Corgnet, Brice; Hernán-González, Roberto; Kujal, Praveen
On booms that never bust: ambiguity in experimental asset markets with bubbles. (English)

Summary: We study the effect of ambiguity on the formation of bubbles and crashes in experimental asset markets à la Smith, Suchanek, and Williams (1988) by allowing for ambiguity in the fundamental value of the asset. Although bubbles form in both the ambiguous and the risky environments we find that asset prices tend to be lower when the fundamental value is ambiguous than when it is risky. Bubbles do not crash in the ambiguous case whereas they do so in the risky one. These findings, regarding depressed prices and the absence of crashes in the presence of ambiguity, are in line with recent theoretical work stressing the crucial role of ambiguity to account for surprisingly low equity prices (high returns) as well as herding in asset markets.

MSC:
91-XX Game theory, economics, finance, and other social and behavioral sciences

Keywords:
experimental asset markets; bubbles; ambiguity

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