Topics in Macroeconomics with Asset Bubbles

Advanced Macroeconomics, Block III, EUI
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Overview

What is behind large boom/bust episodes in asset prices? What is their macroeconomic consequence? Is there a need for policy intervention?

In this course we will discuss a few topics on macroeconomics and asset bubbles. The emphasis will be on models featuring rational bubbles. If time permits, we shall also discuss recent models following behavioral approaches.

The first part reviews some empirical evidence on asset prices and the extent to which they follow present-value relations. The second part covers classical models of rational bubbles, in particular the seminal work by Samuelson (1958) and Tirole (1985). The third part explores recent models analyzing the interactions between asset bubbles and financial frictions, market power and firm dynamics. The fourth part, to be covered if time permits, includes new approaches that depart from the rational expectations paradigm.

Evaluation

Students can choose between two evaluation options: (i) a referee report to a recent working paper (preferably from the reading list) or (ii) a take-home exam.

0. Background Reading


I. Some Evidence on Stock Prices


*Leroy, S., “Rational Exuberance”, *Journal of Economic Literature*, 2004


II. Rational Bubbles and Dynamic Inefficiency: Classical Models


Geerolf, F., “Reassessing Dynamic Efficiency”, Working Paper, 2018

III. Rational Bubbles: New Models

III.1. Asset Bubbles and Financial Frictions


**III.2. Asset Bubbles, Product Markets and Firm Dynamics**


**IV. Behavioral Models**


