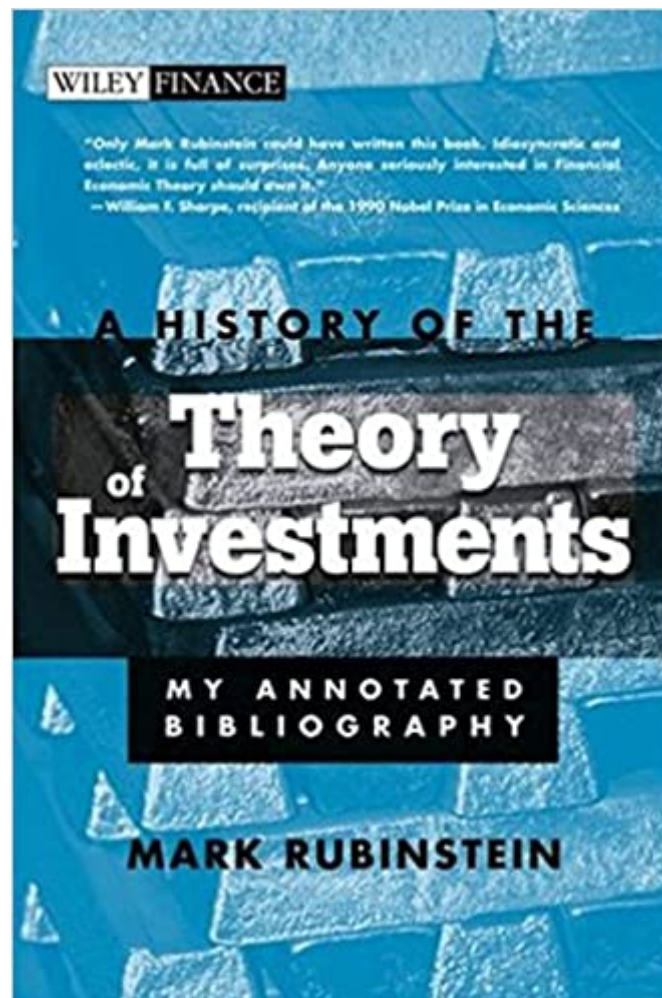




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# A History Of The Theory Of Investments: My Annotated Bibliography



## Synopsis

"This exceptional book provides valuable insights into the evolution of financial economics from the perspective of a major player." -- Robert Litzenberger, Hopkinson Professor Emeritus of Investment Banking, Univ. of Pennsylvania; and retired partner, Goldman Sachs

A History of the Theory of Investments is about ideas -- where they come from, how they evolve, and why they are instrumental in preparing the future for new ideas. Author Mark Rubinstein writes history by rewriting history. In unearthing long-forgotten books and journals, he corrects past oversights to assign credit where credit is due and assembles a remarkable history that is unquestionable in its accuracy and unprecedented in its power. Exploring key turning points in the development of investment theory, through the critical prism of award-winning investment theory and asset pricing expert Mark Rubinstein, this groundbreaking resource follows the chronological development of investment theory over centuries, exploring the inner workings of great theoretical breakthroughs while pointing out contributions made by often unsung contributors to some of investment's most influential ideas and models.

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## Customer Reviews

A History of the Theory of Investments addresses these issues and hundreds more in a first-of-its-kind reference that is as unendingly fascinating as it is undeniably valuable. Exploring key turning points in the development of investment theory, through the critical prism of award-winning investment theory and asset pricing expert Mark Rubinstein, this groundbreaking resource follows

the chronological development of investment theory over centuries, exploring the inner workings of great theoretical breakthroughs while pointing out contributions made by often unsung contributors to some of investment's most influential ideas and models. *A History of the Theory of Investments* is about ideas—where they come from, how they evolve, and why they are instrumental in preparing the future for new ideas. Author Mark Rubinstein writes history by rewriting history. In unearthing long-forgotten books and journals, he corrects past oversights to assign credit where credit is due and assembles a remarkable history that is unquestionable in its accuracy and unprecedented in its power. In just one example, Rubinstein points out that the seminal Black-Scholes model shares its foundations with research that was published two decades earlier by Kenneth Arrow—research that can itself be traced back three centuries to the celebrated correspondence between Pascal and de Fermat. Connections are drawn between seemingly disparate and unrelated works. The resulting journey is both innovative and illuminating, revealing how seemingly insignificant thoughts and discoveries have led to many of investment history's most notable breakthroughs. From the "ancient" period through the "modern" period, and stretching from celebrated and luminary figures like Keynes and Hayek to those relatively unknown and underappreciated names who have become all but lost in dusty library stacks, *A History of the Theory of Investments* paints a stunningly all-inclusive, engaging, and important depiction of the foundations of investment theory and asset pricing.

The most comprehensive, enlightening reference ever published on the history of investment theory and asset pricing "Mark Rubinstein's *A History of the Theory of Investments* is a lucid account of fundamental contributions in economics, finance, and probability theory that have profoundly influenced modern investment theory and shaped the capital and derivatives markets. Written by a leading financial economist, this kaleidoscope of ideas provides fascinating reading for students of investments and practitioners alike." —George Constantinides, Leo Melamed Professor of Finance, University of Chicago "This exceptional book provides valuable insights into the evolution of financial economics from the perspective of a major player." —Robert Litzenberger, Hopkinson Professor Emeritus of Investment Banking, University of Pennsylvania; and retired partner, Goldman Sachs "As usual, Professor Rubinstein provides a unique perspective on scholarly research in finance. His annotated bibliography is insightful and sets the record straight about the origins of many important concepts." —Richard Roll, Japan Alumni Chair in International Finance, The Anderson School at UCLA "Not only does Mark Rubinstein bring to light unexpected early sources (showing that economists have frequently misattributed fundamental

contributions), but he also provides a remarkably readable and concise synthesis of the current state of financial thought. This book is far more than a simple history, and should be on every serious thinker's shelf." &#151;Hayne Leland, Professor of Finance, University of California, Berkeley

Mark Rubinstein is a man who likes to think for himself, which is a good thing for the rest of us. Most readers will be familiar with Mark's contributions to financial economics primarily through his co-authorship, with John Cox and Steve Ross, of the binomial options pricing model - no mean feat, that. But his interests and contributions are far more broad. My personal favorite paper of Mark's is his relatively overlooked "The Strong Case for the Generalized Logarithmic Utility Model as the Premier Model of Financial Markets" [GLUM], published in 1977 as the second chapter of Haim Levy and Marshall Sarnatt's "Financial Decision Making under Uncertainty" (Academic Press New York 1977); this is a wonderful model which places restrictions on tastes à la Arrow, Debreau, Hirshleifer, Cass, Stiglitz, Hakansson, Kraus, Grauer and Litzenberger, rather than placing restrictions on beliefs as in the more conventional models commonly understood to represent "Modern Portfolio Theory", i.e., Markowitz, Sharpe, Treynor, Lintner, Mossin, Fama, Jensen, Black, Scholes and Merton. In the 1977 GLUM paper, Rubinstein notes that the latter, MPT-type, models are not necessarily superior to the former type and chalks their popularity up to historical happenstance and ideological path-dependence: "Men were not lacking in evidence, but inherited habits of thought, which often extended beyond science proper to a worldview, [and] caused them to cling stubbornly to superannuated ideas." In "A History of the Theory of Investments", Rubinstein achieves two things: first, he presents his own annotated bibliography of nearly 200 of the most important works in theoretical financial economics; second, he presents a much better etiology of these ideas than a reader might find in a textbook presentation, working diligently to correct examples of Robert K. Merton's "Matthew effect". Marrying these two objectives, a daunting task for most mere mortals, seems to have been easy for Mark Rubinstein. He notes, "...much of the forgotten truth about the origins of ideas in financial economics is there for all to see, in older books residing on library shelves or in past journals now often available in electronic form [e.g., JSTOR]. Much of the history of investments has only been rewritten by the victors, and can be corrected from primary sources." As a student, and later as a professor and even practitioner, Rubinstein spent untold time poring through countless thousands of documents -- primary material, methodically working his way forward and backward through the more and less famous papers and their citations and references in the literature, in order to learn these ideas for himself. Along the way he

contributed quite a bit himself. A gift to us all was his willingness to publish his notes on each of what he deems to be the 180 or so most important contributions to the field. Delineating three periods in the literature as "ancient" (pre-1950), "classical" (1950 - 1980), and "modern" (post-1980), Rubinstein educates us about 40 ancient papers, from Leonardo of Pisa's 1202 "Liber Abaci" through Leonard Jimmie Savage's 1954 "Foundations of Statistics", including the works of Pascal, Fermat, Huygens, de Witt, Halley, de Moivre, Bernoulli, Pareto, Arrow, Bachelier, Knight, Keynes, Working, Hicks, Fisher, Cowles, Graham, Williams, Macaulay, von Hayek, von Neumann, Morgenstern, Friedman, and others, even throwing in Kahneman and Tversky's 1979 Prospect Theory for good measure. Following the "ancient" literature with the "classical" works, Rubinstein precedes Markowitz' 1952 "Portfolio Selection" with Clendenin's 1951 paper on stock price volatility. More than 100 papers are discussed in this section, including all the usual suspects as well as some unusual ones, including Roy, Arrow, Dreze (who along with others anticipated Harrison & Kreps' work on martingales and continuous states), Kendall, Cootner, Friedman, Tobin, Modigliani & [Merton] Miller (whose work was anticipated by J.B. Williams, in his 1938 "Law of the Conservation of Investment Value"), Debreau, Osborne, Alexander, Coase, Muth, Lucas, Stiglitz, Sharpe, Samuelson, Lorie, Pratt, Linter, Mossin, Treynor, Fama, Cohen, Pogue, Farrell, King, Rosenberg, Engle, Hakansson, Jensen, Leland, Roll, MacBeth, Litzenberger, Cass, Black, Scholes, [Robert C.] Merton, Hirshleifer, Rubinstein, Blume, Friend, Basu, Banz, Latane, LeRoy, Kraus, Cox, Grossman, Figlewski, Ross, Malkiel, Varian, Constantinides, Geske, [Edward] Miller, Levy, Rendleman, Barter, concluding with Breeden's 1979 ICAPM. Rubinstein also includes Merton's 1987 "Simple Model" in the classical period. Rubinstein's last section, the "modern" period, which admittedly contains little of the behavioral finance literature, covers about 30 significant papers from the famous Grossman and Stiglitz 1980 critique and Leland's 1980 paper on portfolio insurance to Brunnermeier and Parker's 2005 paper on asset pricing bubbles. Researchers in this section include many of those listed in the classical period, as well as Diamond, Verrecchia, [Ken] French, Schwert, Binder, Merges, Mehra, Prescott, Hong, Stein, Ohlson, Berk, Wang, Carhart, Daniel, Grinblatt, Titman, Wermers, Green, Naik, Sagi, Abreu, and Parker. I wish Rubinstein's excellent History had been available back when I was a student roaming the stacks in the Lippincott library at Penn, poking into old dusty tomes and spending what little money I had Xeroxing all of those old wonderful papers, learning "ancient" and "classical" ideas the hard way. From the APT to the Zero-beta CAPM, Mark Rubinstein has covered about 300 individual ideas in this unparalleled bibliography, with informed and detailed (but economical) discussion of nearly 200 worthy papers. Any serious financial economist should read, and re-read, this exquisite book.

Excellent book. A must for any finance historian and theorist.

This is arguably one of the best books that I have read. Almost everything relevant to finance and investments is covered in this book, including a good historical discussion of the theories of investment. In addition, Mark Rubinstein has a very clear and simple writing style that transforms complex concepts into words. The proofs are done in a fashion that most readers can understand, and the sections are divided up in easy to break-up sections. This is definitely a must read for any serious student of finance. All of the seminal work in finance is discussed in this text, and this can be used as a guide to asset pricing, corporate finance, investments, and other finance courses. In fact, I would have used this as a supplement to reading journal articles if it were available in the past.

I'm about halfway through the book and must say that I have been pleasantly surprised. I bought the book as a quick way to present accurate historical context to my students. In my opinion, knowledge does not grow; it evolves. A study of that evolution, with the paths not chosen, is an important step in mastering a discipline. This would be enough for me to recommend the book, but there's much more. Here's a small sample of the items that I've gleaned so far. What is the intersection of business math, gambling games, and Pascal's triangle? (The graphic that he uses look suspiciously like a binomial tree....) The shift from insurance products to investments as the driver of the mathematics of finance. What is the Fisher separation theorem (which my students consider to be obvious) and why is it not obvious? The importance of the Ph.D. thesis of John Burr Williams, one of the most important economists of which you've probably never heard. How Ben Graham nearly got the Modigliani-Miller theorem but didn't believe that his conclusion was realistic. This is just from the first hundred pages. I've already bought about a dozen books to extend my reading and am downloading dozens of articles from JSTOR. Most of us learned investment theory from a textbook. I strongly suggest that you add this book, and its contextual knowledge, to your library.

Business, Economics, and Finance with Matlab, GIS, and Simulation Models This is the most comprehensive, best researched history of thought in financial economics. It may add two dozen references to my forthcoming book on business valuation; it would have shortened the time I spent researching my book Business Economics and Finance. I agree with Rubenstein that too many authors blindly put down a recent book they read as an authority, and are ignorant of the real

sources. If you are writing a scholarly article on financial economics or investment research, you have no excuse for that after Rubenstein's book. The only quibble I have is the idiosyncratic nature of the history, which Rubenstein freely acknowledges in the preface. This is really a quibble, though; I find Rubenstein to be pretty fair in looking at past sources. Very knowledgeable readers may differ from time to time with Rubenstein's chronology, as very knowledgeable readers do with all history. Excellent book.

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