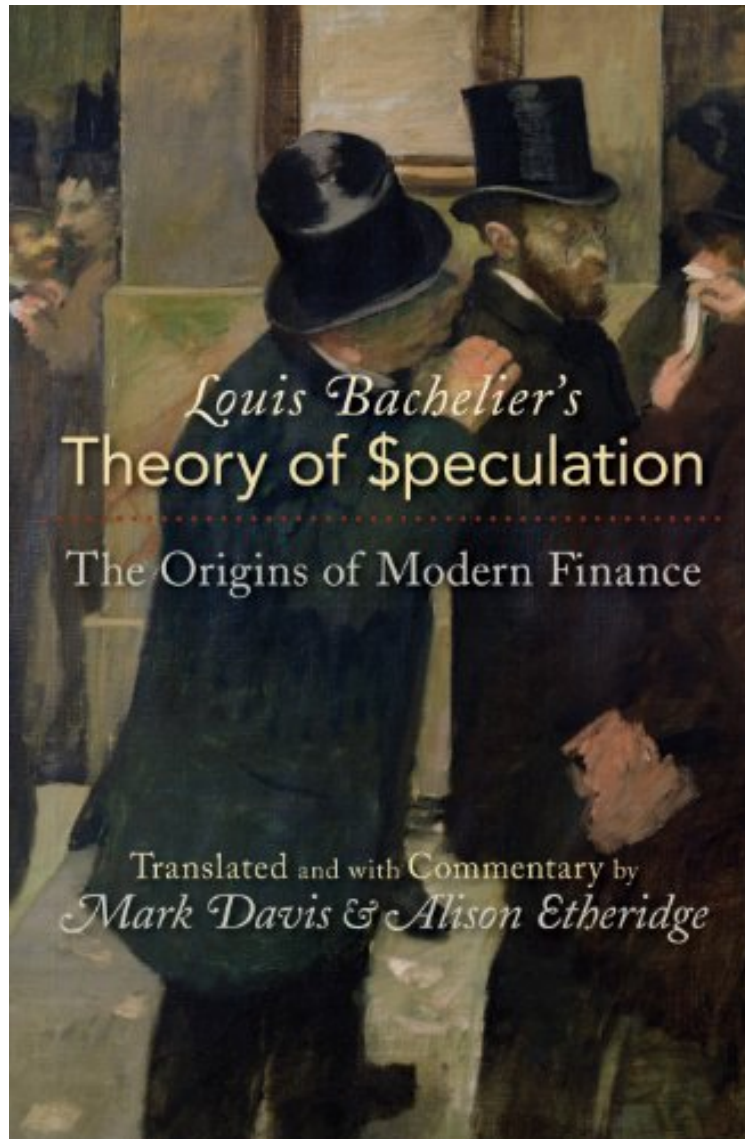


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Louis Bachelier's Theory of Speculation: The Origins of Modern Finance

Louis Bachelier

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Bachelier. He studied the stock market in Paris in 1900, and the thesis committee included the leading mathematicians of the time, Poincaré among them. Bachelier's work was not understood or appreciated at the time; but later it turned out to be extraordinarily influential. The book has both the French original in full, as well as an excellent translation. The first half of the book is commentary. At the time 1900, the work was undervalued and largely ignored. This despite its originality. Several reasons: Bachelier's ideas were ahead of their time. Further, his style was different from norms in mathematics, regarding axioms, definitions, and proofs. The subject, probability and stochastic processes were not well thought of then. What we now call Brownian motion was rediscovered by Albert Einstein 5 years later (for completely different reasons). And the circle of ideas grew with work of N. Wiener, Kolmogorov, Lévy, Ito, Doob, Black, Scholes and others; ... who won glory and prizes. Sadly, Bachelier spent his life in obscurity. In the 1960s, Bachelier's thesis came to the attention of the MIT economist, Paul Samuelson, and inspired a new science of mathematical finance, Black-Scholes, Merton, Markowitz... The book begins with an Intro by Samuelson, and it contains excellent accounts of both the history, the trends, and a sketch of main ideas; all beautifully presented by the two authors M Davies and A Etheridge. It is a valuable historic document, and at the same time delightful reading. Review by Palle ET Jorgensen, December 12 13.0 of 0 people found the following review helpful. Very nice By KT This is book is best suited for market researchers and historians. It is one of the early attempts in recent history which employs an objective approach to the behavior of markets. 0 of 0 people found the following review helpful. Historical document on options pricing By Acuariano It's an historical document if you are interested in financial markets and derivatives. But it's not easy to follow.

March 29, 1900, is considered by many to be the day mathematical finance was born. On that day a French doctoral student, Louis Bachelier, successfully defended his thesis *Théorie de la spéculation* at the Sorbonne. The jury, while noting that the topic was "far away from those usually considered by our candidates," appreciated its high degree of originality. This book provides a new translation, with commentary and background, of Bachelier's seminal work. Bachelier's thesis is a remarkable document on two counts. In mathematical terms Bachelier's achievement was to introduce many of the concepts of what is now known as stochastic analysis. His purpose, however, was to give a theory for the valuation of financial options. He came up with a formula that is both correct on its own terms and surprisingly close to the Nobel Prize-winning solution to the option pricing problem by Fischer Black, Myron Scholes, and Robert Merton in 1973, the first decisive advance since 1900. Aside from providing an accurate and accessible translation, this book traces the twin-track intellectual history of stochastic analysis and financial economics, starting with Bachelier in 1900 and ending in the 1980s when the theory of option pricing was substantially complete. The story is a curious one. The economic side of Bachelier's work was ignored until its rediscovery by financial economists more than fifty years later. The results were spectacular: within twenty-five years the whole theory was worked out, and a multibillion-dollar global industry of option trading had emerged.

From the Back Cover "Mark Davis and Alison Etheridge have done a splendid job in translating the Bachelier thesis, thus making it accessible to a wide audience. Apart from the thesis itself, they provide the reader with institutional information, a biography of Bachelier, and a short history of the development of stochastic analysis and mathematical finance. The result is a nice slim volume that will certainly be on the bookshelves of everyone interested in the subject." --Tomas Björk, Professor of Mathematical Finance, Stockholm School of Economics "This gem of a book will please many readers, including students and researchers in economics, finance, mathematics, and physics. Beyond presenting an annotated translation of Bachelier's original thesis, it also provides a historical overview of the key scientific developments in various fields related to the concepts Bachelier introduced. It reads very well and offers great insight into the historical developments of probability and mathematical finance." --Paul Embrechts, ETH Zurich, coauthor of *Quantitative Risk Management* "Louis Bachelier's thesis is a seminal work, and to have it readily accessible will be a most valuable contribution to the field. This book represents a timely look back at the scientific origins of the enormously important modern-day finance industry." --Chris Rogers, University of Cambridge, coauthor of *Diffusions, Markov Processes and Martingales, Volumes 1 and 2* About the Author Mark Davis, Professor of Mathematics at Imperial College London, has written three books on stochastic modeling and control, most recently *Markov Models and Optimization*. Alison Etheridge, Professor of Probability at the University of Oxford, is the author of *A Course in Financial Calculus and Introduction to Superprocesses*.