



You are cordially invited to

UClouvain Economics Seminar

On **Thursday** October 6, 2016 from **12:45 to 14:00** at **Doyen
22, Place des Doyens, 1**

Albert Marcet

(CSIC), ICREA, UAB, MOVE, Barcelona GSE & CEPR)

Will give a presentation on

Stock Price Booms and Expected Capital Gains?

Abstract: The booms and busts in U.S. stock prices over the post-war period can to a large extent be explained by fluctuations in investors' subjective capital gains expectations. As we show, survey measures of these expectations display excessive optimism at market peaks and excessive pessimism at market troughs. Using the framework of Internal Rationality of Adam and Marcet (2011), we incorporate subjective price beliefs into an otherwise standard asset pricing model with utility maximizing investors. We show how subjective belief dynamics can temporarily delink stock prices from their fundamental value and give rise to asset price booms that ultimately result in a price bust. The model quantitatively replicates (1) the volatility of stock prices and (2) the positive correlation between the price dividend ratio and expected returns observed in survey data. Models imposing objective or 'rational' price expectations cannot simultaneously account for both facts. Our findings imply that large parts of U.S. stock price fluctuations are not due to standard fundamental forces, instead result from self-reinforcing belief dynamics triggered by these fundamentals.

(Joint paper with Adam and Buetel)

<http://www.iae.csic.es/investigatorsMaterial/a16139161551sp32801.pdf>

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