

## Subject index

- 3Com and Palm, 167
- absence of arbitrage opportunities, 169, 224, 471
- agency markets, 37
- alpha-coefficient, 153, 202, 220
- annuity, 284
- anomalies in asset prices, 72
- anticipatory hedging, 367
- arbitrage, 20, 66, 126, 166–77
  - arbitrage in forward markets, 337
  - arbitrage opportunity, 169, 178, 316, 319
  - arbitrage portfolio, 169
  - arbitrage principle, the, 169, 468
  - arbitrage profit, 169
  - foreign exchange (forex) markets, 354–5
  - forward and futures contracts, 349–52, 399
  - market equilibrium, 169
  - option contracts, 440
  - proposition I, 170, 180
  - proposition II, 173
  - proposition III, 174, 177, 179
  - role in option markets, 449–50
  - term structure of interest rates, 326–8
- arbitrage pricing theory, (APT), 194, 215–19
  - APT and CAPM, 193
  - bond markets, 327
  - futures markets, 380
  - risk premia, 190
  - systematic risk, 187
  - unsystematic risk, 187
- Arrow security, 110, 174, 264
- ask price, 17, 36
- asset price volatility, 228–35
- auction markets, 37
- backwardation, 381
- Bank of England, 308, 357
  - Quarterly Bulletin*, 356
- Barings bank, 35
  - fall of, 412–14
- Bayes' Law, 51
- BE/ME, book/market value of a firm's equity, 212
- bear spreads, 515
- behavioural finance, 10, 65, 75, 98–101, 235–7, 261
- beta-coefficient, 129, 148, 203, 270
- bid price, 17, 36
- bid–ask spread, 36, 48–52
- Black CAPM, 143, 157, 162, 205, 220, 270
- Black Wednesday, 16th September 1992, 310
- Black–Scholes model, *see* options
- bonds
  - annuity, 284
  - average period, 294
  - balloons, 284
  - bond covenant, 286
  - bond markets, 3
  - bond rating agencies, 286
  - bond valuation, 295–7
  - bullets, 285
  - callable, 283, 448
  - clean price, 285
  - collateral, 286
  - consols, 284, 293
  - continuous compounding, 303–4
  - convertible, 283, 449, 487
  - convexity, 288, 295, 300
  - coupon, 224, 284–5
  - coupon-paying bonds, 291–5
  - coupons, 282
  - credit risk, 297
  - debentures, 286
  - default, 283, 285–6
  - definitions, 282–6
  - dirty price, 284
  - event risk, 297
  - exchange-rate risk, 298
  - face value (maturity value, principal), 282
  - flat (current) yield, 292
  - floating rate bonds, 285
  - forward markets, 316–7
  - holding-period yield, 287, 288, 314
  - immunization (neutral-hedge) strategies, 298–300
  - indenture, 283
  - index-linked bonds, 285
  - Macauley duration, 293–5, 298, 303

- bonds (cont.)  
 maturity (redemption) date, 282–4  
 modified duration, 295  
 par yield, 292  
 perpetuities, 284, 292  
 purchasing power risk, 298  
 pure discount bonds, 285  
 reinvestment risk, 292, 297  
 risk aversion and bond portfolios, 331–3  
 risks in bond portfolios, 297–8  
 sinking funds, 284  
 spot yield, 287  
 stripped bonds, 285, 297  
 subordinated bonds, 286  
 timing risk, 297  
 unit time period, 282  
 yield to maturity, 291  
 zero-coupon bonds, 285–91, 307  
   nominal, 286–8  
   real, 288
- bottom vertical combinations, 513  
 bounded rationality, 98  
 brokers, 35  
 bubbles, 237–42  
 bucket shop assumption, 339, 469  
 bull spreads, 513  
 buying on margin, 12, 346, 440
- calendar effects, 72  
 calendar spreads, 513  
 call market, 38  
 callable bonds, 448  
 capital asset pricing model (CAPM), 143–64,  
   201–15  
   capital market line, 146, 157, 214  
   consumption (CCAPM), 269  
   cross-section tests, 206–14  
   disequilibrium, 152, 153  
   futures markets, 380  
   intertemporal, 269–73  
   security market line (SML), 151, 206  
   time series tests, 202–6  
 capital market line (CML), *see* capital asset pricing  
 model (CAPM)  
 carrying-charge hedging, 367  
 cash (forward) markets, 338  
 chain letters, 242  
 characteristic line (in the CAPM), 149  
 charting, *see* security analysis  
 Chicago Board of Trade (CBOT), 39, 42, 341, 342,  
   404, 406, 422  
 Chicago Board Options Exchange (CBOE), 440  
 Chicago Mercantile Exchange (CME), 342, 400, 406  
 Citigroup, 26  
 classical linear regression model, 203  
 clearing house, 34  
 clearing house (futures markets), 340  
 closed-end mutual fund paradox, 73  
 cognitive dissonance, 99  
 combinations and spreads, 512–14  
 COMEX, a division of NYMEX, 498
- Committee on Banking and Financial Services, US  
 House of Representatives, 489  
 Commodity Futures Trading Commission, 340  
 commodity markets, 4  
 common knowledge, 71  
 complete asset markets, 22, 88, 97, 109–10, 264  
 composite assets, *see* mean-variance analysis  
 conditional (*ex ante*) equity premium, 267–9  
 CONNECT trading platform, 343  
 Consolidated Fund Stock, 284  
 consols, 284  
 constant absolute risk aversion (CARA) utility  
   function, 94, 103  
 constant relative risk aversion (CRRA) utility  
   function, 94, 256, 263  
 consumption capital asset pricing model,  
   (CCAPM), 269  
 contango, 381  
 contingent claims analysis, 468, 486–9  
 continuous compounding, 29, 245–6  
 convenience yield, 350, 378  
 conventional recommendation (portfolio  
   selection), 258  
 conventional wisdom, 72  
 cornering the market (futures markets), 383  
 covered interest parity, 354  
 cylinder spreads, 513
- data mining, 218  
 data snooping, 218  
 dealer markets, 36  
 dealers, 35  
 debt/equity ratio, 212, 457  
 derivatives markets, 4  
 Deutsche Börse, 45  
 discount factor, 31, 225, 252  
 disequilibrium in the CAPM, *see* capital asset pricing  
 model (CAPM)  
 dividend growth models, 227, 236, 267  
 dividends, 224  
   role in option pricing, 450, 453  
 Dow Jones Industrial Average (DJIA), 25, 406  
 dynamic replication, 511
- earnings/price (E/P) ratio, 73, 212  
*Economist, The*, 489  
 efficient markets hypothesis (EMH), *see* market  
 efficiency  
 efficient portfolios, set of, *see* mean-variance analysis  
 electronic communications networks (ECNs), 35  
 envelope theorem, 137, 275  
 equity premium puzzle, 262–9  
   conditional equity premium, 267  
   unconditional equity premium, 267  
 equivalent martingale measure, 174  
 errors in variables, 209  
 Euler condition, 255  
 Euribor, 422  
 Euronext, 42  
 Euronext.liffe, *see* LIFFE  
 European Banking Federation (FBE), 422

Subject index

521

- European Exchange Rate Mechanism (ERM), 310  
 event studies, 75–7  
*ex ante* (conditional) equity premium, 267–9  
*ex post* (unconditional) equity premium, 267–9  
*ex post* rational asset price, 229  
 expectations, 9  
 expected utility hypothesis (EUH), 90, 254
- factor analysis, 218  
 factor loading, 184  
 factor models, 215, 183–219, 327  
 Fama–MacBeth regressions, 210  
 Federal Reserve Board, 489  
 Ferruzzi corporation (soybean manipulation), 386  
 financial innovations, 2, 33, 36, 42  
 Financial Services Authority (FSA), 43  
 Fisher hypothesis, 8  
 force of interest, 21, 29, 245  
 foreign exchange (FOREX) markets, 4, 16  
   arbitrage, 354–5  
 forward and futures prices, equality of, 351–2,  
   359–60  
 forward contracts, 337–8  
   revaluation of, 352–4, 360–1  
   swap agreements, 418–22  
 forward markets, 313  
   arbitrage, 337  
   bonds, 316–17  
   hedging, 337  
   repo agreements, 356  
   speculation, 337  
 free float, 27  
 frictionless markets, *see* market frictions  
 FT-Actuaries All-Share index, 150, 202  
 FT-SE 100 index, 27, 495  
   futures contract, 343, 346, 406, 409–12  
   spread betting, 397  
 functions of financial systems, 2  
 fundamental valuation relationship (FVR), 95–8,  
   159, 175, 250, 254  
   bond portfolios, 331  
   mean-variance model, 111  
   with futures contracts, 387  
 futures contracts, 339–40, 432, 440  
   bond futures accrued interest, 405  
   bond futures price (conversion) factor, 405  
   cash settlement, 346  
   closing price, 344  
   contract grades, 346  
   contract month, 341  
   contract size, 343  
   equality of forward and futures prices, 351–2,  
   359–60  
   exchange delivery settlement price (EDSP), 401,  
   405, 406, 422  
   FT-SE 100 index, 406  
   futures on swaps, 422–3  
   long gilt contract, 346  
   long-term interest rate (bond) futures, 404–6  
   margin accounts, 341, 354  
   marking to market, 341, 354, 369, 375,  
   399, 405  
   offsetting trades, 344  
   options on futures, 446, 496–500  
   put-call parity relationship, 515  
   portfolio selection, 387–90  
   settlement price, 344  
   short sterling contracts, 401  
   short-term interest rate futures, 400–4  
   straddles (spreads), 348  
   strips (calendar strips), 348, 422, 434  
   synthetic futures contracts, 499  
   tick size, 343  
   treasury bills, 400  
   weather futures, 393–6  
 futures markets  
   alternative delivery procedure (ADP), 346  
   arbitrage, 363  
   arbitrage with stock index futures, 407–8  
   convenience yield, 350, 378  
   cornering the market, 383  
   delivery, 345  
   disposing of the corpse, 384  
   exchange of futures for physicals (EFP), 345, 384  
   floor traders and brokers, 343  
   hedging, 363, 365–78, 381, 400  
   weather futures, 395  
   long-term interest rate hedge, 405–6  
   manipulation, 383–6  
   margin accounts, 346–8  
   market efficiency, 379  
   member firms, 343  
   normal backwardation, 380–3  
   operation, 342–8  
   price limits, 344  
   short-term interest rate hedge, 403–4  
   speculation, 363–5, 367, 381, 400  
   spread betting, 397–8  
   stock index futures, 406–12  
   stock index futures hedge, 408–12  
   storage (carrying) costs, 350, 378  
   the basis, 373–4, 378  
   theories of futures prices, 378–83  
   trading mechanisms, 343–4  
   warehouse receipt, 346
- Gale’s theorem for linear equalities, 196  
 gambling, 57  
 gearing, 457  
*General Theory, The*, *see* Keynes, J. M.  
 (*Author index*)  
 geometric Brownian motion, (gBm), 60, 478, 480  
 gilt-edged securities (British government debt), 3,  
   38, 308, 311, 346, 355, 404  
   long gilt futures contract, 404  
 Global Minerals (copper manipulation), 385  
 GLOBEX trading platform, 343  
 good-faith deposits, *see* margin accounts  
 Goschen conversion, 284  
 gross interest rate, 349  
 Grossman–Stiglitz paradox, 71

- Hansen–Jagannathan lower bound, 277  
 hedge funds, 365, 489  
 hedging  
   futures markets, 365–78  
   hedge instrument (asset), 366  
   hedge ratio, 371, 433  
   hedging in practice, 367–8  
   hedging in principle, 365–7  
   long hedges, 371  
   non-linear (dynamic) hedging, 376  
   optimal hedge ratio, 377  
   optimal hedging, 374–8  
   perfect hedge strategies, 368–71  
   portfolio choice, 377–8  
   pure hedge ratio, 375  
   risky (imperfect) hedging, 371–3  
   roll-over risk, 433  
   speculative hedge, 377  
   stack-and-roll hedge, 433  
   strip hedge, 434  
   tailing the hedge, 369  
 homogeneous (unanimous) beliefs (in the CAPM), 144  
 horizontal spreads, 513  
 hour-of-the-day effect, 73  
 human capital, 261  
 Hunt silver case, 384
- idiosyncratic risk, 155  
 imperfect capital markets, *see* perfect capital markets  
 incomplete asset markets, 88  
 indexation lag, 311  
 indifference curve, *see* mean-variance analysis  
 industrial organization of financial markets, 41–5  
 inflation rate, 290  
 informational efficiency, *see* market efficiency  
 informed investors, 45  
 ING banking group, 412  
 initial public offerings (IPOs), 74  
 IntercontinentalExchange, 42  
 interest factor, 31, 349  
 interest rate cap, 501  
 interest rate floor, 503  
 interest rate options, 500–4  
 internal rate of return, 225, 291  
 International Petroleum Exchange (IPE), 42, 342  
 International Swaps and Derivatives Association (ISDA), 423  
 intertemporal capital asset pricing model, 269–73  
 intertemporal marginal rate of substitution, 256  
 IPE, *see* International Petroleum Exchange, (IPE)  
 irrational exuberance, 240  
 iso-elastic utility function, 94, 256, 263  
 iterated expectations, law of, *see* law of iterated expectations
- January effect, 72  
 Jensen's inequality, 330
- Kobe earthquake, January 1995, 413  
 kurtosis, 102
- Laspeyres index weighting, 27  
 law of iterated expectations, 59, 79, 150, 184, 247, 254  
 law of large numbers, 156, 188  
 law of one price (LoOP), 16, 74, 167, 172  
 Law, J., *see* Mississippi bubble, 238  
 leverage, 457  
 LIBID (London interbank bid rate), 420  
 LIBOR (London interbank offered rate), 419, 420  
 lifetime portfolio selection, 258–62  
 LIFFE (London International Financial Futures Exchange – Euronext.liffe), 42, 342, 346, 401, 404, 406, 422, 440, 446, 495, 496  
 limit order book, 38  
 limit orders, 38  
 linear pricing rule, 173  
 liquidity, 39  
   futures markets, 358  
 liquidity premium, 350  
 LME, *see* London Metal Exchange (LME)  
 London Clearing House, (LCH), 343  
 London gold fixing, 38  
 London International Financial Futures Exchange, *see* LIFFE  
 London Metal Exchange (LME), 42, 342, 385  
 London Stock Exchange (LSE), 27, 36, 38, 42, 406, 408  
 long horizon returns, 62  
 Long Term Capital Management (LTCM), 365, 489  
 LSE, *see* London Stock Exchange (LSE)
- Macaulay duration, *see* bonds  
*Manchester Guardian* (newspaper), 338  
 margin accounts, 12, 338, 341, 429, 440–1  
   futures markets, 346–8, 388, 389, 399  
 market efficiency, 22, 64–8  
   abnormal profits, 69  
   allocative efficiency, 22  
   asymmetric information, 70  
   beating the market, 69  
   efficient markets hypothesis (EMH), 10, 23, 65, 379  
   futures markets, 379  
   informational efficiency, 23, 64  
   intertemporal optimization model, 267  
   operational efficiency, 22  
   portfolio efficiency, 23  
   random walk model, 70  
   relative efficiency, 68  
   semi-strong form efficiency, 48, 51, 70  
   strong form efficiency, 71  
   weak form efficiency, 70  
 market equilibrium, 6, 169  
 market frictions, 17, 115, 144, 168, 173, 264, 297, 350, 449, 470, 497  
 market model, 151  
 market orders, 38  
 market portfolio, 146, 150, 157, 202, 271  
 market risk, 155  
 market makers, 35, 45

- martingale hypothesis, 51, 57, 79, 379  
 martingale probabilities, 174, 228  
 martingale valuation relationship, 174  
 mean reversion, 62, 63, 259  
 mean-variance analysis, 101–5, 114–33  
   composite assets, 121  
   efficient portfolios, set of, 121, 125  
   indifference curves, 103, 115, 132  
   minimum risk portfolio (MRP), 121  
   optimal portfolio selection, 131  
   portfolio frontier 115, 117–31  
 measuring portfolio volatility, 506  
 Merton–Black–Scholes analysis, 468  
 Metallgesellschaft (case study), 431–5  
 Mississippi bubble, 238  
 Modigliani–Miller theorem, 77, 457–8, 463–5  
 Monday blues, 73  
 monetary policy, 288  
 money markets, 4  
 money pump, *see* arbitrage  
 mutual fund theorems, 123, 127  
 mutual ownership of financial exchanges, 41  
  
 NASDAQ (National Association of Securities  
   Dealers Automated Quotations), 36, 42, 44, 240  
 net present value (NPV), 31, 174, 223–8, 349  
*New Palgrave Dictionary of Money and Finance*,  
   *The*, 24, 64, 69, 72, 75, 79, 107, 160, 177, 178,  
   181, 195, 234, 244, 286, 297, 329, 383, 406,  
   457, 459  
*New Palgrave, The: A Dictionary of Economics*, 137  
 New York Mercantile Exchange *see* NYMEX  
 New York Stock Exchange, *see* NYSE  
 Nikkei 225 stock index futures contracts, 412  
 Nobel Memorial Prize in economics, 101, 143, 322,  
   325, 468, 483  
 noise, 10  
 noise traders, 45, 65, 235–7  
 normal backwardation, 324, 380–3  
 Normal distribution, 60, 102  
 NYMEX (New York Mercantile Exchange), 342,  
   344, 369, 373, 422, 496, 498  
 NYSE (New York Stock Exchange), 38, 42, 44, 207  
  
 OMgroup, 41  
 open interest, 339  
 open outcry, 39  
 option contracts  
   American-style, 439, 495  
   as-you-like-it (chooser) options, 446  
   Asian options, 448  
   asset-or-nothing options, 448  
   barrier options, 448  
   Bermudan options, 447  
   binary options, 448  
   call options, 283, 439–41, 510  
   cash-or-nothing options, 448  
   combinations and spreads, 512–14  
   compound options, 447  
   covered call options, 441  
   delta, 505  
   down-and-out call options, 448  
   equity (stock) options, 446  
   European-style, 439, 470, 495  
   exchange options, 447  
   exchange-traded, 440  
   exercise, 441  
   exotic options, 446  
   foreign currency options, 446  
   forward start options, 447  
   Greek letters: delta, gamma, kappa, theta, rho, 507  
   hedged position, 469  
   hedging with options, 505  
   in and out of the money, 445–6  
   interest rate cap, 501  
   interest rate floor, 503  
   interest rate options, 446, 500–4  
   intrinsic (parity) value, 445  
   look-back options, 447  
   naked options, 441  
   option-like assets, 448–9  
   options on futures, 446, 496–500  
     put-call parity relationship, 515  
   options on gold futures, 498  
   options on oil futures, 497  
   options on three-month sterling, 501  
   options on weather futures, 498  
   payoffs, 442–5  
   portfolio risks, 504–7  
   put options, 439–40, 508  
   rainbow (basket) options, 447  
   replicating portfolio, 469, 473  
   shout options, 448  
   stock index options, 446, 495  
   synthetic put options, 510–12  
   termination, 441  
   varieties, 446–8  
   vega, 507  
 option markets  
   arbitrage, role of, 449–50  
   binomial model, 471, 476–9  
   Black–Scholes model, 468, 480–6, 500, 505,  
     511  
   dividends, impact of, 485  
   implicit volatility, 485  
   option conversion relationship, 454  
   option prices, 467–90  
   put-call parity relationship, 454–57, 462–63, 499  
   two-state model, 471–9  
   upper and lower bounds on option prices, 449–53,  
     460–1  
 order-driven markets, 39, 343  
 ordinary least squares (OLS), 203, 375  
 organization of financial markets, 41, 41–5  
 orthogonality condition, 230  
 orthogonality tests, 61, 230  
 over-the-counter, (OTC), contracts, 341, 422  
 overpriced asset, 152  
*Oxford English Dictionary, The*, 39, 242  
  
 Paasche index weighting, 27  
*Palgrave's Dictionary of Political Economy*, 284

- Pareto efficiency, 22  
 payoff array (matrix), 87  
 perfect capital markets, 18, 428  
 performance risk, 11, 316, 338  
 perpetuity, 227, 284, 292  
 Philadelphia Stock Exchange, 440  
 Poisson distribution, 478  
 Ponzi schemes, 242–3  
 portfolio diversification, 155, 507  
 portfolio frontier, *see* mean-variance analysis  
 portfolio insurance, 507–12  
 portfolio selection, 85  
   conventional recommendation, 258  
 present discounted value, 223  
 price discovery, 34, 44, 358, 367  
 price risk, 11, 338  
 pricing kernel, 256  
 primary markets, 3  
 principal components analysis, 218  
 Proctor & Gamble, 26  
 programme trading, 511  
 prospect theory, 99  
 public investors, 35  
 put-call parity relationship, *see* option markets  
 pyramid schemes, 242
- quote-driven markets, 37
- random walk hypothesis, 59  
 rate of return, 87  
   definition, 7  
   excess (over risk-free rate), 95  
   gross, 7, 87  
   portfolio, 95  
   real, 28  
   risk-free ( $r_0$ ), 95  
 rate of time preference, 252  
 rational expectations, 10  
   futures markets, 365  
 regret theory, 99  
 regulation of financial markets, 43  
 relative risk aversion, index of, 94  
 repo markets, 308, 355–7  
 restrictions on trades, 17  
 retail price index (RPI), 311  
 Reuters, 422, 423  
 rights issue, 449  
 risk, 115  
   attitude to, 94  
   risk aversion, 97, 322  
   risk neutrality, 97, 149, 175, 228, 322, 379  
   risk tolerance, 104, 133  
 risk-adjusted performance (RAP), 130, 131  
 risk-avoidance hedging, 367  
 risk-free (riskless) asset, 88, 95, 117, 125, 154, 170, 190, 225  
 risk-free rate puzzle, 262–9  
 risk-neutral valuation relationship (RNVR), 174, 179, 197, 246, 326, 474
- risk premium, 143, 154, 190, 228, 380  
 Roll's criticism (of CAPMtests), 214
- S & P 500, *see* Standard and poor's 500 index  
 Samuelson's dictum, 236  
 saving, 251  
 SEAQ (Stock Exchange Automated Quotations), 36  
 seasoned equity offerings (SEOs), 74  
 secondary markets, 3  
 Securities and Exchange Commission (SEC), 43  
 securitization of loans, 286  
 security analysis, 63  
 security market line (SML), *see* capital asset pricing model (CAPM)  
 selective hedging, 367  
 senior debt, 286  
 September effect, 72  
 SETS (Stock exchange Electronic Trading Service), 38  
 settlement (function of markets), 34  
 shareholder ownership of financial exchanges, 41  
 Sharpe ratio, 130, 147, 214, 277  
 Sharpe–Lintner model, 143, 201  
 short-sales, 13, 96, 120, 126, 225, 374  
   availability of stocks, and, 351  
 side payment (forward contract), 337  
 silver market, manipulation of, 384  
 SIMEX, 412  
 sinking funds, 284  
 skewness, 102  
 small firm effect, 73  
 South Sea Bubble, 238  
 spot contract, 337  
 spread betting, 397–8, 496  
 Standard and Poor's 500 index, 27, 150, 202, 406  
 state prices, 173  
 state-preference approach (portfolio selection), 85–90  
 states of the world, 85  
 Stiemke's theorem, 178  
 stochastic discount factor, 250, 256, 264, 331, 389  
 stock index options, 495–6  
 stock market, 3  
 stock market bubble of 1999–2000, 240  
 stock market crash of 1987, 239  
 stock price indexes, 24, 150  
 stock splits, 25, 76, 450  
   two-for-one splits, 26  
 Stockholm Stock Exchange, 41  
 stop-loss selling and buying, 508  
 storage (carrying) costs, 350, 378  
 storage, theories of, 351  
 straddles, 513  
 strangles, 513  
 strips, 513  
 style investing, 236  
 subjective discount factor, 252  
 Sumitomo (copper manipulation), 385  
 survivorship bias, 27  
 swap agreements  
   basis rate swaps, 420  
   cash-out options, 434

## Subject index

525

- commodity swaps, 421, 431
- comparative advantage, 424
- credit default swaps, 421
- credit risk, 429
- currency (foreign exchange) swaps, 418–19, 426–8
- forward rate swaps, 420
- funding risks, 429, 433
- futures on swaps, 422–3
- intermediary, 419
- market risk (basis risk), 429
- notional principal, 418
- plain vanilla interest rate swaps, 419, 424–6, 431
- risks, 429
- roller-coaster swaps, 420
- side payments, 419
- swaptions, 423
- total return swaps, 421
- valuation, 429–31
- zero-coupon swaps, 420
- swap futures, *see* swap agreements
- Swapnote (Euronext.liffe), 422
- swaptions, *see* swap agreements
- synthetic futures contracts, 499
- synthetic put options, 510–12
  
- tailing the hedge, 369
- target wealth objective, 260
- tâtonnement* process, 37
- taxes, neutrality of, 145
- technical analysis, *see* security analysis
- term structure of interest rates
  - arbitrage, 326–8
  - expectations hypothesis, 317–22, 329–30
  - hedging pressure theory, 325–6
  - implicit forward rates, 313–17, 320
  - index-linked (IL), bonds, 310–13
  - liquidity preference theory, 322–5
  - local expectations hypothesis, 319
  - preferred habitat theory, 325–6, 333
  - return to maturity (expectations hypothesis), 319
  - segmented markets hypothesis, 325
  - unbiased expectations hypothesis, 320
  - yield curve, 307–13
  - yield to maturity (expectations hypothesis), 320
- terminal wealth, 85
- theorems of the alternative, 177
- time
  - decision period, 21
  - horizon, 21
  - role of, 20
  
- Toronto Stock Exchange, 38
- trading mechanism, 34
- trading pit, 39
- transaction costs, 17, 261
- transaction price, 36
- transparency, 39
- Travelers Property Casualty (TPC), 26
- treasury bills, 4, 38, 285
  - futures contracts on, 400
- Treasury Bond Futures contract, 404
- tulipmania, 238
- turn-of-the-year effect, 72
  
- unconditional (*ex post*) equity premium, 267–9
- uncovered interest parity, 355
- underpriced asset, 152
- uninformed investors, 45
- US treasury bills and bonds, 38
- utility function, 86, 89
  
- Value and Capital*, *see* Hicks, Sir John R. (*Author Index*)
- Value Line Composite Index, 28
- value at risk (VaR), 506
- variance bounds, 230
- vertical spreads, 513
- VIRT-X, 45
- volatility in rate of return, 468
- volatility of asset prices, 228–35
- von Neumann–Morgenstern utility function, 92
  - iso-elastic, 94, 256
  - quadratic, 110
  
- Wall Street Crash, 1929, 239
- warrants, 448, 469
- Wealth of Nations*, *see* Smith, A. (*Author index*)
- weather and stock markets, 73
- weather futures, 393–6
  - CME degree day index, 393
  - cooling degree day (CDD) index, 394
  - heating degree day (HDD) index, 394
- week-of-the-month effect, 73
- World Bank, 282
  
- yield, 8, 287, 291
- yield curve, *see* term structure of interest rates
  
- zero-beta portfolios, 157, 205, 207, 270

## Author index

- Abken, P. A., 436  
 Akerlof, G., 52  
 Alexander, G. J., 24, 69, 133, 160, 195, 244  
 Anderson, N., 308, 311  
 Arrow, K. J., 107, 109, 322
- Bachelier, L., 78  
 Bailey, J. V., 24, 69, 133, 160, 195, 244  
 Barberis, N., 236  
 Barsky, R. B., 235  
 Bernstein, P. L., 106, 468  
 Black, F., 10, 39, 73, 143, 207, 244, 359, 380, 468, 490  
 Bodie, Z., 2  
 Brooks, C., 203, 220  
 Brown, S. J., 24, 78, 106, 133, 160, 195, 219, 301, 415, 459
- Cairns, A. J. G., 329  
 Campbell, J. Y., 61, 78, 79, 160, 213, 217, 220, 235, 244, 274, 302, 329  
 Canter, M. S., 436  
 Carlton, D. W., 359  
 Cass, D., 134  
 Chamberlain, G., 102  
 Chapman, D. A., 329  
 Christie, W. G., 44  
 Cochrane, J. H., 210, 220, 274  
 Constantinides, G. M., 273  
 Cootner, P. H., 78  
 Cox, J. C., 322, 326, 333, 459, 471, 490  
 Crane, D. B., 24  
 Culbertson, J. M., 326  
 Culp, C. L., 436  
 Cvitanić, J., 24, 106, 301
- Dai, Q., 329  
 de La Grandville, O., 301, 329  
 De Long, J. B., 235  
 Debreu, G., 22, 86  
 DiNardo, J., 209  
 Dixit, A. K., 459  
 Dorfman, R., 177
- Duchin, R., 102  
 Duffie, J. D., 359, 374, 382, 387, 436  
 Dunbar, N., 491
- Eatwell, J., 24, 64, 69, 72, 75, 79, 107, 137, 160, 177, 178, 181, 195, 196, 234, 244, 286, 297, 329, 406, 457, 459  
 Ederington, L. H., 375  
 Edwards, F. R., 359, 387, 415, 436, 459, 489  
 Elton, E. J., 24, 78, 106, 133, 160, 195, 219, 301, 415, 459  
 Engle, R. F., 102, 483  
 Epstein, L., 107  
 Etheridge, A., 491  
 Evans, M. D. D., 313
- Fama, E. F., 66, 76, 78, 79, 160, 210, 212, 216, 217, 219, 220, 273  
 Fay, S., 415  
 Feller, W., 156, 189  
 Fisher, L., 79  
 French, K. R., 212, 217, 220, 273  
 Fridson, M. S., 491
- Gale, D., 177, 178, 196  
 Garber, P. M., 238, 244  
 Geanakoplos, J., 71  
 Gilbert, C. L., 387  
 Glosten, L. R., 51  
 Godek, P. E., 45  
 Goetzmann, W. N., 24, 78, 106, 133, 160, 195, 219, 301, 415, 459  
 Golub, S. S., 24  
 Goschen, G. J., 284  
 Greenspan, A., 240, 489  
 Grimmett, G., 79  
 Grinblatt, M., 133, 160, 195  
 Grossman, S. J., 72  
 Gruber, M. J., 24, 78, 106, 133, 160, 195, 219, 301, 415, 459
- Hamanaka, Y., 385  
 Hammond, P. J., 245

*Author index*

527

- Hansen, L. P., 277  
 Harris, J. H., 44  
 Harris, L., 53  
 Hayashi, F., 203, 209, 232  
 Heinrich, K., 415  
 Hicks, Sir John R., 294, 317, 322, 324, 364, 380, 381  
 Higginbotham, H., 359  
 Hirshleifer, D., 73  
 Houthakker, H. S., 359, 383  
 Huang, C.-F., 126, 133  
 Hull, J. C., 359, 387, 415, 436, 459, 490, 515  
 Hunt, L., 415
- Ingersoll, J. E., Jr., 322, 326, 333
- Jónsson, J. G., 491  
 Jagannathan, R., 213, 220, 273, 277  
 Jarrow, R. A., 301, 329  
 Jensen, M. C., 79, 207  
 Johnston, J., 209  
 Jung, J., 236
- Kahneman, D., 107  
 Kapner, K. R., 436  
 Keynes, J. M., 11, 18, 40, 63, 84, 337, 338, 350, 380, 382  
 Khanna, A., 76  
 Kindleberger, C. P., 244  
 Klemperer, P., 53  
 Knight, F. H., 83  
 Kocherlakota, N. R., 265, 273  
 Kohn, M., 24  
 Kothari, S. P., 213  
 Kritzman, M., 261  
 Kumar, P., 387  
 Kyle, A. S., 45
- Lamont, O., 167, 177  
 Lee, C. M.C., 79  
 Leeson, N., 412, 415  
 Leland, H. E., 515  
 Lengwiler, Y., 106, 273  
 LeRoy, S. F., 229, 244  
 Levy, H., 102, 270  
 Liew, J., 489  
 Litzenberger, R. H., 126, 133  
 Lo, A. W., 53, 61, 78, 79, 160, 217, 220, 244, 274, 302, 329  
 Loomes, G., 107  
 Loughran, T., 73  
 Lowenstein, R., 491  
 Luenberger, D. G., 301, 329, 359  
 Lutz, F. A., 317
- Ma, C. W., 359, 387, 415, 459  
 Macaulay, F. R., 293  
 MacBeth, J., 210  
 MacKinlay, A. C., 61, 78, 79, 160, 217, 220, 244, 274, 302, 329  
 Malkiel, B. G., 79  
 Mandelbrot, B. B., 78
- Mangasarian, O. L., 177, 178, 196  
 Maor, E., 30  
 Markowitz, H. M., 101, 273  
 Marschak, J., 91, 107  
 Marshall, J. F., 436  
 McGrattan, E. R., 273  
 McKay, C., 244  
 Mehra, R., 262, 263, 273  
 Merton, R. C., 2, 134, 339, 459, 468, 469, 482, 489–491  
 Meyer, J., 102  
 Milgate, M., 24, 64, 69, 72, 75, 79, 107, 137, 160, 177, 178, 181, 195, 196, 234, 244, 286, 297, 329, 406, 457, 459  
 Milgrom, P. R., 51  
 Miller, M. H., 436, 457, 459, 515  
 Modigliani, F., 325, 457  
 Morgenstern, O., 93
- Newman, P., 24, 64, 69, 72, 75, 79, 107, 137, 160, 177, 178, 181, 195, 196, 234, 244, 286, 297, 329, 406, 457, 459
- O'Brien, T. J., 515  
 O'Hara, M., 48, 51–53  
 Ohlsen, R. A., 107
- Pearson, N. D., 329  
 Pindyck, R. S., 459  
 Pirrong, S. C., 53, 386, 387, 436  
 Pollard, D., 491  
 Porter, R. D., 229  
 Prescott, E. C., 262, 273  
 Pringle, J. J., 436
- Radner, R., 91, 107  
 Ramachandran, V. S., 74  
 Rawnsley, J., 415  
 Rich, D., 261  
 Roll, R., 49, 79, 214  
 Ross, S. A., 195, 301, 322, 326, 327, 329, 333, 471, 490  
 Ross, S. M., 61, 491  
 Rubinstein, M., 459, 471, 490, 515  
 Russell, B., 65
- Samuelson, P. A., 62, 137, 177, 236, 245, 270, 273, 482, 490  
 Saunders, E. M., 73  
 Savage, L. J., 91  
 Scherbina, A., 273  
 Scholes, M. S., 207, 468, 489–491  
 Schultz, P. H., 44, 73  
 Schwartz, R. J., 436  
 Seppi, D. J., 387  
 Shanken, J., 213  
 Sharpe, W. F., 24, 69, 130, 133, 143, 160, 195, 244  
 Shiller, R. J., 65, 78, 79, 85, 107, 229, 233, 235, 236, 237, 240, 244, 325  
 Shleifer, A., 65, 67, 79, 167, 177, 236, 244  
 Shumway, T., 73

528

Siegel, J. J., 72, 273  
Singleton, K. J., 329  
Sinn, H. W., 102  
Skidelsky, R., 64  
Sleath, J., 308, 311  
Sloan, R. G., 213  
Smith, Adam, 44  
Smith, C. W., Jr., 436  
Solow, R. M., 177  
Spencer, P. D., 53  
Spulber, D. F., 53  
Starmer, C., 107  
Stigler, G. J., 18  
Stiglitz, J. E., 72, 134, 333  
Stirzaker, D., 79  
Stoll, H. R., 459  
Sugden, R., 107  
Summers, L. H., 244  
Sutch, R. R., 325  
Sydsæter, K., 245  
  
Telser, L. G., 359, 387  
Thaler, R. H., 79, 167, 177, 273

*Author index*

Titman, S., 133, 160, 195  
Tobin, J., 24  
Tversky, A., 107  
  
Varian, H. R., 22, 86, 106, 177, 459  
Viceira, L. M., 274  
Vishny, R. W., 177  
von Neumann, J., 93  
Vuolteenaho, T., 213, 236  
  
Wall, L. D., 436  
Wang, Z., 213, 220  
Whitley, E., 415  
Williams, J., 359, 384, 387  
Working, H., 359, 367  
  
Yan, H., 329  
  
Zapatero, F., 24, 106, 301  
Zhang, P. G., 415