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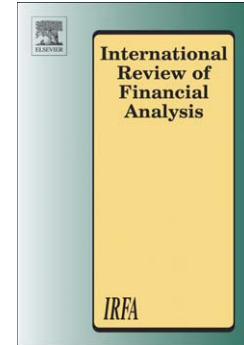
Speculative Trading in the Gold Market

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# Speculative Trading in the Gold Market

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## Abstract

In this paper we use a recently developed econometric test to identify bubble-like price behaviour in the gold market. We find that the price of gold followed an explosive price process between 2002 and 2012 and exhibited super-exponential growth between 2002 and 2008, indicating excessive speculative trading and exuberance in the gold market. We also provide a theoretical foundation for such bubble tests based on a behavioural model in which chartists can cause episodes of explosive price dynamics. The identification strategy yields economically intuitive results and is a simple alternative to using more complex estimation techniques commonly used in the heterogeneous agents literature.

*JEL classification:* C22; C51; G02

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‡The first version of this paper was entitled “A Gold Bubble?” and reported evidence for bubble-like characteristics in gold prices between 2002 and 2012. This version of the paper confirms this result with an updated dataset including the “correction” in the price of gold in 2013.

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