

# Storage Costs and Birth of Rational Bubbles

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## Abstract

In general, the emergence of asset bubbles on existing assets is theoretically impossible in dynamic general equilibrium models even when the existence conditions of bubbles are satisfied. This paper tackles with this theoretical impossibility and studies conditions of the emergence of rational bubbles in a pure exchange overlapping generations economy model with storage costs of assets. Unlike most of existing rational bubble general equilibrium models, bubbles can emerge even at the other of the initial period of the economy and the date of the emergence of bubbles is endogenously determined. Bubbles can exist if the economy is dynamically inefficient, and bubbles can emerge when storage costs of assets are adequately small. A numerical example of equilibrium shows that the emergence of bubbles improves the welfare of consumers born after the emergence.

Keywords: Rational Bubble, Emergence of Asset Bubble, Overlapping Generations Model, Storage Cost

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