LECTURE 1 – Ethics In The World of Business & Ethical Decision-Making

- Principles for responsible sustainable decision-making in Business in general, and in Finance in particular.
- Ethics in Finance inquires into and justifies the decision-making process concerning what is right and wrong in finance and investment professions.

Moral Principles For Moral Reasoning

1. Consequentialist moral reasoning – locates morality in the consequences of an act, in the state of the world after acting (e.g. right thing to do depends on the consequences from our action: 5 live, 1 dies).
2. Categorical moral reasoning – reasoning depends on intrinsic quality of act, some actions appear categorically wrong (e.g. hesitating pushing fat man is simply wrong).

- Philosophy challenges the familiar, not by new information, but by provoking a new way of looking at the world.
- Personal Risk at point where the familiar turns strange.

Business Decision-Making

The World of Business

- Business = economic relations in markets and organisations.
- Two distinguishing factors of business:
    1. Economic character (trading is hard bargaining):
        - Ethics prohibit questionable selling practices.
        - Employment (special relationship).
        - Ethics of business = ethics of economic activity.
    2. Business takes place in organisations:
        - Not the individual value system alone counts.
        - Hierarchical system.
        - Different roles according to business goals.
- Are there different sets of rules (honesty, fairness, promise-keeping) for:
    - Business (economic character and takes place in organisations).
    - Social (friends and family).
    - Sport (competition).
- Conflict of rights:
    - Employers (termination, drug testing).
    - Employees (discrimination, safety, privacy).
- Who do we owe loyalty to? Stakeholders of the firm:
    - Shareholders.
    - Customers.
    - Suppliers.
    - Employers.
    - Government.
    - Society.

Ethical Issues On Four Business Levels

- *Sales rep:* honesty about manufacturing problem (customers).
- *Research Director:* workplace discrimination (employees).
- *Marketing Director:* underage drinking and alcohol abuse (society).
- *CEO:* agency theory (stakeholders).

Levels of Business Decision-Making

- Individual:
  - Decision driven by individual and so, relies on own moral standards, judgments, and values (e.g. discover manager's inflated expense account).
  - Rogue agent ("bad apple"):
    - Four dangerous rationalisations:
      - Within legal limits.
      - In the company's best interest (i.e. somehow expected to undertake the activity).
      - It is safe because it will never be discovered or publicised.
      - The company will bail me out.
    - Errors of judgment due to 10 "biases":
      - Loss aversion bias – people tend to weigh losses more heavily than gains.
      - Framing effect – people's decisions depend on how the choices are presented or framed.
      - Confirmation bias – the tendency of people to seek and process information that confirms existing attitudes and beliefs.
      - Cognitive dissonance – the tendency of people to dismiss information that would disrupt their existing attitudes and beliefs.
      - Sunk costs – once commitments are made and resources expended, people tend to persist in a course of action, even in the face of information that should lead them to reconsider their initial decision.
      - Hindsight bias – people tend to believe that events are more predictable than they are, and blame themselves for not anticipating events that occur.
      - Causation bias and illusion of control – people often find causal patterns in random events, which leads to the belief that they have a greater ability to control events than is warranted.
      - Overconfidence bias – people are unduly confident of their own knowledge/abilities and thus overestimate the chance of success.
      - Self-interest bias – people tend to make judgments, especially about fairness, that favour themselves.
      - Risk perception bias – people make poor judgments about risk, overestimating some risk and discounting others, often ignoring low-probability events and favouring certain over uncertain outcomes.
    - Three "heuristics":
      - Anchoring and adjustment – people tend to form an initial choice ("anchor") early in the decision-making process and then adjust the choice in response to additional information.
      - Representativeness – the tendency of people to utilise recent and vivid examples rather than objective statistical data.
      - Availability – people tend to make decisions based on the available information at hand rather than seeking out new sources of information.

- Organisation:
  - Decision driven by organisational role and relies on procedures and policies.
  - E.g. manager hears about harassment.
  - Four features that contribute to mistakes:
    - Decisions are made over time (rather than made all at once with all their consequences understood).
    - Resulting commitments are difficult to stop (e.g. sunk costs that cannot be recovered, whoever proposes to halt a project has to justify it).
    - Diffusion of information.
    - Fragmentation of responsibility.
- Business system:
  - Systematic problems in industry and economic system.
  - Systemic problems require systemic solutions such as industry-wide code of ethics (e.g. CFA Standards of Professional Conduct), government regulation, and economic reform, and ethical displacement (addressing the problem on a different level than it occurs).
  - E.g. find evidence of conspiring amongst competitors.

An Integrated Approach of Three Viewpoints

Economic

- Increase shareholders' wealth given acceptable business practices.
- Economic choices driven by utility maximisation (with limits on theft and fraud).
- Justification: competitive free-market benefits society.
- Externalities: accidents, defective products, pollution.
- Conditions overseen by government.
- Economics alone is not enough: "Ultimatum Bargaining Game".
- Counterpoints:
  - The economic perspectives cannot stand alone as the basis for business decision-making for five reasons:
    1. The market system itself has an ethical justification.
    2. Ethics is required by the market system.
    3. The "rules of the game" cannot be set by government alone.
    4. Ethics influences economic behaviour.
    5. Public policy utilises noneconomic values.

Law

- Conducting business within the law is enough.
- Theory 1:
  - Law are rules applied to public life.
  - Ethics are personal opinions applied to private life.
- Theory 2:
  - Law as social control.
  - Embodies ethics of business.
  - Clear and enforceable rules.

- Counterpoints:
  - Problems with: ‘If it’s legal, then it’s morally OK’
    - Law does not extend to all areas (e.g. credit for someone’s work, unreasonable demands at work).
    - Law is slow and needs time to develop.
    - Laws can be vague (e.g. ‘in good faith’ or ‘fiduciary duty’).
    - Inconsistency between countries.
    - Laws may be inefficient.

Moral

- Moral and ethical have essentially the same meaning, i.e. a description of human behavior as right or wrong, good or bad that may be used interchangeably.
- There are subtle differences that exist between morality and ethics:
  - Morality:
    - Sociological phenomenon.
    - Existence of rules and standards in society.
    - Specific to times, places, and cultures.
    - Moral reasoning requires:
      - Willingness to seek out and act on reasons.
      - Impartial, including to ourselves.
  - Ethics:
    - Philosophical study of morality.
    - Also considers rights and justice of non-economic values (the benefits of society as a whole).
- Newspaper test, i.e. how would you feel if such a circumstance/decision was revealed in a newspaper for public viewing.
- Counterpoints:
  - Some people disregard the moral aspect of business.
  - They argue that the overriding consideration in business is profit maximisation and efficiency as expressed in the economic point of view.
- But the moral point of view is essential. It has been argued that acting morally will ultimately provide greater long-term benefits to the business (CSR).

The Need For An Integrated Approach

- What is the measure of success? Profit? GDP? Equality? Fairness? Happiness? Which point of view emphasises what?
- How to assign weights to the different goals?
- Decision-making needs to be economically satisfactory, fulfilling legal obligations, and ethically defensible.
- This is tricky not only at the national level, but especially at the international level.

Ethics and Management

- Ethical Management – acting ethically as a manager by doing the right thing.
  vs.
- Management of Ethics – acting effectively in situations that have an ethical aspect.
- Manager roles: fiduciary, agent, and professional.

- Manager needs body of knowledge, a high degree of organisation and self-regulation, and a commitment to public service.
- Role of high-level management in leading an organisation is open to debate.

Ethical Management

- Can ethics be taught to finance professionals:
  - Knowledge to understand ethical issues (recognise & resolve the ethical dimensions of the situation).
  - Understand motivation of individuals (e.g. whistle-blowing).
  - Knowledge of regulations (e.g. intellectual property).
  - Ability to develop logical ethical arguments to persuade others (not just feelings).

Ethical Decision-Making

Market Ethics

- Ethics of business is often ethics of markets.
- Transactions, trades, and exchanges.
- The market system is characterised by three main features:
  - Private ownership.
  - Voluntary exchange.
  - Profit motive.
- Three justifications for markets:
  - Welfare enhancement:
    - Efficiency is generally considered to be desirable because these goods and services increase our overall welfare.
    - By seeking only personal gain, each individual is, according to Adam Smith, “led by an invisible hand to promote an end which was no part of his intention.”
  - Securing rights and liberty:
    - The opportunity to make trades is an exercise of liberty by which individuals are able to advance their interests in society, thus promoting democracy.
    - A market is an instance of what Friedrich von Hayek calls a spontaneous order – the only goals are those that individuals set for themselves, and the only coordination is that provided by the rules for people’s interaction, which permit them to enlist the cooperation of others, each in the pursuit of his or her own goals; contrasts with the planned order.
  - Utilising all available information:
    - The information-gathering and processing requirements of central planning outstrip the capabilities of any one person or group of people. Markets solve this problem by enabling individuals to utilise the information that they possess in ways that can be known by others.
    - This is done mainly through the price system. The prices of all manner of goods and services reflect the available information, and these prices may fluctuate as new information becomes available.

- Markets are based on consent exchanges but wrongs can occur in actual markets.
- Market ethics are rules that apply in imperfect market exchanges:
  - Avoid fraud.
  - No wrongful harm.
  - Breaches of agreements or contracts.
  - Act responsibly.
- Fraud – a material misrepresentation that is made with an intent to deceive and that causes harm to party who reasonable relies on it. This definition contains five elements:
  1. The making of a false statement or the *misrepresentation* of some fact.
  2. Materiality – the fact in question has some important bearing on the business decision at hand.
  3. Intent to deceive – a state of mind in which the speaker knows that the statement is false and desires that the hearer believe it and act accordingly.
  4. Reliance – the hearer believes the statement and relies on it in making a decision.
  5. Harm – the decision made by the hearer on the basis of the misrepresentation leads to some loss for that person.

  - **<u>Market Failures</u>**
  - Four main reasons:
    - No perfect competition (monopolies or oligopolies exert an undue influence on prices).
    - No perfect rationality (bounded rationality, and human motivation is much more complex than the simple view of economic theory).
    - Existence of externalities (not all costs of production are reflected in the price of goods/services and are passed on to others, e.g. pollution).
    - Collective Choice (each individual does not make a rational choice, i.e. chooses to not maximise his/her welfare, and so the collective choice that results will also be irrational and not maxmise welfare as a whole):
      - Public goods:

		Rival? Yes	Rival? No
Excludable?	Yes	Private Goods • Ice-cream cones • Clothing • Congested toll roads	Natural Monopolies • Fire protection • Cable TV • Uncongested toll roads
Excludable?	No	Common Resources • Fish in the ocean • The environment • Congested nontoll roads	Public Goods • National defense • Knowledge • Uncongested nontoll roads

      - The Prisoner's Dilemma:

		Prisoner B: *stay silent*	Prisoner B: *betray*
Prisoner A	*stay silent*	Prison time A = 6 months B = 6 months	Prison time A = 10 years B = goes free
Prisoner A	*betray*	Prison time A = goes free B = 10 years	Prison time A = 5 years B = 5 years

<u>Imagine you are prisoner A:</u>
- If B chooses to stay silent, both get 6 months
- But if B knows that you are going for the 6 months result, she is better off betraying, then she is free and you get 10 years
- Collective best outcome for the two is staying silent but no one can afford to go to prison for 10 years if other party breaks agreement
- But if you cannot trust the other prisoner, you play safe and you betray in which case you get 5 years, which is better than 10 years

Roles, Relationships, and Firms

- Roles and relationships evolve out of markets.
- Obligations of professionals critically depend on roles:
  - Medical.
  - Lawyers.
  - Accounting.
- Managers play many roles as a company leader, economic actor, community leader.
- The two most important roles and relationships in business:
  - Agent (agency relationship with principal).
  - Fiduciary (act in interest of someone else):
    - Duty of candor.
    - Loyalty.
    - Care.

Ethical Reasoning

- Ethical Reasoning requires the identification of ethical concepts and principles.
- It is the intellectual procedure for justifying ethical judgment.
- Requires:
  - Willingness to seek out and act on reasons.
  - Be impartial (newspaper test).
- Frameworks can help to assess ethical dilemmas and guide ethical reasoning.
- The Boatright Framework:
  - Welfare: requires a manager to take into account the impact that personnel decisions and policies have on employees, that products and services have on consumers, and that corporate activities have on communities.
  - Duty: a moral requirement to act in a certain way, something that we ought to do. A person who has a duty is expected to fulfill it without regard for his or her own interest.
  - Rights: an entitlement whereby a person is due certain treatment from others. In business, certain rights are generally recognised for employees, consumers, investors, and (most importantly) property.
  - Fairness: equal treatment or different treatment according to some justified differences is applied to a wide range of activities and practices in business such as market exchanges, fair competition, fair labour practices, fair sharing of burdens, and fairness to creditors and investors. Closely related to rights.
  - Honesty: markets require a certain amount of information, specifically, an abundance of accurate and reliable information (e.g. financial information). An important element in developing the kind of trust, with employees, customers, and the public that is integral to a company's reputation and thus, success.
  - Dignity: the fundamental ethical principle that all people deserve respect as human beings and should be free to make their own decisions and pursue their aims in life. This is denied when people are subject to violence, coercion, manipulation, degradation, or the risk of serious injury or death.
  - Integrity: a person of character or virtue who holds the right values and has the courage of his or her convictions. The concept is also widely adopted in business codes of conduct not only to describe an ideal for employees but also to characterise the company itself. A person or an organisation with integrity would be one that adheres to the other six ethical principles.

- The Markkula Framework:
  - Recognise an Ethical Issue:
    1. Could this decision or situation be damaging to someone/some group? Does this decision involve a choice between a good and bad option?
    2. Is this issue about more than what is legal or what is most efficient? If so, how?
  - Get the Facts:
    3. What are the relevant facts of the case? What facts are not known? Can I learn more about the situation? Do I know enough to make a decision?
    4. What individuals and groups have an important stake in the outcome? Are some concerns more important? Why?
    5. What are the options for acting? Have all the relevant persons and groups been consulted? Have I identified creative options?
  - Evaluate Alternative Actions:
    6. Evaluate the options by asking the following questions:
       - Which option will produce the most good and do the least harm? (The Utilitarian Approach)
       - Which option best respects the rights of all who have a stake? (The Rights Approach)
       - Which option treats people equally or proportionately? (The Justice Approach)
       - Which option best serves the community as a whole, not just some members? (The Common Good Approach)
       - Which option leads me to act as the sort of person I want to be? (The Virtue Approach)
  - Make a Decision and Test It:
    7. Considering all these approaches, which option best addresses the situation?
    8. If I told a television audience or someone I respect, which option would I have chosen? What would they say?
  - Act and Reflect on the Outcome:
    9. How can my decision be implemented with the greatest care and attention to the concerns of all stakeholders?
    10. How did my decision turn out and what have I learned from this specific situation?
- CFA Institute's Alan Meder's Framework:
  1. *Standards:* Set high standards and put them in writing.
  2. *Training:* Get adequate and ongoing professional and ethics training.
  3. *Integrity:* Assess integrity of individuals and group settings you encounter.
  4. *Action:* Take action when integrity breaches are observed.

<u>Four Ethical Justifications For An Integrated Approach</u>

1. Considering the benefit and harm to all of the different parties involved.
2. Respecting the essential humanity of others.
3. Treating others with equality, fairness, and justice.
4. Caring for other persons in ways that nurture relationships.

LECTURE 2 – Ethical Theories

- Ethical issues – situations, problems, or dilemmas where a person or organisation faces different decision alternatives to choose from. These have to be evaluated to be ethical (right) or unethical (wrong).
- Ethical theories can be employed to evaluate the alternatives.
- Four groups of ethical theories:
  - Teleological Theories (Utilitarianism).
  - Deontological Theories (Kantian Ethics).
  - Virtue Ethics ("Living the good life").
  - Rights and Justice (Entitlements, justice, and fairness).

Teleological Theory

- Greek *telos* = End or goal.
- Utilitarianism is a practical method for evaluating alternatives, i.e. consequences and choose course of actions that results in the highest utility.
- Main contributor was John Stuart Mill.
- Ethical decision:
  - Develop list of alternatives.
  - Follow consequences into future.
  - Select alternative with greatest benefit (minimum harm) to society/shareholders.
  - Impartial judgment.

Utilitarianism

- The utilitarian principle involves four distinct theses:
  - Consequentialism: the rightness of actions is determined solely by their consequences (Bentham):
    - The results or consequences of an act must be measured in some way so that the good and bad (pleasure and pain) consequences for different individuals can be added together and the results of different courses of action compared.
    - Assumes that the amount of pain produced can be subtracted from the amount of pleasure to yield the net amount of pleasure.
  - Hedonism: pleasure and only pleasure is ultimately good, i.e. utility is identified with pleasure and the absence of pain.
  - Maximalism: a right action is the one that has not merely some good consequences but also the greatest amount of good consequences possible when the bad consequences are also taken into consideration.
  - Universalism: the consequences to be considered are those of everyone:
    - Utilitarianism does not require us to ignore our own interest, but we are not permitted to place it any higher or lower than the interest of anyone else.
    - It does not insist that the interest of everyone be promoted, though. Obligates us only to include the interests of everyone in our calculations, not to act in a way that advances every individual interest.

- Act-Utilitarianism (AU) – action is right if and only if it produces the greatest balance of pleasure over pain for everyone (simpler).
- Rule-Utilitarianism (RU) – action is only right if it conforms to a set of rules, which creates the greatest balance of pleasure over pain for everyone (firmer ground).
- Calculating utility:
  - Ranking is no problem.
  - Difficult to:
    - Determine exactly how much pleasure each course of action will produce, because pleasure cannot be measured precisely in terms of quantity, much less quality.
    - Calculate utility not only for ourselves but for all persons affected by an action.
  - Problems arise:
    - *Information burden:* The response to this problem is that we manage in practice to make educated guesses by relying on past experience and limiting our attention to a few aspects of a situation.
    - *Interpersonal comparison of utility:* Not impossible to overcome as long as rough comparisons are sufficient for utilitarian calculations.
- Cost-benefit analysis:
  - Its measure of pleasure and pain is primarily in the use of monetary units to express the consequences of various alternatives.
  - The chief advantage is that the prices of many goods are set by the market, so that the need to have knowledge of people's pleasures or preference rankings is largely eliminated.
  - Money also provides a common denominator for allocating resources among projects that cannot easily be compared otherwise.
  - Issues:
    - Not all costs and benefits have determinable monetary values. Experts attempt to overcome the problem of assigning a dollar figure to non market goods with a technique called shadow pricing – determining the value reflected by people's market and non-market behaviour.
    - Some applications require that a value be placed on human life. The purpose is not to indicate how much a life is actually worth but to enable us to compare alternatives where life is at stake.
    - People's individual and collective decisions are not always rational. Choices we make as consumers do not always correspond to those we make as citizens.

Deontological Theory

- Greek *deon* = duty. Main contributor was Immanuel Kant.
- Kantian Ethics' basis was universal duties/principles (rules based) and human dignity.

Kantian Ethics

- Kant's moral philosophy:
  - Denied that any consequence, such as pleasure, can be good by itself, and that consequences are morally irrelevant.
  - Set out to restore reason to its rightful place in our moral life.
  - There are some things that we ought to do and ought not to do merely by virtue of being rational.
  - Lying is wrong, not because of consequences, but by its nature, it contradicts human nature and dignity.
- The categorical imperative:
  - Standard of rationality.
  - Categorical imperative can be explained with two principles:
    - Universalizability:
      - "Act only according to the maxim by which you can at the same time will that it should become a universal law", i.e. act only on rules that you would be willing to have everyone follow.
      - If an act is right for one person, it is right for all others (given similar circumstances), and vice-versa.
      - It counters the natural temptation to apply a double standard and underlies the common question, "What if everyone did that?"
    - Respect for Persons:
      - "Act so that you treat humanity, whether in your own person or that of another, always as an end and never as a means only".
      - Respect others (and ourselves) as human beings.
      - Consequences are irrelevant, cannot justify unethical behaviour for the 'greater good'.
- Practical limitations:
  - Two valid principles could be opposed (loyalty to shareholders or society).
  - Can conflict with Utilitarianism.

Virtue Ethics

- Human pursuit of happiness through moral excellence.
- Moral character is emphasised instead of the right action, i.e. "What sort of person should I be?" instead of "What should I do?" or "What action is right?".
- Involves a comprehensive approach that addresses characteristics of the decision maker's personality, rather than the particular action.
- Main contributor was Aristotle.
- A strength of Virtue Ethics is that it fits with our everyday moral experience.
- Some weaknesses include:
  - Incompleteness (not enough).
  - To some difficult ethical dilemmas, virtues do not readily apply.
  - Does not address the problem of conflict between rules.

Virtues

- Virtues – specifically those acquired traits that everyone needs for the good life, regardless of their specific situation. The virtues are integrally related to what Aristotle called practical wisdom, which is what a person needs in order to live well.
- Feelings (e.g. hunger) are not virtues. Virtues include integrity, kindness, compassion, courage, courtesy, honesty, loyalty, tolerance, etc.
- Defending the virtues requires both that we determine the character traits that are essential to a good life and that we give some content to the idea of a good life itself.
- Ethical role models cultivate virtues of society (integrity of Warren Buffett).
- Response to a complex ethical dilemma: What do I feel comfortable with? What would my role model do?

Virtue Ethics In Business

- The idea of virtue in business is not hopelessly out of place, because virtues of a good businessperson are the same as those of a good person. Some virtues of everyday life are not wholly applicable to business however (e.g. 'caring' but limited when a layoff is inevitable, and 'honesty' but a certain amount of bluffing is needed).
- Adopting an Aristotelian approach, Robert Solomon argues that the main purpose of business is not merely to create wealth but to enable us to live the good life.
- Thus, business is a matter of getting along with others, having a sense of self-respect, and taking pride in what we do. Business, from an Aristotelian view, is essentially a communal activity in which people work together for a common good.
- The virtues in business are those character traits that enable us to achieve this end of business.

Rights and Justice

Rights

- All stakeholders have rights and thus, rights play an important role in business ethics.
- Nature of rights:
  - Rights = entitlement.
  - Different kinds of rights:
    - Legal rights – rights that are recognised and enforced as part of a legal system.
      Moral rights – rights that do not depend on the existence of a legal system. Derived from general ethical rules and principles.
    - Specific rights – involve identifiable individuals (e.g. contracts).
      General rights – involve claims against everyone, or humanity in general (e.g. free speech).
    - Negative rights – obligations on the part of others to refrain from acting in certain ways that interfere with our own freedom of action (e.g. property rights).
      Positive rights – obligations on other people to provide us with some good or service and thereby to act positively on our behalf. (e.g. the right to adequate healthcare).

- Natural rights – rights thought to belong to all persons purely by virtue of being human:
  - Two main features:
    - Universality – possessed by all persons no matter what.
    - Unconditionality – do not depend on any particular practices or institutions in society. Also means there is nothing we can do to relinquish them or to deprive ourselves or others of them.
  - John Locke's right to property ("Every man has property of his own person").

Justice

- What is fair? Questions of justice or fairness often arise when there is something to distribute or the righting of wrongs (e.g. taxes, crime punishment).
- Aristotle distinguished three kinds of justice:
  1. Distributive justice – distribution of benefits and burdens:
     - Comparative, i.e. considers not the absolute amount of benefits and burdens of each person but each person's amount relative to that of others.
     - Any difference in the treatment of like cases requires a moral justification.
     - Let us suppose that two people, A and B, each receive some share of a good P. Any difference in their relative shares must be justified by some relevant difference, Q:

$$\frac{\text{A's Share in P}}{\text{B's Share in P}} = \frac{\text{A's Share in Q}}{\text{B's Share in Q}} \quad \textbf{Equality of ratios}$$

     - The difference in each person's share of the good must be proportional to the difference in his or her share of the relevant difference.
     - Among the many different justifying features that have been proposed are ability, effort, accomplishment, contribution, and need.
  2. Compensatory justice – compensating persons for wrongs done to them.
  3. Retributive justice – punishment of wrongdoers.

  Non-comparative

Egalitarian Theory (John Rawls)

- Emphasises equality and social justice.
- Embodies Kantian conception of equality and offers an alternative to Utilitarianism.
- Principles that rational, self-interested persons would freely agree to in a position of equality behind a veil of ignorance:
  1. *Principle of equal liberty:* Each person is to have an equal right to the most extensive total system of basic liberties compatible with a similar system of liberty for all (equal share of whatever goods available is all one can expect).
  2. Social and economic inequality are to be arranged so that:
     a) *Difference principle:* Everyone would be better off with the inequality than without it.
     b) *Principle of equal opportunity:* Attached to positions open to all under conditions of fair equality of opportunity.

Principles 1 and 2a:

	I	II	III	IV
A	10	14	16	14
B	10	8	9	11
C	10	8	7	11
	30	30	32	36

Entitlement Theory (Robert Nozick)

- A distribution is just, if everyone is entitled to the holdings they possess.
- Three principles state that:
    1. *Principle of just transfer:* Transfers are just, as long as they result from purely voluntary exchanges.
    2. *Principle of just original acquisition:* The original acquisition of a holding is just, as long as it does not violate anyone else's rights.
    3. *Principle of rectification:* Necessary to correct injustices in transfers and original acquisitions.
- A world consisting only of just acquisitions and just transfers would be just, according to Nozick, no matter what the pattern of distribution.
- The entitlement theory supports a market system with only the absolute minimum of government intervention, as long as the principles of just acquisition and just transfer are satisfied. The reason is that a system in which we have complete freedom to acquire property and engage in mutually advantageous trades (without violating rights) is one in which our own rights are most fully protected.
- The point of justice is not to promote human well-being or to achieve a state of equality; it is to protect our rights.
- Differences from Rawls' theory:
    - Nozick's theory has historical principles – take into account the process by which a distribution came about; as opposed to end-state principles.
    - Rawls' and Aristotle's theories have patterned principles – specifies some feature in a particular distribution and evaluates the distribution according to the presence or absence of that feature.