Class Assignment: Nobel Prize in Economics 2013

Due in class: **Sept 2, 2014**

Every year the Central Bank of Sweden selects recipient(s) for the Nobel Memorial Prize in Economics Science (in honor of Alfred Nobel) for outstanding contributions in the field of economics. This prize is the most prestigious economics award and is considered the highest form of accomplishment for anyone working in the discipline. Past Nobel Laureates include New York Times columnist Paul Krugman and Milton Friedman — former advisor to President Ronald Reagan. To read more about past recipients see here.

In 2013, the selection committee chose finance as the common thread in the work of the recipients. Interestingly, two of the three 2013 Nobel Laureates (Shiller and Fama) have quite different views regarding financial markets.

Your assignment is to listen to the NPR's Planet Money Podcast titled "What's a Bubble?" (Ep. 493) and answer the questions below. The podcast is available on Beachboard. You can also visit the following website and listen to the podcast directly
http://www.npr.org/blogs/money/2013/11/01/242351065/episode-493-whats-a-bubble-nobel-edition

 It is highly advised that you listen to the entire podcast first before answering the questions below

1. How does Eugene Fama feel about the word "bubble', as it is used to describe situations such as the housing bubble and the stock market bubble?

2. Name three items on Robert Shiller's "checklist" of symptoms that you may be living through a bubble.

3. What and in which part of the world was the first bubble?

4. Why is Fama skeptical that bubbles exist?

5. What does Fama mean when he says "I believe that markets work" ?

6. Does Robert Shiller think that bubbles can be predicted *ex ante* (i.e. before they crash)?

7. What type of (statistical) evidence would it take for Eugene Fama to be convinced that bubbles do exist?

8. Which other economist from the University of Chicago received the 2013 Nobel Prize in economics and what was the reason why he was given the award?