LECTURE 16

ASSET PRICE BUBBLES
MARCH 19, 2013

I. BUBBLES: BASICS
   A. Galbraith’s and Shiller’s Thesis
   B. “Bubbles” and “Fundamental Values”
      1. The definition of a bubble
      2. A quick refresher on present discounted value
      3. The definition revisited

II. ARE THERE BUBBLES?
   A. Does Theory Tell Us that Market Forces Will Prevent Bubbles?
      1. Arbitrage
      2. Risks in trying to correct mispricings of assets
   B. Microeconomic Evidence
   C. Macroeconomic Evidence
      1. The 1920s
      2. The 2000s

III. WHAT CAUSES BUBBLES?
   A. The Short Answer: We Don’t Know
   B. One Factor: Momentum

IV. A LITTLE ABOUT THE EFFECTS OF BUBBLES
   A. Bubbles as a Source of IS Shocks
   B. Bubbles and the Composition of Output