

An Examination of Farm Sector Real Asset Dynamics: 1910–85

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Abstract

The dynamic response of real farm asset values to changes in net returns and interest rates is studied using vector autoregression. Results show that a shock in real asset values, real returns to assets, or real interest rates leads to a process in which real asset values overreact. In the initial period, a reaction to a shock immediately occurs followed by a continued build-up in the asset value for up to six years until finally the effect of the one-time, transitory shock begins to die out. The results suggest a market with a propensity for bubbles.

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