

A Primer in the Social Studies of Finance and Performativity: Theories, Methods and Controversy

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The social studies of finance: theory

- A new conceptual approach to study financial markets
- Borrows from the social studies of science literature (“scientific claims become facts as a result of the settlement of a controversy”):
 - From David Bloor’s strong program:
 - Instead of studying the social context of financial transactions, focus on the content
 - Latour’s laboratory studies:
 - From studying people such as trader’s careers, study people and things
 - Callon’s critique of Bordieu

Outline

1. A snippet on the theory in the social studies of finance: a new source of agency, a new focus on the content of economic activity
2. An example: how to study arbitrage?
3. Methods: the SSF Manual: studying calculation and valuation

I. An example:

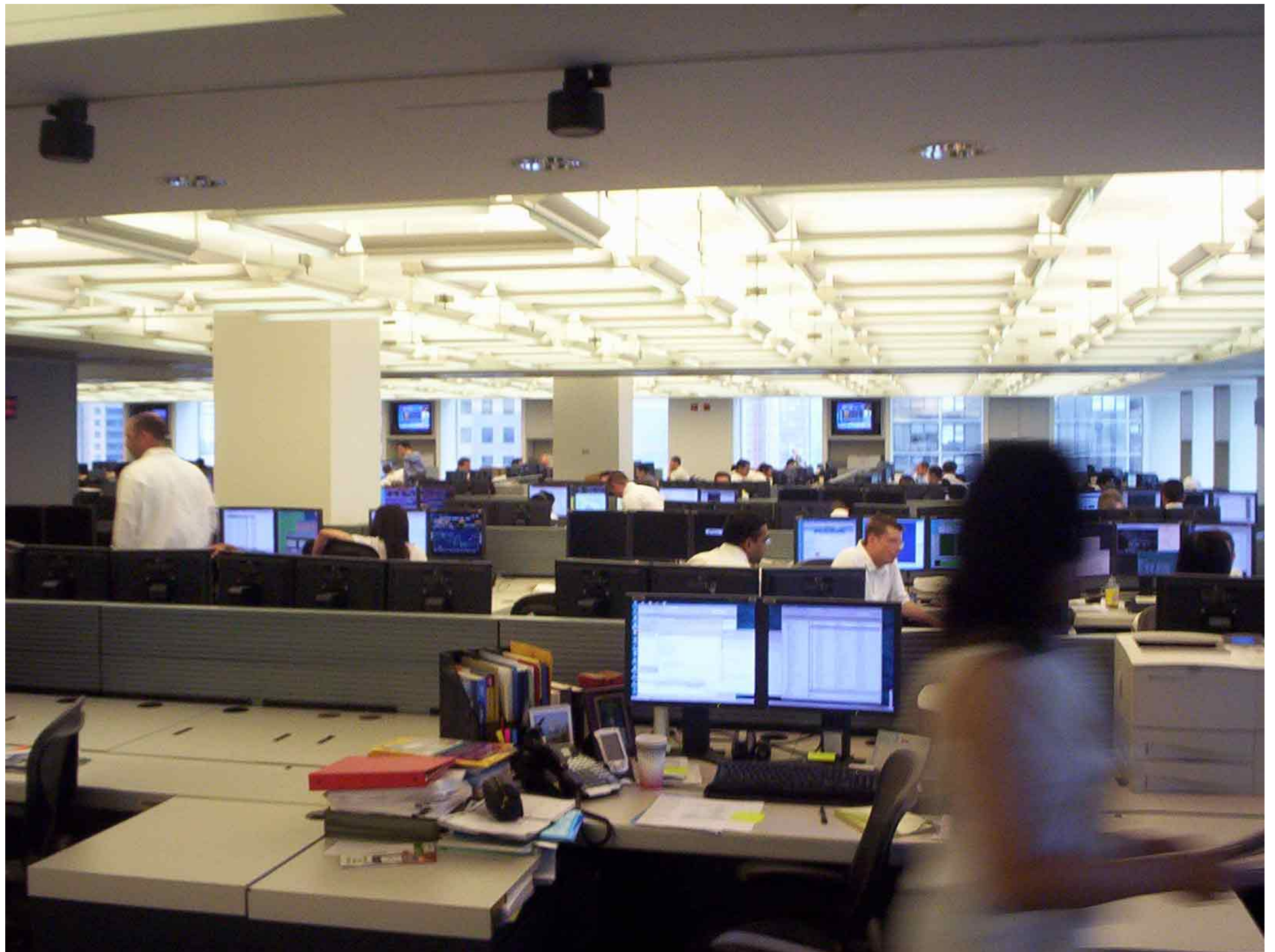
Based on Beunza and Stark (2004),
“Tools of the Trade: The Socio-
Technology of Arbitrage in a Wall Street
Trading Room.”

Beunza and Stark (2004)

- Example of how to conduct a social studies of finance study of arbitrage
- Research question: What is contemporary arbitrage? And form optimal organization makes it possible?
- Ethnography of people and tools



World Trade Center, as seen by Beunza in 1998.



Classic arbitrage

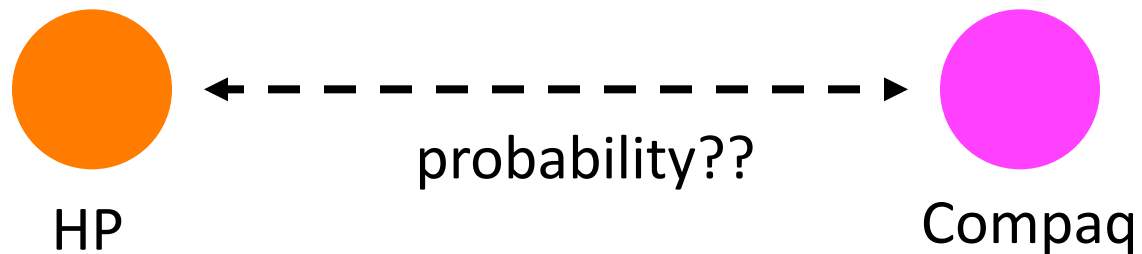
Link markets for *the same* security



But if it's that simple, how do traders locate opportunities?

Creative association

Contemporary arbitrage links markets for *different* securities

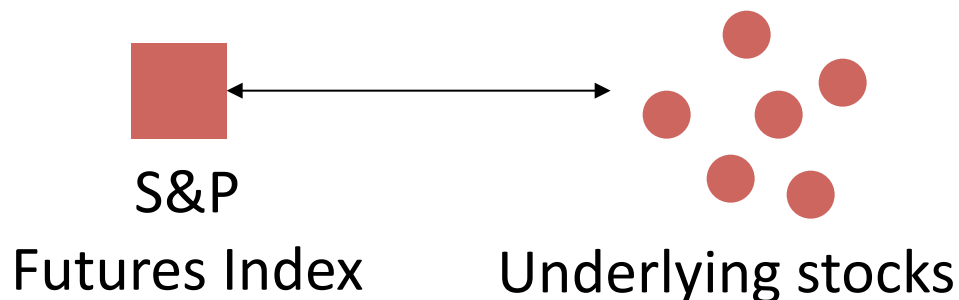


A diversity of arbitrage strategies

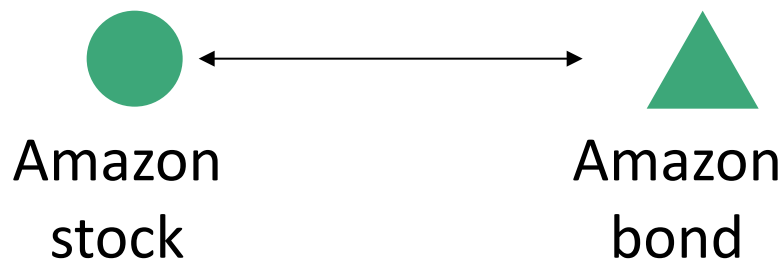
Merger
arbitrage



Index
arbitrage

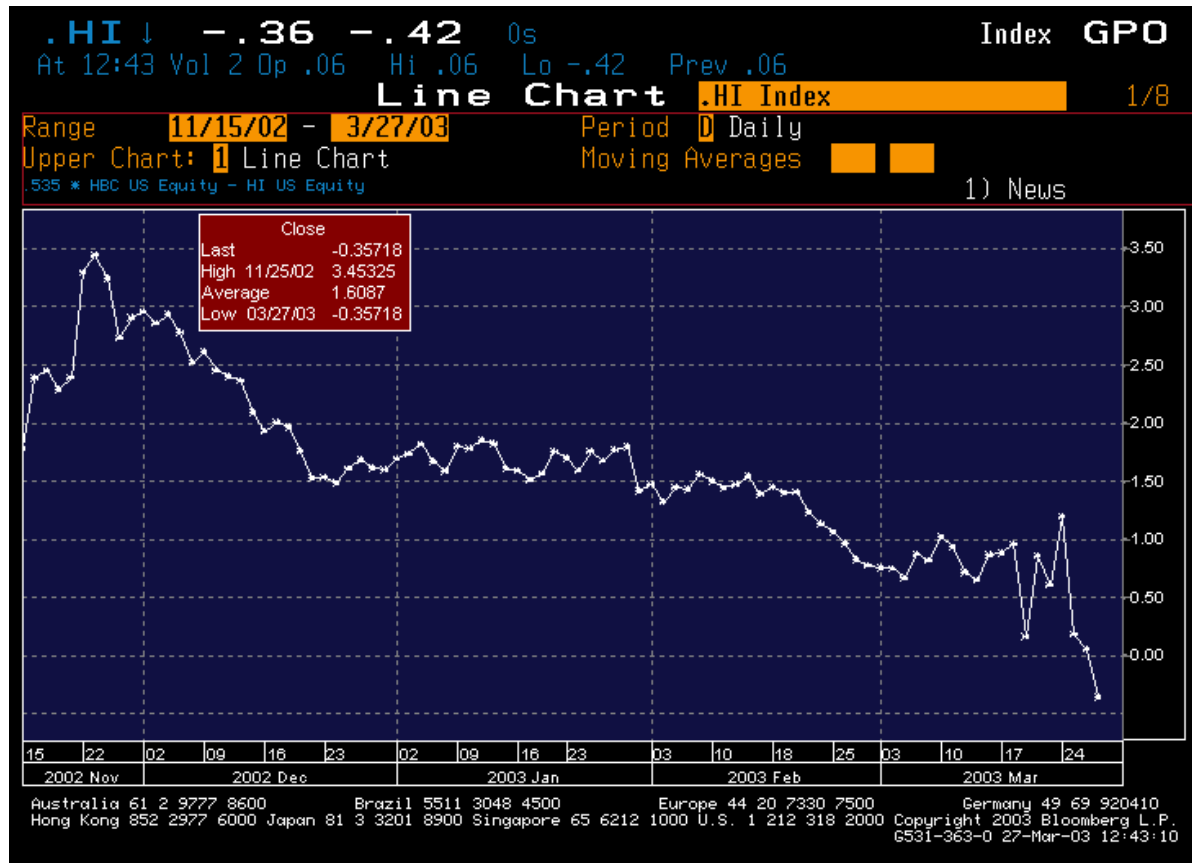


Convertible
bond arbitrage



Every strategy makes something the measure of something else

... and uses a model/ instrument to ascertain the strength of the association



E.g., the spread plot

But those associations are uncertain...

- “Bloomberg shows the prices of normal stocks. But sometimes, normal stocks morph into new ones.” [Manager]
- “I spend lots of time looking for stocks that loose their properties. Then the historical parameters no longer apply” [Todd, statistical arbitrageur]

How to overcome this uncertainty?

Communication challenges

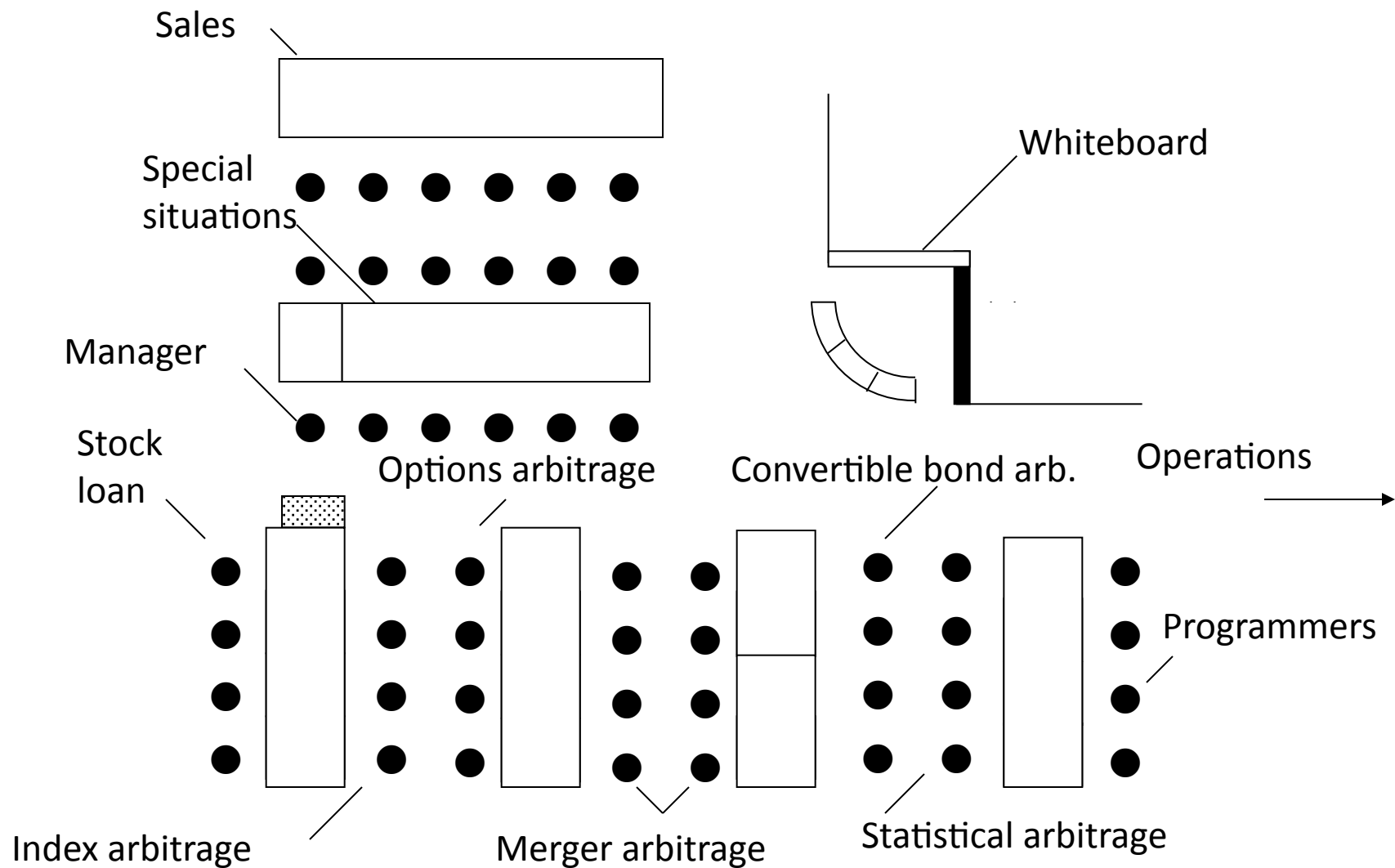
- Discussion between traders helps...
- ...But there are communication challenges:
 - “A trader is like an engineer type. Difficult when they think they’re right. Abrasive. And not very social. Not socially adept. I can easily find you ten traders in the room who would be miserable at a cocktail party.”

Manager

Solution: integrative measures

- Limited size
- Promotion of trust
 - Objective bonus and “complaint-free zone”
 - Long-term employment
 - Internal promotion only
- Use of a knowledge broker
 - “Minister without portfolio”
- Use of a translator
 - “Special situations” desk

Equity derivatives, International Securities



Conclusion

- Quantitative finance entails an uncertain task of association
- These associations need to be managed
- Integrative measures that allow for the successful identification of risks
 - Individual bonuses can be detrimental
 - Culture of respect and collaboration
 - Networks
 - Physical space

Knowledge-sharing seems to be recurrent problem in finance

- Lepinay's (2011) new book: front-office cannot talk to back-office
- MacKenzie (2010) on the credit crisis: the result of lack of integration within rating agencies
 - “ABS CDOs fell into the gap between two evaluation cultures. ABS specialists and CDO specialists each have rich and sophisticated ways instruments, but those ways were, and are, different”
 - “Different groups understand different ways and each with their own ‘evaluation cultures’”
 - MacKenzie: “The account presented here contrasts quite sharply with Beunza and Stark's (2004) discussion of arbitrage.”

II. The SSF Manual

An SSF Manual

- Imagine you are told the following by a client/funding organization: “Do an ‘SSF study’ of a some topic in finance”
- This could be about various current topics:
 - Rise of responsible investment
 - High-frequency trading
 - Sovereign debt
 - Rating agencies
 - The bubble in the value of Web 2.0 companies

How would you do it?

Manual: an SSF approach to calculation

1. Based on Callon (1998)
2. Identify a new decision-making tool: a formula, visualization, machine, artifact
3. Examine how the tool was designed:
 - What actors were involved?
 - What issues were taken into account?
 - What theories/ models informed their choice?
4. Explore how actors use it *in practice*.
 - How does the tool shape value?

Manual: an SSF approach to valuation

Based on Latour (1987), *Science in Action*

1. Identify a controversy over value
2. Locate the different sides to the controversy
3. Look for the settlement
4. Identify the winner
5. How was the controversy closed?
6. What technologies are used?
7. What social processes?

Example: Beunza and Garud (2007) on securities analysts

III. Debate

The performativity “wars”

- The most provocative (and best-known) claim in the social studies of finance is the performativity thesis
- Traditional criticism of the social studies of finance:
 - Insufficiently political (Mirowski)
 - Too micro-oriented (Fligstein)
 - Mechanical view of choice

The critics

- “Markets of Politics” workshop in Berkeley, 2008
 - Fligstein discusses how the “competitive context” is political (fields)
 - But how is the content of economic decisions shaped by politics (tools)?

How do tools and fields shape each other?

Responding to the critics: from markets to politics

- In the works:
 - Beunza and Millo: a study of the regulation of stock exchanges in the US - *the politics of liquidity*
 - Beunza and Ferraro: a study of the macro forces pushing for socially responsible investment – *the “big tent”*

How do tools and fields shape each other?