Essays on Economic Policy (ESPE in Spanish) - Beyond Bubbles: the Role of Asset Prices in Early-Warning Indicators

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Abstract

Asset prices have recently become a common topic in economic debate. Nevertheless, much time has been spent in determining if they effectively exhibit a bubble component, and not in examining whether asset prices contain relevant information concerning future market developments. This paper is an effort in this direction, aimed towards the construction of early-warning indicators for Colombia using financial and real variables. Results show evidence to support that there is relevant information embedded in these series, as all indicators (except the new housing price indicator) show a significant deviation for the year(s) prior to the 98-99 crisis. Additionally, the exercises here conducted show that the performance of asset price indicators is enhanced by including credit and investment. When the early-warning indicators are on, the role of the policymaker should be more active in the market; not necessarily in terms of altering interest rates, but in communicating with market agents, promoting portfolio diversification and urging financial agents to make the best use of the risk-management tools that are available to them.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-research/espe/beyond-bubbles-role-asset-prices-early-warning-indicators