

Title: Dealing with anomalies to the efficient markets hypothesis: can causal holism help financial economists?

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Abstract

This paper examines recent methodological arguments in financial economics. Specifically, it analyses the reactions of different financial economists to the persistence of anomalies to the efficient markets hypothesis (EMH). The alternative interpretations of these anomalies (which take the form of temporary patterns in stock prices) can be traced to how financial economists have chosen to deal with a joint-testing problem in respect of EMH. The aim of the paper is to explore the methodological decisions taken by financial economists in the context of causal holism's reinterpretation of the Duhem-Quine thesis. This exploration raises questions about the usefulness of the causal holist principle of descriptive adequacy for financial economists as they attempt to deal with the ever-growing anomalies to the EMH. According to the principle of descriptive adequacy, economic models should be judged according to their ability to give real and observable descriptions of real and observable entities and causes. The paper also considers the sustainability of the distinction between observable and unobservable concepts that underlies the principle of descriptive adequacy.