

Money is the root of asset bubbles

Makoto Watanabe

Abstract

This paper examines how monetary expansion causes asset bubbles. When there is no monetary expansion, a bubbly asset is not created due to a hold-up problem. Monetary expansion increases buyers' income, and then, dealers are willing to buy a worthless asset from sellers, in hopes of selling it to buyers who may not know that it is worthless---a bubble now occurs.