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Financial derivative instruments and social ethics

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Abstract

Recent finance literature attributes the development of derivative instruments (interest rate futures, stock index futures) to (1) technological advances, and (2) improved mathematical models for predicting option prices. This paper explores the role of social ethics in the acceptance of financial derivatives. The relationship between utilitarian ethical principles and the demise of turn-of-the-century bucket shops is contrasted with modern tolerance of financial derivatives based upon libertarian ethical precepts. Our conclusion is that a change in social ethics also facilitated the growth in trading in modern financial derivatives.

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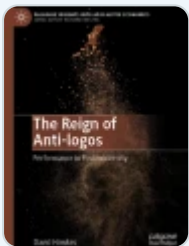
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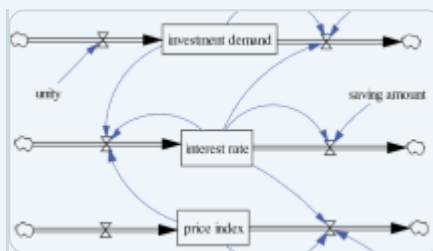
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Author information

Authors and Affiliations

**E. C. Robins School of Business, University of Richmond, 23173,
Richmond, VA, U.S.A.**

J. Patrick Raines & Charles G. Leathers

**Department of Economics and Finance, University of Alabama, 35486,
Tuscaloosa, AL, U.S.A.**

J. Patrick Raines & Charles G. Leathers

Additional information

J. Patrick Raines is an Associate Professor of Economics and holds the F. Carlyle Tiller Chair in Business at the University of Richmond in Richmond, Virginia.

Charles G. Leathers is a Professor of Economics in the Department of Economics, Finance and Business Law at the University of Alabama in Tuscaloosa, Alabama.

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