poor reliability and ugly front end—somewhat similar to Ford's later Edsel model—made it such a flop that it almost sank the company.

For more recent times there was apparently little material available in the company archives, and Hyde relies primarily on articles from business magazines and the Detroit papers. What little archival material he uses in discussing events of the last four decades consists largely of semi-public documents such as transcripts of press conferences by Chrysler officials.

It is always possible, of course, to nitpick the interpretations of an author whose book covers so much ground. For instance, in the first few decades of the automobile industry only Ford gathered consistent and timely data on final sales. This left other companies vulnerable to accumulating large unsold inventories of finished automobiles. Hyde ignores the role that record-keeping played in the bankruptcy of the United States Motor Corporation—the forerunner of Maxwell, which became Chrysler—and the difficulties that Dodge Brothers encountered in 1927, which led to the sale of the company to Chrysler the following year.

Finally, like most books these days, this one could stand some copyediting. There is an annoying amount of repetition of small facts. At one point the reader is told four times in the space of five pages the exact date—2 November 1978—when Lee Iacocca was appointed president of Chrysler. There are a number of errors—for instance, Walter Chrysler's age is wrong in the very first sentence of the book—that also might have been caught. But such quibbles aside, Hyde deserves substantial credit for filling a major hole in the business history of the United States.

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Why the Bubble Burst: US Stock Market Performance since 1982. By Lawrance Lee Evans Jr. Cheltenham, UK, and Northampton, MA: Edward Elgar Publishing, 2002. Pp. ix, 237. $90.00.

Time and time again, when the U.S. stock market experiences a correction during which investors adjust expectations about future corporate earnings and dividend growth, a number of less-conventional economists take the opportunity to illustrate how, and with the benefit of perfect hindsight, share prices must have become "ruptured" from their fundamental values. Lawrence Evans's monograph is no exception. After all, the time is ripe for investors in the face of large losses to become receptive to the idea of such a "disconnect." Some researchers in the field now known as "behavioral" finance, and most notably Robert Shiller, have even argued the point persuasively enough to gain some degree of acceptance, though mostly in nonacademic circles.

Evans aims his pitch more deliberately at academic audiences than does Shiller, and at a glance the view that the 1980s and 1990s were somehow "different" than earlier eras in terms of underlying market conditions seems compelling. It is when Evans uses these differences in chapter 2 to suggest that the efficient markets hypothesis (EMH) is either wrong or no longer applicable to the equity market that things go astray. The EMH in its semi-strong form asserts that stock prices reflect all publicly available information about the future growth of dividends, meaning that the market gets prices "right" in an ex-ante sense. But the author seems to interpret the hypothesis as requiring that stock prices be correct in an ex-post sense as well. Under this faulty premise, the sharp decline of stock prices in 2001 suggests that investors must have been acting irrationally.

The treatment in chapter 2 starts off balanced enough, with Evans offering lengthy critiques of the EMH and other theories that use fundamentals to explain stock price behavior in the 1980s and 1990s, including the "new economy" and "declining risk premium"

theories. But it soon becomes clear where the author stands on these alternatives. He reasons that, because the stock market fell, the idea that we are entering a new technological age of higher productivity must have been wrong. Yet informational technology has already had sweeping effects on the way that the world does business. And despite the presence of increasingly sophisticated institutional investors spreading risk across countries and time, Evans maintains that investors could not have lowered their required return enough to justify the valuations of the 1990s. All of this leads to a recommendation that the EMH be discarded in its current form and replaced with a new "supply and demand" theory of stock valuation that the author introduces in chapter 4.

Setting aside for the moment that standard economic theory also takes the notions of supply and demand as central to the formation of prices, including those in equity markets, it is disappointing that the new framework turns out not to be a "theory" at all, at least in the sense of having any analytical foundations. Rather it is a reduced form that includes three new arguments in an implicit function for equity prices: the volume of foreign portfolio inflows; the growth of mutual funds; and the supply of corporate equities. Evans inserts these arguments because evidence presented in chapters 5 and 6 shows that they have some predictive power for stock returns since 1982. The story is simple. Share repurchases in the 1980s and 1990s reduced the supply of equities available to investors, and a bubble formed as mutual funds and foreigners (but for some reason not pension funds) continued to pump funds into the market. When firms could not afford to keep up the repurchases, the bubble burst.

The new supply and demand "theory" is clearly outside of the classic Modigliani-Miller (MM) paradigm, where repurchases are just an alternative to dividends that shift the debt-to-equity ratio with no effect on market values. But the deviations from MM are quite different than the usual taxes or accounting for the possibility of financial distress. Indeed, imperfections in the new theory are driven by herding behavior among investors who either became more risk-loving in the 1990s, or did not discount the potential for financial distress rationally. The empirical evidence that is offered in support of the new framework, however, is unconvincing. Evans presents estimates from several vector autoregressive models and structural (i.e., ad hoc) specifications in chapters 5 and 6 that seem to show mutual fund growth Granger-causing stock returns, but the exercises are at best exploratory, possibly mis-specified, and largely oversold.

Maybe investors did act irrationally in the 1990s. Perhaps the downside risks of equity investments went unappreciated by market participants who discounted lessons of the past too deeply. Evans contends that rational economic agents should have seen the bubble and burst coming, but that real world investors continued to buy shares anyway. It does not necessarily follow, however, that investors did not process the information available to them before calling their brokers. It just means that their analysis turned out to be inaccurate. And a battery of regressions subject to omitted-variable bias, though interesting, will do little to convince the skeptic, or the mainstream economist for that matter, that the author has found the smoking gun that practitioners in behavioral finance seek. After reading *Why the Bubble Burst*, this reviewer emerged more convinced that conventional economics and its efficient markets hypothesis are alive and well.

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