PREFACE TO KOBAYASHI ARTICLE

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"Very good, Takao. Keep on working along that line of thought. I see. Good for you. You almost have a complete paper in your hands."

With those words and with his clear, caring eyes, Bob cast a magical spell on me as I immersed myself researching for my doctoral dissertation. And always on my side was Bengt Holmstrom, a great rival with whom I competed for that special smile of Bob's.

Those days in my twenties were, perhaps, the greatest moments of my life, days when we were eternally on edge with a dash of anxiety and youthful pains. For a young scholar working on game theory and theory of finance, the combination of the time (late 1970s) and the location (Stanford) was historically the best one could ever hope for. Needless to say, at the center of all that was Bob.

The new members of the Faculty just arrived at that time included Sandy Grossman. Barely past the age of 20, yet just got married, he spoke non-stop with his "know-it-all" attitude. Another was David Kreps who had looks of a serious philosopher and offered sharp and astute insight.

In the class a year senior to mine at the Business School were Rho Verrecchia and Krishna Ramaswamy. And in my class, there were Doug Breeden and Roger Clarke. All were tackling novel and innovative themes. And from behind us were Paul Milgrom and Andre Perold, trying to catch up. Today, all of them have made big names for themselves in the fields of game theory and finance.

I submitted three papers for my doctoral thesis. One was an extension to Bob's syndicate theory cited here. At that time, Bob was in the middle of his attempt to extend "core," the central concept in cooperative game theory, to the condition of differential information. I came upon an idea to apply the concept to syndicate theory, which I was infatuated with at the time.

The second paper was an attempt to introduce differential information and Harsanyi's Bayesian equilibrium to the design of incentive compatible mechanism. Having just gone back to the University of Tokyo, and being under the strong influence of Bob, I developed a keen interest in Arrow's general (im)possibility theorem and Gibbard-Satterthewaite theorem on manipulability of social decision mechanism. In particular, I had an idea that I could perhaps avoid the impossibility theorem by using the insight in the second paper of my doctoral thesis. The man who caught on to my interest was Hitoshi Matsushima, who has become famous for the Abreu-Matsushima mechanism in the area of implementation problem.

My third paper identified in a dynamic model how the competitive price mechanism soaks up private information held by market participants into prices. Since then, I shifted my research focus onto finance and this paper constituted the starting point of my new research path.

Unfortunately, I have not had many opportunities to see Bob for the last 20 years or so, because I went right back to Japan after teaching at Harvard for two years and also my research focus had shifted to finance with more empirical and practical implications. Still, I always try to practice Bob's style of education. That is, to watch over my young students with patience, generosity and with warm, caring eyes. I have to admit, though, that it is quite a challenge, for I have a much shorter fuse.