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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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