

[Working Papers](#)

# Bubbles, Rational Expectations and Financial Markets

Olivier J. Blanchard & Mark W. Watson

SHARE   

WORKING PAPER 0945

DOI 10.3386/w0945

ISSUE DATE July 1982

This paper investigates the nature and the presence of bubbles in financial markets. Are bubbles consistent with rationality? If they are, do they, like Ponzi games, require the presence of new players forever? Do they imply impossible events in finite time, such as negative prices? Do they need to go on forever to be rational? Can they have real effects? These are some of the questions asked in the first three sections. The general conclusion is that bubbles, in many markets, are consistent with rationality, that phenomena such as runaway asset prices and market crashes are consistent with rational bubbles. In the last two sections, we consider whether the presence of bubbles in a particular market can be detected statistically. The task is much easier if there are data on both prices and returns. In this case, as shown by Shiller and Singleton, the hypothesis of no bubble implies restrictions on their joint distribution and can be tested. In markets in which returns are difficult to observe, possibly because of a nonpecuniary component, such as gold, the task is more difficult. We consider the use of both "runs tests" and "tail tests" and conclude that they give circumstantial evidence at best.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Download Citation



## Published Versions

Blanchard, Olivier J. and Mark W. Watson. Bubbles, Rational Expectations and Financial Markets." Crises in the Economic and Financial Structure, Paul Wachtel, editor, pp. 295-316. Lexington, MA: D.C. Heathand Company, (1982).

## Related

TOPICS

Macroeconomics

PROGRAMS

Economic Fluctuations and Growth

More from NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Retirement and Disability](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online conference reports, [video lectures](#), and [interviews](#).



15<sup>th</sup> Annual Martin Feldstein Lecture:

**The Next Flight of the Bumblebee:  
The Path to Common Fiscal Policy  
in the Eurozone**

Mario Draghi, former President, European  
Central Bank and former Prime Minister, Italy  
Summer Institute, 2023

**2023, 15th Annual Feldstein Lecture, Mario Draghi, "The Next Flight of the Bumblebee: The Path to Common Fiscal Policy in the Eurozone"**

#### LECTURE

Dr. Mario Draghi, who served as President of the European Central Bank and Prime Minister of Italy, presented the 2023...



Methods Lecture:

## **Linear Panel Event Studies**

Jesse M. Shapiro, Harvard University and NBER

Liyang Sun, CEMFI

July 28, 2023

### **2023 Methods Lectures, Jesse Shapiro and Liyang (Sophie) Sun, "Linear Panel Event Studies"**

#### LECTURE

Overview: Linear panel event studies are increasingly used to estimate and plot causal effects of changes in policies...



Panel Discussion:

## **Long-Term Dynamics of the Employment-to-Population Ratio**

Karen Glenn, Social Security Administration

Stephen Goss, Social Security Administration

Nicole Maestas, Harvard University and NBER

Julie Topoleski, Congressional Budget Office

July 26, 2023



### **2023, SI Economics of Social Security, Panel Discussion, "Long-Term Dynamics of the Employment-to-Population Ratio"**

Supported by the Alfred P. Sloan Foundation, the National Science Foundation, and the Lynde and Harry Bradley...

## **National Bureau of Economic Research**

### Contact Us

1050 Massachusetts Avenue  
Cambridge, MA 02138  
617-868-3900  
info@nber.org  
webaccessibility@nber.org

### HOMEPAGE

### Accessibility Policy

### Diversity Policy

### Privacy Policy

### FOLLOW

