return to work times, medical and indemnity costs, reduced litigation, litigation costs, rate of disability, and attorney representation, the carve-out is found to have no statistically significant effect in almost every comparison. Only attorney representation and rate of disability showed significant improvement over one of the two control groups. On the other hand, improvement in return to work time was significantly *worse* than one of the control groups. The authors conclude that there is "no evidence of the large changes anticipated by early proponents of carve-outs."

The note of caution is welcome. Even so, one wishes that the study could have been extended. Of eight carve-outs, Upjohn's quantitative research covered only NECA/IBEW. Carve-out claims had a maximum of two years cost development, despite the authors' recognition that estimates of future costs rise substantially over time and that hearings normally occur at least two years after injury. Most seriously, their results were estimated on the outcomes of only 180 claims. Anyone familiar with the wide variation in workers' compensation claimant and injury characteristics would be unsurprised by the failure of such a small sample to yield significant results.

The absence of empirical support does not deter the authors from making a number of recommendations, most of an administrative nature, and generally sensible. However, they also favor review of all settlements "for adequacy by an arbitrator or agreed legal authority," a policy that would surely consume any efficiency gains an alternate dispute mechanism might provide.

Strangely, the authors neglect discussion of adequate reserving, other than to note that optimistic expectations of carve-out success may cause underestimation of liabilities. There is no mention of the potential for underfunded liabilities after the project on which a carve-out is based has terminated. The authors' omission is curious, given that their book appeared one year after the $1–$2 billion Unicover loss, sparked by the underpricing of workers' compensation carve-out business.

In light of the Unicover loss the authors could have been more hesitant in recommending that there is "no evidence against expanding carve-outs to other industries." This mild endorsement might have played a role in Garamendi's plan to encourage carve-outs by reducing the minimum premium threshold from $250,000 to $50,000, an idea since dropped. Considering the potential risks and shortage of evidence, a familiar recommendation is particularly germane in this instance: "future research is clearly called for."

Climate Risk and the Weather Market: Financial Risk Management With Weather Hedges, by Robert S. Dischel, 2002, London: Risk Books

Reviewer: Rick Gorvett, University of Illinois at Urbana-Champaign

At the time of writing this review, a sampling of recent financial risk management news includes the following items: Japan's first weather derivative involving high wave levels recently went on sale; a development bank is readying what would be only the second weather-related bond offering for placement in the capital markets; and there are new efforts in the areas of providing real-time weather information and of weather derivative portfolio management software. It seems as if the relatively new weather derivatives market is not going away anytime soon—certainly the risks to organizations, countries, and economies associated with weather volatility will not

be going away. And anyone with an exposure to or interest in this field will find the subject comprehensively addressed in a very fine book, *Climate Risk and the Weather Market: Financial Risk Management with Weather Hedges*, edited by Robert Dischel.

A total of 28 authors wrote or coauthored the 17 chapters of this volume, and offering from Risk Books. The contributors are a mixture of academics and practitioners, as well as a blend of experts in the fields of meteorology, economics, financial risk management, and modeling. The book's chapters are grouped into four sections:

1. *Elements of the weather risk market*. This section includes five chapters devoted to an overview of the weather market, a description of the basic format and operation of financial weather contracts, and a discussion of weather measurement and data issues. This section serves as an excellent introduction for someone unfamiliar with the weather market and the hedging possibilities associated with weather risk.

2. *Climate forecasts, managing variations, and derivative prices*. The six chapters in this section, together with the chapters in the first section, virtually provide an advanced course in meteorology. Chapters deal specifically with meteorological patterns and events, the sources of uncertainty in climate and weather, approaches to measuring that uncertainty, and the methods and accuracy of weather forecasting. There are also chapters dealing with statistical and pricing issues related to weather derivatives. Chapter 8, titled "Weather Derivative Modeling and Valuation: A Statistical Perspective," is the most mathematically involved chapter in the book, but should be of significant interest to those with a quantitative bent.

3. *Investor issues*. The three chapters in this section deal with the evolution of weather-related instruments within the broader alternative risk transfer market, weather note securitization, and the management of a portfolio of weather derivatives.

4. *Experience in application*. The final section provides a case study of an actual firm (Heating Oil Partners, LP), along with two chapters devoted to potential weather risk management markets in developing countries. In addition to the above material, the book concludes with a relatively short "end piece" in which 10 of the authors provide their "Speculations on the Future of the Weather Market."

There are a number of nice features of the book. There are ample charts, tables, and illustrations that help to enhance and solidify understanding of the technical material. Except for Chapter 8 mentioned above, there are few equations. Key concepts and themes are identified and discussed in sidebar panels throughout the book. Finally, each chapter can be read and appreciated in isolation—while at the same time they do, taken together, form a contiguous whole. (There are a few instances of repetition between the chapters—not surprising considering the variety of authors, and not necessarily a bad thing anyway—but fewer than one might expect.)

Of course, there are always a few nits to pick. One might wish for bolder predictions regarding the future of the weather market in the end piece; a simple fictitious example of a weather note securitization might have benefited understanding of that concept. But these are less-than-minor issues when compared with the comprehensiveness and lucidity of this volume. In fact, the only *real* concern about the book for many readers might be the price—it appears to retail for over $200.

Overall, *Climate Risk and the Weather Market* is an excellent collection of material on weather risk management, accessible to beginners in the area, and yet with chapters substantive enough to be thought provoking and informative for the more advanced researcher or practitioner. Most, and perhaps all, good risk managers have a heightened sense of curiosity about a variety of subjects—how else can they identify and understand the multitude of processes in an uncertain, complex world, and then evaluate the potential impacts of those processes on the businesses whose risks they seek to manage. As it says in Chapter 14, "Correct pricing (of weather-linked instruments) must be built on an in-depth understanding of the underlying weather indexes and their correlations. This requires a seamless integration of expertise in meteorology, statistics and finance." In this reviewer's opinion, this book nicely advances that goal.

Financial Analysis: A User Approach, by Gary Giroux, 2003, Hoboken, NJ: John Wiley & Sons

Reviewer: Kevin C. Ahlgrim, Illinois State University, Bloomington

Financial analysis has become more important than ever, as indicated by Gary Giroux in his book *Financial Analysis: A User Approach.* Business activity is accelerating and information is more readily available than in the past, thanks to financial portals on the World Wide Web. This creates an environment where the timely use of data for financial decision are paramount. In the past, the lack of information meant that when making financial decisions, relatively more weight was applied to gut instinct rather than sound analysis. The speed and availability of new information and sound financial analysis allows decision makers to reduce uncertainty and be consistent over time, hopefully leading to better decisions. Giroux's book reviews the steps of financial analysis and highlights some of the major accounting policies that may impact financial decision making.

The text is loosely organized into three major subject areas, although not explicitly partitioned by the author: (1) background and tools, (2) impact of accounting policies, and (3) making the decision.

The first part (Chapters 1–6) races through some background material related to the financial marketplace, the structure of financial statements, and basic ratio analysis. While the first part of the book is meant to complete the content in the area, it is too short and too simple based on the more rigorous discussions that are presented later in the book.

Chapter 1 defines the role of financial analysis and provides a six step, systematic process for making financial decisions. Giroux points out that similar techniques are applied to a variety of problems including lending decisions, capital budgeting, internal performance attribution, and of course, security analysis. The six step financial analysis process can be used for these and similar financial decisions. Many individuals seem to pigeonhole financial analysis into the realm of financial *statement* analysis, but Giroux explains that the subject has more breadth.

Chapter 2 contains a smattering of topics meant to provide readers with background about the financial environment. Specific issues addressed, including regulatory oversight by the Securities and Exchange Commission and the structure of the Financial