

Ethics and Finance

Ethics and Finance: An Introduction provides a comprehensive and accessible introduction to the ethical issues raised by modern finance. Drawing carefully on ethical theory and with frequent use of case studies, it includes an analysis of the global financial system and its regulation and control, as well as a detailed analysis of the financial crisis. Chapters on specific areas of finance practice cover all the major financial scandals of recent times, from mis-selling to market manipulation and from insider trading to bankers' bonuses, as well as much more positive developments. From microfinance to derivatives trading, the book provides a careful and balanced treatment designed to help finance students and practitioners approach this sensitive topic in a thoughtful and constructive way. No prior knowledge of ethics or finance is required, and the book will be invaluable to students, finance teachers, practitioners and regulators.

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Preface

When I started teaching business ethics at London Business School in the mid-1980s, it was still an emerging discipline. Twenty-five years later, it is a substantial field of inquiry, with its own well-developed research literature and countless textbooks. Courses in business ethics are offered at all of the world’s leading business schools and many of those courses are required. However, despite the recent financial crisis and the ensuing popular debate, the ethics of finance is even less developed now than business ethics was then. There is a widespread view, both in the business schools and in financial firms, that ethics is somehow not relevant to finance.

Few people outside the finance community would have much truck with this proposition. Much of finance is, of course, very technical, but then so is much of medicine. That doesn’t make medical ethics any less important. And while the financial sector may not impact physically on people’s lives in the way that the health sector and pharmaceutical firms impact on patients, or mining impacts on employees and communities, it evidently does have a significant impact, both directly on its customers and indirectly on society at large. If business ethics matters, as I believe it does, then so does the ethics of finance.

This book is intended to serve both as a general introduction to ethics and finance and as a textbook for courses in the area. The approach is philosophical, but no prior knowledge of philosophy is assumed and I have restricted the discussion largely to applications of the main branches of normative ethics. Anyone with the logical and analytical skills necessary to master basic finance theory should be able to master the philosophy, and indeed vice versa. Compared with some texts in applied ethics, there is a lot of descriptive material and a relatively modest amount of detailed analysis. This is partly in conformity with business school pedagogies (reflected in most textbooks on business ethics), which emphasize class discussion of

examples. It is partly because for readers without a background in finance, there is an awful lot to be explained. And it is partly because while some areas of applied ethics have one or two “big” issues, finance has many issues of differing kinds, and in a relatively under-developed literature, the reader cannot easily turn elsewhere for topics that might otherwise have been left out here.

Using the book as a course text. Different teachers have different preferences when setting up a course and this book naturally reflects my own, but it can be readily adapted to others. Three features in particular are worth noting here. First, the book begins (Chapter 1) with an extended case study of the financial crisis. The rest of the book can, however, be read independently of this, and some teachers might prefer to start with Chapter 2, perhaps coming back to the case study later or using it as the basis for assessed work.

Second, Chapter 3, on normative ethics, includes a substantial discussion of how we think about moral issues and of the relationship between the project of ethical analysis and the practical adoption of moral norms by societies. I find this very helpful when teaching people unfamiliar with philosophy as a discipline, but it is rather less helpful when teaching philosophy students and can probably be dropped in that context.

Third, the ethical analysis given in the early to middle chapters is generally more detailed than that given later on. The intention here is that there should be enough analysis early on for students to learn by example how to go about it, but not so much, later on, as to save them the bother of doing it themselves. A practical consequence of this is that while instructors can to a large extent pick and choose the topics on which they want to focus from Chapter 7 onwards, the material on Chapters 4–6 probably needs to be covered quite systematically.

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