

Robert J. Shiller Paper:

There has been a widespread perception in the past few years that long-term asset prices are generally high because monetary authorities have effectively kept long-term interest rates, which the market uses to discount cash flows, low. This perception is not accurate. Long-term interest rates have not been especially low. What has changed to produce high asset prices appears instead to be changes in popular economic models that people actually rely on when valuing assets. The public has mostly forgotten the concept of the “real interest rate.” Money illusion appears to be an important factor to consider in explaining high asset prices.

JEL classification codes: E43, E44, G12