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)?