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SUMMARY

The aim of this dissertation is twofold:
1) To add to a meaningful conversation on financial markets by using less conventional, yet empirical, methods, which differ from the dominant statistical empirical methods;
2) To provide a case study of what methodological pluralism can look like: applying various methods and perspectives to one and the same subject or phenomenon.

While the various chapters may appear somewhat unrelated, the thread throughout is the interplay of theory and practice in financial markets.

In chapter 1 the key concepts are introduced: the basics of financial markets and what role they have in the social-economic realm. Various notions of pluralism are discussed as well.

The second chapter contains an empirical investigation of the methodology of finance. An extensive sample, covering the entire history of the two leading journals in the field, the Journal of Finance and the Journal of Financial Economics, has been investigated in order to sketch:
1) The development of subjects of research;
2) The approach used in tackling those subjects.

Important changes through time were found and possible explanations for these changes are provided. The major findings are:
1) A shift in the subjects of the writings over time: a narrowing of the scope of analysis from broader (macro-)economic policy-oriented issues, first towards analysis of market and firm behavior and later increasingly towards behavior of agents and singular events;
2) Two major changes in approach from chiefly empirical qualitative research first towards predominantly theoretical analysis and subsequently back to mainly empirical, but now quantitative-statistical, research.

Both appear to be facilitated and fueled by:
1) The development of ground-breaking theory in the 1960s and 1970s, which in turn is part a general wave of formalization and quantification in economics in the 1950s and 1960s;
2) The technological advances of the middle 1980s that propelled the rise of ever more precise and detailed empirical data analysis.

The third chapter explores one of the main divides in thinking about financial markets, between neoclassical and behavioral theories: do financial markets behave in a more or less

efficient manner, which would imply that excess returns are unachievable in the long run, or are there systematic and enduring deviations which can be exploited to provide superior returns? Some of the leading protagonists on both sides of this debate happen to be involved in professional asset management operations. The real-world performance of these operations is compared in terms of risk and return in order to provide a new perspective on the neoclassical versus behavioral debate in finance. While the sample is small, the upshot is twofold. First, there is no conclusive evidence that investment management operations with strong academic ties consistently and persistently produce better than average returns. No more and no less, when compared to other professional mutual funds, at least based on the funds analyzed here. Second, there is no conclusive evidence that investment management operations which are advertised as based on principles of behavioral finance do provide consistently and persistently superior returns when compared to investment management operations which are advertised as inspired by principles of neoclassical finance, or the other way around for that matter.

In the fourth chapter ideas out of Austrian economics, in particular Israel Kirzner's thoughts on the market process, are applied to the workings of, and theorizing about financial markets. I argue, both theoretically and by using illustrations out of the practice of financial markets, that a descriptive causal process approach such as the Austrian viewpoint provides, can be regarded as complementary to the more normative claims put forward by neoclassical and behavioral finance, actually capable of bridging the divide between these two dominant strands of thought in finance.

Performativity is a concept that relates to the idea that theory and practice interact and influence each other, a theme which runs throughout this dissertation. Performativity can be described as the idea that a theory or an aspect of a theory such as a model in some form enacts the reality it is intended to describe. Chapter five scrutinizes the arguments brought forward on the performativity of finance theory, in particular as presented by Donald MacKenzie. It will be argued that, while MacKenzie has made a valuable and meaningful contribution, his strongest claims—that option pricing theory shows traits of what he calls Barnesian performativity—do not hold up. This is due to a faulty reading of the Black-Scholes-Merton model and option pricing theory in general and a questionable appreciation of the nature of economic phenomena and models and theories used in economics. It is argued, however, that the less extreme version, so-called effective performativity is a sensible and interesting concept,.

This research project first began to take shape in 2005, i.e. before the 2007-2008 crisis broke loose. Since 2007 financial markets and the thinking about financial markets have profoundly changed. Some aspects related to the crisis are treated in the final chapter as well

as some new interesting developments within finance which can be regarded as offspring of the crisis. Subsequently suggestions are made which could improve the conversation on financial markets. An attempt is made to sketch the outlines of what a pluralistic finance would look like, which I have labelled new institutional finance.