INDEX

AAA rating, 19, 20–21
ABX index, 20
advisors, 33
Alpert, M., 24
Anderson, A., 14–15
annual turnover, NYSE, 16
arms-length bargaining, 34
Arrow, Kenneth J.: commentary on lecture, 81–87; overview, 111
Arrow-Debreu securities, 3–4
The Arrow Impossibility Theorem (Maskin, Pattanaik, Sen), 2
A shares, China, 36–38
asset prices: asymmetry between going long and going short, 8–9; variation due to investor beliefs, 65. See also bubbles
asset supply: credit bubble, 19–21; dotcom bubble, 18–19;
South Sea Bubble, 17–18
asymmetry, between going long and going short, 8–9

basic value, 91
Bebchuk, L.A., 34
behavioral biases, 101n7
beliefs. See heterogeneous beliefs
Ben-David, I., 24
Bernanke, Ben, 91
The Big Short (Lewis), 90
Bolton, Patrick: commentary on lecture, 63–72; overview, 4, 111–112; speculative market, 34–35
B shares, China, 36–38
Bubble Act of 1720 (Great Britain), 14, 18
bubbles: asset supply, 17–21;
credit bubble, 19–22, 32;
defined, 8, 9, 101n2; dotcom bubble, 16–19, 92, 103n34;
empirical evidence, 35–39;
housing, 22, 93–94; implosion of, 17–21, 89–92; incentive structures for, 94–99;
innovation and, 22;
bubbles (continued)
overconfidence and, 24–25;
policy recommendations, 40; precipitating factors, 11; rational, 10; role of corporations in, 33–35, 95–96;
short-selling, 22–24; signals, 39–40; South Sea Bubble, 12–18; trading volume and, 9–10, 16–17; warrant bubble, China, 38–39. See also models, bubble
Burns, Arthur F., viii

Cantillon, Richard, 14
capital, limited, 29–30, 51–62
Case-Shiller housing index, 22
CDO (credit default obligation), 19, 20–21
CDS (credit default swap), 20, 22
Cheng, I. H., 35
compensation schemes, role in bubbles, 33–35, 95–96
corporations, role in bubbles, 33–35, 95–96
Creating a Learning Society: A New Approach to Growth, Development, and Social Progress (Greenwald and Stiglitz), 1
credit bubble: asset supply and, 19–21; innovation and, 22; leverage, 32
credit default obligation (CDO), 19, 20–21
credit default swap (CDS), 20, 22
D’Avolio, G., 23
Diamond, Peter, 3–4
Diether, K. B., 23–24
dotcom bubble: asset supply and, 18–19; benefits from, 92; research firms, 103n34; trading volume, 16–17
dotcom bubble: asset supply and, 18–19; benefits from, 92; research firms, 103n34; trading volume, 16–17
empirical evidence, bubble models, 35–39
Fama, Eugene, 101n1

Famous First Bubbles (Garber), 13–14
fire sale (market), value of collateral, 91
flight-to-quality phenomenon, 70
float, 19
Fried, J. M., 34
Friedman, M., 29
Garber, Peter, 13–14
general equilibrium theory, 2–3
government-sponsored enterprises (GSEs), 19
Greenwald, Bruce, 1
Grossman, Sanford, 4, 73–80, 112
GSEs (government-sponsored enterprises), 19
INDEX

Harley, Robert, 15
Harris, R., 18
Harrison, J. M., 25
 heterogeneous beliefs:
 challenge of investors’ inability to agree to disagree, 8–10; Chinese investors, 36; finding equilibrium, 83; flight-to-quality phenomenon, 70; incentive structures and, 96; learning and, 28–29; manias and, 68; overconfidence and, 24; speculation and, 65; survivorship and, 29. See also models, bubble
 Hong, H., 30, 32–33
 Hotelling, Harold, vii
 housing bubbles, 22, 93–94
 implosion of bubbles, 17–21, 89–92
 IMPSSSS (Institute of Mathematical Studies in the Social Sciences), 5
 incentive structures, for bubbles, 94–99
 initial public offerings (IPOs), 18–19
 innovation, role in bubbles, 8, 11, 22, 32–33
 Institute of Mathematical Studies in the Social Sciences (IMSSS), 5
 International Swaps and Derivatives Association (ISDA), 20
 Internet bubble: asset supply and, 18–19; benefits from, 92; research firms, 103n34; trading volume, 16–17
 investors: irrational, 26, 29–30, 96; rational, 26, 96
 invisible-hand concept, 2
 IPOs (initial public offerings), 18–19
 Irrational Exuberance (Shiller), 11
 irrational investors, 26, 29–30, 96
 irrationality, role in economy, 96
 ISDA (International Swaps and Derivatives Association), 20
 Kreps, D. M., 25
 Lamont, O. A., 16–17
 learning, heterogeneous beliefs and, 28–29
 lenders, 23, 103n28
 leverage, 30–32, 98
 Lewis, Michael, 90, 103n37
 lockup period, dotcom company shares, 18–19
 long party, CDS, 20
 Mackay, C., 14
 Malloy, C. J., 23–24

Downloaded from cupola.columbia.edu
INDEX

manias, 67–68
margin, 30
marginal buyers, 10–11
market (fire sale) value of collateral, 91
market prices: determining, 10; marginal buyers and, 10–11
Maskin, Eric, 2
MBS (mortgage-backed security), 19, 20
Mei, J., 36–37
Mitchell, Wesley Clair, viii
money market funds, 31
mortgage-backed security (MBS), 19, 20
1920’s stock market boom, 16
Nock, Albert Jay, ix, viii
old fogey advisors, 33
optimism, 32–33, 103
overconfidence, role in bubbles, 24–25
The Painted Word (Wolfe), 33
Palm company, 16–17
Pareto, Vilfredo, 2
Pareto Optimality concept, 2, 3
Pattanaik, Prasanta K., 2
PLS (private-label mortgage-backed securities), 19–20
policymaking in bubble environment, 40, 92–93
precipitating factors, bubbles, 11
Principal-Agent framework, 34
private-label mortgage-backed securities (PLS), 19–20
Raiffa, H., 24
rational bubbles, 10
rational investors, 26, 96
rebate rate, short sales, 23
risk-taking, role in bubbles, 33–35
safe assets, 19
Scheinkman, José A., 25, 112–113
Scherbina, A., 23–24
securities: Arrow-Debreu, 3–4; money market funds and, 31–32; mortgage-backed securities, 19, 20
Sen, Amartya, 2
Shiller, Robert, 11
short party, CDS, 20
short-selling, 22–24, 40, 74–75
signals, of bubble, 39–40
Smith, Adam, 2
Social Choice and Individual Values (Arrow), 2
INDEX

South Sea Bubble: asset supply and, 17–18; overview, 12–15; trading volume, 16
South Sea Company, 12–15
speculation, role in bubbles, 33–35, 65
Stiglitz, Joseph E., 113
survivorship, heterogeneous beliefs and, 29
synthetic CDOs, 21, 102
transhces: Arrow-Debreu, 3–4; money market funds and, 31–32; mortgage-backed securities, 19–20
valuation: bubbles and, 8; types of value, 91. See also bubbles

Wald, Abraham, 3
Walras, Leon, 2–3
warrant bubble, China, 38–39
Wolfe, Tom, 32–33
WuLiangYe Corporation, 38–39
Xiong, W., 25, 38–39
Yan, H., 29
Yu, J., 38–39

tech-savvy advisors, 33
Tetlock, P. E., 24
Thaler, R.H., 16–17
3Com Corporation, 16–17
too big to fail institutions, 92–93
trading volume: 1920’s stock market boom, 16; bubbles and, 9–10; dotcom bubble, 16–17; South Sea Bubble, 16