners betray each other, resulting in an intermediate sentence for both $(-2, -2)$.

Table 1: Payoff table of the Prisoner's Dilemma.

The narrative in the Prisoner's Dilemma

Economists insert a **narrative** that gives meaning to this payoff matrix:

- prisoners
- rewards
- maximizing behaviour
- expectations
- a Nash equilibrium
- Pareto optimality

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One could imagine the **same payoff matrix** describing a very different situation: for example, the tragedy of the commons, nuclear weapons, the media.

Narrative science

- **Narrative science** is a research programme led in particular by Mary Morgan.
- Its ambition: to analyse the **role of narratives in the practice of scientists**.
- It extends earlier work:
  - McCloskey (1983, 1990): *The Rhetoric of Economics*; *The Narrative of Economic Expertise*
  - Morgan (2012): *The World in the Model*

Narratives as a means of persuasion (McCloskey)

- Economists **overvalue the objectivity** of their method and ignore other aspects of argumentation, deemed subjective: anecdotes, intuitions, metaphors, analogies, etc.
- Yet these aspects are **essential to persuade an audience**.

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McCloskey on the "story"

The word "story" has in fact acquired a technical meaning in mathematical economics, although it is usually spoken in seminars rather than written in papers. It designates an extended example of the economic reasoning underlying the mathematics, often a simplified version of the real-world situation that the mathematics is meant to characterize. (McCloskey, 1983, 505)

Economists and their models (Morgan)

- A narrative is not merely the **illustration** of a pre-existing explanation.
- For Morgan, the narrative is an **interface between the model and reality** that makes explanation possible.

Narratives as a cognitive bridge

Narratives function as a cognitive bridge between the abstract and still relatively general model, with its demonstrations, and the much more detailed descriptions of concrete events in the real economic world. By establishing these links of correspondence, narratives offer potential explanations for these real-world events. (Morgan, 2012, 244)

Narrative science: a research programme

Research programme led by Mary Morgan:

- Morgan (2012): *The World in the Model*
- Morgan (2017): *Narrative ordering and explanation*
- Morgan et al. (2022): *Narrative Science*
- Morgan and Stapleford (2023): *Narrative in Economics: A New Turn on the Past*

Configuration

- Putting into narrative means **configuring** disparate events so as to give them coherence.
- Configuring means **sorting, organizing and connecting** these events.
- Making these events cohere brings a **new interpretation** of the set of events.

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This explanation works through a double process: **colligation** and **juxtaposition**.

Quentin Matsys, *The Moneylender and His Wife* (1514)



Colligation

Morgan's definition

"I use colligation to capture the way a scientist both brings together, and assembles, a set of similar elements framed under some overall guiding conception, or categorization schema."

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- These elements can be real "events", but more generally **any scientific object**: categories, concepts, ideas, theories, stylized facts, etc.
- The narrative bears not only on real phenomena (nature) but also on the **researcher herself** (school of thought, controversy, anecdote, etc.).
- Colligation **connects** these different elements by creating logical relations across time, geographical space, or within a network of relations.

Juxtaposition and puzzling

- **Juxtaposition** places elements side by side to create contrasts and differences.
- It brings together two seemingly unrelated elements, which generates **puzzles and paradoxes** to be solved.
- What counts as “puzzling” depends on the **discipline** and on the researcher’s theoretical framework.

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The epistemic switch

“Such juxtapositions are critical, for it is this detection of oddity that sets up the ‘epistemic switch’ that makes the scientist think anew about something.” (Morgan and Stapleford, 2023, 19)

Street Corner Society: Whyte (1943)



Firms' exit: Baden-Fuller (1989)



Deep play: Geertz (1973)



Open questions

- **Normativity:** what makes a scientific narrative convincing?
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- **Normativity:** what makes a scientific narrative convincing?
  - Simplicity, quality of the paradox, resolution.
- **Historicity:** how have scientific narratives evolved with the transformations of the discipline?
- **Expertise:** how do scientific narratives travel to other social fields, the political field in particular?

4

Narratives and political decision-making

How narratives turn difficulties into problems, how they can be measured, and why some of them win.

Some questions

- **Constructivist turn:** how do narratives affect political decisions?
- **Ontological dimension:** what is a narrative? What are its characteristics?
- **Methodological dimension:** how can we identify (measure?) narratives?
  - Similarity and typology of narratives
  - Circulation of narratives

A constructivist approach to political decision-making

Constructivism

“Real” situations are always **mediated by ideas** (no independent reality): events are interpreted through the way individuals construct their meaning.

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Constructivism stands in opposition to **US positivism** in political science, which:

- does not take the underlying ideology into account — the reality that grounds the problem to be addressed is a social construction;
- cannot account for micro-processes at the moment of aggregation;
- leaves marginalized groups aside (the discourse of the winners).

The role of narratives in politics

- “transformation of difficulties into problems” (Stone, 1989). Narrative = presenting events as the *results* of human action and as *changeable* by human action; making sense.
- “Problem definition is a process of image making, where the images have to do fundamentally with attributing cause, blame, and responsibility.” (Stone, 1989, 282)

The role of narratives in politics

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- Importance of narratives in **agenda-setting**.

The role of narratives in politics

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- “Problem definition is a process of image making, where the images have to do fundamentally with attributing cause, blame, and responsibility.” (Stone, 1989, 282)
- Importance of narratives in **agenda-setting**.
- The (political) **success of a narrative** (Hajer, 1995):
  - plausibility and degree of acceptability for the recipients (identity/framing);
  - formation of a “discourse coalition”.

Narrating crisis

Hay (1996)

"Narrating Crisis: The Discursive Construction of the Winter of Discontent"

Narrating crisis

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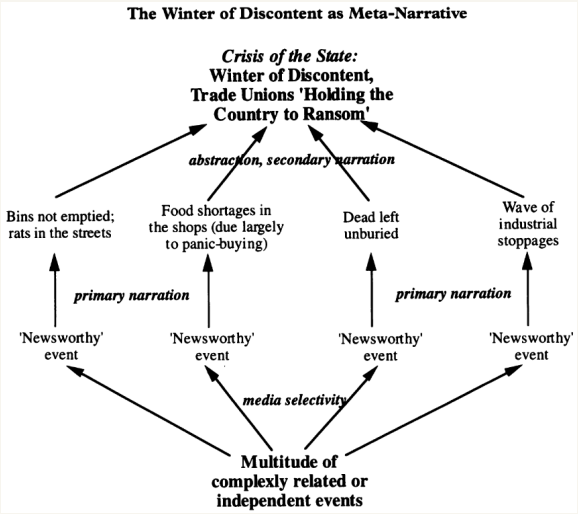
"Narrating Crisis: The Discursive Construction of the Winter of Discontent"

- Crises are **constituted through narrative**: narratives are built to highlight "symptoms" of a more general crisis.
- Emergence of a narrative about the power of the trade unions **holding the country hostage** $\rightarrow$ change in the dominant perception in the country.
- Study of "rhetorical strategies" and "textual practices".

Narrating crisis: the press

The press constructs narratives about what the unions (“them”) impose on the population (“us”).





Source: Hay (1996).

Identifying and measuring narratives

- Hypothesis testing and replicability are **difficult** for the constructivist approach to narratives.
- How **comparable** are different narratives? What unit, and what structure, for a narrative?
- How can we **measure the dominance** of a narrative?

The structure of a political narrative

Narrative Policy Framework (Jones and McBeth, 2010)

A narrative requires four elements:

1. a **setting** (lays out the vocabulary and the problem);
2. **characters** (entities endowed with agency);
3. a **plot** (the relations among characters, and between characters and the setting);
4. a **moral** (a solution).

The wage–price spiral

	Narrative 1: the wage–price spiral
Setting	Inflation in 2021–2023 after Covid and the war in Ukraine
Characters	The trade unions
Plot	Inflation pushes workers to demand wage increases
Moral	Wage de-indexation and the “responsibility” of the trade unions

The wage–price spiral

	Narrative 1: the wage–price spiral	Narrative 2: profits
Setting	Inflation in 2021–2023 after Covid and the war in Ukraine	Inflation in 2021–2023 after Covid and the war in Ukraine
Characters	The trade unions	(Large) firms
Plot	Inflation pushes workers to demand wage increases	Inflation allows firms to hide the increase in their margins
Moral	Wage de-indexation and the “responsibility” of the trade unions	A tax on windfall profits

Why a structuralist approach to narratives?

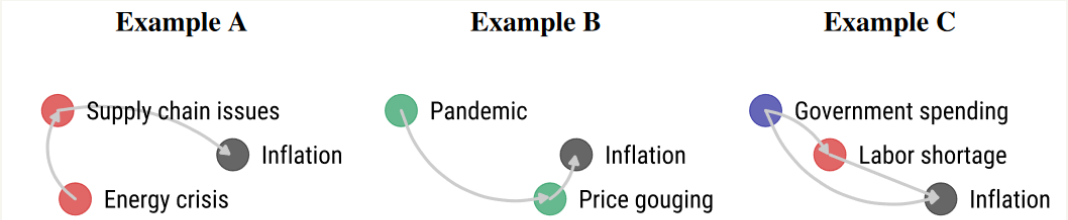
- An **aggregate approach** to narratives (diffusion and dominance).
- Independent of rhetoric and style $\rightarrow$ **commensurability** between the narratives of different groups.
- **Typology** of narratives and comparative analysis.

Narratives as acyclic networks

"Narratives about the Macroeconomy" (Andre et al., 2022)

- A **survey** on what explains inflation.
- One network per respondent: **nodes** are economic variables, **links** are causal relations between them $\rightarrow$ narratives as **causal stories**.
- Variables are categorized: nodes are grouped according to how close the variables are.
- Networks are **aggregated** separately for experts and for households (node size: number of times the variable is used in the explanation; link width: number of times the nodes are connected).

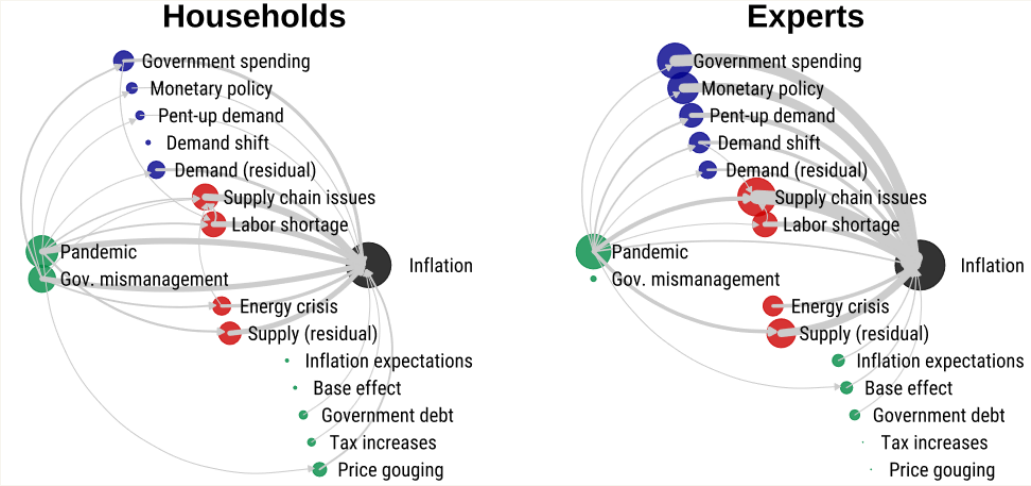
Narratives as acyclic networks: three examples



Notes: Three example narratives for why inflation increases, represented by their DAGs. Blue nodes are demand-side factors, red nodes are supply-side factors, and green nodes are miscellaneous factors. The arrows indicate the direction of causality.

Source: Andre et al. (2022).

Narratives as acyclic networks: households vs experts



Source: Andre et al. (2022).

The success of narratives

- Does the structural definition of narratives help us understand the **effectiveness** of a narrative and its success?
- Which elements of narrativity are **left aside**: the use of images and symbols, references to a shared imaginary, frames, rhetoric, tone, etc.?

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- Does the structural definition of narratives help us understand the **effectiveness** of a narrative and its success?
- Which elements of narrativity are **left aside**: the use of images and symbols, references to a shared imaginary, frames, rhetoric, tone, etc.?
- What analysis of the **recipients** of the discourse? The subjectivity of the reception of narratives.

5

Narratives and rationality

Narratives as (possibly wrong) models: misspecification, persuasion, and causal graphs.

Model misspecification

Statistical model

A **statistical model** is a set of probability distributions Θ which, according to the statistician, must contain the distribution that generated the data she observes.

Example: the income distribution

Normal: $\Theta^N = \{d \sim \mathcal{N}(\mu, \theta) : \mu, \theta \in \mathbb{R}\}$ or **Pareto:** $\Theta^P = \{d \sim \mathcal{P}(\mu, \theta) : \mu, \theta \in \mathbb{R}\}$.

Equipped with Θ and data, the statistician seeks to determine the distribution, i.e.

- for the model Θ^N, the parameters μ, θ that best account for the data.

Model misspecification occurs when the true distribution d^T is not in the assumed set of statistical models, i.e. $d^T \notin \Theta$.

Model misspecification and narratives

Traditionally

Think of agents' behaviour and beliefs **as if they were statisticians**.

Now

What if agents were **misspecified**, i.e. did not use the right model?

Narrative = model = interpretation of the data

- A narrative is a model, i.e. it allows one to **interpret data**.
- The agent may use a **wrong narrative**.
- Is using a wrong narrative **irrational**?

Narratives and persuasion

A fundamental question: how and why do narratives **persuade**? How do they **spread** (Shiller, 2017, 2019)?

"Using Models to Persuade" (Schwartzstein and Sunderam, 2021)

- Two agents have historical data and a model to interpret them.
- One of them, the **narrator**, learns the true model and can send a new model to a **receiver**.
- The receiver accepts it only if it **fits the data better**.
- Sometimes the narrator can, and wants to, divert the receiver from the "true" narrative.
- **Optimal narrative** $\approx$ **determinism:** when the data go the narrator's way, the state of the world goes her way with probability 1; otherwise, a bit of randomness.

The structure of a narrative

So far: narrative = model = interpretation of data.

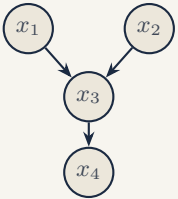
- This does not do justice to the idea that a narrative is characterized by the telling of a **unified sequence of events**, with an initial action and an end, **connected by causality**.

Aristotle, *Poetics*

The reversal must arise from the very structure of the plot, that is, it must result from the preceding events and occur by necessity or according to likelihood; for there is a great difference between events that happen because of one another and events that happen after one another.

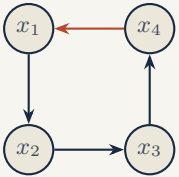
The narrative as a unified causal representation

- **Representation:** a graph $G = \langle V, E \rangle$ consists of a set of points V and a set E of asymmetric relations between these points.
- **Causal:** a graph is *directed* if its relations need not be symmetric, i.e. $(X, Z) \in E \not\Rightarrow (Z, X) \in E$.
- **Unified:** a directed graph is *acyclic* when it contains no cycle.



$G = \langle \{x_1, x_2, x_3, x_4\}, \{(x_1, x_3), (x_2, x_3), (x_3, x_4)\} \rangle$

acyclic



$G =$
$\langle \{x_1, x_2, x_3, x_4\}, \{(x_1, x_2), (x_2, x_3), (x_3, x_4), (x_4, x_1)\} \rangle$

cyclic

Directed acyclic graphs

Narrative = directed acyclic graph (DAG)

- What becomes of the notion of **misspecification**?

In a series of papers, Eliaz and Spiegler propose to use **Bayesian networks** (Spiegler, 2016; Eliaz and Spiegler, 2020).

Conditional independence

Definition

Two variables x_1, x_2 are **independent conditionally on** x_3 if

$$P(x_1 = x,\, x_2 = y \mid x_3) = P(x_1 = x \mid x_3)\, P(x_2 = y \mid x_3).$$

Remark. Two variables that are independent conditionally on a third one are not necessarily independent.

- It may be that x_3 causes both x_1 and x_2. Then x_1 and x_2 are correlated, and therefore not independent.
- A narrative consists of an **interpretation, possibly wrong, of these correlations**.

Bayesian networks

We say that a variable x_i is a **parent** of x_j if $(x_i, x_j) \in E$.

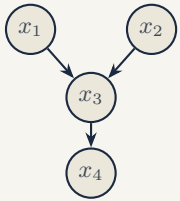
Definition

A **Bayesian network** is

- a directed acyclic graph $d = (V, E)$;
- a joint distribution p over $x_1, \ldots, x_n$;

such that for all i, j, if $(x_i, x_j) \notin E$ and $(x_j, x_i) \notin E$, then x_i and x_j are independent conditionally on their parents.

Example



- x_4 and x_1 (or x_2) are independent conditionally on x_3;
- x_1 and x_2 are independent, full stop.

Hence, instead of

$$p(x_1, x_2, x_3, x_4) = p(x_1)\, p(x_2 \mid x_1)\, p(x_3 \mid x_1, x_2)\, p(x_4 \mid x_1, x_2, x_3),$$

we can directly write

$$p(x_1, x_2, x_3, x_4) = p(x_1) \underbrace{p(x_2)}_{x_1 \perp x_2} p(x_3 \mid x_1, x_2) \underbrace{p(x_4 \mid x_3)}_{x_4 \perp x_1, x_2 \mid x_3}.$$

Causal narratives

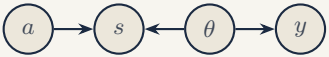
- There are several variables $\{a, x_2, \ldots, x_{n-1}, y\}$.
- The agent observes the joint distribution p over $\{a, x_2, \ldots, x_{n-1}, y\}$.
- She chooses a probability d of taking action $a = 1$ (or action $a = 0$).
- y is the **outcome** that enters the agent's utility $u(y, d)$.
- The agent therefore chooses d so as to maximize

$$d\,\mathbb{E}_{p(\cdot|a=1)}u(\cdot, d) + (1-d)\,\mathbb{E}_{p(\cdot|a=0)}u(\cdot, d).$$

The narrative acts on $p(y \mid a)$.

International trade and technological change

- Does **protectionism** $a \in \{0, 1\}$ affect **employment** $y \in \{0, 1\}$?
- **Technological progress** $\theta \in \{0, 1\}$ is the real cause of employment y, as well as of foreign trade $s \in \{0, 1\}$.
- The **true causal scheme** is $a \to s \leftarrow \theta \to y$.
- We have statistics, i.e. the joint distribution p of the variables, but not $p(y \mid a)$.



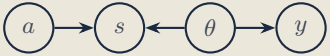
$G^\star$: true graph

Data-generating process

$p(a = 1) = \alpha$ and $p(\theta = 1) = \delta$, $\quad p(y = \theta \mid \theta) = 1$ and $p(s = 1 \mid a, \theta) = a + (1 - a)\theta$.

Narrative and belief

The true narrative



$G^\star$. According to the "true narrative", y and a are **independent**: $p(y \mid a) = p(y)$.

A "simplistic" narrative



G^e: protectionism affects trade, which affects employment.

According to this "narrative",

$$p^{\alpha}_{G^e}(y \mid a) = p(s = 1 \mid a)\, p(y \mid s = 1) + p(s = 0 \mid a)\, p(y \mid s = 0).$$

Now, $p(s = 1 \mid a = 1) = 1$, $p(s = 1 \mid a = 0) = \delta$, $p(y = 1 \mid s = 1) = \dfrac{\delta}{\delta + (1 - \delta)\alpha}$ and $p(y = 1 \mid s = 0) = 0$.

Implicit dynamics

We assume an implicit dynamic that distinguishes:

- a **status quo** α: the long-run frequency of $a = 1$ in the past;
- a **recommendation** d: the new frequency of $a = 1$ in the future.

The utility of public opinion depends on y and on the recommendation d:

$$y - \frac{1}{2} \underbrace{d^2}_{\text{cost of protection}}$$

Given the status quo α, a combination of a narrative and a recommendation (G', d) is evaluated through its **anticipated utility**

$$U(G', d; \alpha) = d\, p^{\alpha}_{G'}(y = 1 \mid a = 1) + (1 - d)\, p^{\alpha}_{G'}(y = 1 \mid a = 0) - \frac{1}{2} d^2.$$

A dominant status quo

Suppose that the **true narrative** $G^\star$ has dominated in the long-run past.

- Since protectionism a is independent of employment, the anticipated utility of any recommendation d is $\delta - \frac{1}{2}d^2$.
- The best recommendation is therefore $d = 0$, and in the long run the status quo must be $\alpha = 0$.

Can this narrative be **invaded** by the "simplistic" narrative?

Invasion by the “simplistic” narrative

Suppose that the true narrative $G^\star$ has dominated in the long-run past, but that the “simplistic” narrative and a recommendation (G^e, d) are put before the public.

- The anticipated utility $U(G^e, d; \alpha)$ is

$$d\,\frac{\delta}{\delta+(1-\delta)\alpha} + (1-d)\,\delta\,\frac{\delta}{\delta+(1-\delta)\alpha} - \frac{1}{2}d^2 = \delta\,\frac{\delta+(1-\delta)d}{\delta+(1-\delta)\alpha} - \frac{1}{2}d^2$$
$$\underset{\alpha=0}{=} \delta + (1-\delta)d - \frac{1}{2}d^2.$$

- Hence, with $d = 1-\delta$, anticipated utility is maximal and equals $\delta + \frac{1}{2}(1-\delta)^2 > \delta$.

The narrative G^e brings more anticipated utility $\rightarrow$ it **invades** $G^\star$.

Two remarks

- **Incompatibility with rational expectations:** α changes, which implies that p_G changes.
- **Assumption:** the agent chooses the narrative that brings her the highest anticipated utility — the "happy ending".
  - "This reflects the idea that voters do not adjudicate between narratives using 'scientific' methods; rather, they are attracted to narratives with a 'happy ending.' " (Eliaz and Spiegler, 2020)
  - Self-deception, wishful thinking (Davidson, Elster, Bénabou and Tirole).

Equilibrium

The simplistic narrative is **partially credible**:

- its prediction is perceived as correct only as long as it is not implemented.

If it is implemented in the short run, α increases in the long run, which lowers $U(G^e, d; \alpha)$ until α reaches $\alpha^\star$:

$$\begin{cases} d^e = \arg\max_d \left(\delta \, \dfrac{\delta + (1-\delta)d}{\delta + (1-\delta)\alpha^\star} - \dfrac{1}{2} d^2 \right) \\ \delta = \delta \, \dfrac{\delta + (1-\delta)d^e}{\delta + (1-\delta)\alpha^\star} - \dfrac{1}{2}(d^e)^2 \\ \alpha^\star = \underbrace{\sigma_{G^e, d^e}}_{\text{freq. of } (G^e, d^e)} \, d^e + \sigma_{G^\star, d^\star} \underbrace{d^\star}_{=0} = \sigma_{G^e, d^e} \, d^e \end{cases} \implies \begin{cases} d^e = \sqrt{\left(\dfrac{\delta}{1-\delta} \right)^2 + 2\delta} - \dfrac{\delta}{1-\delta} \\ \alpha^\star = \frac{1}{2} \, d^e \\ \sigma_{G^e, d^e} = \frac{1}{2} \end{cases}$$

Narratives and political mobilization

- No more representative agent: **several agents** N, mobilized for different causes.
- They can form **coalitions** $C \subseteq N$.
- They can adhere to narratives that give the causal scheme around y:
  - **True narrative:** blame the action: $a \to y$?
  - **Tribal narrative:** blame the coalitions in power: $C \to y$ or $C \to y \leftarrow a$?
  - **Denial narrative:** blame an external cause.

Example

"a central conservative narrative . . . : Pr. Biden and the Democratic-controlled Congress have made a mess of the American economy."

Results (Eliaz et al., 2022): the presence of false narratives affects political decisions and the coalitions that emerge, and it fragments society.

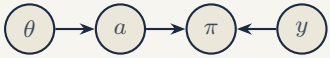
Monetary policy and causal narratives

Canonical model of monetary policy

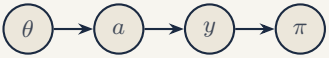
- The central bank observes a shock and controls a variable (e.g. interest rates) that affects inflation π, which is linked to output y.
- The private sector forms expectations about interest rates.
- *Communism of models*: the private sector uses the same model as the central bank (rational expectations).

Model with narratives: the private sector does not necessarily use the right model.

Monetarist private sector



Private sector (alternative narrative)



Take-aways

1. A **narrative** is not a chronicle nor a mere story: it selects and connects events so as to give an original answer to a question.
2. In science, narratives give meaning to models (the Prisoner's Dilemma), persuade (McCloskey, 1983) and bridge models and the world (Morgan, 2012), through **colligation** and **juxtaposition**.
3. In politics, narratives turn difficulties into problems by attributing cause, blame and responsibility; they shape **agenda-setting**.
4. Structural definitions (setting, characters, plot, moral; causal networks) make narratives **comparable and measurable** — at the cost of leaving rhetoric, symbols and reception aside.
5. In economic theory, a narrative is a **model**, possibly misspecified: a DAG that interprets correlations.
6. Wrong narratives can **invade** true ones when people favour the narrative with the "happy ending".

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