Title: - Theory of Financial Decision Making,

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Reviewed By-

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The celebrity writer initially introduces to the Mathematics and briefly explains Taylor Series, Leibniz’s rule, Vector Differentiation, Method of Lagrange, Central and Non Central Moments, Chebyshev’s inequality, Lognormal, Jensen’s inequality, Stochastic Process, Markov process etc. This reminded me initial days when I started studying Actuarial Science. The book is structured in four parts. In Chapters 1 to 3, it introduces to Utility Theory, Arbitrage, and Portfolio formation. The second part is important and covers Chapters 4 to 9, which explains Mean Variance Portfolio Analysis, Generalised Risk, Portfolio Selection and Asset Pricing, Portfolio Separation Theory, Arbitrage Pricing Theory, Equilibrium Models with Complete Markets, and General Equilibrium Consideration in Asset Pricing. The third section covering Chapters 10 to 15, cover Inter Temporal Models in Finance, Discrete Time Inter Temporal Portfolio Selection, Distribution of Continuous Time Finance, Continuous Time Portfolio Selection, The Pricing of Options and Review of Multi Period Models. The final important section is covered in Chapters 16 to 19, where it introduces to Stochastic Calculus, Advanced Option Pricing, The Term Structure of Interest Rate and Pricing the Capital Structure of a Firm.

The Chapters 18 and 19- The Term Structure of Interest Rate and Pricing the Capital Structure of a Firm were of interest as it is directly related to Life Insurance Company’s day to day job. Actuarial Fraternity is introduced to term $V^n$ when they start career and they are comfortable in calculating Present Value of 1 Amount due at end of n period at given rate of interest (i). This magnificent book introduces to present value concept using different formulas and slowly introduces you how problem of valuing risky assets can be reduced to one of discounting at the riskless rate by using the expectations hypothesis and liquidity preference and preferred habitats theory.