



The Wisdom of Finance: Discovering Humanity in the World of Risk and Return

Mihir Desai

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"A fascinating new perspective on modern finance," --Oliver Hart, 2016 Nobel Laureate in Economics

"Lucid, witty and delightfully erudite...From the French revolution to film noir, from the history of probability to Jane Austen and *The Simpsons*, this is an astonishing intellectual feast." --Sebastian Mallaby, author of *The Man Who Knew: The Life and Times of Alan Greenspan*

In 1688, essayist Josef de la Vega described finance as both "the fairest and most deceitful business . . . the noblest and the most infamous in the world, the finest and most vulgar on earth."

The characterization of finance as deceitful, infamous, and vulgar still rings true today – particularly in the wake of the 2008 financial crisis. But, what happened to the fairest, noblest, and finest profession that de la Vega saw?

De la Vega hit on an essential truth that has been forgotten: finance can be just as principled, life-affirming, and *worthy* as it can be fraught with questionable practices. Today, finance is shrouded in mystery for outsiders, while many insiders are uneasy with the disrepute of their profession. How can finance become more accessible and also recover its nobility?

Harvard Business School professor Mihir Desai, in his "last lecture" to the graduating Harvard MBA class of 2015, took up the cause of restoring humanity to finance. With incisive wit and irony, his lecture drew upon a rich knowledge of literature, film, history, and philosophy to explain the inner workings of finance in a manner that has never been seen before.

This book captures Desai's lucid exploration of the ideas of finance as seen through the unusual prism of the humanities. Through this novel, creative approach, Desai shows that outsiders can access the underlying ideas easily and insiders can reacquaint themselves with the core humanity of their profession.

The mix of finance and the humanities creates unusual pairings: Jane Austen and Anthony Trollope are guides to risk management; Jeff Koons becomes an advocate of leverage; and Mel Brooks's *The Producers* teaches us about fiduciary responsibility. In Desai's vision, the principles of finance also provide answers to critical questions in our lives. Among many surprising parallels, bankruptcy teaches us how to react to failure, the lessons of mergers apply to marriages, and the Capital Asset Pricing Model demonstrates the true value of relationships.

THE WISDOM OF FINANCE is a wholly unique book, offering a refreshing new perspective on one of the world's most complex and misunderstood professions.

The Wisdom of Finance: Discovering Humanity in the World of Risk and Return Details

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From Reader Review The Wisdom of Finance: Discovering Humanity in the World of Risk and Return for online ebook

Gaurav Moghe says

Finance can sound both cryptic and evil. Cryptic, because of various financial instruments with tedious names which keeps the lay person from trying to understand them. Evil, because of the image problem that it has created for itself since time immemorial. Finance, as the conventional wisdom goes, is ultimately about extracting profits at the expense of, well, anything.

But one guy wasn't okay with how finance gets viewed. Mihir Desai, Professor of Finance at HBS, decided to come up with this book to 'demystify' all the hot air that surrounds finance. And he decided to demystify it with flare, using plot lines of books and movies and picking up historical anecdotes to help us understand the financial vernacular.

He picks Jane Austen novels to draw parallels with options and diversification. Insights on insurance is offered in the package of French Revolution. Similarly, the concepts of Value creation, Mergers and Acquisitions, Corporate Governance, Leverage are all explained through vehicle of humanities.

Desai, in his endeavor, doesn't stop at helping us understand what those tedious financial names really signify. He goes one step further and draw parallels between the topics mentioned and our personal lives.

In a chapter on bankruptcy, Desai talks about how failure is inevitable in a risk-prone world of finance. And people or organisations that goes bankrupt should be given another chance. Failure, in a way, should not be stigmatized. It should rather be seen as a source of learning. Similarly, like big organizations, we too at a personal level are prone to massive failures due to bad decisions or pure bad fate. But it's okay to fail when you are treading risky waters. And instead of seeing failure as 'moral' failure, consider it as a source of learning.

The book concludes with a chapter with two stories. One depicts the evil face of Finance, while the other show a more benign face. While Finance is deservedly infamous as is natural from the innumerable stories that has painted it black, it is undeservedly not popular. And one reason for it is the dearth of stories on finance that highlights its brighter side.

Wisdom of Finance, is one such effort towards supplying that elusive side of finance to demystify it to some extent.

Savyasachee says

The Wisdom of Finance is a provocative title for any book. One, it has to provide wisdom, and two, the wisdom must be traceable to finance. It is to Mihir Desai's credit that he's able to do both, albeit with a slight stretch of credulity.

Desai's greatest accomplishment here is to humanize Finance. As he himself acknowledges, Finance has become a kind of bad word even among those who rely upon it. Being the very foundation of both modern economics and modern society, Finance cannot afford to be seen this way forever. It needs to go back to its roots and rediscover its purpose and find a way to reapply to the group of respected professions. Taking this as an objective, Desai passes with flying colours, succeeding beyond what I expected when I first picked this

book up. There is a lyrical quality to the comparisons made, colours being filled into the dry numbers most of us associate with finance. Insurance becomes the noblest of all causes and modern money its first application. The ancien regime of France becomes a case study in what not to do when handling something as delicate and sensitive as insurance and the society of Ancient Rome is called upon to explain pooling of risk. Similarly, Thales of Miletus, Miss Elizabeth Bennett of *Pride and Prejudice*, and a host of other characters both real and imaginary are brought onto the stage to give a stirring performance on the virtue of finance they embody. It's quite incredible how one can relate nearly every aspect of finance to the noble ideas of the Greeks, concern for one's fellow man, and the betterment of thy neighbour.

Unfortunately, as Desai also mentions, the greatest of kindnesses may pave the road to hell. While the instruments of finance may be used for enhancing the standing of many, they may also be used in ways either selfish or merely incorrect, causing proportionate gains and losses. Finance itself is a high-risk high-reward game: the results can make or break society. The case of Louis XVI of France is a great example of finance overthrowing a government. The case of the Rothschilds is one people might use when talking about the increasing income divide.

As an audiobook, the narration is near about as good as I'd expect. Desai is an able narrator, rarely letting emotion slip into his voice as he talks, yet allowing for natural inflection to colour his words. While certain bits of the book are rendered completely irrelevant in this format ("as seen on the figure opposite this page", really?), it does not detract from the overall experience. Go for the audiobook if you can, it's not an extremely heavy book and is great to listen to while commuting or even eating.

I deduct a point from the book, making it a four out of five because while the book deals very well with the wisdom of finance, it prefers to skip over the lack of it among financiers. Very little time is devoted to this bit and an examination of where the accumulated wisdom of finance was when the world was burning down around our ears. There may be a lot of wisdom in finance, but if a lot of people seem to be ignoring it, something fishy abounds. Nonetheless, I'd recommend the book, specifically the audiobook, to anyone who wishes to learn something about finance without involving math. It won't teach you how to do it yourself, but it will make you appreciate what the best of intentions might do with it.

Frank says

Quite possibly one of the most interesting books I've read in years. The author takes stories far and wide - from Jane Austin, to Stringer Bell from *The Wire*, to *The Simpsons*, Shakespeare, *The Producers*, and so many more - to craft a story of the basics of finance from the perspective of the humanities. There is amazing insight at every turn as he draws from literature, history, art, film, and theater to illustrate basic concepts of finance and their importance in life. I can't recommend this enough!

Hakan says

The one who are looking for "how finance works or academic information about the subject" will find "TOO FEW" in this short book. The author extremely focused on "intersection of finance and everyday life(love, romance,movies, music, insatiability, philosophy)" .. and I think that is boring for F?NANCE...

Jay says

When I read Piketty's "Capital in the Twenty-First Century" I found that I really appreciated his efforts to explain wealth and capital in historical context by referring to the fiction of the times, especially Jane Austen's. By using the descriptions of the characters and their place in the world from those fictional stories written centuries back, you understood how wealth made itself known, how money was spent, and how wealth brought status and the ability to purchase fine tools (e.g. a horse drawn barouche-landau was the Tesla of Austen's day). The fiction reflected the times.

In "The Wisdom of Finance", author Mihir Desai takes the idea of illustrating financial situations with fiction through a variety of financial concepts, from risks and insurance to investments and return, and to debt and bankruptcy. He touches on the poetry of insurance executive Wallace Stevens, the tradeoffs in "The Remains of the Day", and Dashiell Hammett's story of how a fellow reacted to a near-death experience in "The Maltese Falcon". Only a few of the examples were specifically about finance. Most were about situations in life that related to the concept being discussed. Desai also moves beyond fiction, exploring these financial concepts through poetry, song lyrics, recent news articles, and TV show episodes.

I liked the idea behind this book – using the liberal arts to illustrate stony financial concepts that many financial students probably learned without relating to the real world, or at least to events that could have happened in the real world since we are talking about fiction. The book is based on a "last lecture" given to Harvard business students, so it may have been one of the few chances for them to look to the liberal arts for storytelling prowess on these kinds of financial relationships/events. The book was written well. I did find the mindset of the author, basing the covered concepts on a foundation of risk, was entirely appropriate, but if you don't think in that way all the time it might cause the reader to wonder about the path taken. I know I wondered and had different (lower) expectations, and I believe it was because I was thinking more as an accountant than a financial manager. Overall, the book was well done and enjoyable to me, more enjoyable than I initially expected. If the idea of using stories to illustrate financial concepts grabs you, you may well enjoy it.

Mehrsa says

This was such a beautiful and relevant book that I did not think I needed to read. Finance gets a bad wrap, but the issues finance deals with are human issues. Desai shows this through literary criticism and explanations of core financial issues. Risk, for example, is about the bad stuff that can happen to you in life. Finance can show us how to deal with this risk. I teach contracts and I'm always trying to convince my students that contracts are about trust and relationships.

I wish he had done more here in teaching the finance types about ethics and bringing in those human values (value for non monetizable things) into their lives and models. A great and satisfying read overall.

Bryan McNeil says

Those who know me will think I've lost my mind, but this book is categorically awesome. Professor Desai is a true master of weaving together wildly disparate examples from all corners of human life to illustrate concepts from unrelated fields. The chapter on leverage is one of several high points. I understand leverage in terms of Archimedes, basic physics, and even carpentry and related applications. As relates to finance,

however, leverage takes on a dark and ominous tone of jargon, not for the uninitiated--"leveraged to the hilt", "under leveraged", "leveraged buyout". It is, in fact, jargon, but when clearly illustrated as it is by Desai, it becomes digestible as a logical metaphor like any other. Close friendships are a form of leverage, as are family relations, or any relationship that carries with it obligations as well as benefits. These relationships can be called on to assist you in achieving something you could not by yourself. In kind, you can be called on by your mates to assist them. Why didn't someone just say that to begin with?

In addition to leverage, I came away with much better understandings of risk and risk management, insurance, the relationships between principals and management, mergers, and bankruptcy. The weak link, in my mind, was the chapter on valuation. For my money (ha!), Papa Karl's Labor Theory of Value still makes a helluva lot more sense than anything conjured from the mist enveloped regions of finance. A tree and a table are both made of wood, but the table has a higher value. The tree must be felled, milled, and the lumber turned into a table. At each stage (not to mention transportation between!) value is added by labor. Huzzah! Desai's meditation on mergers includes assertions that proper valuations have to be always based on projections of an asset's value will be in the future--mist enveloped—indeed necessarily so.

I would have liked Desai to offer a chapter-length explanation of "short" positions. Even though I listened closely to the stripper's explanation in *The Big Short*, another primer couldn't hurt.

Desai is a purist in the world of finance. He sees the distinctions between theory and practice and is keenly aware of the ill repute of the industry in today's society. It is the topic of his final chapter which includes his aptly named "asshole theory of finance". That said, his view is overly rosy--if my lefty academic friends and I have to endure insults of romantic idealism, this guy is every bit as guilty. Yes, I see how finance can enhance human pursuits across society. I also see the phalanx of asshole traders and policy makers that have unearned, unaccountable, and unscrutinized influence over all aspects of society. I get the impression Desai believes economics to be a "hard" science, though he only once mentions this. He dismisses a common critique of finance as erroneously factual as misguided. As his book demonstrates repeatedly, despite its patters, "laws" and formulas, finance never exists in a social and political vacuum. In other words, economics is a social science (go ahead, use the term "behavioral" if you prefer. I don't see what that adds).

Given this critique, his elucidation of financial concepts does help identify points that may still be problematic for a financial approach to problem-solving. For example, to protect against global warming, the financial proposal might include taxing carbon. (Other environmental issues might include assigning values to things like clean air or water as a means of introducing them to a financial system of regulation. One problem immediately is that once a system is up and running (the system that is polluting) it is resistant to paying for something that has heretofore been free. Introducing a value (cost) after the fact will be resisted and the assignment of a value made problematic. Such a process would become a negotiation, which brings up a second problem. We (those of us of the "activist" persuasion) are always told to come to the "bargaining table" prepared with an idea of what we want in the end and what we are prepared to concede. That is sound logic in politics and financial markets. Ecosystems do not follow that logic, just as surely as air and water pollution do not abide property boundaries. It makes no sense, for example, to be negotiating an acceptable level of phosphorus in the Everglades when the industries responsible for the presence of phosphorous cannot plausibly achieve a level anywhere near to the acknowledged safe threshold. (This was the case in negotiations leading up to the Comprehensive Everglades Restoration Plan approved in 2000). In that situation, no plausible concession can be made that allows the industries to continue operating in their accustomed manner. There is a successful financial model for pollution alleviation—acid rain. When we attempt to address a threat as multi-faceted and deeply ingrained as carbon emissions and climate change, I am extremely skeptical that a financially-based mechanism can be introduced to an already-ongoing system to make adequate corrections.

Terri says

Unique book.

It is like the author is talking with the reader. Very conversational. Complex topics are explained in a way that all can understand without coming across as condescending.

Jason Furman says

The Wisdom of Finance is worth reading if only to marvel at Mihir Desai's amazing mind, wide range, and exciting set of insights. The book undersells itself, claiming to use a range of novels, movies, music, TV shows, philosophy and history to better understand and illuminate finance. And it certainly does that, covering the full set of topics: insurance, asset pricing, corporate finance, principal-agent problems and bankruptcy among other topics. But the book is about much more, including better understanding literature and our own lives.

To give one example that illustrates the astonishing range of Desai's understanding, consider his illustration of leverage by comparing George Orwell (who went into semi-seclusion for years to write 1984) to Jeff Koons (who at his peak employed 150 people to produce his ideas). He uses this not just to understand the role of leverage in the financial system but also to introspect about his own life where he is on the Orwell-Koons spectrum, and how that relates to happiness.

And did I mention the astonishing range? We have gotten used to Jane Austen and Leo Tolstoy showing up in economics books. But everything from ancient Greek tragedy to Kanye West? All effortlessly incorporated in many cases with interesting juxtapositions, like the Orwell-Koons example.

If this enjoyable and thought provoking book does not convince you of the wisdom of finance it will at least convince you of the wisdom of Mihir Desai.

Ishwardeep Singh says

Full disclosure: I'm a former student of Mihir Desai. I had a lot of expectations from this book knowing Mihir as a teacher, and knowing his ability to break down complex ideas into their simple, intuitive, core understandable by a lay person. This book exceeded those high expectations by showing me a different side of Mihir - his understanding not only of Finance, but also of life in general. Not only does he explain ideas in Finance with elegance, but he relates them to ideas in life (relationships, love, marriage, career choices) in a very deep manner. I found myself reflecting on my own life most of the book, but once I was done reading, I also walked away with a much better appreciation of the concepts in Finance. This is coming from a practitioner of risk management who has read multiple books on the finance topics covered in the "Wisdom of Finance". The book was also a breath of fresh air for me by giving a new meaning to my profession, which has come to be derided in the society and in its depictions in the mass media.

Highly recommended for the financial geek well versed with ideas in finance, for the lay person trying to develop an intuition for finance, and everybody in between!

Rob Saunders says

An obvious choice for my 5 star rating, I found *The Wisdom of Finance, Discovering Humanity in the World of Risk and Return* (2017) by Mihir A. Desai to be a thoughtful, informative, fun, easily digestible, and memorable read. Certainly this book would be great to own though my edition was from the library. You will like this book if you have a checking account or a loan or have ever made a commitment to yourself or others - pretty much everyone.

Desai uses broadly researched literature - from ancient to contemporary - that includes poetry, plays, films, TV series, books, Biblical parables, the ancient Greeks, and Broadway plays to "cross into the terrain between finance and the humanities" in order to plumb the human story for "wisdom of our conduct." Given that writing this book was not an attempt to achieve an overarching coalescence of grand "a-ha" connections, Desai's book achieves finely taught vignettes mirroring our human and cultural relationships regarding the nature of risk, obligation, trade-offs, reward, investment, leverage, debt, value, and principles.

Here are several quotes for reference.

"...living up to and settling one's obligations is the road to salvation."

"...leverage in life produces benefit. We gain from commitment. Leverage is not a zero-sum game."

"...the world view of many practices of finance can usefully be tempered with humility, generosity toward others, and a keen appreciation for the force of luck in life."

"By most measures, firms are dramatically under leveraged. They don't appear to take the full advantage that the trade-off theory implies...Many individuals may well do the same thing - they retreat from commitments and obligations, and in the process, they limit what they can do...Studies of regret show that regret mostly arises from commitment avoidance, untaken educational opportunities, missed love connections, and inattention to [their] children."

"Fortunately...we can renegotiate our commitment - to loved ones, to jobs, to society - when we need to as that we can invest anew...Sometimes fear is the only think that is stopping us from trying to do so."

Highly recommended reading. Enjoy!

Jonathan Carey says

I think that the book brings up many things to consider in life and in finance. My favorite is how he describes how a Revolutionary War financier ended up in debtor's prison and how that experience led to future reforms in bankruptcy law so that risk takers would not be punished too severely. "Failure, when we encounter in ourselves or in others, should not be understood or seen as a moral defect. Inevitably, risk-taking will lead to failure, and failure should be viewed as a bad outcome with an abundance of lessons...Organizations that stigmatize failure actually tend to repeat failures rather than learn from them. Those that catch, correct, and learn from failure before others will succeed...Those that wallow in the blame game will not... It is important to create an orderly process for learning from failure."

Eunjun Choo says

As a noobie to finance, I wanted an accessible finance text to introduce me to what the heck is finance. Fortunately, this book has exceeded my expectations. Even though previous background in finance would have helped, Desai describes finance with such a humanity that even a noob like me was able to understand and apply finance strategies to my daily life from spending proportional amount of time on "High-beta assets" such as acquaintances to "negative-beta assets" such as my family. Moreover, the book's humanity approach to finance helps to give many personable reasons to why strategies such as "Leverage" is useful or painful.

Highly recommend to... pretty much anyone. Even those who believe that finance is too math heavy", Desai uses so many historical and literature examples to illustrate finance applications that I forgot that the finance course in my University has a Calculus pre requisite.

BriKie says

As the title implies, this book attempts to bring together the worlds of finance and humanities. It uses literary and other assorted media references to illustrate particular financial concepts, and argues that finance can be used for the good of humanity, despite the finance's reputation as greedy and evil.

Although I earned my degree in a social science, I find myself working in a finance-related field. I feel pretty ambivalent about my current career, and I hoped that this book might open my eyes to a perspective I hadn't considered. And it did provide me with some new concepts and perspectives, but ultimately, I feel as ambivalent about this book as I do my job. It just didn't convince me the way I had hoped to be convinced.

Mona says

4.5 stars.
