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Bubble Mania or Not?

Justin Leverton, '02
Illinois Wesleyan University

Margaret Chapman, Faculty Advisor
Illinois Wesleyan University

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Poster Presentation P12

BUBBLE MANIA OR NOT?

Justin Leverton and Margaret Chapman*

Department of Economics, Illinois Wesleyan University

From 1985 until 2001, the price of stocks in the NYSE increased exponentially. Financial analysts wondered if we were in a “new” economy or simply a bubble. Were the fundamentals of stocks changing to support the rapid growth or did a bubble exist? To compare these two viewpoints, my research will look at whether the fundamentals justify the increase in stock prices.

Are bubbles the result of the run up in stock prices or do the fundamentals support the high levels of prices? I will analyze the fundamentals of a stock price evaluation. In essence, I will be measuring the present and expected future earnings stream. By looking at the fundamentals of a stock price from past and expected future performance, the rational expectation model can be used to construct the fundamental price level of a stock.

My research will show that while rational expectation theory explains some of the growth in the stock market from 1985-2001, the majority of the price increase represents a deviation from the fundamental value of a stock. This deviation can be attributed to a stock market bubble.