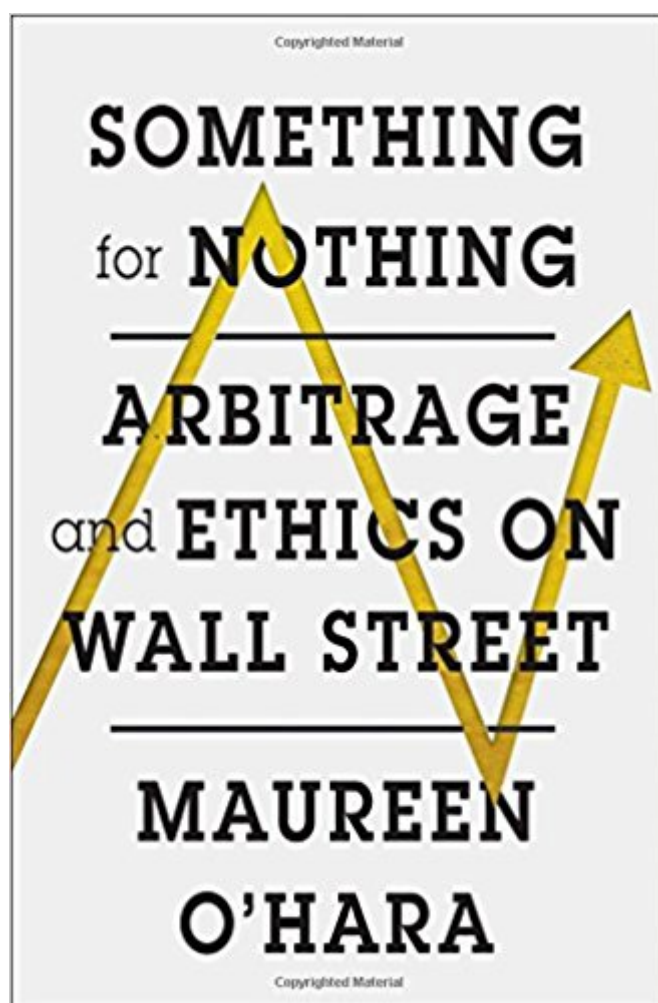


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# Something For Nothing: Arbitrage And Ethics On Wall Street



## Synopsis

From a leading financial economist, a searching examination of the ethics of modern finance. In 2001, Goldman Sachs structured a complex financial contract so that its client, the government of Greece, would appear to have far less debt than it actually did. When news of this transaction came out years later, the inevitable question arose: Even though Goldman's actions were legal, were they ethically wrong? Is modern finance itself inherently unethical? In *Something for Nothing*, financial economist Maureen O'Hara explains that one of the key innovations of modern finance is its reliance on arbitrage, the practice of taking advantage of a price difference between two or more markets to generate profits and remove inefficiencies. When done correctly, arbitrage can create value at little or no cost (in effect, getting "something for nothing"); but it can also be an exploitative tool. In a lucid, insightful discussion of the ethics of arbitrage in modern finance, O'Hara reveals how the rules can often be stretched into still-legal yet highly unethical business practices. Examining key cases in clear and persuasive prose, O'Hara illuminates various aspects of financial ethics, from the Goldman Greek transaction to Lehman Brothers' attempt to cover up its debt, JPMorgan Chase's maneuvers in California's energy markets, Bernie Madoff's trading strategies in the 1980s, high-frequency trading practices, and toxic loans in France. Ultimately, O'Hara turns to philosophy and religion to argue for a new, humanistic approach to ethics in the financial industry. She makes a strong case for a way forward: fewer rules and more standards to foster a morally responsible outlook. Fearlessly raising the questions at the moral heart of our financial system, *Something for Nothing* is a masterful treatise on the ethics of modern finance.

## Book Information

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## Customer Reviews

“Something for Nothing joins and extends a worthy tradition dating back at least to Adam Smith who was both an eminent philosopher and an eminent economist who in wrestling with how markets do or don’t succeed in channeling some of our baser traits, greed and deception, in socially useful directions. Events surrounding the financial crisis and the ongoing project or crisis to construct a stable Euro zone have brought these always-present issues to the fore. Maureen O’Hara’s distinction as an economist who knows what makes sophisticated high frequency markets work lends especial credibility to her analysis. Getting these things right is important if the general public is to support wise regulation of these markets.” - Thomas J. Sargent, winner of the Nobel Prize in Economics and William R. Berkley Professor of Economics and Business at New York University  
“In *Something for Nothing*, Maureen O’Hara takes on the vitally important, and sometimes controversial, topic of legal vs ethical for financial professionals and firms in a practical, balanced, educational, and most enjoyable way. This book should be mandatory reading for people entering our business and for anyone interested in how to restore and retain trust in the financial services industry and its people.” - Jack Brennan, former chairman and CEO of the Vanguard Group  
“*Something for Nothing* teaches finance from a moral perspective, integrating morals into the theory. This should be essential reading for people seeking an introduction to finance, who feel they can’t really understand it properly if they can’t square it with their deep values.” - Robert J. Shiller, winner of the Nobel Prize in Economics and Sterling Professor of Economics at Yale University  
“A leading financial economist attempts to counterbalance the impression that modern finance is at best ethically challenged or at worst fatally flawed, a perception bolstered by the constant barrage of financial scandals. . . . O’Hara . . . whose qualifications and contributions are recognized in the world of finance as well as academia, is concerned with exploring the gray areas between an ethical approach to financial transactions and behavior sanctioned by law. Identifying where such lines are drawn opens the door to a provocative and stimulating discussion of the kinds of ambiguous situations that arise almost daily in the financial sector, as well as the economy at large.” - Kirkus Reviews  
“Sophisticated.” - Library Journal

Maureen O'Hara is the Robert Purcell Professor of Finance at the Johnson Graduate School of Management, Cornell University. She is recognized as one of the leading researchers in academic finance, with particular expertise in market microstructure, banking, and law and finance.

From a 30 year veteran of global banking: This is the best book on ethics on Wall Street And is a MUST READ especially for leaders of banks and younger bankers and business people. Prof. O'Hara lucidly describes how easy it is for bankers to lose sight of the ethical culture necessary to build trust in the markets. She does not provide all the answers - it is not that simple. Her case studies are brilliant and show the boundaries of ethics and the "weasel zone" - which I have observed personally in my time in the business. I read this cover to cover in a few sittings - underlining and highlighting and making notes along the way. This book clearly demonstrates the value of having both an academic and philosophical approach WHILE having firm grasp of EXACTLY what goes on in the inner workings of the "deals" or "strategies" developed by firms in the business. Bravo. Now time to re-read and send to colleagues.

This is an excellent book by a foremost research professor at the cutting edge of HFT and microstructure issues and she understands market-making in intricate detail. Yet, blissfully, the book SPARES you the boring intricacies and gives you a birds-eye view of the issues in executive summary form. This is invaluable. Even journalists today can not and do not get this frank (they have "loyalties" to their sources of "content"....you do the math; also financial journalists act like they get paid by the word, and do not like to give away the punch line easily). Not so for professor O'Hara. I think she soft-peddles and nuances the ethical discussion on these "howlers-of-a-scandals", therefore i gave it four stars instead of five. This book covers 6 major scandals: \*The hiding of Greek Debt by GS. \*GS cornering of the Aluminum Market in the US via LME \*HFT order cancellation games \*GS and the "billion dollar short" by John Paulson (the Abacus CDO) \*JPM and California Electricity Market bid process exploits \*Structured Loans to European Municipalities by Deutsche, Dexia etc. Should be on the shelf of every practitioner and student of finance. or as a gift. worth it.

Professor O'Hara has brought her deep knowledge and understanding of the financial landscape to bear on a critical topic that has been previously sidestepped. The "greed is good" mantra that fierce competition will produce an optimal allocation of resources is questioned when that goal creates

both the means, motive and opportunity to expropriate wealth from investors in ways that cross ethical boundaries. She carefully unwinds the mechanics of arbitrage positions to raise our awareness of clear ethical violations, but more importantly those cases that fall in the "grey" area where the line may not be crossed, but even defining the line is ambiguous. It is a must read for academics, practitioners and regulators who, now that it has been named, but grapple with the consequences and solutions to the issues raised in this book.

I am one of those who think "business ethics" is an oxymoron. And I suspect that, deep down, Professor Maureen O'Hara shares the same impression but would like to think otherwise. Why else would she include in her very first chapter a description of the "intriguing [German] study" (page 5) by Falk and Szech? This is a study that shows how the strength of people's intuitive moral convictions diminishes the minute they are plucked out of making individual, isolated moral choices and placed in a market situation where they are expected to negotiate and bargain over the same moral issue (in the case of the Falk/Szech study, the issue is whether to kill mice, or not). In other words, this is a study making the compelling case there is something inherently unethical about markets. Moreover, Professor O'Hara's every tentative prescription throughout her book for tighter oversight and building, or rebuilding, an ethical "culture" in financial institutions and in the hearts and minds of the people who run them, is followed by the sad and often reluctant admission that such strategies can be easily side-stepped. (Hence, her suspicion that tighter, more detailed regulations are raw meat to savvy lawyers and bankers who are just inspired to find new and inventive ways to violate them, as well as her seemingly baseless hope that vague "standards" may do the trick somehow of reminding highly-paid schemers of their moral obligations to a wider community). Her continual use of the apt phrase "weasel zone" to describe the deeply ambiguous and complex grey area between the clearly ethical and the clearly illegal, also gives the game away. Curiously, O'Hara does not consider whether the political revolving door between Washington and Wall Street, as well as the diminished sense of moral hazard resulting from the notorious bank bailouts in 2008, hasn't contributed to flagrant unethical behavior. And what about fines that don't impact bankers' salaries (merely the "cost of doing business")? And what about settlements that allow banks to escape admissions of guilt or any firings of wrong-doers? Perhaps writing tougher laws than Dodd-Frank (i.e. ones with fewer loopholes) and adding tougher sanctions for violations---like, for example, prison sentences---might reduce the weasel zone more effectively than more ethic courses in business schools or a concentration on standards as opposed to tighter regulations. After all, conservatives claim that mass incarceration for minority males reduces crime and is a good thing for

society. Why are they suddenly silent and a little embarrassed about the same thing for well-heeled, white bankers and their enablers?

This book really helped my understanding of how Wall Street works and the moral issues that are so often tried in the public square. Things are never as simple as we would like them to be.

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