

Index

- Acquisitions, mergers, and takeovers (AMTs), 17–18, 531–545
 - acquisitions and mergers, 539–542
 - board of directors' role, 542–544
 - definitions, 532
 - historical background, 532–535
 - hostile takeovers and defenses, 536–539
 - hostile takeovers and theory of the firm, 147–148
- Adverse selection, insurance and, 376–377
- Affiliated directors, 572
- Affinity banking, 333–335
- Agency theory, 8, 125–142
 - boards of directors and, 565–577
 - conflict with business ethics, 126
 - corporate governance and goal of the firm, 33
 - crowding out of moral incentive, 136–137
 - cryptonormativism, 137–138
 - improper understanding of incentives, 135–136
 - institutional brokerage and, 346–347
 - legal versus game-theoretical sense, 125
 - misplaced loyalty and, 132–133, 134
 - option pricing theory and, 36
 - rationality and self-interest, 127–130, 133–134, 138–139
 - shareholder primacy and, 130–132, 134, 138–139
 - theory of the firm and, 145, 146, 149–150
 - underinvestment and risk-shifting problems, 46
 - wealth versus utility, 125
- Allais paradox, 72–73, 74, 76
- American Bankers Association (ABA), 302–303, 306, 309, 310
- American Institute of Certified Public Accountants (AICPA), 173, 299, 300, 302, 303, 306, 310, 487
- American Marketing Association (AMA), 276
- Analysts, information and, 480–485
- Asset-backed securities, 106
- Asset bubbles, behavioral finance and, 39
- Asset pricing models, 87–89
- Assurance game, 68, 75–76
- Autocorrelation, due diligence and, 95–96
- Banking, 14, 325–337. *See also* Microfinance
 - with affinity, 333–335
 - fees and marketing of services, 288
 - with integrity, 329–330
 - with social responsibility, 331–333
- Bankruptcy, 17, 509–530
 - commercial process of, 509–512
 - debtor control and empowerment, 517–519
 - estate expansion and distribution, 519–523
 - ethical justification for, 512–513
 - misuse/abuse of, 513–517
 - risk and, 31
 - swaps and credit risk, 232
- Behavioral assumptions of finance, 6, 38–39, 45–61
 - axioms of rationality, 47–50
 - descriptive accuracy of, 50–55
 - educational implications of, 58–59
 - prescriptive implications of, 55–58
- Berle-Means separation thesis, 447
- Black-Scholes option pricing model, 5, 35
- Boards of directors, 18, 146, 565–577
 - acquisitions, mergers, and takeovers, 542–544
 - CEO/chairman duality and, 567–574
 - independence and, 570–576
 - public pension plans and, 364–366
 - “Boeskyian greed culture,” insider trading and, 214, 216
- Bondholders, option pricing theory and, 35–37
- Bonds, fairness and, 170–171
- Business judgment rule, 446
- California Public Employees' Retirement System (CalPERS), 367–370
- Call options, 35, 229, 230
- Capital asset pricing model (CAPM), 5, 30, 38, 87–89, 93
- Certified Financial Planner (CFP), 302

- Chartered Financial Analyst (CFA), 303
- Chiarella v. United States*, 201
- Chicago Board of Options Exchange (CBOE), 228
- Chicago Board of Trade (CBOT), 226
- Chicago Mercantile Exchange (CME), 226
- China, sovereign wealth funds and, 257
- Coase theorem, 211, 213
- Codes of ethics, 13, 297–323
 - characteristics of a profession, 298–300
 - competence and, 303–304, 312–321
 - confidentiality and, 306–308, 312–321
 - diligence and, 309–310, 312–321
 - effectiveness of, 310–311
 - fairness and, 304–306, 312–321
 - integrity and, 301–302, 312–321
 - objectivity and, 302–303, 312–321
 - professionalism and, 308–309, 312–321
- Collateralized debt obligations (CDOs), 106, 184–185
- Commercial banks, intermediation and, 325–329
- Committee on Foreign Investments in the United States (CFIUS), 253, 261
- Commodity-based sovereign wealth funds, 256
- Commodity swaps, 232
- Compensation. *See* Executive compensation
- Competence, codes of ethics and, 303–304, 312–321
- Conference Board, 560
- Confidentiality, codes of ethics and, 306–308, 312–321
- Consequentialism postulate, 129
- Constituencies. *See* Stakeholder theory
- Contractual theory. *See* Nexus of contracts, corporation as
- Control. *See* Ownership of firm
- Corporate social responsibility (CSR):
 - accounting disclosure and fairness, 173
 - banking and, 331–333
 - microfinance and, 424–425
 - public pension plans and, 366–370
 - shareholder wealth maximization and, 437–439, 448–449
- Counterparty risk:
 - forward contracts, 225–226
 - insider trading and, 204–206
 - swaps and, 232
- Credit cards, marketing of, 282–287
- Credit default swaps (CDSs):
 - misuse of, 223
 - regulation and, 186–187
 - reputational risk and, 106
- Credit risk, 86, 106, 107, 227–228
- Credit swaps, 232
- Cryptonormativism, agency theory and, 137–138
- Culture of organization:
 - acquisitions, mergers, and takeovers, 540
 - regulation and, 191
 - risk management and, 187–193, 504–505, 507
- Currency, competitive devaluation of, 257
- Currency swaps, 231
- Debt (public), fairness and, 170–171
- Defined benefit (DB) pension plans, 359, 360–361
- Defined contribution (DC) pension plans, 359–363
- Deontic constraints, 129
- Depository Institutions Deregulation and Monetary Control Act of 1980, 182
- Deregulation, myths of, 181–183
- Derivative contracts, 10–11, 223–238
 - definitions and characteristics, 224–225
 - forward contracts, 225–226, 227–228
 - futures contracts, 226–228
 - misuses of, 223–224
 - options, 228–231
 - size of market for, 233–235
 - structured notes, 232–233
 - swaps, 231–232
 - uses of, 223, 235–237
- Derivatives securities (structured notes), 232–233
- Diligence, codes of ethics and, 309–310, 312–321
- Directed brokerage, 343–345, 349–351
- Dirks v. SEC*, 201
- Disclosure:
 - fairness and, 173–175
 - insider trading and, 205
 - investor relations and, 486–488
- Discriminatory lending, 175–176
- Distributive justice, 429
- Downside risk (DSR), 87, 91
- Downside semi-standard deviation (DSSD), 91
- Due diligence. *See also* Returns; Risk
 - defined, 85–86
 - Madoff Ponzi scheme example, 92–96
- Earnings management, 16, 457–473
 - ethics and, 464–466
 - leadership and governance implications, 466–467
 - motivations for, 459–461
 - prevention of, 467–469
 - ways to accomplish, 461–464
 - ways to recognize, 469–470

- Economically targeted investments (ETIs), 368
Economic value added (EVA), 443
Education, behavioral assumptions and implications for, 58–59
Efficiency and rationality, 6–7, 63–83
 comparison and, 76–77
 debates about, 71–73
 efficient market hypothesis, 68–69
 Pareto efficiency, 69–71
 preferences and, 75–76
 prospect theory, 73–75
 rational choice, 63–66
 rational expectations, 66–68
Efficiency-based property rights, insider trading and, 210–211
“Efficiency hypernorm,” 246
Efficiency wage phenomenon, 135–136
Efficient contracting, executive compensation and, 556–559
Efficient market hypothesis (EMH), 5, 75
 behavioral finance and, 38–39
 three versions of, 33–35, 68–69
“Eligible Investment Advice Arrangements” (EIAs), 362
Employee Retirement Income Security Act of 1974 (ERISA), 359, 360, 363
Entanglement, analysts reports and, 483
Enterprise risk management (ERM), 47, 495–508
 complexity of environment, 505
 components of, 497–499
 contractarian view of, 501–502
 emerging framework, 496–499
 governance and, 505–506
 moral hazard and, 495, 499–501, 507
 organizational culture and, 504–505, 507
 purposes of, 506
Environmental, social, and governance (ESG)
 factors, of investing. *See* Responsible investing (RI)
Equitable subordination, 523
Equity swaps, 231–232
Ethical implications of finance, 3–6
 behavioral finance, 24–26, 38–39
 corporate governance and goal of the firm, 32–35
 net present value and corporate financial management, 31–32
 option pricing theory, 35–37
 price of risk-bearing services, 29–31
 risk, risk aversion, and expected return, 27–29
 risk management, 37–38
 theory of the firm and, 143
 time value of money, 26–27
Exchange-traded derivatives, 233–234
Executive compensation, 18, 547–561
 acquisitions, mergers, and takeovers, 540
 equity-linked, 207, 212–215
 efficient contracting hypothesis, 556–559
 elements of, 549–550
 ethical evaluation, 559–561
 historical background, 550–552
 managerial power hypothesis and, 552–556
 Pareto efficiency and, 70–71
 public outcries regarding, 547–548, 551
Expected return. *See* Risk, risk aversion, and expected return
Expected utility, rational choice and, 65–66
Externalities, theory of the firm and problem of, 151–154
Fairness, in financial markets, 9–10, 163–178
 behavioral finance and, 39, 51–53
 business goals and, 163–164
 codes of ethics and, 304–306, 312–321
 currency administration and, 171–172
 disclosure and, 173–175
 formal and substantive, 166–167
 income and rewards and, 168–170
 insider trading and, 176, 208–210, 215
 lending and, 175–176
 markets and wealth generation, 164–165
 Pareto efficiency and, 78–79
 public finance and, 170–171
Fama-French three-factor model, 89–90, 93
Federal Reserve System, 171–172, 180, 191
 interest rate cuts to spur lending, 278–279
 Obama Administration’s regulatory plans for, 194, 195
 sovereign wealth funds and, 254
 subprime mortgage supervision and, 184
Federal Sentencing Guidelines for Organizations (FSGO), 192
Finance, definition and main topic areas, 3–4
Finance theory, generally, 4–9
Financial Accounting Standards Board (FASB), 468
Financial crisis of 2008:
 adequacy of regulatory authorities, 183–184
 deregulation narrative and, 181–183
 failures of regulatory institutions and, 183–187
 hedge funds and, 243, 250
 marketing of financial services and, 275, 278–280
 responsible investing and, 414
 sovereign wealth funds and, 254–255, 261
Financial Industry Regulatory Authority (FINRA), 180, 245, 248, 363

- Financial management, generally, 15–18
Financial markets, generally, 9–12
Financial Planning Association (FPA), 297, 301, 304, 305, 309
Financial services, generally, 12–15
Financial Services Agency, in United Kingdom, 195, 242
Fire insurance, 375
First fundamental welfare theorem, 70–71
Fixed-for-floating swap, 231
Floor (put option on interest rates), 230–231
Forward contracts, 225–226, 227–228
France, sovereign wealth fund of, 257–258
Funding risk, 86
Futures contracts, 226–228
- GAAP (generally accepted accounting principles), 459, 462
Game theory, 52, 67–68
Glass-Steagall Act of 1933, 181–183, 325
Goldman Sachs, 181, 190
Grameen Bank, 327, 419, 421
Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (GLB Act), 181–183
Guth v. Loft, Inc., 566
- Health insurance, 378, 385–388
Hedge funds, 11, 239–252
 alleged investor duping, 241–243
 alleged social harm, 243–244
 alleged unfair tax benefits, 240–241
 key stakeholders of, 249–251
 opacity of, 239, 242, 243–244
 sovereign wealth funds and, 259–260
 transparency and regulatory recalcitrance, 239, 245–250
Hedging, derivative use and, 235
Human capital theory, 573
Hurricane Katrina, insurance and, 383–385
Hybrid debt (structured notes), 232–233
- Idiosyncratic risk, 87
Incentives:
 agency theory and improper understanding of, 135–136
 crowding out of moral, 136–137
 distortion and behavior, 56–58
Income and rewards, fairness and, 168–170
Independence:
 boards of directors and, 570–576
 efficiency and, 72–73
India, proposed sovereign wealth fund of, 267
- Inflation, currency administration and, 171–172
Information, content and flow of. *See* Investor relations
Informational efficiency of markets, 33
In re Massachusetts Financial Services Company, 344–345
Inside information, efficient market hypothesis and, 34, 69
Insider trading, 10, 199–221
 acquisitions, mergers, and takeovers, 542
 fairness issues, 176, 208–210, 215
 legal rules, 200–204
 market morality perspective, 214–215, 216
 property rights perspective, 210–214, 215
 utilitarian (welfarist) perspective, 204–208, 215
Institute of Certified Bankers (ICB), 302–303, 306, 309, 310
Institutional brokerage. *See* Mutual funds
Instrumental rationality, 48–49
Insurance, 14–15, 373–392
 development of modern, 374–376
 health insurance, 378, 385–388
 life insurance, 375–376, 379–382
 moral hazard and adverse selection, 376–379
 nature and characteristics of, 373–374
 property and casualty insurance, 382–385
Integrative Social Contract Theory (ISCT), institutional brokerage and, 339, 345–356
Integrity:
 banking and, 329–330
 professional codes of ethics and, 301–302, 312–321
Interest rates:
 commercial banks and, 326–328
 interest rate option products, 230–231
 interest rate swaps, 231
 Islamic banking and, 335
 marketing of financial services and, 278–291
 microfinance and, 327, 419, 427–429
International Accounting Standards Board (IASB), 468
International Monetary Market (IMM), 226
International Working Group of Sovereign Wealth Funds (IWG). *See* Santiago Principles
In-the-money options, 229
Investment accounting returns, 98–99
Investment Advisors Act (IAA) of 1940, 340
Investment banks, 325–329
Investment Company Act (ICA) of 1940, 340

- Investor relations, 17, 475–493
 - future directions, 488–489
 - information content and, 483–486
 - information flow and, 479–483
 - shareholders, obligations, and information provision, 476–479
 - transparency and, 486–488
- Investors. *See* Investor relations; Shareholders
- Islamic banking/Islamic investing, 335, 409
- JPMorgan Chase & Co., 111–113, 182, 188
- Justice:
 - fairness and, 166, 168–169
 - Rawls’ theory of, 149, 153
- Klein-Leffler model, 348, 349
- Korea, sovereign wealth fund of, 259
- Kuwait, 256, 265
- Legal issues:
 - insider trading and, 200–204
 - legal personality as core element of modern corporation, 146
 - shareholder wealth maximization and, 446–448
 - sovereign wealth funds and rule of law, 267–268
- Lehman Brothers, 185
- Leonard v. Nationwide Insurance*, 384–385
- Life insurance, 375–376, 379–382
- Limited liability, as core element of modern corporation, 146
- Liquidity, insider trading and, 206–207
- Liquidity risk, 86, 106
- Loan flipping, 281–282
- Lotteries, rational choice and, 65–66, 72–73
- Madoff Ponzi scheme, 92–96
- Management. *See also* Boards of directors; Executive compensation
 - delegated, as core element of modern corporation, 146
 - earnings management and, 466–467
 - equity-linked compensation and insider trading, 207, 212–213, 214–215
 - managerial power hypothesis and executive compensation, 552–556
- Marginal utility of money, diminishing and increasing, 66
- Maritime insurance, 374–375
- Market abuse Directive (MAD), of European Union, 201
- Market efficiency, insider trading and, 201–202, 204–206
- “Market for corporate control,” 147
- Marketing of financial services, 12–13
 - credit cards, 282–287
 - ethical framework and components of, 276–278
 - mortgages, 275, 278–282
 - payday loans, 287–291
- Market manipulation, insider trading and, 201–202
- Market morality perspective, on insider trading, 214–215, 216
- Market Reform Act of 1990, 185
- Market risk, 86, 106, 107
- Mark-to-market, 227–228
- Mergers. *See* Acquisitions, mergers, and takeovers
- Microfinance, 15, 419–434
 - development of, 419, 426
 - features of, 421–424
 - interest rates and, 327, 419, 427–429
 - profit and, 427
 - social responsibility and, 424–425
 - sustainability of, 425–427
- Microsocial norms, hedge funds and, 247–249
- Milner-Modigliani hypothesis, 5
- Misappropriators, insider trading and, 203–204
- Misplaced loyalty, agency theory and, 132–133, 134
- Modern portfolio theory (MPT), 5
- Money pump, 72, 76
- Moral hazard:
 - bankruptcy and, 517
 - enterprise risk management and, 495, 499–501, 507
 - insurance and, 377–379
- Moral norms, hedge fund transparency and, 246–247
- Mortgages:
 - financing and options features, 36–37
 - marketing of, 275, 278–282
- Mutual funds, 14, 339–358
 - institutional brokerage and, 340–345
 - institutional brokerage and ISCT, 351–356
 - institutional brokerage and transaction costs, 345–351
 - organization and regulation of, 340–341
- Naked options, 230
- Nash equilibrium, 127, 129
- Nemo dat* principle, 132–133, 134
- Net present value, 31–32

- Nexus of contracts, corporation as, 26
 enterprise risk management and, 501–502
 rights and duties of, 149–156
 theory of the firm and, 143, 146
- Non-commodity-based sovereign wealth funds, 256
- Nonsystemic/diversifiable risk, 30–31
- Norm of reciprocity, 135–136
- Norway, sovereign wealth fund of, 260, 268
- Obama administration, 179, 183, 194–195, 489
- Objectivity, codes of ethics and, 302–303, 312–321
- Office of the Controller of the Currency (OCC), 180, 184–186, 191, 193, 194, 233
- Office of Thrift Supervision (OTS), 180, 183–184, 187, 191, 194
- Open-outcry trading, 227
- Operational efficiency of markets, 33
- Operational risk, 105, 106–107
- Opportunism, agency theory and, 128–130, 134, 138
- Option pricing theory, 35–37
- Options, 228–231
- Options Clearing Corporation (OCC), 230
- Organization for Economic Cooperation and Development (OECD), 255, 259, 263–264, 265
- Out-of-the-money options, 229
- Over-the-counter options, 230
- Ownership of firm. *See also* Shareholders
 separation of control and, 145, 149–150
 degrees of equity and contractual ownership, 531
 investors and, 147
- Pareto efficiency, 69–71, 77–79
- Payday loans, marketing of, 287–291
- Pension Benefits Guarantee Corporation (PBGC), 361
- Pension funds, 14, 359–372
 executive compensation and, 554
 private plans, 359, 360–363
 public plans, 359, 364–366
 shareholder activism and social investing, 366–370
- Pension Protection Act of 2006, 362
- Perfect competition, Pareto efficiency and, 70
- Performance pay. *See* Incentives
- Permission, agency theory and, 133
- Persistence (excessive) in returns, due diligence and, 95–96
- Ponzi schemes, 86, 92–96
- Poverty, sovereign wealth funds and uphill flow of capital, 254, 266–267
- Preferences, efficiency and role of, 75–76
- Preference satisfaction, rational choice and, 63–64, 127–128
- Principal-agent theory. *See* Agency theory
- Principal-to-principal (P2P) option transactions, 230
- Principles for Responsible Investment (PRI), 399, 408
- Prisoner's dilemma, 55, 67–68, 70, 75–76, 134
- Private equity funds, 259–260
- Privately negotiated derivatives, 234–235
- Private pension plans, 359, 360–363
- Procedural fairness, 166–167
- Professionalism, codes of ethics and, 308–309, 312–321
- Professional obligation, disclosure and fairness, 174–175
- Profit:
 fairness and, 163–164
 microfinance and, 427
- Property and casualty insurance, 382–385
- Property rights perspective, insider trading and, 176, 210–214, 215
- Prospect theory, 50, 73–75
- Proxy process, investor relations and, 275–296, 383
- Public Company Accounting Oversight Board (PCAOB), 192, 298, 468
- Public finance, 3, 170–171
- Public goods, 70
- Public pension plans, 359, 364–368
- Put options, 229
- Rationality and self-interest. *See also* Efficiency and rationality
 agency theory and, 127–130, 133–134, 138–139
 axioms of rationality, 47–50
 behavioral assumptions of finance, 6, 45–61
 as key assumption in finance, 24–26
- Reciprocity, norm of, 135–136
- Reference credit, 232
- Reflexivity, concept of, 500
- Regulation, 10, 179–198. *See also* Regulatory recalcitrance
 adequacy of regulatory authority, 183–187
 deregulation narrative, 181–183
 earnings management and, 468
 fairness and disclosure, 173–174
 hedge funds, 244–250
 mutual funds, 340–341
 Obama Administration's regulatory plans, 179, 183, 194–195
 regulatory framework, 180–181
 reputational risk and, 104

- risk management and corporate cultures, 187–193
- role of ethics in law and, 4
- sovereign wealth funds and, 260–262
- theory of the firm and, 145–146
- Regulatory recalcitrance, hedge funds and, 239
- hedge fund transparency and, 247–250
- moral norms and, 246–249
- two types of, 245–246
- Reputational risk, 7–8, 103–123
 - financial crisis of 2008 and, 103–104
 - hierarchy of, 106–107
 - reputational risk and, 108–109
 - sources of, 105, 107–110
 - special character of financial services and, 104, 119–120
 - valuing/costs of, 110–119
- Responsible investing (RI), 15, 393–417.
 - See also* Corporate social responsibility
 - asset owners and, 407–408
 - challenges of, 412–414
 - characteristics of, 393–394
 - history of, 394–401
 - related organizations, 410–412
 - support services and, 409–410
 - tools and strategies of, 401–406
- Returns:
 - common measures of, 96–99
 - defined, 85, 86
- Risk. *See also* Due diligence; Enterprise risk management; Insurance; Reputational risk
 - defined, 85
 - expected utility and, 66
 - measures of total, 90–92
 - price of risk-bearing services, 29–31
 - risk-free rate, 86–87
 - types of, 86
- Risk, risk aversion, and expected return, 27–29
- Risk-adjusted return on capital (RAROC), 106
- Risk management, 37–38, 187–193
- Risk-shifting problem, 46
- Risk-to-return characteristics, 5
- Russia, sovereign wealth fund of, 263
- Santiago Principles, 255, 256, 259, 262, 263–265
- Sarbanes-Oxley Act (SOX), 145, 186, 191, 298
 - boards of directors and, 566–567, 569, 575
 - earnings management and, 458, 460, 468
 - investor relations and, 481, 483
- Satisficing, efficiency and, 71–72
- Securities and Exchange Commission (SEC), 174, 201
 - adequacy of regulatory authority, 185–186
 - Broker-Dealer Risk Assessment Program of, 185–186
 - earnings management and, 468
 - executive compensation and, 551–552, 554
 - hedge funds and, 240
 - investor relations and, 477–479, 484, 485, 487
 - mutual funds and institutional brokerage, 344–345, 350, 351
 - regulatory responsibilities, 180
 - theory of the firm and governance structure, 145
- Security market line (SML), 30–32, 34
- Self-interest. *See* Rationality and self-interest
- Sequential rationality, 129
- Shareholders. *See also* Investor relations;
 - Shareholder wealth maximization
 - agency theory and shareholder primacy, 130–132, 134, 138–139
 - alleged hedge fund duping of, 241–243
 - corporate governance and goal of the firm, 32–33
 - financial theory of the firm and, 26, 150
 - investor ownership as core element of corporation, 147
 - social activism and pension plans, 366–370
 - theory of the firm and, 155–156
- Shareholder wealth maximization (SWM), 16, 437–455
 - corporate social responsibility critique, 437–439, 448–449
 - goals of corporation and, 437–439
 - historical background, 439–443
 - justifications for, 443–446
 - legal and ethical critique, 446–448
 - shareholder wealth defined, 440–441
 - stakeholder theory critique, 437–439, 449–451
- Sharpe ratio, 90–91, 94–95
- Single stock futures, 227
- Social harm, hedge funds and alleged, 243–244
- Social insurance, 378–379
- Social investing, 397, 407, 411. *See also* Responsible investing (RI)
- Socially responsible investing (SRI), 393, 399, 400, 411. *See also* Responsible investing (RI); Social investing
- Society of Financial Service Professionals (SFSP), 302, 303, 304, 305, 306, 309
- Soft dollars, institutional brokerage and, 341–343, 349–351

- Sortino ratio, 91, 94–95
- Sovereign wealth funds, 11–12, 253–271
 - asset estimates, 258–259, 261
 - benefits and potential costs, 260–262
 - controversies surrounding, 253–255
 - ethical issues, 263–268
 - financial crisis of 2008 and, 254–255
 - hedge funds and private equity funds, 259–260
 - policy issues, 262–263
 - proliferation of, 257–259
 - reputational risk and, 106, 107
- Stakeholder theory:
 - agency theory and, 131, 133
 - corporate governance and goal of the firm, 33
 - investor relations and, 478–479
 - option pricing theory and, 35–37
 - public pension plans and, 364
 - rationality and comparison, 77
 - shareholder wealth maximization and, 437–439, 449–451
 - theory of the firm and, 26, 144, 154–155
- Stock-option backdating, 56
- Stock price, worth of shares and, 441–443
- Stock surveillance, 482–483
- Stopping rule, 71
- Strategic interaction, rational expectations and, 67–68
- Structured notes, 232–233
- Subprime mortgage crisis. *See* Financial crisis of 2008
- Substantive fairness, 167
- Substantive rationality, 48–49
- Suitability, disclosure and fairness, 174–175
- Supervision, contrasted to regulation, 180
- Swaps, 231–232
- Systemic/nondiversifiable risk, 30–31, 87–90
- Takeovers. *See* Acquisitions, mergers, and takeovers (AMTs)
- Taleb distribution, 243
- Tax issues:
 - fairness and, 170–171
 - hedge funds and, 240–241
- Theory of the firm, 8–9, 26, 143–159
 - corporate law's purpose and objective, 150–154
 - corporation's essential features, 146–147
 - interests served by corporation, 154–155
 - public corporations and, 144–148
 - rights and duties of nexus of contracts, 149–156
 - shareholder's rights and, 155–156
- Time value of money, 26–27
- Time-weighted returns, 98–99
- Trade imbalances, sovereign wealth funds and, 257–258, 260
- Transaction costs:
 - institutional brokerage and transaction cost economics, 339, 345–351
 - property rights and insider trading, 211
 - theory of the firm and, 145
- Transferable shares, as core element of modern corporation, 147
- Transitivity, efficiency and, 72
- Ultimatum game, 51–52, 134
- Underinvestment problem, 46
- Underlying, in derivatives contract, 224–225
- United States v. O'Hagan*, 201
- Universal default, credit cards and, 285–286
- U.S. Chemical Safety and Hazard Investigation Board (CSB), 192–193
- U.S. Sentencing Commission, 192
- U.S. Supreme Court, insider trading rulings, 201
- Usury, 27
- Utilitarian (welfarist) perspective, on insider trading, 204–208, 215
- Utilitarian approach to corporate law, 150–154
- Utilitarianism, doctrine of, 171
- Utility, maximization of, 24–25, 64–65
- Value at risk (VaR), 91–92, 106, 190
- Value incommensurability, 77
- Value reporting, 477
- Viaticals, 380–382
- Volatility, Sharpe ratio and, 90–91
- Voluntary disclosure, 477–478
- Von Neumann-Morgenstern utility function, 47–49, 65