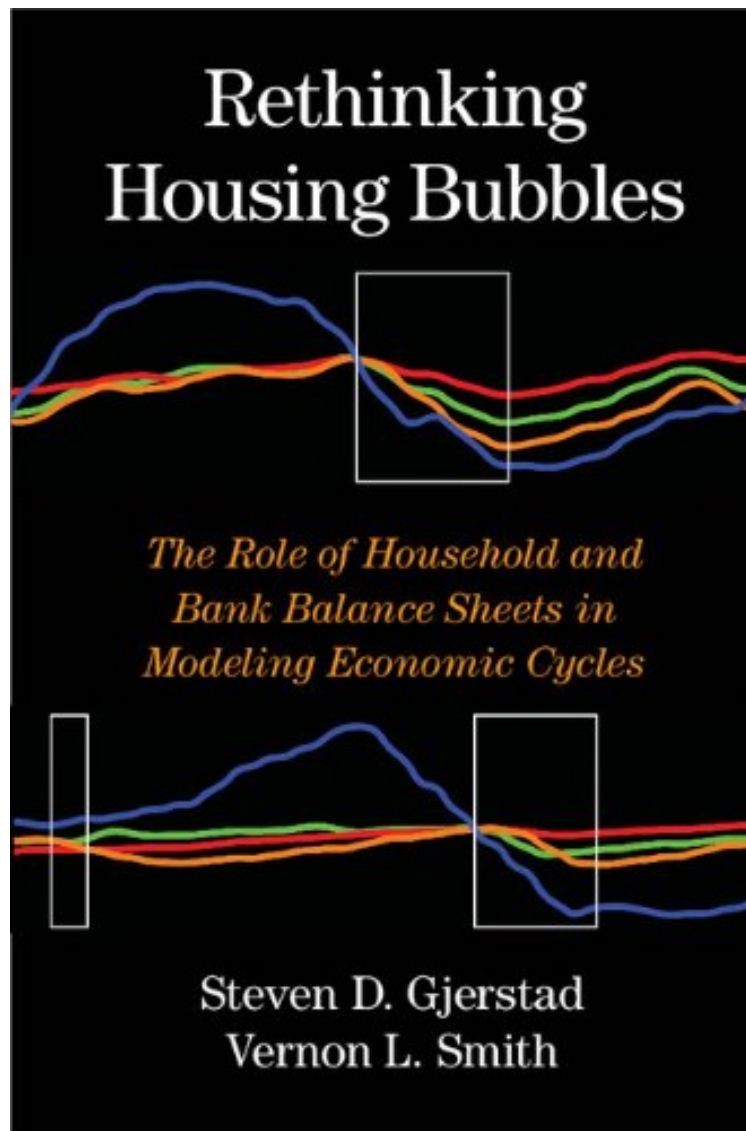


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Rethinking Housing Bubbles: The Role of Household and Bank Balance Sheets in Modeling Economic Cycles

Steven D. Gjerstad, Vernon L. Smith
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Steven D. Gjerstad, Vernon L. Smith : Rethinking Housing Bubbles: The Role of Household and Bank Balance Sheets in Modeling Economic Cycles before purchasing it in order to gauge whether or not it would be worth my time, and all praised Rethinking Housing Bubbles: The Role of Household and Bank Balance Sheets in Modeling Economic Cycles:

20 of 21 people found the following review helpful. InsightfulBy Roger PerryThe has been many books published on

the Global (North Atlantic?) Financial Crises of 2008. Some are insightful. This is one of them. Co-author Vernon Smith was awarded the Nobel Prize in 2002 for his work in experimental economics. The first strand of this book is to take the findings of Smith's work into price setting behaviour in goods (perishable) markets and asset (re-tradable) markets and apply it to the US housing bubble of the 2000s. The focus is not so much on the financial crises that began in late 2007, but the decline in house sales and subsequently construction that commenced in 2005. The second strand of the book is a hypothesis of how the "business" cycle evolves, first analysing the Great Depression, and then all subsequent recessions in the US. In all cases bar one, the authors find the recessions were led by a down turn in house sales and construction, followed by a down turn in goods markets and subsequently business investment. The third focus of the book is to return to the US housing boom of the 2000s and examine the causative factors. In this respect they substantially follow the analysis in Rajan (2010) *Fault Lines*. Finally the authors consider a wide range of policy options that are designed to address the specific issues raised by their analysis. In this section they review other countries' experiences and responses, including Sweden, Japan, and the South East Asian countries. This book was published in May 2014, at about the same time as Mian and Sifi (2014) *House of Debt*. The latter has attracted considerable attention and critical comment. Gjerstad and Smith seem to have been overlooked. I hope this is quickly remedied as their analysis deserves wider comment. It takes thinking on the business cycles and financial crises another step forward, and points to areas of future work. An excellent "tour de force".

In this highly original piece of work, Steven D. Gjerstad and Nobel Laureate Vernon L. Smith analyze the role of housing and its associated mortgage financing as a key element of economic cycles. The authors combine data from both laboratory and real markets to provide insight into the bubble propensity of real-world economic actors and use novel historical analysis on the Great Recession, the Great Depression, and all of the post-World War II recessions to establish the critical roles of housing, private-capital investment, and household and private institutional balance sheets in economic cycles. They develop a model that incorporates household balance sheets and bank balance sheets and offers insights based on this analysis concerning policy going forward, effectively changing the way economists think about economic cycles.

"This book was a pleasure to read and is highly recommended to anyone interested in financial-economic crises. It offers many intuitive stories of potential causes of the crisis, particularly the pivotal role of the housing market with historical data from the Great Recession, the Great Depression, earlier US recessions and crises in other countries, all nicely illustrated by clear time series plots and graphs and backed up by tables. The book also offers stimulating ideas for behavioral agent-based modeling of the crisis supported by insights and data from laboratory experiments." Cars Hommes, *Journal of Economic Psychology*

About the Author Steven D. Gjerstad is a presidential Fellow at Chapman University in Orange, California. After receiving his PhD in economics from the University of Minnesota, he worked for ten years on theoretical and computational models of market price adjustment processes and on experimental tests of those models. His work on price adjustment has appeared in *Economic Theory*, *Games and Economic Behavior*, and the *Journal of Economic Dynamics and Control*. In the past five years, the emphasis of his work has shifted toward an examination of adjustment processes in the aggregate economy, with an emphasis on financial crises and economic restructuring. That work has been published in the *Wall Street Journal*, the *Critical*, *The American Interest* magazine, and the *Cato Journal*, as well as by the National Bureau of Economic Research.

Vernon L. Smith was awarded the Nobel Prize in Economic Sciences in 2002 for his groundbreaking work in experimental economics. He has joint appointments in the Argyros School of Business and Economics and the School of Law at Chapman University, and he is part of a team that will create and run the new Economic Science Institute there. Dr Smith has authored or co-authored more than 250 articles and books on capital theory, finance, natural resource economics, and experimental economics. He serves or has served on the board of editors of the *American Economic*, the *Cato Journal*, the *Journal of Economic Behavior and Organization*, the *Journal of Risk and Uncertainty*, *Science*, *Economic Theory*, *Economic Design*, *Games and Economic Behavior*, and the *Journal of Economic Methodology*. He is a past president of the Public Choice Society, the Economic Science Association, the Western Economic Association, and the Association for Private Enterprise Education. He received his PhD from Harvard University.