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CORRESPONDENCE

Why Should We Care What Klein and Romero Say About the *Journal of Economic Theory*?

THE FOLLOWING EMAIL EXCHANGE WAS INITIATED BY JOHN QUIGGIN, who is coauthor of one of the *Journal of Economic Theory* articles covered in Daniel Klein's and Pedro Romero's *EJW* article "[Model Building versus Theorizing](#)." The Quiggin article is #43 in the Excel [appendix](#), and was scored by Klein and Romero as passing *Theory of what?* but failing *Why should we care?* and *What merit in your explanation?* The scoring on six sub-tests can be found in the linked worksheet. The exchange is published with Quiggin's and Klein's approval.

JOHN QUIGGIN TO DANIEL KLEIN (19 MAY 2007):

I happened to run across your paper with Romero on *JET*. As it turns out, I have a personal interest since my only article in *JET* (apart from a minor expository note) appeared in 2004, the year you covered. I share some of your concerns about *JET*, and I was particularly pleased to get acceptance for an article which I thought made a pretty clear link between economic theory and improved empirical analysis of questions of practical relevance, as the first paragraph of the concluding comments makes clear.

The tractability of the mean-standard deviation model of choice under risk has made it the standard tool of applied financial analysis. However, the variance is not a particularly attractive index of the riskiness of financial assets, particularly in view of the large body of analysis showing that investors prefer distributions of returns that are skewed to the right. In this paper, the crucial property of the standard deviation as an index of risk, namely its independence of location and scale, has been abstracted and systematically analyzed. The starting point has been the observation that this property is analogous in many important respects to the more restrictive property of constant risk aversion.

I was rather disappointed that you apparently concluded that the paper did not even claim to contribute to improving theory in an area about which economists should care. I'd be interested to know on which of your criteria you claim the paper fails.

DANIEL KLEIN TO JOHN QUIGGIN (3 JUNE 2007):

Pedro and I recognize that we might have mis-scored the paper. We looked again.

It still seems to us that the paper does not say much to answer *Why should we care?* Can you elaborate on a real-world problem that your formulation helps to resolve? Do you maintain that your formulation is a better way to get at the results of traditional investment models? If so, better in what way? Is the betterness mainly a matter of economic insight, or mathematical sophistication? We still find that the motivation is obscure.

We understand that asset price standard deviation may not really get at risk meaningful to investors. Is overcoming that failing the paper's motivation? Does your formulation get at how investors think of risk? If so, we still have trouble seeing that motivation.

JOHN QUIGGIN TO DANIEL KLEIN (4 JUNE 2007):

I suppose our disagreement comes down to tastes in how you write articles. I don't think it's necessary to convince an audience of economists that price determination in asset markets is an important problem, and having suggested a potential improvement interesting enough to satisfy the referees, I'll leave it to the profession to judge whether or not it's worthwhile. You obviously feel these points should be spelt out more in the article.

As a result my interpretation of the message of your article is "*JET* articles aren't written the way we (Klein and Romero) would like". This is fair enough, but fails, for me, to answer your own question, "Why should we (the profession in general) care?"

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