Constructing a Market, Performing Theory: The Historical Sociology of a Financial Derivatives Exchange[1]

Donald MacKenzie and Yuval Millo

University of EdinburghLondon School of Economics

Abstract

This analysis of the history of the Chicago Board Options Exchange explores the performativity of economics, a theme in economic sociology recently developed by Callon. Economics was crucial to the creation of financial derivatives exchanges: it helped remedy the drastic loss of legitimacy suffered by derivatives in the first half of the 20th century. Option pricing theory—a "crown jewel" of neoclassical economics—succeeded empirically not because it discovered preexisting price patterns but because markets changed in ways that made its assumptions more accurate and because the theory was used in arbitrage. The performativity of economics, however, has limits, and an emphasis on it needs to be combined with classic themes in economic sociology, such as Granovetterian embedding and the way in which exchanges can be cultures and moral communities in which collective action problems can be solved.

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