Neoclassical Finance (Princeton Lectures in Finance)

Stephen A. Ross
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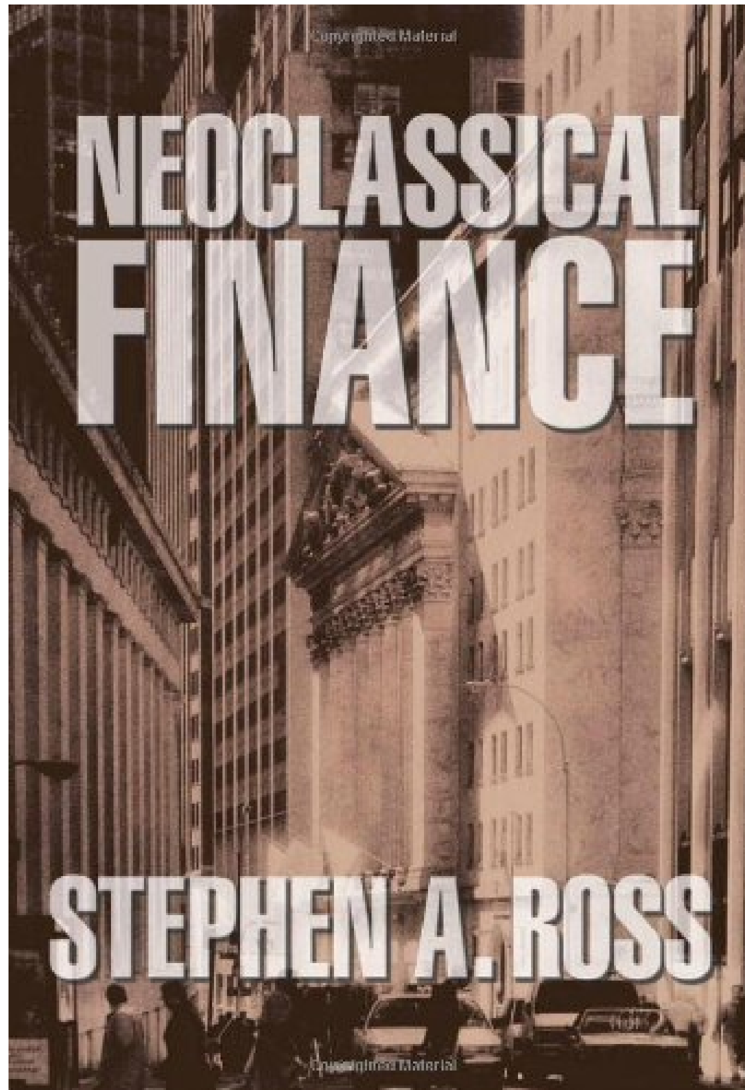

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Stephen A. Ross : Neoclassical Finance (Princeton Lectures in Finance) before purchasing it in order to gage whether or not it would be worth my time, and all praised Neoclassical Finance (Princeton Lectures in Finance):

0 of 0 people found the following review helpful. Five StarsBy CustomerPerfect book for neoclassical finance!11 of 20 people found the following review helpful. Excellent riposte to the behavioralistsBy JamesianWhy is the market capitalization of an exchange-traded fund so often less than the same fund's net asset value? Isn't this proof that markets aren't rational or efficient? that a more psychological (or "behavioral," in the fashionable term) approach to understanding finance makes more sense that the efficient capital markets hypothesis and its offshoots?Ross was instrumental in the creation of the ECMH in its current form in the mid 1970s, with his development of the no-arbitrage theory of asset pricing and his formulation, with John Cox, of the idea of risk-neutral pricing. He comes to

the defense of that structure of ideas against the behaviorists, and against their use of the valuation issued of closed-end funds in particular as a "poster child."There aren't many laugh-out-loud moments in books on these subjects, but I for one laughed when I reached a footnote on page 70, which describes one aspect of this controversy as "an interesting example for scientific sociology." I won't explain further, that would be unfair.15 of 47 people found the following review helpful. What!?By Professor Joseph L. McCauley"Neo-classical finance" is an impossibility. Money/liquidity cannot be built into neo-classical economic theory. Radner noted this over thirty years ago. He speculated that money/liquidity arises from uncertainty and/or from computational limitations (correctly stated, from lack of computability of neo-classical equilbria, which Lewis later studied). Why would anyone with empirical background write a book that has no application whatsoever to empirical data: the neo-classical model has been completely falsified, it does not describe any real market, much less financial markets. As I have explained in writings and in economics colloquia and conferences, neo-classical economics is not science, neo-classical economics is mathematized ideology.

Neoclassical Finance provides a concise and powerful account of the underlying principles of modern finance, drawing on a generation of theoretical and empirical advances in the field. Stephen Ross developed the no arbitrage principle, tying asset pricing to the simple proposition that there are no free lunches in financial markets, and jointly with John Cox he developed the related concept of risk-neutral pricing. In this book Ross makes a strong case that these concepts are the fundamental pillars of modern finance and, in particular, of market efficiency. In an efficient market prices reflect the information possessed by the market and, as a consequence, trading schemes using commonly available information to beat the market are doomed to fail. By stark contrast, the currently popular stance offered by behavioral finance, fueled by a number of apparent anomalies in the financial markets, regards market prices as subject to the psychological whims of investors. But without any appeal to psychology, Ross shows that neoclassical theory provides a simple and rich explanation that resolves many of the anomalies on which behavioral finance has been fixated. Based on the inaugural Princeton Lectures in Finance, sponsored by the Bendheim Center for Finance of Princeton University, this elegant book represents a major contribution to the ongoing debate on market efficiency, and serves as a useful primer on the fundamentals of finance for both scholars and practitioners.