

# Current Comments®

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**Franco Modigliani of MIT Wins the 1985  
Nobel Prize in Economics; Novelist  
Claude Simon of France Receives the  
Prize for Literature**

Number 41

October 13, 1986

The selection of Franco Modigliani, Institute Professor, Alfred P. Sloan School of Management, Massachusetts Institute of Technology (MIT), Cambridge, for the 1985 Nobel Prize in economic sciences elicited little surprise from economists. Paul A. Samuelson, a colleague of Modigliani at MIT and the 1970 Nobel Prize winner in economics, said at the time of the announcement that Modigliani's induction into the Nobel elite was "never a matter of if, only a matter of when."<sup>1</sup> The Royal Swedish Academy of Sciences singled out Modigliani's "pioneering analyses of saving and of financial markets," specifically, his life-cycle hypothesis of saving and his theorems of corporate valuation.<sup>2</sup>

## Early Years, Teaching Career

Modigliani was born in Rome on June 18, 1918. His father was a pediatrician, and his mother was active in volunteer social services. He had intended to follow his father in medicine but abandoned this plan after discovering an intolerance for the sight of blood. Instead he studied law and obtained a doctorate in jurisprudence from the University of Rome in 1939. Then, as he related in an interview published in *Conversations with Economists*,

there was a national competition among university students to write an essay about the effect of price controls. I decided to participate in this. I had talked about the subject with a cousin of mine, who lived

with us and, as an officer of the trade association of wholesalers, he had given the matter some thought. I wrote my essay and won first prize. The judges said I should pursue the subject of economics and so I began.<sup>3</sup>

In Italy he studied economics on his own. Shortly thereafter he emigrated to the US, since, as a Jew and a critic of Mussolini's fascist regime, he was a likely target for persecution.

Modigliani and his wife Serena arrived in New York City in 1939. He enrolled in the New School for Social Research and, in 1944, received a doctorate in social science. At the New School he studied with the renowned macroeconomist Jacob Marschak, who, Modigliani says, was his most important teacher. Marschak helped him obtain a teaching position at the New Jersey College for Women in 1942. In the following years Modigliani taught at Bard College of Columbia University (1942-1944), the New School (1943-1948), the University of Illinois (1949-1952), Carnegie Institute of Technology (1952-1960), Northwestern University (1960-1962), and, since 1962, at MIT. He was a visiting professor at the University of Rome in 1955.

His personal and professional ties to Italy have remained strong over the years. Modigliani has served the Italian government in various consulting roles and has written (in Italian) about that nation's economy, both in academic publications and in newspapers, such as *Il Corriere della Sera*.

Modigliani is, by all accounts, a devoted teacher. He speaks fondly of his students, many of whom have collaborated with him on important publications.

### Macroeconomic Studies

Modigliani made his mark early on—in fact, with his very first article, published in 1944.<sup>4</sup> Samuelson writes that this article set “Keynesianism on its modern evolutionary path and prob[ed] its microfoundations.”<sup>5</sup> In the paper Modigliani explains how, in the context of Keynes’s *The General Theory of Employment, Interest and Money*,<sup>6</sup> the relative rigidity that wages exhibit in response to changing demand for labor creates unemployment. This paper ranks among the top 10 of Modigliani’s most-cited articles, according to data from the *Science Citation Index*<sup>®</sup> (SCI<sup>®</sup>), 1955-1985, and the *Social Sciences Citation Index*<sup>®</sup> (SSCI<sup>®</sup>), 1966-1985. (See Table 1.) Modigliani returned to the subject in a 1963 article,<sup>7</sup> which he describes as “a more polished and rigorous presentation benefiting from later developments, including valuable criticisms of the previous essay.”<sup>8</sup> (p. xii) Samuelson points out that both “form the basis for the Federal Reserve Board-MIT-[University of] Penn[sylvania] forecasting and policy model that has long been useful in framing Federal Reserve monetary policy.”<sup>5</sup> Other highly cited articles with a macroeconomic focus listed in Table 1 are conveniently brought together in *The Collected Papers of Franco Modigliani, Volume 1*.<sup>9</sup>

### Life-Cycle Hypothesis of Saving

Modigliani is perhaps best known for his life-cycle hypothesis of saving (LCH), which he and then-graduate student Richard Brumberg published in 1955.<sup>10</sup> This article has been cited in over 200 publications and is Modigliani’s second most-cited work. The theory was in-

spired, Modigliani has said, by a bank slogan: “Save it when you need it least. Have it when you need it most.” Modigliani and Brumberg proposed that people generally follow the bank’s dictum by saving when in their prime earning years and depleting savings or “dissaving” in retirement. In the parlance of economists, this is known as maximizing the utility of future consumption.

The idea that people save for their old age may not seem a particularly revolutionary proposition, but in the 1950s the Modigliani-Brumberg hypothesis ran counter to the prevailing Keynesian notion that rich people saved much and poor people saved little or actually dissaved. Savings patterns are more complex and people more sophisticated, observed Modigliani and Brumberg. Their LCH states that individuals behave rationally with their lifetime resources (expected income and bequests), spending to attain a stable standard of living but also saving to ensure that there will be funds left to live on in later years. The validity of the LCH became apparent through observations of savings rates before and after the introduction of universal public pension programs. For example, in the early 1960s Sweden introduced such a program for its citizens. The result: savings rates fell from 7 percent to nearly zero.<sup>11</sup> This would seem to prove that people who do not need to save for retirement hardly save at all.

After the untimely death of Brumberg, Modigliani delayed a second publication aimed at refining the LCH, but an unpublished version attained wide circulation; it was eventually published in 1980.<sup>12</sup> More recently, Modigliani returned to the LCH in his Nobel lecture, “Life cycle, individual thrift and the wealth of nations.”<sup>13</sup>

The life-cycle hypothesis, which concerns household finance, is a microeconomic theory, but one that has given birth to significant macroeconomic understandings, as the title of his Nobel lecture indicates. The most significant, the

**Table 1:** Modigliani's papers most cited in the *SCI*<sup>®</sup>, 1955-1985, and the *SSCI*<sup>®</sup>, 1966-1985. The papers are arranged in descending order according to number of citations. A = total number of citations. B = bibliographic information. *SCI/SSCI* research fronts for which the paper is core are listed after the bibliographic information.

A	B
294	<b>Modigliani F &amp; Miller M H.</b> Corporate income taxes and the cost of capital: a correction. <i>Amer. Econ. Rev.</i> 53:433-43, 1963. (85-1700, 84-0504, 83-2710)
218	<b>Modigliani F &amp; Brumberg R.</b> Utility and the consumption function: an interpretation of cross-section data. (Kurihara K K, ed.) <i>Post-Keynesian economics</i> . London: Allen and Unwin, 1955. p. 388-436.
193	<b>Modigliani F &amp; Miller M H.</b> The cost of capital, corporation finance and the theory of investment. <i>Amer. Econ. Rev.</i> 48:261-97, 1958. (85-1700, 84-0504, 83-2710)
184	<b>Modigliani F &amp; Sutch R.</b> Innovations in interest rate policy. <i>Amer. Econ. Rev.</i> 56:178-97, 1966.
140	<b>Modigliani F.</b> New developments on the oligopoly front. <i>J. Polit. Econ.</i> 66:215-32, 1958.
120	<b>Modigliani F.</b> The monetarist controversy or, should we forsake stabilization policies? <i>Amer. Econ. Rev.</i> 67:1-19, 1977.
105	<b>Modigliani F &amp; Shiller R J.</b> Inflation, rational expectations and the term structure of interest rates. <i>Economica</i> 40:12-43, 1973.
71	<b>Modigliani F &amp; Sutch R.</b> Debt management and the term structure of interest rates: an empirical analysis of recent experience. <i>J. Polit. Econ.</i> 75:569-89, 1967.
68	<b>Modigliani F.</b> Liquidity preference and the theory of interest and money. <i>Econometrica</i> 12:45-88, 1944.
66	<b>Modigliani F &amp; Cohn R A.</b> Inflation, rational valuation and the market. <i>Finan. Anal. J.</i> 35:24-44, 1979.

Nobel committee noted, is that "aggregate savings depends primarily upon the rate of growth of the economy"<sup>2</sup> and not, as Keynes had postulated, on the level of national income. Samuelson puts it this way:

A life-cycle system without growth involves zero net saving and investment: saving of the young is cancelled by dissaving of the old.... Growing nations save much, stagnating nations save little—a different hypothesis from "rich people save much, poor people little."<sup>5</sup>

Volume 2 of *The Collected Papers of Franco Modigliani* includes articles on the LCH.<sup>14</sup>

### **Modigliani-Miller Theorems of Corporate Valuation**

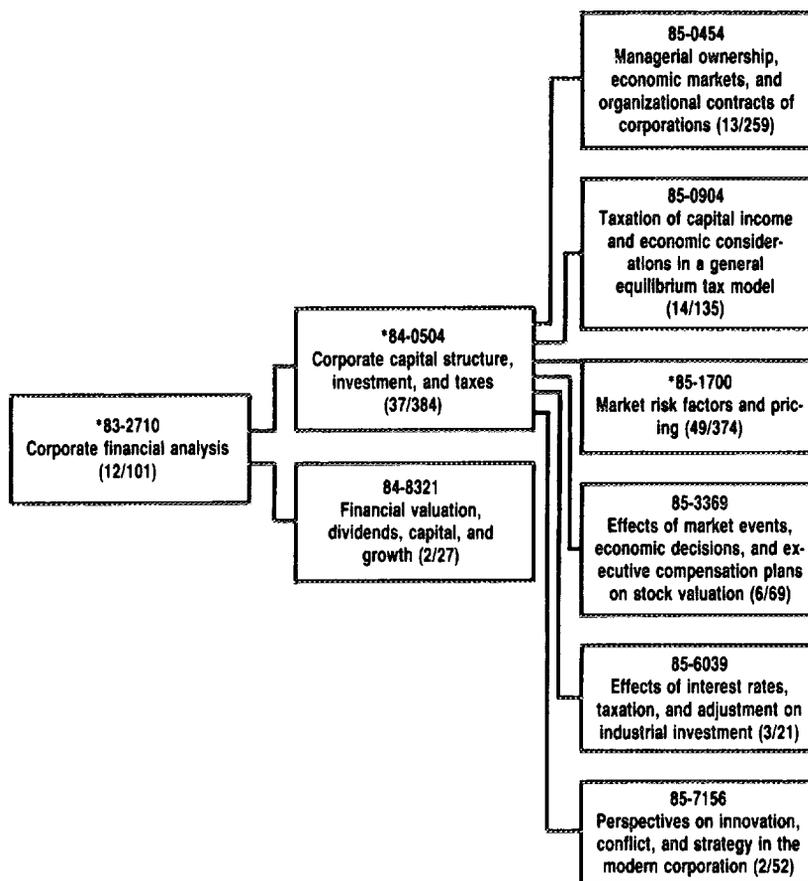
The work of Modigliani and Merton H. Miller, professor of finance, University of Chicago, undertaken in the late 1950s, is the foundation of our modern understanding of corporate finance. Before their work, it was thought that a company's management could strike the perfect measure of indebtedness—a level neither too high nor too low—to at-

tain the highest valuation of its stock. Modigliani and Miller threw the idea of any "golden leveraging ratio," as Samuelson calls it,<sup>5</sup> out the window. In two articles published in the *American Economic Review*, in 1958 and 1963, Modigliani and Miller said that, at least in the absence of taxes, debt does not matter—neither the structure nor the amount.<sup>15,16</sup> Rather, the value of a firm (debt plus equity) depends only on the total return from the business that is available for distribution to debt and equity (stock) holders. These two papers taken together have been quoted in nearly 500 articles since 1955 and represent Modigliani's most-cited contribution.

The team of Modigliani-Miller published a corollary to this theorem in 1961 that stated that the value of a company is not dependent on its dividend policy.<sup>17</sup> A company that increases its dividend correspondingly lowers the value of its stock.

Both theorems assume that investors mix the amount of risk in their own portfolios. The Nobel committee press release states that the Modigliani-Miller theorems introduced "a new method of

**Figure 1:** Historiograph of research on corporate finance, from combined *SCF*<sup>®</sup>/*SSCF*<sup>®</sup> data, 1983-1985. The numbers in parentheses refer to the number of core/citing publications. An asterisk (\*) indicates research fronts that contain core works by Modigliani.



analysis within the discipline of corporate finance.”<sup>2</sup> Modigliani’s important articles on this subject are gathered together in Volume 3 of *The Collected Papers of Franco Modigliani*.<sup>18</sup>

#### A Keynesian Inheritance

In 1980 Modigliani summarized the dominant themes and activities of his career:

Sorting out the lasting contribution of the Keynesian revolution by (1) integrating the main building blocks of the *General Theory* with the more traditional and es-

tablished methodology of economics that rests on the basic postulate of rational maximizing behavior on the part of economic agents; (2) testing and estimating the resulting structure by means of empirical data; and (3) applying the results to policy issues, including the issue raised by the monetarist counterrevolution as to whether there is a valid case for active policies.<sup>8</sup> (p. xi)

As a Keynesian, Modigliani has debated with monetarists, such as Milton Friedman, who advocate an inflexible increase in the money supply. Modigliani’s thoughts on monetarism and stabili-

zation policies are outlined in his 1976 presidential address to the American Economic Association, an article that also ranks among his most cited.<sup>19</sup>

### Citation and Research-Front Data

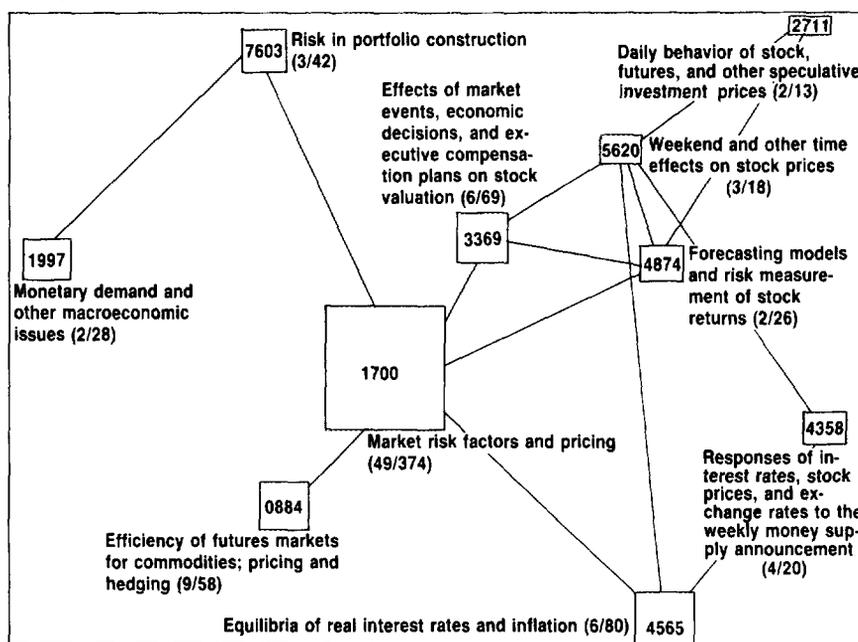
Citations to publications by Modigliani number over 1,900 in the *SCI*, 1955-1985, and the *SSCI*, 1966-1985. I should caution the reader, as I do each time we provide citation counts for Nobel Prize-winning economists, that the majority of citations to their publications appear in the *SSCI*, which covers only the years since 1966. We do not yet have complete data on citations to their works given out before 1966.

The historiograph in Figure 1 shows the 1983, 1984, and 1985 research fronts that contain core publications by Modi-

gliani and other research fronts linked to these (that is, those which share core works to a significant degree). The research fronts "Corporate financial analysis" (#83-2710), "Corporate capital structure, investment, and taxes" (#84-0504), and "Market risk factors and pricing" (#85-1700) all include as core documents the pair of articles by Modigliani and Miller on corporate valuation.<sup>15,16</sup> (The seeming proliferation of research fronts in 1985 results from improved methodologies introduced last year at ISI® that increase the number of smaller fields we can cluster.)

The multidimensional-scaling map in Figure 2, "Effects of market risk factors, interest rates, and inflation on stock prices and returns" (#85-0408), shows the links between the research front on "Market risk factors and pricing" (#85-1700) and other C1-level 1985 research fronts.

**Figure 2:** Multidimensional-scaling map for C2-level research front #85-0408, "Effects of market risk factors, interest rates, and inflation on stock prices and returns," showing links between C1-level research fronts. The numbers of core/citing publications are given in parentheses following the research-front titles on the map. The size of the box around the research-front number indicates the relative size of the citing literature.



## Literature

Novelist Claude Simon of France was awarded the 1985 Nobel Prize in literature. Simon is identified as a member of the *nouveau roman* (new novel) school of French writers, who first became prominent during the 1950s. Counted among these writers are Alain Robbe-Grillet, Michel Butor, Nathalie Sarraute, and others. While each professed different aims and produced extremely diverse works—in fact, they bristled at being grouped together—all rejected the traditional form of the novel, for example, its insistence on linear plot and character development. The convention-breaking narrative styles of Marcel Proust, James Joyce, and William Faulkner, among others, influenced the group.

In awarding the prize, the committee of the Swedish Academy cited Simon's special ability to combine the "poet's and the painter's creativeness with a deepened awareness of time in the depiction of the human condition."<sup>20</sup> Simon is the first French author to win the Nobel Prize in literature since 1964, when Jean-Paul Sartre, although selected, refused to accept it.

Few outside literary circles and university departments of French literature had heard of the novelist before the announcement. In recent years the Swedish Academy has hailed a number of relative unknowns, such as last year's winner, the late Czech poet Jaroslav Seifert.<sup>21</sup> However, as William Riggan, University of Oklahoma, Norman, has observed,

the Nobel Prize in Literature is not intended merely to echo and confirm popularity. It may also attempt to point out talent not yet recognized by most of the world's readers and critics. It may educate the many as it celebrates the one.<sup>22</sup>

The academy's choice of Claude Simon undoubtedly has the double purpose of recognition and promotion. Roger W. Shattuck, professor of French, Universi-

ty of Virginia, Charlottesville, quoted in the *Los Angeles Times*, called the selection of Simon "courageous," noting that, while his works are neither popular nor traditional, they have significantly "extended the relations between language, vision, and the novel form."<sup>23</sup>

## The Author

Claude Eugène Henri Simon was born on October 10, 1913, in Tananarive, Madagascar (then a French colony). His father, a cavalry officer, was killed in the early years of World War I. His mother died when he was 11. The child was raised by his mother's family in southern France, in Perpignan, near the Pyrénées. From age 7 to 16, he attended the Collège Stanislas in Paris. He studied briefly in the UK at Oxford and Cambridge. Afterward, he returned to Paris and attempted to become a painter under the guidance of André Lhote. Discovering a lack of artistic talent, he embarked on extensive travel throughout Europe. During the Spanish Civil War, he fought in Barcelona on the side of the Republicans.

During World War II, Simon, like his father before him, served in a French cavalry unit as a horseman. In an interview published recently in the *New Yorker*, Simon recalled the Battle of the Meuse of 1940, in which he fought and narrowly escaped death:

There we were, astride our horses, facing the German tanks. By the River Meuse. Our regiment was *annihilated*.... You know what was left of our regiment? *One* colonel, *one* commandant, and *two* horsemen. I was one of the two. I was captured at Solre-le-Chateau, near Avesnes.<sup>24</sup>

This experience became the subject of *La Route des Flandres* (*The Flanders Road*), 1960, which many critics cite as his masterwork. Simon eventually escaped from a German POW camp in France and joined the resistance movement in Perpignan.

**Table 2:** Simon's novels listed in descending order by number of citations in the A&HCI<sup>TM</sup>, 1976-1985. A = total citations. B = bibliographic information. Each title is given in the original French; the citations, however, represent citations to all editions, including translations.

A

B

- 49 *La route des Flandres (The Flanders road)*. Paris: Editions de Minuit, 1960. 314 p.  
 28 *La bataille de Pharsale (The battle of Pharsalus)*. Paris: Editions de Minuit, 1969. 272 p.  
 27 *Triptyque (Triptych)*. Paris: Editions de Minuit, 1973. 225 p.  
 25 *L'herbe (The grass)*. Paris: Editions de Minuit, 1958. 262 p.  
 23 *Le vent (The wind)*. Paris: Editions de Minuit, 1957. 241 p.  
 22 *Histoire*. Paris: Editions de Minuit, 1967. 403 p.  
 22 *Les corps conducteurs (Conducting bodies)*. Paris: Editions de Minuit, 1971. 227 p.  
 19 *Les georgiques (Georgics)*. Paris: Editions de Minuit, 1981. 477 p.  
 17 *Le palace (The palace)*. Paris: Editions de Minuit, 1962. 232 p.  
 17 *Orion aveugle (Orion blinded)*. Geneva: Albert Skira, 1970. 146 p.  
 17 *Leçon de choses (The world about us)*. Paris: Editions de Minuit, 1975. 181 p.  
 10 *Le tricheur (The trickster)*. Paris: Editions du Sagittaire, 1945.  
 8 *Le sacre du printemps (The crowning of spring)*. Paris: Calmann-Levy, 1954. 276 p.  
 6 *La corde raide (The tightrope)*. Paris: Editions du Sagittaire, 1947.  
 4 *Gulliver*. Paris: Calmann-Levy, 1952. 381 p.

Since the end of World War II he has lived alternately in Paris and in Salses, in the Roussillon region, in a house he inherited from his mother's family. Although Simon is often described in press accounts as a vinegrower by profession, he says he owns only a small plot and that this description is "a picturesque vignette that journalists who know nothing else about me have latched onto."<sup>25</sup>

#### Novels

In 45 years of writing, Simon has produced 14 novels, a book of personal reflections (see Table 2), and a description of 23 paintings by the Catalan artist Joan Miró.<sup>26</sup> His first novel, begun in 1941 and published four years later, is entitled *Le Tricheur (The Trickster)*. This work and two others—*Gulliver*, 1952, and *Le Sacre du Printemps (The Crowning of Spring)*, 1954—are experiments in broadening the novel form through the use of shifting narration between author and characters, interior monologue, repeated and differing views of the same events, and precise observations of environments. These three early works include autobiographical elements (*Le Sacre du Printemps* contains memories of the Spanish Civil War, for example), are somewhat melodramatic, and are, critics say, not as successful as his later

efforts. *La Corde raide (The Tightrope)*, 1947—not a novel but a kind of artist's sketchbook—was also published during this period. Common to all four is a "feeling for the tragic and absurd in the human condition."<sup>20</sup> While critics regard his later works as more important, they see in the group the foreshadowings of a mature style Simon was to first exhibit in *Le Vent (The Wind)*, 1957, and *L'Herbe (The Grass)*, 1958.

"In [these last two] novels," commented the Nobel committee, "the author weaves a close and evocative web of words, of events and environments, of memories, thoughts, associations [that] cause the text to grow as if the language were an independently living organism."<sup>20</sup> J.A.E. Loubère, author of *The Novels of Claude Simon*, calls Simon's focus "the topography of consciousness, that strange crossroads where perception, idea, and language meet and fecundate one another."<sup>27</sup>

Novels from Simon's middle period include *La Route des Flandres (The Flanders Road)*, 1960, which brought Simon international recognition and won for him the Prix de l'Express; *Le Palace (The Palace)*, 1962; and *Histoire*, 1967, for which Simon was awarded the Prix Médicis. *Histoire* is notable for its absence of a plot: the novel consists of a collage of memories and perceptions of

one man's consciousness veering here and there throughout the course of a single day, a consciousness that holds a complex and extremely rich matrix of associations.

Novels from Simon's third period exhibit the influence of structuralism, with its accent on the generative nature of language. Included in this group are *La Bataille de Pharsale (The Battle of Pharsalus)*, 1969; *Les Corps conducteurs (Conducting Bodies)*, 1971, which contains part of *Orion aveugle (Orion Blind-ed)*, 1970; *Triptyque (Triptych)*, 1973; *Leçon de choses (The World About Us)*, 1975; and his most recent work, *Les Géorgiques (Georgics)*, 1981. In *Les Géorgiques* Simon weaves together family records of a relative who was a general in the Napoleonic era, Michelet's *Histoire de la révolution française (History of the French Revolution)*,<sup>28</sup> and his own memories of the civil war in Spain.

Léon S. Roudiez, Columbia University, places Simon among the most gifted writers of the twentieth century, observing in particular the author's "conscious awareness of the materiality of language—that is, the visual aspect, the sound of words in their entirety as well as in their component parts, their polyvalence."<sup>29</sup> It would seem, then, that Simon became a painter after all, a painter with words.

#### Citation Data

The writings of Claude Simon were cited over 420 times in approximately 160 journal articles indexed in the *Arts & Humanities Citation Index™ (A&HCI™)* during the period 1976 to 1985.

In a forthcoming essay on most-cited authors in the *A&HCI* database, Simon's name will not appear. Plainly, he has not been as frequently cited as some of the writers whom he himself admires, such as Proust and Faulkner. (Since ISI indexes the premier French literary journals in the *A&HCI*, we cannot ascribe

his rather modest total to any deficiency in our coverage of the relevant literature.)

In any case, having now won the Nobel Prize, Simon will be receiving more scholarly attention. From the period January to April 1986 alone, his works received an additional 26 citations from eight citing articles, although this sharp increase is due for the most part to a number of journal articles announcing the awarding of the prize.

On the other hand, citation data do indicate that Simon is not as unknown to the academic community as he would appear to be to the public at large.<sup>30</sup> A number of monographs on his novels appeared during the last decade. A special issue of the journal *Critique*, published in 1981, was devoted to his writings and includes an excellent bibliography of works by and about Simon.<sup>31</sup> (It is notable that this issue of *Critique* significantly affected the citation counts; citations to Simon's works roughly trebled in 1981, due largely to the articles appearing in this issue.)

Finally, let me add a word about citation counts, especially those of literary works. Citation data merely reflect scholarly attention, not necessarily intrinsic worth. There is no implication that a novel listed in the lower part of Table 2 is not "a good read." In the present case, however, since scholars and critics of Simon's works are usually one and the same, it is not surprising that the novel acclaimed Simon's finest is also his most cited.

This concludes the second installment in our annual survey of Nobel Prize winners. Recently we reviewed the 1985 prize in medicine; in a few weeks we'll discuss the prizes in physics and chemistry.

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*My thanks to C.J. Fiscus and David Pendlebury for their help in the preparation of this essay.*

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