Qeios

Peer Review

Review of: "Bursting Bubbles in a Macroeconomic Model"

Ge Zhou[1]

1. Zhejiang University, China

This paper provides a novel perspective by demonstrating how stochastic bubbles can exist in the price of a limited-supply asset with positive dividends, which is a very engaging contribution. I believe that further discussion on the robustness of the results could strengthen the paper. In its current form, the analysis is primarily based on an overlapping generations (OLG) framework where households only consume in old age (both in the toy model and the full macro-finance model). This choice of setting naturally invites a discussion on whether the over-saving behavior of the young, inherent in the OLG structure, plays a significant role in the emergence of asset bubbles. It would be valuable to complement the current analysis with, for example, a stochastic bubble model in an infinite-horizon framework.

Additionally, the assumption of risk neutrality among households might underestimate the potential negative welfare impacts of stochastic bubbles. For instance, while Proposition 3 indicates long-term positive effects, these effects might differ under risk-averse preferences. Exploring a welfare analysis with risk-averse agents could offer further insights into the policy implications of this model.

Finally, I noticed a potential typo in equation (2.13). It appears that the correct expression should be $P_t^{BG} X = e_t^{BG}$, or alternatively, one might consider normalizing X to 1. Addressing this would help ensure clarity and consistency throughout the paper.

Overall, these suggestions are offered to help enhance the robustness and clarity of this paper's already interesting analysis.

Declarations

Potential competing interests: No potential competing interests to declare.