

What is a black swan event?

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In news– A study by the Reserve Bank of India (RBI) has spoken about the possibility of capital outflows to the tune of \$100 billion (around Rs 7,80,000 crore) from India in case of a major global risk scenario or a “black swan” event.

About “black swan” event-

- A black swan is a rare, unpredictable event that comes as a surprise and has a significant impact on society or the world.
- It can cause catastrophic damage to an economy by negatively impacting markets and investments, but even the use of robust modeling cannot prevent a black swan event.
- These events are said to have three distinguishing characteristics –
 - they are extremely rare and outside the realm of regular expectations;
 - they have a severe impact after they hit; and
 - they seem probable in hindsight when plausible explanations appear.
- The black swan theory was put forward by author and investor Nassim Nicholas Taleb in 2001, and later popularised in his 2007 book – The Black Swan: The Impact of the Highly Improbable.
- In his book, Taleb does not try to lay out a method to predict such events, but instead stresses on building “robustness” in systems and strategies to deal with such occurrences and withstand their impact.
- Europeans believed all swans to be white until 1697, when a Dutch explorer spotted the first black swan in Australia and the metaphor ‘black swan event’ is derived from this unprecedented spotting and how it upended the West’s understanding of swans.

- Interestingly, Taleb's **book predated the 2008 global financial crisis – a black swan event triggered by a sudden crash in the booming housing market in the US.**
- The fall of the Soviet Union, the terrorist attack in the US on September 11, 2001, also fall in the same category.

The Covid-19 pandemic and black swan event-

- In an interview to Bloomberg in 2020, **Taleb called COVID pandemic a “white swan”, arguing that it was predictable.**
- While the outbreak of any pandemic is difficult to individually predict, the possibility of one occurring and having a major impact on systems around the world was known and documented.