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# Safe Asset Shortages and Asset Price Bubbles\*

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## Abstract

We build a model economy in which a shortage of safe assets can create conditions for intrinsically useless ‘safe’ bubble assets to circulate at a positive price. Our environment features infinitely lived individuals who are not subject to credit constraints but who face uninsurable idiosyncratic production risk. Bubbly equilibria exist when safe assets offer real returns below the growth rate of the economy. Bubble assets circulate at a positive price only if they offer returns which are safe relative to production returns. These ‘safe’ bubbles reduce consumption volatility but exert a contractionary effect on the economy.

JEL Classification: E3.

Key Words: Safe Asset Shortage, Asset Price Bubbles.

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