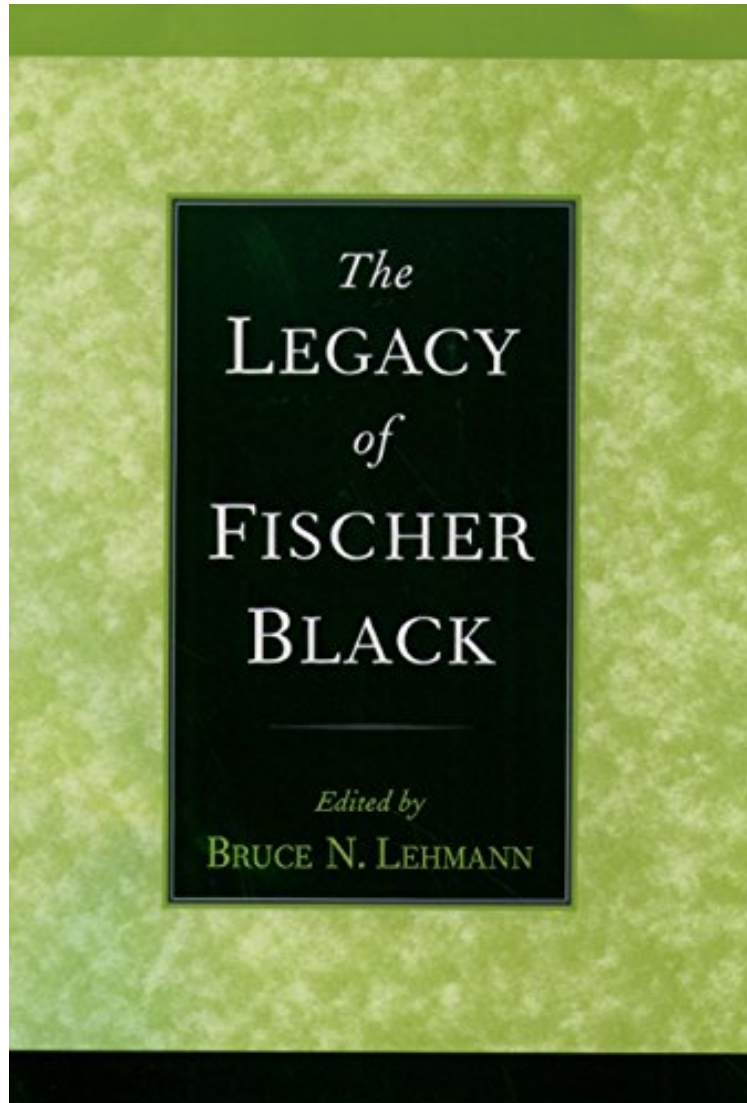


(Library ebook) The Legacy of Fischer Black

The Legacy of Fischer Black

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From Oxford University Press : The Legacy of Fischer Black before purchasing it in order to gage whether or not it would be worth my time, and all praised The Legacy of Fischer Black:

12 of 12 people found the following review helpful. Not Black's own work, but a treasure nonetheless By Craig W. French This book is an elucidation of the applied science of financial economics, as told through a dozen chapters contributed by many of the preeminent researchers in the field. While none of the material draws directly from Fischer Black's own work, the spirit of the research is what drove Lehmann to select these particular examples. Most of the twelve chapters in this volume derive from talks given at the 1996 Berkeley conference on finance in honor of Fischer Black. In addition to these historic presentations, Lehmann added his own comprehensive summary of the work of

Fischer Black, from the Sharpe-Treynor CAPM applied to Black's relatively overlooked wheat economy model, to Black's zero-beta CAPM, to Black's empirical investigations and collaborations, to the Black-Scholes-Merton options pricing model, to his work on international asset pricing and asset allocation, as well as Black's rigorous treatment of business cycles and macroeconomics. Also fortuitously added is a contribution on "Crisis and Risk Management" by one of Black's most famous collaborators, Myron Scholes, who provides an excellent review of this critical subject from the unique perspective of a Nobel Laureate with first-hand experience in managing the Long Term Capital Management liquidity crisis. Also added is a beautiful review of the contributions of Black, Merton and Scholes to economics by the 2003 Financial Engineer of the Year as voted by the IAFE, Darrell Duffie. Stewart Myers, who in 1976 published Black's "Dividend Puzzle" paper, as well as Black's astounding reinterpretation of Jack Treynor's 1962-1963 MIT presentations of CAPM, in his wonderful text "Modern Developments in Financial Management", reviews Black's many contributions to corporate finance, including real options and accounting issues. Bob Litterman provides a treatment of risk budgeting as currently practiced at Goldman Sachs, many of the approaches having been pioneered when Black was a partner there. This chapter reminded me of my days as a young analyst in Goldman's Asset Management division, when the following story circulated amongst the troops: At one presentation on risk management to some brokers, someone in the audience asked Black, who was the presenter, "If you're so smart, why aren't you rich?" To which Black calmly reflected for a moment and then replied, "If you're so rich, why aren't you smart?" Although there is no substantial difference between the models in Black-Litterman (1991) and Black's earlier collaboration with Jack Treynor in their 1973 paper, "How to Use Security Analysis to Improve Portfolio Selection", Lehmann's compilation treats the earlier paper for the first time in Steve Ross' excellent chapter on noisy rational expectations. This chapter provides a theoretical explanation for the existence of intermediation in capital markets, such as mutual funds, which accommodates an unstable equilibrium. Mark Rubinstein and Jens Jackwerth's chapter on imputing risk-neutral probabilities from options prices, asset prices and the risk-free rate takes a general equilibrium approach much similar to the approach favored by Black. Scott Richard adds a negatively-correlated factor to the one-factor model of Black-Karasinski in order to better price term structure derivatives. Douglas Breeden examines the empirical negative convexity (why don't they simply refer to it as "concavity"?) in the mortgage market. Huang and Stoll examine the returns of liquidity providers on the NYSE and find that liquidity providers such as specialists and dealers profit at the expense of public limit orders. Brennan, Chordia and Subrahmanyam analyze 13 years of data, use individual securities in order to avoid the problems associated with forming artificial portfolios, and, using APT-style factors, find that after adjusting for risk, mean asset returns are significantly related to certain firm characteristics: size, analyst following, membership in the SP 500 index, 12 month lagged returns, and the bid-ask spread (negative!). Lehmann provides a discussion of the Brennan et al paper in Chapter 8, discussing the problematic nature of their task, suggesting potential methodological improvements to their procedure and discussing the portfolio formation issue as well as the data-mining aspect of the specification searches. While a title like "The Legacy of Fischer Black" might whet potential readers' appetites for a volume reprinting Black's own work, Lehmann has done a masterful job of both describing Black's own work and assembling a current group of research that is similar in spirit to the type of work in which Black was interested and engaged. This volume, paired perhaps with Perry Mehrling's "Fischer Black and the Revolutionary Idea of Finance" will provide the reader with a relatively comprehensive overview of the incredible work in economics performed by Fischer Black and his successors. 0 of 0 people found the following review helpful. I fortunately did not buy this book By libertarian reader I fortunately did not buy this book , but checked it out from the local University library. Economists seem to know how to think but not how to write. I am college educated with honors in mathematics and I found this tome to be unreadable. I often wonder how economists justify their wages in society. I suppose when you have a third party payor, such as the Taxpayers or a group of Trustees overseeing a large endowment....all things and \$amounts are possible! I ask those of you who contributed to this book to use your brilliant minds to learn how to write in a style of prose that is economic and enthralling.

Fischer Black was a remarkable social scientist, one whose contributions range from the lofty perch of highbrow theory to the trenches of practical application. The papers represented in this work span the same range, the contributions of a remarkable array of financial economists who embody in different ways Fischer's ideal of insight from economic theory that both guides and is rooted in the kind of detailed observation of relevant aspects of actual financial markets. It is hoped that readers find this volume to be both a fitting tribute and a stimulus to further research. After all, the advancement of economic science remained a constant goal throughout Fischer's remarkable career in the many and disparate venues in which he plies his trade.