Subscription Finance in the South Sea Era: A Survey of Issues and Methods

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- We review the methods and motivations for research in subscription share prices in the South Sea era – 1719-1721
- Motivations – why research into derivative pricing can help – and may be a pre-requisite – for solving the Bubbles puzzles.
- Review the results so far for the Royal African Company subscription and the review and revise the results for the South Sea subscriptions of 1720
Basis Papers

• Arbitrage and Simple Financial Market Efficiency during the South Sea Bubble: A Comparative Study of the Royal African and South Sea Companies Subscription Share Issues – unpublished

• Understanding financial derivatives during the South Sea Bubble: the case of the South Sea subscription shares - *Oxford Economic Papers*, 2007
Plan of Presentation

• The Law of One Price in Financial Economics – why it matters in the study of Bubbles & how it relates to financial derivatives

• Subscription share issues - pervasive 18th century British finance

• Arbitrage Bounds – a first check on the reasonableness of pricing. For the Royal African subscription shares, it is all we need.

• For the South Sea subscription shares arbitrage bounds are not enough. We need explicit pricing models. The OEP 2007 models are good, but we can make them sharper. We have new evidence of the terms of the subscription contracts that help.