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Joseph Michael Newhard

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The Stock Market Speaks: How Dr. Alchian Learned to Build the Bomb

Joseph Michael Newhard¹
JMNewhard@Gmail.com

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ABSTRACT

At RAND in 1954, Armen A. Alchian conducted the world's first event study to infer the fissile fuel material used in the manufacturing of the newly-developed hydrogen bomb. Successfully identifying lithium as the fissile fuel using only publicly available financial data, the paper was seen as a threat to national security and was immediately confiscated and destroyed. The bomb's construction being secret at the time but having since been partially declassified, the nuclear tests of the early 1950s provide an opportunity to observe market efficiency through the dissemination of private information as it becomes public. I replicate Alchian's event study of capital market reactions to the Operation Castle series of nuclear detonations in the Marshall Islands, beginning with the Bravo shot on March 1, 1954 at Bikini Atoll which remains the largest nuclear detonation in US history, confirming Alchian's results. The Operation Castle tests pioneered the use of lithium deuteride dry fuel which paved the way for the development of high yield nuclear weapons deliverable by aircraft. I find significant upward movement in the price of Lithium Corp. relative to the other corporations and to DJIA in March 1954; within three weeks of Castle Bravo the stock was up 48% before settling down to a monthly return of 28% despite secrecy, scientific uncertainty, and public confusion surrounding the test; the company saw a return of 461% for the year.

Keywords: Alchian; Event Study; Market Efficiency

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¹ PhD student, John E. Walker Department of Economics, Clemson University. 109 College St. Apt 9, Clemson, SC 29631. (614) 747-1403. JMNewhard@Gmail.com.

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