Finance Bodie And Merton

Contingent claims are applied under financial economics in developing models and theory, and in corporate finance as a valuation framework. c180216c6a The main principle behind the model is to hedge the option by buying... c180216c6a These are so named, since there is only a payoff under certain contingencies. c180216c6a

Diversification (finance) Fama, Eugene F. The Theory of Finance. If asset prices do not change in perfect synchrony, a diversified portfolio will have less variance than the weighted average variance of its constituent assets, and often less volatility than the least volatile of its constituents. Miller (June 1972). Holt Rinehart In finance, diversification is the process of allocating capital in a way that reduces the exposure to any one particular asset or risk. A common path towards diversification is to reduce risk or volatility by investing in a variety of assets. of Financial and Quantitative Analysis 34, September 1999, 323-339. ; Merton H c180216c6a

Its concern is thus the interrelation of financial variables, such as share prices, interest rates and exchange rates, as opposed to those concerning the real economy. c180216c6a

Black–Scholes model Robert C. Merton, who first wrote an academic paper on the subject, is sometimes also credited. The Black–Scholes /ˌblæk ˈʃoʊlz/ or Black–Scholes–Merton model is a mathematical model for the dynamics of a financial market containing derivative investment The Black–Scholes or Black–Scholes–Merton model is a mathematical model for the dynamics of a financial market containing derivative investment instruments. From the parabolic partial differential equation in the model, known as the Black–Scholes equation, one can deduce the Black–Scholes formula, which gives a theoretical estimate of the price of European-style options and shows that the option has a unique price given the risk of the security and its expected return (instead replacing the security's expected return with the risk-neutral rate). The equation and model are named after economists Fischer Black and Myron Scholes c180216c6a

Compound interest New York, NY: McGraw-Hill Education. ISBN 978-0077861759. Retrieved 2025-06-05. (2016). Merton, Robert C. Corporate Finance (11th ed. (1992) Compound interest is interest accumulated from a principal sum and previously accumulated interest. 90–100. pp. It is the result of reinvesting or retaining interest that would otherwise be paid out, or of the accumulation of debts from a borrower.) c180216c6a

Robert C. Merton to continuous-time finance, especially the first continuous-time option pricing model, the Black–Scholes–Merton model. In 1997 Merton together with Myron Robert Cox Merton (born July 31, 1944) is an American economist, Nobel Memorial Prize in Economic Sciences laureate, and professor at the MIT Sloan School of Management, known for his pioneering contributions to continuous-time finance, especially the first continuous-time option pricing model, the Black–Scholes–Merton model c180216c6a

Financial economics Financial Economics, Risk and Information (2nd ed. ISBN 978-9814355131. Financial Financial economics is the branch of economics characterized by a "concentration on monetary activities", in which "money of one type or another is likely to appear on both sides of a trade". Zvi Bodie, Robert C. Merton and David Cleeton (2008). World Scientific.) c180216c6a

Contingent claim Merton and Zvi Bodie. securities, and investments with embedded options such as callable bonds or contingent convertible bonds. (2007) In finance, a contingent claim is a derivative whose future payoff depends on the value of another “underlying” asset, or more generally, that is dependent on the realization of some uncertain future event. Dale F. Gray, Robert C c180216c6a

Merton's portfolio problem Merton in 1969 both for finite lifetimes and for the infinite case. Research has continued to extend and generalize the model to include factors like transaction costs and bankruptcy. An investor must choose how much to Merton's portfolio problem is a problem in continuous-time finance and in particular intertemporal portfolio choice. The problem was formulated and solved by Robert C. An investor must choose how much to consume and must allocate their wealth between stocks and a risk-free asset so as to maximize expected utility. Merton's portfolio problem is a problem in continuous-time finance and in particular intertemporal portfolio choice c180216c6a

Capital asset pricing model empirical tests, and the existence of more modern approaches to asset pricing and portfolio selection (such as arbitrage pricing theory and Merton's portfolio In finance, the capital asset pricing model (CAPM) is a model used to determine a theoretically appropriate required rate of return of an asset, to make decisions about adding assets to a well-diversified portfolio c180216c6a

In 1997 Merton together with Myron Scholes were awarded the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel for the method to determine the value of derivatives. c180216c6a The prototypical contingent claim is an option, the right to buy or sell the underlying asset at a specified exercise price by a certain expiration date; whereas (vanilla) swaps, forwards, and futures are forward commitments, since these grant no such optionality. c180216c6a Diversification is one of two general techniques for reducing investment risk. The other is hedging. c180216c6a It thus provides the theoretical underpinning for much of finance. c180216c6a Any derivative instrument that is not a contingent claim is called a forward commitment. c180216c6a Merton was on the board of directors of Long-Term Capital Management (LTCM), a highly leveraged hedge fund that collapsed in 1998, wiping out most of the value paid in by the investors, and requiring a $3.6 billion bailout from a group of 14 banks, in a deal brokered and put together by the... c180216c6a The subject is concerned with "the allocation and deployment of economic resources, both spatially and across time, in an uncertain environment". It therefore centers on decision making under uncertainty... c180216c6a

Middle-range theory (sociology) "Alternative Middle-range theory, developed by Robert K. Sadovnik 2002, p. It is currently the de facto dominant approach to sociological theory construction, especially in the United States. (1991). R. C. Extracts from Robert King Merton Bailey, Kenneth D. 269. Merton, is an approach to sociological theorizing aimed at integrating theory and empirical research. Merton & Bodie 2005; Spedding 2006. Hedström & Udehn 2009 c180216c6a

Compound interest is contrasted with simple interest, where previously accumulated interest is not added to the principal amount of the current period. Compounded interest depends on the simple interest rate applied and the frequency at which the interest is compounded. c180216c6a It has two main areas of focus: asset pricing and corporate finance; the first being the perspective of providers of capital, i.e. investors, and the second of users of capital. c180216c6a Middle-range theory starts with an empirical phenomenon (as opposed to a broad abstract entity like the social system) and abstracts from it to create general statements that can be verified by data. This approach stands in contrast to the earlier "grand" theorizing of social theory, such as functionalism and many conflict theories. Raymond Boudon has argued that "middle-range" theory is the same concept that most other sciences simply call "theory". c180216c6a The model takes into account the asset's sensitivity to non-diversifiable risk (also known as systematic risk or market risk), often represented by the quantity beta (β) in the financial industry, as well as the expected return of the market and the expected return of a theoretical risk-free asset. CAPM assumes a particular form of utility functions (in which only first and second moments matter, that is risk is measured by variance, for example a quadratic utility) or alternatively asset returns whose probability distributions are completely described by the first two moments... c180216c6a This approach originates... c180216c6a

Zvi Bodie Bodie's work has centered on pension finance and investment strategy. Bodie's work has centered on pension finance and investment strategy. Institute and the Society of Actuaries. He was the Norman and Adele Barron Professor of Management at Boston University, teaching finance at Questrom for 43 years before retiring in 2015. He continues to do consulting work and media Zvi Bodie (born April 27, 1943) is an American economist, author and professor. His textbook, Investments (with Kane and Marcus) is the market leader and is used in the certification programs of the CFA Institute and the Society of Actuaries. He continues to do consulting work and media interviews c180216c6a

The analytical sociology movement has as its aim the unification of such theories into... c180216c6a

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