One of the most dangerous phenomena (in an economic
sense) is an asset price "bubble." Asset prices are bid
up to unreasonable levels based largely on an optimistic
view that the rise will continue. The world has seen the
effects of stock market bubbles, real-estate bubbles,
and commodity bubbles. The problem with asset price
bubbles is that when they burst it can be devastating
for an economy. Consumers and businesses make financial
decisions based on the position of their balance sheet
(actual or implicit). An over-inflated asset side of the
balance sheet can result in the taking on of an
excessive level of debt. When the bubble bursts many
households and businesses become technically insolvent.
Those that do not must cease much purchasing activity
until the balance sheet can be repaired. Consequently
the effects of a bubble burst are most often devastating
to the well being of an economy. Recent widely discussed
bubble bursts include financial markets and real estate
markets.

Carefully reread the first three paragraphs of Chapter
10. Described is one of the best-known bubble bursts in
U.S. economic history. Remember, many analysts of the
time were predicting that mass production has changed
the fundamentals of the market. The old measures of
proper market valuation were obsolete and the market had
the potential to climb to even greater heights in this
"new economy."

What I want you to consider is whether the U.S. has ever
experienced a stock market bubble? Are we headed for
more prosperous times in 2010 or are we headed for another painful
recession(based on the economic definition of a recession)?