



IN THIS ECONOMY?

**HOW MONEY
& MARKETS
REALLY WORK**

KYLA SCANLON

FOREWORD BY MORGAN HOUSEL, AUTHOR OF *THE PSYCHOLOGY OF MONEY*

In *This* Economy?

HOW MONEY & MARKETS REALLY WORK

Kyla Scanlon



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Published in the United States by Crown Currency, an imprint of the Crown Publishing Group, a division of Penguin Random House LLC, New York.

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Library of Congress Cataloging-in-Publication Data

Names: Scanlon, Kyla, author.

Title: In this economy? / Kyla Scanlon.

Description: New York: Crown Currency, [2024] | Includes bibliographical references.

Identifiers: LCCN 2023048698 (print) | LCCN 2023048699 (ebook) | ISBN 9780593727874 (hardcover) | ISBN 9780593727881 (ebook)

Subjects: LCSH: Economics.

Classification: LCC HB171 .S294 2024 (print) | LCC HB171 (ebook) | DDC 330—dc23/eng/20231213

LC record available at <https://lcn.loc.gov/2023048698>

LC ebook record available at <https://lcn.loc.gov/2023048699>

Ebook ISBN 9780593727881

currencybooks.com

Cover design: Christopher Brand

Editor: Leah Trouwborst

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*To Mom, Dad, Ryan, Moo,
and everyone who has believed in me*

Foreword

By Morgan Housel

There are more than two hundred million businesses in the world.
Five hundred trillion dollars of financial assets.

One hundred trillion dollars of GDP.

There are almost two hundred countries, thousands of cultures and norms.

With eight billion people in the world, a rough calculation shows there are about two tons of pure serotonin careening through the global economy right now.

Economists try in earnest to model all of this in Excel.

The global economy is wildly complex. You can imagine how hard it is for anyone to wrap their head around it.

Keep that in mind and realize that there are two topics that apply to everyone in life, no matter who you are, where you live, or what you do: health and money. It doesn't matter if you aren't interested in those topics; those topics *are interested in you*.

When the global economy is infinitely complex, and it is fundamental to everyone's life, you get some problems.

Which is a good way to describe modern economic history: "We've had some problems."

In the past century we, as a society, have made incredible strides in medicine, engineering, and information technology. Experts in these

fields one hundred years ago would not recognize today's world. We have gotten so, so much better.

But finance? Economics? It's hard to see the progress, even if you squint.

Are we better at predicting recessions than we were a century ago?

Are individuals better at managing money than their grandparents were?

It's not at all clear. Actually, I take that back. It's *quite clear* that we are not.

Average household incomes adjusted for inflation have increased by more than a third in the last generation. But a recent survey showed more than 70 percent of American households are stressed about their finances. More than 60 percent live paycheck to paycheck. Some of the most dominant financial stories of the last twenty years have been: How dumb we've been buying tech stocks, how dumb we've been buying real estate, how dumb we've been buying crypto, and how easy it is to steal people's money.

This maze of confusion doesn't just affect individuals. It extends to the broader economy.

The Economist magazine—truly one of the best financial publications in the world—publishes a special edition each January that previews the year ahead.

Its year-ahead preview published in January 2020 does not say a single word about covid-19.

Its year-ahead preview published in January 2022 does not say a single word about Russia invading Ukraine.

Its year-ahead preview published in January 2023 does not say a single word about Hamas attacking Israel.

That's not a criticism, because the editors from *The Economist* could not have known about those events when the editions went to print. The events were anywhere from a few weeks to several months away from coming into our lives. But it highlights how massively difficult it is to

wrap your head around how this behemoth called the global economy works, where it's going, and how we can all learn to live with it.

—

Why is it that we've become so much better at things like engineering and physics, but not economics?

There could be all kinds of answers to that question, but a big one is that economics is one of the few fields that requires equal parts precise technical knowledge and an appreciation for how messy, flawed, emotional, and irrational people can be.

Money—personal finance, investing, and economics—is typically taught as a math-based field, where you take the data and plug it into a formula and out pops an answer. Not just *an* answer, but *the* answer. Iron laws, like in physics.

The problem when thinking like this is that in theory people should do what the economic laws tell them to do, but in reality they are impatient, misinformed, bad at math, hungry, irritable, short-sighted, guided by incentives, and a slew of other unavoidable characteristics that create a mile-wide gap between theory and reality.

And that's why I'm so excited about the book you're holding.

There are quite a few people who understand the technical details of the economy. There are many who understand the human side of how people make decisions with money.

There aren't many who understand both. Kyla Scanlon is one of them.

I came across Kyla years ago, when she made short videos about the economy that were as funny as they were informative. It was instantly apparent that she had not only mastered the technical details of how the economic machine works; she could also explain it in a way that had so much empathy for the human side of this field.

Her work exploded in 2022 when she coined the term “vibecession” to describe a situation in which the economy was technically okay but people still felt glum about it, and their vibes could become a self-fulfilling prophecy. It’s a perfect example of understanding the gap between the chalkboard and the real world.

Let me tell you: Roughly 0 percent of economic PhDs understand that gap, and exactly 0 percent can explain it like Kyla can.

Introduction

What do we really need to know about how the economy works?

The answer is pretty simple. Most of it is intuitive, even if it doesn't seem so.

Honestly, it might be for the best if you can't remember a thing your teacher said about monetary policy, since our normal ways of thinking about the economy bake in untested assumptions, "the way we've always done it" models, and a troubling disconnect between theory and the concerns of real people.

I know the last few years of economic news have been...disorienting. Reality feels almost like a dream state. That's because the algorithms controlling our news feeds reward alarmism over objectivity, and the Fed—and all other central banks, for that matter—purposefully speaks in vague, wordy language—known as FedSpeak, defined by the economist Alan Blinder as "a turgid dialect of English"—in an attempt to stop the markets from overreacting, and with the unfortunate side effect of confusing everyone.

In other words, the headlines are served to us with a nice topping of whipped cream: fluff and froth exacerbating each and every issue so we become as reactive and worried and *mad* as possible. After all, the key to capturing clicks is convincing people that you have the answers to their questions—that you hold the proverbial key to all the solutions. If you can overcomplicate simple things loudly, people will pay attention.

Economic literacy *for all* has been my mission since high school, when I dabbled in options trading and wrote about it for my first blog, Scanlon on Stocks. After majoring in finance, economics, and data analytics in college, I worked in asset management at Capital Group, conducting macroeconomic analysis and modeling investment strategies. But I found myself spending more and more time making videos and writing my newsletter, trying to connect the dots between what's happening and why for everyone out there sweating over the hypersensationalized, jargon-filled economic headlines.

This book is for anyone who wants to understand how the economy works and their role in it, anyone trying to make sense of the way monetary policy plays games with their bank account balance, anyone wondering why borrowing money is expensive and how a downturn could impact their home buying opportunities, anyone intimidated by the terrible terminology and dusty theories, and anyone who's ever looked outside their window into the world beyond and said, "Hmm, what really is going on out there?"

You might have scratched your head over questions such as:

- Is our high (and constantly increasing) national debt really a threat?
- Is money just a meme?
- What is a "mild" recession, exactly?
- What are Fed cred, Fed flexing, and Fedspeak?
- If many companies are earning record profits, why are they passing costs on to consumers?
- What are the behavioral pushes and pulls that make economies work?

When you become an informed economic citizen, you become aware not only of how economic problems and concerns affect you but also how you can benefit from those problems and concerns.