

## **Bubbly Financial Globalization**

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### **Abstract:**

Has the recent surge in financial globalization made the world economy more prone to widespread episodes of asset price bubbles? We address this question by developing a stylized global equilibrium model of two production economies with diverse financial development, North, and South. In autarky, the financially mature North produces enough assets so to keep bubbles from being viable. In the financially undeveloped South, while bubbles can potentially offset the shortage of financial assets, the limited leverage potential of productive entrepreneurs makes the required return on the bubble unsustainable. When financial globalization takes place, bubbles become possible if two conditions are met: the financial development of the South is increased *and* the globalized financial markets display a shortage of asset supply for intermediated saving. We argue that both conditions seem to have gradually emerged over that last twenty years.