

The new external shock dynamics in Bolivia: application of euro-psycho-econometric instruments in presence of asymmetric shocks with memory

**Ma. Edith S. Chacón Bustillos
Héctor Ernesto Sheriff Beltrán**

Abstract

In this research work, a new approach to the study of external shocks is made by using new concepts about economic decisions: memory and prospect theory. They help explain why some shocks are rated as transitory and others as permanent; why the effects of positive and negative shocks are not symmetrical; and why these effects, within an economy, do not diffuse in a homogeneous way. These contributions apply here for the Bolivian case.

A multi-period multi-agent stochastic model was developed, incorporating the contributions of the theory of prospects and memory. The equilibrium model shows very significant asymmetric results and reproduces the phenomena of hysteresis. Even in the case of memory isolation, the results show strong asymmetric movements in investment and production.

JEL Classification: C5, D58, D8, E3

Keywords: *External shocks, economic policy, neuro-economics*