1. Record Nr. UNINA9910796903403321

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Titolo	Asset bubbles : re-thinking policy for the age of asset management / / Bradley Jones
Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2015
ISBN	1-4983-9762-X 1-4983-0415-X
Descrizione fisica	1 online resource (60 pages)
Collana	IMF Working Papers
Disciplina	332.10681
Soggetti	Asset-liability management Financial risk management Monetary policy Economic policy Finance: General Financial Risk Management Macroeconomics Financial Markets and the Macroeconomy Central Banks and Their Policies Financial Crises Information and Market Efficiency Event Studies International Financial Markets General Financial Markets: Government Policy and Regulation Price Level Inflation Deflation General Financial Markets: General (includes Measurement and Data) Economic & financial crises & disasters Finance Asset prices Asset bubbles Asset management Financial sector stability Stock markets Prices Financial crises Asset and liability management Financial sector policy and analysis

	Financial markets Financial services industry Stock exchanges United States
Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	Description based upon print version of record.
Nota di bibliografia	Includes bibliographical references.
Nota di contenuto	Cover; Abstract; Contents; I. Introduction; Figures; Figure 1. Worldwide Financial Assets and Institutional Assets; Figure 2. Bank Assets vs. Investment Firm Assets under Management; II. The 'Clean vs. Lean' Debate: A Survey; Tables; Table 1. Dimensions of the Traditional 'Clean vs. Lean' Debate; III. Theories of (In)Efficient Markets and Speculative Bubbles; A. Bubbles and the (In)Efficiency of Markets - A Review; B. Competing Models of Bubble Formation and Persistence; Table 2. Stylized Summary of Asset Pricing/Bubble Models; Figure 3. Benchmark Decomposition of Hedge Fund Returns Figure 4. Subjective vs. Objective Expected Returns IV. Policy Implications; Table 3. Mapping Policy Responses to Bubble Models; Figure 5. Relative 10-year Annualized Out performance of Fundamental-based Indices; V. Concluding Remarks and Future Research
Sommario/riassunto	In distilling a vast literature spanning the rational— irrational divide, this paper offers reflections on why asset bubbles continue to threaten economic stability despite financial markets becoming more informationally-efficient, more complete, and more heavily influenced by sophisticated (i.e. presumably rational) institutional investors. Candidate explanations for bubble persistence—such as limits to learning, frictional limits to arbitrage, and behavioral errors—seem unsatisfactory as they are inconsistent with the aforementioned trends impacting global capital markets. In lieu of the short-term nature of the asset owner—manager relationship, and the momentum bias inherent in financial benchmarks, I argue that the business risk of asset managers acts as strong motivation for institutional herding and ‘rational bubble-riding.’ Two key policy implications follow. First, procyclicality could intensify as institutional assets under management continue to grow. Second, remedial policies should extend beyond the standard suite of macroprudential and monetary measures to include time-invariant policies targeted at the cause (not just symptom) of the problem. Prominent among these should be reforms addressing principal-agent contract design and the implementation of financial benchmarks.