BULLS AND BEARS
Causes and consequences of the bipolar disorder of asset markets

VORTRAG & DISKUSSION

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SUMMARY

The different channels through which the long swings of stock and bond prices, exchange rates, commodities prices and house prices impact upon the real economy are not considered in macroeconomic theory. Keynes’ remarks on the role of emotions and their bundling to “market sentiments” remain isolated within his “General Theory” (chapter 12) and were pushed aside even by almost all "Keynesians". Equilibrium theory can only account for “bubbles” or convergence towards the fundamental equilibrium after “shocks”, whereas “bulls” and “bears” always are “shooting through”. At the same time, the long swings of asset prices have shaped economic development since 1971, from the dollar bear markets and the subsequent "oil price shocks" in the 1970s to the financial crisis of 2008 - the most important cause of the latter was the coincidence of three bear markets, depreciating stock wealth, commodities wealth and real estate wealth simultaneously (the last time this happened was in 1929). It is therefore useful to know how “bulls” and “bears” are brought about - also to prepare for the next crisis.