Contents

List of Figures ix
List of Tables x

1. Introduction 1
Overview; Scope of the Investigation; Some Introductory Pedagogy; Outline of the Presentation; Beware of Ethno-Centrism and Other Sources of Bias?; Notes.

2. History of Commerce and Finance 23
Developments Prior to 1478; The Reckoning Schools; Social Attitudes Toward Business; The Census; The Venetian Prestiti; Societas and the Triple Contract; The Bill of Exchange; Lombards, Jews and Pawnbroking; The Emergence of the Early Bourses; The Evolution of Financial Securities; Life Annuities and Tontines; Joint Stock Companies; Private Credit Markets in the 18th Century; Other 18th Century Contributions; Appendix: Selected Life Annuity Price Series and Issue Sizes; Notes.

3. The Scholastic Analysis of Usury and Other Subjects 121
Scholastics and Merchants; Ancient Doctrines on Interest Payments; Scholastic Economics; Types of Law; Doctrine on Usury; Doctrine on Exchange and Census; Doctrine on Gambling and Risk; The Evolution of Scholastic Doctrine; Opinion on the Scholastic Usury Doctrine in the 18th Century; Keynes on Usury; Appendix: ‘Merchant of Venice’, William Shakespeare (1600); Notes.

4. The Evolution of Commercial Arithmetic 153
Commercial Arithmetic and Commercial Education; The Treviso Arithmetic; Pacioli and the Summa; Plagiarism; Chuquet and the Triparty; Progress of Commercial Arithmetic; Simon Stevin and Leiden; Commercial Arithmetic and the Ready Reckoner; Commercial Arithmetic, Accounting and Merchant Education; 18th Century Theoretical Developments; Appendix: Selected Compound Interest Tables; Notes.

5. Simple Interest and Compound Interest 200
Basic Interest Concepts; Methods of Fixed Income Valuation; Origins of Some Mathematical Tools; Simple Interest in Partnerships; Compound Interest; The Development of Commercial Arithmetic; The Forgotten
Work of Richard Witt; Malynes on Compound Interest; Compound Interest Calculations in the 18th Century; Reflections on the Historical Development of Compound Interest; Appendix: Life Annuity and Other Tables from Price (1772); Notes.

6. The Valuation of Life Annuities 245

Origins of Life Annuities; The Genesis of Modern Contingent Claims Pricing; Graunt and Halley; The Life of Edmond Halley; The Contributions of Abraham de Moivre; Contributions after de Moivre; De Witt’s Calculation of Life Annuities; Calculations of Halley and de Moivre; Valuation of Tontines; Bernoulli’s Problem; A Note on the Bernoullis; Appendix: Excerpts from Valuation of Life Annuities..., de Witt (1671); Notes.

7. Foreign Exchange and the Bill Market 287

The Bill of Exchange; Early Bourses and the Bill Market; Dry Exchange and Fictitious Exchange; Gresham on Foreign Exchange; The Rudiments of Early Mercantilism; Arbitrage in the Bill Market?; Possible Arbitrage Transactions; An Early Example of Technical Analysis?; Negotiable and Inland Bills; Cantillon on Speculation in Bills; Adam Smith and the Bill Market; Appendix: Some Common Monetary Units; Notes.

8. The Analysis of Joint Stocks 360

The Evolution of Joint Stocks; The Dutch East India Company; The Emergence of Markets for Trading in Shares; Isaac le Maire and the First Market Manipulation in Stocks; Early Stock Trading in London; Brokers and Stockjobbers; The English Coffeehouses; John Law: The Great Projector; The Mississippi Scheme; The South Sea Bubble; Analysis of Trade and Pricing for Joint Stock Companies; Adam Smith on Stockjobbing; Views on Corporate Finance; Appendix: Selected Stock Price and Dividend Series; Notes.


What are Derivative Securities?; The Earliest Markets; Antwerp, Amsterdam and London; De la Vega on Stock Option Trading in Amsterdam; Houghton on London Option Trading; The South Sea Bubble and Barnard’s Act; The Pricing of Futures and Options Contracts; Put-Call Parity Conditions; The Japanese Rice Market; Appendix: English Translation of Jeu d’Actions en Hollande, de Pinto (1771); Notes.

10. Manias, Manipulations and Institutional Failures 453
11. English Debates over Interest Rates and Public Credit

What Interest Rate Theories?; The Mercantilist Contributions; Keynes on Mercantilist Interest Theories; Cantillon and the Loanable Funds Theory; Further Debates on Legal Maximum Interest Rates; Adam Smith and the Financial Revolution; The Sinking Fund Debate; Who was Richard Price?; Opinions on the Sinking Fund; Appendix: British and Dutch Interest Rates, 17th-18th Centuries; Notes.

12. Maritime Insurance, Life Insurance and Other Subjects

Origins of Maritime Insurance; Development of the English Maritime Insurance Market; Lloyd’s of London; The Development of Life Insurance; The Contribution of James Dodson; Richard Price, Life Assurance and the Equitable; The Origin of Old Age Pension Plans; The Development of Other Types of Insurance; Appendix: The Francis (1853) List of South Sea Bubble Era Assurance Schemes; Notes.
13. Some Speculative Conclusions 521

The Origins of Economics; The Origins of Financial Economics; Who are the Founders of Financial Economics?; Some Speculative Conclusions; Notes.

Bibliographic Notes 535

References 539

Index 560
Contents

Figures

2.1 A 1535 woodcut print showing a father apprenticing his son to a reckoning master
2.2 A woodcut of a typical counting table
4.1 Fra Luca Pacioli
4.2 A woodcut from the title page of Adam Riese's Rechenbach (1529)
4.3 Breviat for compound interest calculations from Witt (1613)
4.4 Compound interest table from Price (1772)
5.1 Title page from Witt (1613)
5.2 The first question, with the worked solution, from Witt (1613)
5.3 Table of life annuity values from Price (1772)
5.4 A selected table from Price (1772)
6.1 Edmond Halley
6.2 Abraham de Moivre
7.1 Example of dry exchange between Bruges and Venice based on a real case taken from business records by de Roover (1944)
8.1 ‘Waddling Out’, a well known 18th century cartoon
8.2 Plan of Exchange Alley showing the principal coffee houses
11.1 Richard Price
11.2 An 18th century cartoon about Richard Price, questioning his loyalty to the English crown due to his sympathies in the French Revolution
12.1 Pension scheme table from Price (1772)
Tables

2.1 Prices and yields of Venetian *prestiti*, 1309-1502
2.2 Number and percent of nominees and estimated fair value of the 1662-1674 Amsterdam life annuity by sex and age
2.3 Percent of nominees, price and fair value of 1672-1674 Amsterdam life annuity by age and sex
2.4 Yield, fair return and percent of investors by class in the French tontine of 1696
2.5 Tontines in France and Britain, 1689-1789
2.6 Direct loans of the French Government, 1747-1771
2.7 French life annuity prices
6.1 Expectation of life and present value of life annuity purchasers at selected ages for selected life tables
8.1 Dutch East India Company, stock prices and dividends
8.2 Bank of England, stock prices and dividends
8.3 British East India Company, stock prices and dividends
8.4 South Sea Company, annual stock prices
11.1 Debt and Taxes in Britain, 1740-1775
11.2 Summary of 17th century interest rates
11.3 Yields on new British Government long-term issues, 1700-1770
11.4 18th century Dutch interest rates