

SUMMARY

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Project Description:

Although the title of the project was research on inequity, by the time summer rolled around that project had been put on hold. Professor Shiller was scrambling to put together a paper for the Jackson Hole Conference at the Kansas City Fed and another for the Brookings Institute Paper Series, while also preoccupied with television interviews, newspaper columns, and a number of extensive business trips. Therefore, most of my work involved data collection for these two papers.

The Kansas City paper was a historical perspective on the recent home price boom and it looked at three case studies. The paper examined the housing boom of the 50's, the farmland boom and crash of the 70's, and the '04-'05 dip in the UK housing boom. I collected newspaper articles on the farmland boom during both the boom and crash using Lexus Nexus and Proquest. I also created various graphs showing farmland data. I found farmland prices and farm income data from the USDA and found ten year government bonds and the cpi from other sites. I then graphed real and nominal farmland prices, nominal and real ex post ten year bonds and inflation. The results were quite startling. From 1981 to 1987 Farmland lost 40% of its real value, and didn't start increasing until 1993. Since '93 it has made incredibly steep gains, although not until 2006 did it surpass the 1981 high. What is particularly interesting about this case is that the boom does not seem to be linked to other fundamentals. Farm income was increasing slightly in nominal terms, but in a long term downward trend in real values, and construction costs were about even. It seems that this bubble was caused by a popular mentality that farmland was becoming a scarce resource as new developments were infringing on farmland. High inflation of the time may have helped fuel these ideas. The secretary of agriculture even claimed that we were in a farmland crisis.

I also spent a lot of time collecting basic financial and economic data from various sites.

At this time I was also reading and collecting both newspaper and academic articles on liquidity. Professor Shiller was interested in the recent hype about "global liquidity" or the "liquidity glut" and what that actually meant about asset prices. Eventually this research became a part of the Brookings paper.

The Brookings paper was on high asset prices and low interest rates. It questioned the notion that there was a consistent relationship between the two. It was not a technical paper, but rather presented a variety of evidence to discuss to what extent assets today are rationally priced. Some of the primary research I did was searching Proquest on a yearly basis from 1900 to today and finding the number of results returned for the terms "real interest rate" and "interest rate." I also read and collected many academic and newspaper articles on real interest rates and asset prices. Although the concept of real interest rates has been in academic circles since the turn of the 20th c., its use in the media did not

become popular until the late 70s. Graphing the ratio of “real interest rate” to “interest rate” results shows a very sizable spike from ‘81 to ‘85 at which point the ratio returns to almost pre-80s rates. Professor Shiller postulates that people may not be accurately viewing today’s low in interest rates in light of the low inflation.

Opinion of SRO experience:

SRO was a really amazing opportunity to work in close proximity with a Professor. I was very interested in seeing how the paper writing process actually happens. Reading text books and academic literature in class seems a long way away from the actual production process so it was a great learning experience to see a paper come together. Doing data collection was often tedious and frustrating, but it really allowed me to see the impact that I had on the two papers. It is a really incredible feeling to see one’s own research go out into the real world.

I met with Professor Shiller about once a week and we typically talked for about an hour, so I got a lot of one on one time to talk about the work I was doing and his and what possible research I could do for next week. These meetings were very interesting and were possibly the best part of the internship. However, most of my time I spent alone, working in the library. I did not have much of a feeling of community, which was largely my fault. I should have contacted some of the other SRO students. However, I think it would have been nice had SRO organized one initial meeting for us, or encouraged us in some other way to contact each other. The one thing I felt like I missed this summer was the feeling of an office and coworkers.

I went on two vacations with my family and Professor Shiller was very flexible about letting me split the internship into three parts. There are few internships that could have been so accommodating.

In sum SRO was a very worthwhile experience. It was incredible, and very different from college, to feel like the work I was doing was actually being used. I learned a lot about macro econ and finance, and more importantly I got a close up look at the academic process. I feel very lucky to have been selected for such a meaningful opportunity.