

Black, Fischer; Scholes, Myron

The pricing of options and corporate liabilities. (English) Zbl 1092.91524
J. Polit. Econ. 81, No. 3, 637-654 (1973).

Authors' summary: "If options are correctly priced in the market, it should not be possible to make sure profits by creating portfolios of long and short positions in options and their underlying stocks. Using this principle, a theoretical valuation formula for options is derived. Since almost all corporate liabilities can be viewed as combinations of options, the formula and the analysis that led to it are also applicable to corporate liabilities such as common stock, corporate bonds, and warrants. In particular, the formula can be used to derive the discount that should be applied to a corporate bond because of the possibility of default."

The article is arguably one of the most important papers within finance theory to date and allows us to price various derivatives, including options on commodities, financial assets and even pricing of employee stock options.

Following loosely on a PhD thesis written by University of Chicago student James Boness, they developed an analytical model which we now know; The Black-Scholes Option Pricing formula, used as a closed form solution to price European vanilla options.

Merton and Scholes received the 1997 Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel for their work; Black died in 1995.

MSC:

91G20 Derivative securities (option pricing, hedging, etc.)
91G50 Corporate finance (dividends, real options, etc.)

Cited in **36** Reviews
Cited in **2502** Documents

Full Text: [DOI](#) [Link](#)