

Stock Market Crashes as Critical Phenomena?



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Abstract: In this contribution, we assess the Johansen-Ledoit-Sornette (JLS) model of “critical” market crashes (Johansen, Ledoit, and Sornette 2008), which uses methods from the theory of critical phase transitions in physics to provide a predictive framework for financial market crashes. This model is of particular interest because it aims both to predict and describe market-level phenomena – crashes – and to provide microscopic foundations that explain how that behavior can result from interactions between individual agents.